



**Australian
Competition &
Consumer
Commission**

**NBN Co Special Access Undertaking
Long Term Revenue Constraint Methodology 2015-16:
Final Determination
and
Price compliance reporting 2015-16**

June 2017



Australian Competition and Consumer Commission
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List of abbreviations and acronyms

ABBRR	Annual Building Block Revenue Requirement
ACCC	Australian Competition and Consumer Commission
ACIPA	Annual Construction in Progress Allowance
CCA	<i>Competition and Consumer Act 2010 (Commonwealth)</i>
CFO	Chief Financial Officer
CIF	Cumulative Inflation Factor
CIP	Construction in Progress
CPI	Consumer Price Index
CPO	Chief Procurement Officer
ICRA	Initial Cost Recovery Account
LTRCM	Long Term Revenue Constraint Methodology
NBN	National Broadband Network
RAB	Regulatory Asset Base
SAU	Special Access Undertaking
WBA	Wholesale Broadband Agreement

Executive Summary

The Australian Competition and Consumer Commission (ACCC) must make a Long Term Revenue Constraint Methodology (LTRCM) Determination each year pursuant to NBN Co's Special Access Undertaking (SAU). The SAU was accepted by the ACCC on 13 December 2013.

The LTRCM is a component of NBN Co's SAU, which forms part of the regulatory framework for the National Broadband Network (NBN). The LTRCM is a methodology for determining the amount of revenue NBN Co is allowed to earn over the term of the SAU. The LTRCM provides NBN Co with the opportunity to recover its prudent and efficient costs of supply, including an appropriate return on investment. It is one of a number of incentives in the SAU to encourage NBN Co to operate and invest prudently and efficiently.

Schedule 1F of the SAU requires NBN Co to submit certain regulatory information for each financial year, including financial information required to determine the revenue NBN Co is allowed to earn via its long term revenue constraint. NBN Co is also required to certify that it has complied with the price controls set out in Schedule 1C of the SAU. The ACCC used this information to inform this final determination.

In making an LTRCM Determination, the ACCC must determine the following values (and the inputs to the values):

- Annual Building Block Revenue Requirement (ABBRRR) – this is the amount of revenue NBN Co is allowed to earn in each financial year
- Regulatory Asset Base (RAB) – this is the net value of NBN Co's regulated assets, and
- Initial Cost Recover Account (ICRA) – this is the account for accumulating (and rolling forward) NBN Co's initial unrecovered costs.

This report sets out the ACCC's final determination in relation to NBN Co's LTRCM and on NBN Co's price compliance for the 2015-16 financial year. The ACCC's final LTRCM determination is to accept without modification NBN Co's proposed values (and the inputs to those values) for the ABBRR, RAB, and ICRA in accordance with clause 1E.1.2 of NBN Co's SAU. The reasons for accepting the proposed values are set out in section 3 of this determination.

In making this determination, the ACCC has undertaken an assessment of the information provided by NBN Co to ensure that, firstly, NBN Co's financial details are consistent with its statutory accounts and the formulas contained in the SAU. Secondly, the ACCC has engaged with NBN Co in relation to its procedures and processes to ensure that its expenditure is in accordance with the prudence criteria in the SAU.

In relation to price compliance, the ACCC's final decision is that it is satisfied that NBN Co's prices for 2015-16 did not exceed the maximum regulated prices applicable at the relevant point in time in accordance with Schedule 1C of the SAU.

1 Introduction

On 13 December 2013, the ACCC accepted a Special Access Undertaking (SAU) from NBN Co. The SAU is a long term undertaking that establishes the regulatory framework for the National Broadband Network (NBN) and specifies the price and non-price terms and conditions relating to access to NBN Co's services.

