22nd September 2010

Public Policy and Communications

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Confidential Communication

Dear Mr Skinner

Request for ACCC's analysis

I refer to the ACCC's *Review of the 1997 telecommunications access pricing principles for fixed line services – Draft Report* released on 17 September 2010 (the **Draft Report**).

A number of important conclusions reached in the Draft Report are said to be based on analysis and materials which have not been provided to stakeholders. Telstra notes, in this regard, the significance of the Ovum Building Block model (**Ovum BBM**) and the accompanying user manual. Telstra notes that it has requested the Ovum BBM and user manual separately from the ACCC in order to properly consider the proposed confidentiality arrangements set out in your letter to Christine Williams dated 17 September 2010.

In order to be able to respond fully and properly to draft pricing principles and the Ovum BBM, Telstra needs to be able to understand the analysis referred to in the Draft Report. Accordingly, Telstra requests that the ACCC provide it with copies of the workings, assumptions and analysis referred to below:

- the analysis which the ACCC has used to form a view of the relationship between Telstra's actual costs and the valuations of infrastructure assets under the TSLRIC+ framework (referred to on page 23 of the Draft Report and in footnote 21);

- the analysis undertaken of the $9 billion amount which was agreed between Telstra and the Australian Government in the Financial Heads of Agreement and, in particular, how the ACCC arrived at an estimate close to $7.5 billion for the regulatory asset base (page 29 of the Draft Report);

- the analysis undertaken in relation to the WACC parameters, including the workings that show how the ACCC arrived at its estimates for the risk free rate, the debt risk premium, the market risk premium and the gamma (pages 33–34 and 65–80 of the Draft Report), and the particular analysis that led the ACCC to conclude that: (1) the appropriate debt issuance cost is 8.5 basis points (page 75 of the Draft Report); (2) average dividend payout ratio for Telstra from 2000 to 2010 has been 100.3%(page 78 of the Draft Report); and (3) Telstra distributes 100% of its franking credits (page 78 of the Draft Report);

- the analysis undertaken in relation to the cost allocation factors, including the detailed workings on how the Analysys cost allocation factors were adjusted with the more up-to-date information and the relevant copy of the Analysys model (pages 44, 88–95 of the Draft Report);

- the analysis undertaken in deriving an effective tax rate (pages 84-85 of the Draft Report); and

- the analysis relating to the demand forecasts including detailed workings relating to the adjustments made to the Analysys estimates for demand for each service (pages 96-98 of the Draft Report).

Please refer any enquiries in relation to this letter to Sandy Flecknoe-Brown, on (02) 8576 2745 or sandy.flecknoe-brown@team.telstra.com

Yours sincerely,

Chris Williams
Deputy Director – Regulatory Affairs
Public Policy and Communications