



TELSTRA CORPORATION LIMITED

Fixed Line Services Draft Decision Response

27 September 2019



Introduction

Telstra welcomes the opportunity to respond to the ACCC’s fixed line services FAD 2018 Draft Decision. We support the ACCC’s proposal to rollover fixed line services prices on a nominal basis, and consistent with this, to maintain the current targeted set of non-price terms and conditions (NPTCs).

Given the current environment of structural change with migration to the National Broadband Network (NBN), a detailed FAD pricing review would result in a significant regulatory burden for industry and the ACCC, which would not be in the long term interests of end users (LTIE). It would also divert industry attention away from issues of greater relevance, including NBN end user experience and 5G investment.

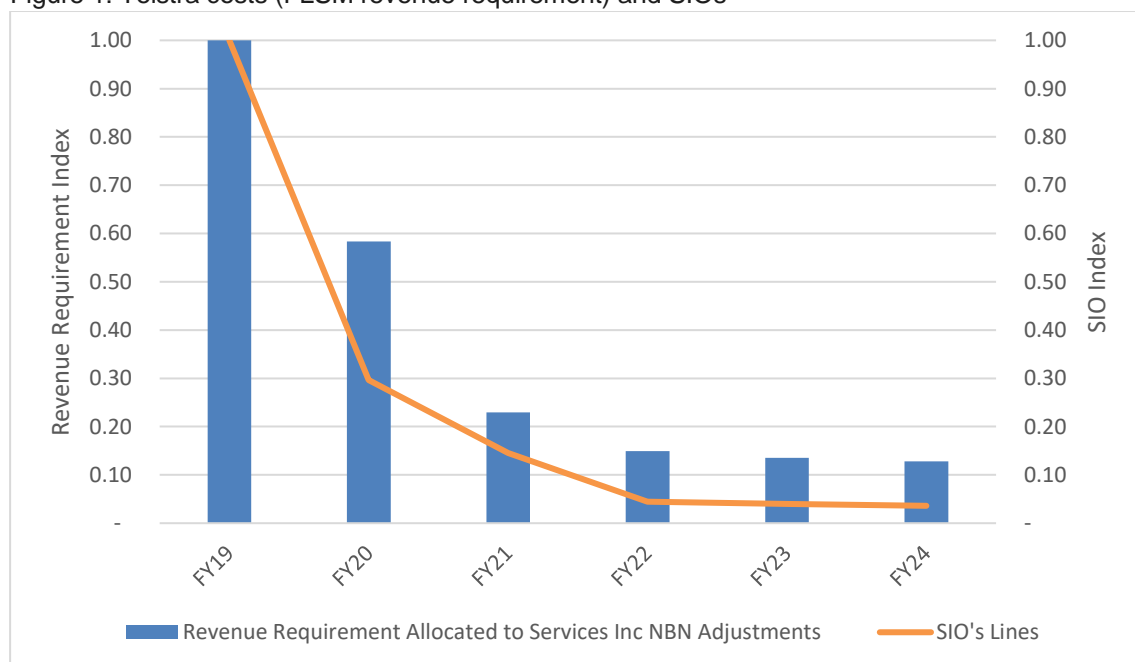
This expedited FAD process is a pragmatic approach that reflects the unique circumstances applying to the industry. The ACCC’s proposed rollover of price and non-price terms and conditions provides an appropriate regulatory back-stop for the small number of services that will remain on Telstra’s legacy copper network.

Price terms of fixed line services

Telstra supports the ACCC’s draft decision to maintain prices in nominal terms for fixed line services. The declining relevance of these services along with the need for stability whilst the NBN transition occurs is in the LTIE and the best outcome for industry.

Wholesale prices would increase if the FLSM were applied for the new FADs, with price increases potentially flowing to end users. Our preliminary modelling suggests wholesale prices would increase by over 30% if the FLSM were applied for the new FADs, despite Telstra forecasting significant cost reductions during the next FAD period (Figure 1). The modelling includes adjustments to remove USO payments and unit cost increases that would otherwise result from migration from Telstra’s legacy copper network to the NBN.

Figure 1: Telstra costs (FLSM revenue requirement) and SIOs





Telstra does not believe that it is in the LTIE to increase prices on legacy services; instead we support the ACCC's draft decision to maintain prices at their current levels.

Duration of the access determinations

Telstra supports the ACCC's draft decision that the price and non-price terms set out in the 2019 fixed line services FAD (including Wholesale ADSL) will apply until 30 June 2024.

Telstra believes setting prices for five years promotes the LTIE — including by providing a smoother transition to the NBN and allowing industry and the ACCC to focus attention on more important issues.

Telstra also notes that the proposed duration of the FADs will extend beyond the expected NBN migration period. That is, extend beyond December 2021, which is the end of the 18 month migration window given scheduled NBN rollout completion of June 2020. This provides stability for RSPs until after the NBN migration has been completed, with any future FADs occurring once the NBN has reached a "steady state" in its operation.

The application of fixed principles to new FADs

Telstra agrees with the ACCC's position that it is not in the LTIE to apply the fixed principles for the first two years of the regulatory period for the new FADs or update the FLSM. The fixed principles and FLSM were not designed for end of network pricing considerations.

Given the proximity of NBN rollout completion and the flexible nature of the fixed principles, Telstra considers that the current fixed principles should be allowed to expire on 30 June 2021.

Telstra welcomes the ACCC's intention to provide early guidance to industry of its approach to pricing of fixed line services for any future FAD periods. Given the need for continued investment in areas outside of NBN's fixed line footprint it is appropriate that the ACCC look to give guidance on future pricing.

Non-price terms and conditions

Telstra agrees with the ACCC that the existing NPTCs should continue under the new FADs. Telstra notes that since the commencement of the current FADs, wholesale customers have not raised any material issues in regard to the NPTCs.

Retaining the existing NPTCs is also consistent with rollover of existing prices. Detailed review of the existing targeted NPTCs or consultation on a comprehensive set of NPTCs would impose significant regulatory burden on industry and the ACCC. Given the NBN build is nearing completion and significant migration is occurring, detailed review of the NPTCs would not promote the LTIE.