Under schedule 1F of the SAU, NBN Co is required to submit certain regulatory information to the ACCC for each financial year, including financial information required to determine the revenues NBN Co is allowed to earn (its long term revenue constraint).¹ NBN Co is also required to certify that its prices have not exceeded the maximum regulated prices set by the SAU.² Following NBN Co's submission, the ACCC must make a Long Term Revenue Constraint Methodology (LTRCM) determination within 12 months after the end of each financial year.³

This is the third LTRCM determination process for the ACCC. On both previous occasions, the ACCC accepted NBN Co's LTRCM proposal without modification. The 2013-14 LTRCM determination applied to all years from 2007-08 to 2013-14. The 2014-15 LTRCM determination included an amendment to the 2013-14 determination to address an inadvertent error by NBN Co in its regulatory information.

1.1 Background

LTRCM determination

The LTRCM is a methodology for determining the amount of revenue NBN Co is allowed to earn via its prices over the SAU term. The purpose of the LTRCM is to provide NBN Co with the opportunity to recover its prudent and efficient costs of supply (including an appropriate return on investment). The LTRCM works with other parts of the SAU to provide incentives to NBN Co to operate and invest prudently and efficiently.

The LTRCM determination is prepared on an *ex-post* basis until 2023 (the Initial Regulatory Period). In subsequent regulatory periods, NBN Co will be subjected to the standard building block approach where the ACCC undertakes an *ex-ante* assessment of NBN Co's proposed expenditures and their prudence.

In making an LTRCM Determination, the ACCC must determine the following values (and the inputs to those values):

- Annual Building Block Revenue Requirement (ABBRR)—this is the amount of revenue NBN Co is allowed to earn in each financial year
- Regulatory Asset Base (RAB)—this is the net value of NBN Co's regulated assets
- Initial Cost Recovery Account (ICRA)—this is an account for accumulating (and rolling forward) NBN Co's initial unrecovered costs.

The LTRCM sets out a mechanism for determining NBN Co's RAB and ABBRR based on a range of financial inputs that must be submitted by NBN Co. The ABBRR is in turn used, together with NBN Co's actual revenue (as defined in the SAU), to calculate the extent of unrecovered costs in each year, the cumulative value of which is captured in the ICRA. Once NBN Co begins to earn sufficient revenue each year to meet its annual revenue requirement, the SAU allows NBN Co to recover more

¹ Schedule 1F of the SAU.

² Schedule 1F.3 of the SAU.

³ Clause 1E.1.2 of the SAU.

than its annual revenue requirement until the ICRA reaches zero (subject to the price controls set out in the SAU).⁴

The ACCC's role in the LTRCM process

During the Initial Regulatory Period of the SAU, the ACCC's role in making an LTRCM determination is to determine whether capital expenditure and operating expenditure meet the relevant requirements in the SAU for inclusion in the RAB and ABBRR, respectively. The ACCC can determine substitute values in its LTRCM determination if the ACCC is not satisfied that NBN Co's expenditure meets those requirements.

In making the LTRCM determination, capital expenditure may only be included in the RAB to the extent that the ACCC is satisfied that:

- it meets the Prudent Cost Condition⁵ – broadly speaking, capital expenditure meets the Prudent Cost Condition if it was incurred in connection with the design, engineering and construction of the relevant assets under a 'conforming contract'⁶ (that is, generally, in accordance with the procurement rules); or in an open and competitive market; or through another 'value for money' process. The SAU requires NBN Co to develop procurement rules that establish procurement processes that seek to generate an efficient and competitive outcome and reflect good industry practice; and
- it meets the Prudent Design Condition⁷ – capital expenditure meets the Prudent Design Condition if it is 'materially consistent' with the Network Design Rules⁸ or a permitted variation, endorsed network change or ACCC approved network change to the Network Design Rules,⁹ or
- capital expenditure was incurred in connection with the specific matters listed in clause 1D.3.2(a)(ii) of the SAU – that is, capital expenditure is considered to be prudent under the SAU if it relates to: the Telstra or Optus arrangements, interim satellite or transit arrangements, Tasmania tri-area service arrangements, trial sites, or third party funded network changes; or was incurred prior to the approval of the SAU on 13 December 2013.¹⁰

Operating expenditure may only be included in the ABBRR to the extent that the ACCC is satisfied that:

- it was incurred in accordance with NBN Co's procurement processes (including in accordance with the procurement rules), was incurred pursuant to a 'conforming contract', was procured in an open and competitive market, or was procured in a manner that is likely to achieve value for money,¹¹ or
- it was incurred in connection with the specific matters specified in clause 1E.8.2(a)(ii) of the SAU – that is, operating expenditure is considered to be prudent under the SAU if it relates to: the Telstra or Optus arrangements, interim satellite or transit arrangements, Tasmania tri-area service arrangements, trial sites, or third party funded network changes; or was incurred prior to the approval of the SAU on 13 December 2013; or it was required to address an urgent network issue or a force majeure event.

The ACCC's role is to assess whether NBN Co has incurred its expenditure in accordance with these criteria, and that the relevant LTRCM components have been calculated in accordance with the

⁴ See clause 1E.6.1 of the SAU.

⁵ Clause 1D.3.2(a)(i)(A) of the SAU.

⁶ Clause 1D.4.1(a)(i)(B) contains additional requirements where there is a material change of circumstances affecting the Conforming Contract.

⁷ Clause 1D.3.2(a)(i)(B) of the SAU.

⁸ The document describes the design of NBN Co's network and network components. Capital expenditure must be in accordance with the Network Design Rules in order to be included in the Regulated Asset Base, in addition to meeting the 'Prudent Cost' condition. The Network Design Rules were updated on 30 June 2015.

⁹ Clause 1D.6 of the SAU.

¹⁰ Schedule 1D of the SAU.

¹¹ Clauses 1E.8.2(a)(i) and 1E.8.3 of the SAU.

formulas set out in the SAU. The ACCC's role is also to determine whether those expenditures (as set out in NBN Co's LTRCM proposal) should be included in the LTRCM determination.

The ACCC may determine LTRCM values that are different from the values submitted by NBN Co, provided those values are determined in accordance with Schedule 1D and Schedule 1E of the SAU.¹² The SAU includes provisions which set out the factors to consider when determining a substitute amount of capital or operating expenditure.¹³

Price compliance and reporting

The SAU sets binding price caps which provide long term pricing commitments to NBN Co's customers. The price controls act in conjunction with the LTRCM to provide incentives to ensure access seekers are not subject to unreasonable prices and to provide incentives for NBN Co to incur efficient expenditure. There are a number of pricing provisions in the SAU, the most important being an annual price increase limit of the Consumer Price Index (CPI) less 1.5 per cent.¹⁴

Clause 1F.3 of the SAU requires that by 31 October each year, NBN Co must submit a price compliance report to the ACCC. The price compliance report includes certification from NBN Co's Chief Financial Officer (CFO) that the prices charged during the preceding financial year did not exceed the maximum regulated prices set by the SAU.

The ACCC may also request information, at any time, from NBN Co that is reasonably necessary for the ACCC to determine NBN Co's compliance with Schedule 1C of the SAU.

1.2 Consultation process

In accordance with the SAU, the ACCC has invited submissions from NBN Co and other interested parties in making this LTRCM determination.

On 22 December 2016, the ACCC provided its preliminary view to NBN Co that it did not intend to determine a substitute amount of capital expenditure in accordance with clause 1D.3.2(d) or a substitute amount of operating expenditure in accordance with clause 1E.8.2(c) of the SAU. The ACCC's preliminary view is available on the ACCC website.

This year, the ACCC has undertaken a number of additional steps to complement its existing assessment process for making an LTRCM Determination. Prior to publishing its draft determination, the ACCC requested further information from NBN Co in respect of its procurement process to gain a direct understanding as to how NBN Co is meeting the prudency conditions set out in the SAU. The ACCC considered that this additional information would provide the ACCC with visibility about some of NBN Co's processes and how they operate in practice.

On 28 April 2017, the ACCC published a draft LTRCM determination for 2015-16 and the reasons for the draft determination. The ACCC's draft determination is available on the ACCC website. The ACCC allowed a four week consultation period which closed on 26 May 2017. The ACCC did not receive any written submissions during this time.

1.3 Structure of the report

This report sets out the ACCC's final LTRCM determination and its view on NBN Co's price compliance for the 2015-16 financial year. This final report:

¹² Clause 1E.1.2(c)(iv) of the SAU.

¹³ Clauses 1D.3.2(d) and 1E.8.2(c). For example, a substitute amount of capital expenditure determined by the ACCC must meet the Prudent Design Condition and must be consistent with capital expenditure that has been included in the RAB in respect of any prior financial year, having regard to the relative amounts of capital expenditure incurred in those years, the relative cost of goods and services in those year, any relevant differences in the scale and scope of the relevant assets, the NBN Co Corporate Plan and any other matter the ACCC considers relevant.

¹⁴ Schedules 1C.5 and 2B.2 of the SAU.

- provides an overview of the regulatory information submitted by NBN Co (section 2)
- summarises the ACCC's assessment of NBN Co's LTRCM proposal (section 3) and
- sets out the ACCC's final LTRCM determination and decision on price compliance for 2015-16 (section 4).

2 NBN Co's 2015-16 LTRCM proposal

2.1 2015-16 LTRCM regulatory information

On 31 October 2016, NBN Co submitted an LTRCM proposal to the ACCC as required under Schedule 1F of the SAU. NBN Co's LTRCM proposal consists of the following materials:

- NBN Co's actual financial information – this information is based on NBN Co's reported statutory accounts which are consistent with the definitions in the SAU
- NBN Co's proposed financial information – this is NBN Co's proposed values (and inputs to those values) for the ABBRR, RAB, ICRA and certain other inputs to the LTRCM
- an expenditure compliance report – a report signed by NBN Co's CFO certifying that NBN Co's expenditure complies with the requirements of the SAU
- a procurement compliance report – a report signed by NBN Co's Chief Procurement Officer (CPO) certifying that NBN Co's procurement rules comply with the requirements of the SAU, and
- a price compliance report – a report signed by NBN Co's CFO certifying that NBN Co's prices for the supply of its services comply with the requirements of the SAU.

NBN Co also lodged three independent assurance reports from PricewaterhouseCoopers (PwC), a price compliance spreadsheet, an LTRCM spreadsheet and a copy of NBN Co's Chart of Accounts. Public version of these documents can be found on the ACCC website.

2.1.1 Financial information

The financial information provided by NBN Co on 31 October 2016 includes the financial statements listed below.

- Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes
- Schedule 7 – Statement of Operating Expenditure
- Schedule 8 – Statement of Interest Expense
- Schedule 9 – Statement of Revenue
- Schedule 10 – Statement of LTRCM and RAB items, and
- Schedule 11 – Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances.

This information was accompanied by an LTRCM spreadsheet, which provided the underlying calculations of NBN Co's proposed RAB, ABBRR and ICRA values.

Table 2.1 summarises the key financial information submitted by NBN Co for the 2015-16 LTRCM Determination. The corresponding values for the 2014-15 LTRCM Determination and percentage change are presented for comparison purposes.

Table 2.1 Summary of NBN Co financial information, 2014-15 and 2015-16 (nominal)*

	2014-15 (\$'000)	2015-16 (\$'000)	Percentage change
Operating expenditure	1 591 219	2 259 775	42%
Capital expenditure	2 166 854	4 523 444	109%
Construction in progress (start of period)	2 315 416	3 482 834	50%
Interest expense	59	247	319%
Revenue	163 867	421 455	157%
Unrecovered cost	2 054 623	2 777 273	35%
RAB (end of period)	4 818 889	8 944 763	86%
ABBRR	2 218 490	3 198 728	44%
ICRA (end of period)	6 243 728	9 428 175	51%

*Source: LTRCM spreadsheet 2015-16

2.2 Price compliance reporting

On 31 October 2016, NBN Co provided the ACCC with a price compliance report and a price compliance spreadsheet, pursuant to clause 1F.3(a) of the SAU for the period from 1 July 2015 to 30 June 2016. NBN Co also submitted an independent assurance report by PwC to complement NBN Co's price compliance report and supporting information in its supplementary submission. The price compliance report included the CFO's certification that the pricing of NBN Offers and Other Charges from 1 July 2015 to 30 June 2016, satisfied the relevant requirements in Schedule 1C of the SAU.

In addition, NBN Co lodged an independent assurance report by PwC on NBN Co's internal controls in relation to price compliance. The ACCC noted that PwC's limited assurance conclusion was unqualified in nature and complements NBN Co's CFO certification.

3 ACCC's assessment of NBN Co's LTRCM proposal

The ACCC has assessed NBN Co's LTRCM proposal, having regard to the relevant provisions of NBN Co's SAU. The following section provides an overview of the ACCC's assessment.

On 28 April 2017, the ACCC released *NBN Co's Special Access Undertaking Long Term Revenue Constraint Methodology 2015-16: Draft Determination and Price Compliance Report 2015-16* (draft determination) for public consultation for a period of four weeks. In making its draft determination, the ACCC considered the regulatory information submitted by NBN Co under Schedule 1F of the SAU and additional information provided by NBN Co.

3.1 LTRCM 2015-16 determination

The ACCC has completed its assessment of NBN Co's 2015-16 LTRCM proposal submitted on 31 October 2016 and has decided to accept NBN Co's proposed values for the ABBRR, RAB and ICRA.

This decision is consistent with the ACCC's draft determination to accept NBN Co's proposed values (and inputs to those values) for the ABBRR, RAB and ICRA. The ACCC's draft determination concluded that:

- NBN Co had incurred capital and operating expenditure in accordance with the relevant provisions of the SAU and
- NBN Co's proposed LTRCM values had been calculated in accordance with Schedules 1D and 1E of the SAU.

Further details of the ACCC's assessment are set out below.

3.1.1 ACCC assessment of NBN Co's expenditure compliance

The SAU requires NBN Co to ensure that its expenditure complies with the relevant prudence conditions. NBN Co provided its expenditure compliance report signed by its CFO, the PwC limited assurance reports (which considered the design of controls applicable to capital expenditure and operating expenditure prudence) and a supporting submission to assist the ACCC in its determination.

In forming its draft view on expenditure compliance, the ACCC considered whether:

- NBN Co had developed adequate procurement rules
- there were processes and controls in place to support compliance with the prudence conditions in the SAU, and
- these processes and controls were operating effectively.

To assess the adequacy of NBN Co's procurement rules, the ACCC examined NBN Co's Procurement Manual and Buying Guide to ensure it complied with the relevant requirements in the SAU. The ACCC also considered NBN Co's procurement rules compliance report. The ACCC's final decision on NBN Co's compliance with the procurement rules is discussed further below.

To determine whether there were processes and controls in place to encourage compliance with the prudence conditions in the SAU, the ACCC relied on PwC's independent assurance report regarding the design of controls applicable to capital expenditure and operating expenditure. As PwC provided an unqualified opinion, the ACCC was satisfied that NBN Co has processes and procedures in place that support compliance with the prudence conditions in the SAU. In assessing whether NBN Co had complied with these processes and procedures, the ACCC considered the additional information provided by NBN Co in its supporting submission regarding its internal audit work.

In addition, as part of the 2015-16 LTRCM process, the ACCC sought further information from NBN Co in relation to its procurement process. The information sought was intended to complement NBN Co's procurement rules compliance report and assist the ACCC in forming the LTRCM determination for 2015-16. In particular, the ACCC sought information from NBN Co on the following:

- *General information on NBN Co's procurement activities* – this includes statistical information on the nature, size and scope of NBN Co's procurements.
- *Case studies and examples of various types of procurements*. The ACCC sought examples of various case studies which related to four different types of conforming contracts considered in the prudent cost condition, as set out in the SAU (competitive tendering and procurement, only one potential supplier, arm's length transaction and exceptional circumstances). In particular, the ACCC sought information on how the prudent cost condition is being considered in procurement decisions and reflected in the procurement guidelines.
- *Specific matters relating to NBN Co's procurement guidelines*. The ACCC sought additional information from NBN Co specific to its procurement guidelines.

NBN Co provided the additional information to the ACCC in response to the information request, including through a procurement briefing by NBN Co's procurement team to the ACCC. Following its review of the material from NBN Co, the ACCC was satisfied that NBN Co has appropriate procedures and processes in place to ensure that its expenditures are in accordance with the prudency conditions set out in the SAU.

The ACCC did not receive any submissions in relation to NBN Co's expenditure compliance and therefore confirms its draft decision that NBN Co's expenditure complies with the relevant prudency conditions set out in Schedule 1D of the SAU.

3.1.2 ACCC assessment of NBN Co's compliance with the procurement requirements

The SAU requires NBN Co to develop and maintain procurement rules to establish procurement processes that, in broad terms, generate an efficient and competitive outcome and reflect good industry practice. NBN Co must also provide a copy of its procurement rules within 30 days after NBN Co makes any material changes to the procurement rules.

To assess NBN Co's compliance with the procurement requirements, the ACCC considered NBN Co's Procurement Rules Compliance Report and other relevant materials, including the CFO's certification. The ACCC also noted that the CFO's certification was informed by a range of investigations particularly in respect of whether NBN Co had informed the ACCC of any material changes to its procurement rules within the timeframe as required under clause 1D.5.2 of the SAU. The ACCC considered that NBN Co provided the ACCC with amendments to its procurement guidelines within the timeframe stipulated in the SAU, and that the amendments met the procurement rules set out under clause 1D.5.1 of the SAU.

In making its draft determination, the ACCC considered the documents and the additional information provided by NBN Co in relation to its procurement processes. The ACCC's preliminary view was that the procurement rules compliance report indicated that NBN Co has complied with the procurement requirements in the SAU. The ACCC did not receive any submissions in relation to NBN Co's compliance with the procurement requirements and therefore confirms its draft decision that NBN Co has met its procurement obligations under clauses 1F.2.3., 1D.5.1 and 1D.5.2 of the SAU.

3.1.3 ACCC assessment of financial information

The ACCC is required to ascertain whether NBN Co's proposed LTRCM values had been calculated in accordance with Schedule 1D and Schedule 1E of the SAU. As required under the SAU, NBN Co provided the ACCC with its Actual Financial Information and Proposed Financial Information for 2015-16.

In addition, NBN Co provided the ACCC with an LTRCM spreadsheet which set out in detail the step-by-step calculations of its proposed RAB, ABBRR and ICRA values. NBN Co also engaged PwC to conduct an audit of its financial information and to ensure that the input values in the spreadsheet were correctly extracted from the relevant financial statements and that the LTRCM calculations were undertaken in accordance with the SAU formulas. In making its draft decision, the ACCC reviewed the

calculations NBN Co submitted in its LTRCM spreadsheet and confirmed that the formulas used in the spreadsheet were as set out in Schedule 1E of the SAU. The ACCC's draft decision was to accept NBN Co's LTRCM proposal for 2015-16 without modification. The ACCC did not receive any submissions regarding NBN Co's financial information.

For the reasons outlined above and set out in more detail in the draft determination published in April 2017, the ACCC maintains the view that NBN Co's proposed values for the ABBRR, RAB and ICRA should be accepted without modification.

3.2 Price compliance reporting

Under Schedule 1F of the SAU, NBN Co is required to submit certain price compliance information to the ACCC, to demonstrate that it has not exceeded the maximum regulated prices set by Schedule 1C (the pricing schedule) of the SAU.

The ACCC's draft view on price compliance was that NBN Co's prices for 2015-16 did not exceed the maximum regulated prices applicable at the relevant point in time. In assessing whether NBN Co had complied with the price compliance requirements, the ACCC has had regard to NBN Co's price compliance report, which provided assurance that NBN Co had key control procedures in place to ensure that the prices for NBN Offers and Other Charges did not exceed the applicable maximum regulatory price during the year. The ACCC has also had regard to PwC's limited assurance review of NBN Co's price controls, which provided an independent assurance that NBN Co had procedures in place to ensure that its prices did not exceed the maximum regulated prices in the SAU. The ACCC also analysed NBN Co's price compliance spreadsheet and did not identify any instances where the listed prices exceeded the applicable maximum regulated price.

The ACCC found that there were some prices listed for the NBN Satellite Network that were higher than the maximum regulated prices initially specified in the SAU. However, the ACCC was satisfied that NBN Co provided notification of these price changes to the ACCC in May 2015 (as required by the SAU) with the new prices having come into effect in April 2016.

The ACCC also found that some prices listed in the spreadsheet were for new products. These new products did not have a price specified in the SAU, however, the ACCC recognised NBN Co's ability to determine prices for new products. If it considers it appropriate, the ACCC is able to initiate a price review under subclause 1G.3.1 to ensure that new prices set by NBN Co promote competition and encourage the efficient use of infrastructure.

The ACCC did not receive any submissions in relation to NBN Co's price compliance. The ACCC confirms it is satisfied that NBN Co's prices for 2015-16 did not exceed the maximum regulated prices applicable in accordance with Schedule 1C of the SAU.

4 ACCC 2015-16 LTRCM final determination and price compliance assessment

In accordance with clause 1E.1.2 of the SAU, the ACCC has determined the values set out in table 4.1 below for the ACCC's LTRCM determination for 2015-16. These values have been derived from the regulatory information provided by NBN Co under Schedule 1F.

The ACCC is also satisfied that NBN Co's prices for 2015-16 did not exceed the maximum regulated prices applicable at the relevant point in time in accordance with schedule 1C of the SAU.

Table 4.1: 2015–16 LTRCM Draft Determination¹⁵

Year	2015-16
CPI and Cumulative Inflation Factor	
June Quarter CPI (annual percentage change) – as per Attachment C to the SAU	1.023%
Cumulative Inflation Factor - as per Clauses 1E.9.4(b) and (c)	1.025

Year	2015-16
Rate of Return – as per Clause 1E.7.1	
Risk free rate of interest - as per Clause 1E.7.1(b) and (c)	3.021%
Nominal rate of return - as per Clause 1E.7.1(a)	6.521%

Year	2015-16
Regulatory Asset Base (\$'000 REAL) – as per Clause 1D.2.1	
Real RAB (start period) - as per Clause 1D.2.1(a) and (b)	4 747 166
Real capital expenditure	4 410 983
Real disposals	-
Real straight line depreciation	435 769
Real RAB (end period) - as per Clause 1D.2.1(b)	8 722 380

Year	2015-16
Regulatory Asset Base (\$'000 NOMINAL) – as per Clause 1D.2.2	
Nominal RAB (start period) - as per Clauses 1D.2.1(a) and 1D.2.2	4 818 889
Nominal straight line depreciation (as per Clause 1E.9.1(b))	446 880
Nominal RAB (end period) - as per Clause 1D.2.2	8 944 763

¹⁵ The clause references in this table refer to the formulas in the SAU.

Year	2015-16
ABBRR (\$'000 NOMINAL) - as per Clause 1E.4.1	
Return on capital	314 255
Nominal regulatory depreciation – as per clause 1E.9.1(c)	397 570
Nominal operating expenditure	2 259 775
Net tax allowance	-
Annual construction in progress allowance – as per Clause 1E.10	227 127
ABBRR	3 198 728

Year	2015-16
Taxation calculations (\$'000 NOMINAL) - as per Clause 1E.9.3	
Nominal revenue	421 455
<i>Add</i> value of assets received for nil consideration	97 633
<i>Less</i> nominal operating expenditure	(2 259 775)
<i>Less</i> nominal tax depreciation	(433 314)
<i>Less</i> interest expense	(247)
Taxable profit – as per Clause 1E.9.3	(2 184 249)
Tax loss carried forward (Start period) – as per Clause 1E.9.3	(4 760 207)
Tax loss carried forward (End period) – as per Clause 1E.9.3	(6 944 456)
Net tax allowance – as per Clause 1E.9.3	-

Year	2015-16
ICRA and CFRA (\$'000 NOMINAL) – as per Clause 1E.5	
ICRA (start period) – as per Clause 1E.5.2	6 243 728
Unrecovered cost -as per Clause 1E.5.1	2 777 273
ICRA (end period) – as per Clause 1E.5.2	9 428175
Carry forward revenue adjustment – as per Clause 1E.5.3	n/a