

Optus Supplementary Submission to the TEA model costing: A response to the ACCC's request for further information

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The ACCC requested (email of 12 January 2008) that Optus provide further information on the vendor prices that it submitted for comparison with the inputs in Telstra's TEA model. Specifically, the ACCC invited Optus to provide a submission on the questions below:

- 1. What is the Optus base vendor price for the equipment used in the TEA model, in particular the costing for the various sizes of copper main cable.**
- 2. Specify what, if any, additional functions (such as storage) are included in the prices submitted to the ACCC in the above statement, dated 22 December 2008.**
- 3. Specify what additional items Optus considers an access seeker would require when building a new network?**
 - a. For example, does Optus consider storage costs are required?**

In this supplementary submission Optus provide a response to these questions.

The prices set out in the statement of CiC (22 December 2008) Optus considers the term 'base vendor price' to be an ambiguous term and more correctly termed 'vendor prices' in usual industry dialogue.

The vendor prices that Optus submitted on 22 December 2008 represented the 'landed unit cost' of the various pieces of equipment without the inclusion of additional cost of tasks such as inventory management (e.g. storage). However, included in the Optus prices is the cost of delivery from the supplier.

Optus notes that the vendor price will be the same whether it chooses to have the equipment transported to an on-site location (e.g. the actual site where the equipment is to be installed) or an off-site storage area (e.g. warehouse).

Optus' Storage and Transportation Costs

Optus considers that an efficient operator building a new network will incur minimal storage costs. This is because it will be able to take advantage of efficiencies created by 'just-in-time' ordering and provisioning. That is, the ability to order equipment from vendors for delivery (on-site) at the precise time and place that it is required for installation.

Optus submits that an efficient operator will incur minimal transport costs over and above the landed unit costs that Optus has quoted. This is because landed unit costs incorporate transport to the site where the equipment is to be installed.

However, whilst submitting that storage and transport costs are largely unnecessary when considering a new network build by an efficient operator, Optus nevertheless provides some storage and transport costs that may be considered applicable to copper and fibre cable in a limited range of circumstances.

Optus has not derived costs for storing or transporting other equipment such as MDF blocks/extensions and termination equipment. This is because that Optus consider that an efficient

operator is highly unlikely to require storage of these goods. Just-in-time delivery is likely to be sufficient and these assets are not of a manageable size and hence even in the unlikely event that storage is required (e.g. an unplanned delay) a carrier will incur minimal additional costs.

Storage and transportation costs are contained in the table below and accompanied by explanatory notes. These values are derived from actual costs incurred by Optus as explained below.

Storage and transportation cost for copper and fibre cable

Material	Storage (\$ per m)	Transport (\$ per m)	Total (\$ per m)
Copper	CiC	CiC	CiC
Fibre	CiC	CiC	CiC

Explanatory notes

1. Copper

Copper is received by Optus in CiC rolls. This allows for efficient handling of the cable as heavy lifting equipment (e.g. cranes) is not required. For the purpose of this analysis Optus assumed that only CiC meter size rolls are supplied. Optus points out that by using CiC meter rolls as the base standard, as compared to using CiC meter rolls, will result a higher final storage cost than may actually be incurred. Optus therefore submits that its choice of parameter is conservative.

Optus has assumed that the copper rolls would be stored on a maximum of CiC pallets. This estimation allows for differences in the number of pallets required by copper of different gauges (e.g. 0.4mm or 0.64mm) and pairs (e.g. 100 to 2400 pairs). Optus again notes that it has chosen to take a conservative approach to the calculation and that the use of this value will result a higher storage cost than may actually be incurred.

Optus submits that the cost of storing each pallet in a storage centre is CiC per week. Optus also considers that in a network build, an efficient operator would store the pallets for a period of at most CiC weeks.

Therefore the total cost of copper storage (regardless of the size of the roll) is determined by the following calculation:

$$\begin{aligned}
 &= \text{CiC} \\
 &= \$ \text{CiC per meter}
 \end{aligned}$$

Optus submits that the cost of storing varying gauge copper (e.g. 0.4mm or 0.64mm) and cable with a different fibre pairs (e.g. 100, 250, 400, 2400 pairs) are approximately the same. Once costs are converted to the dollar per meter unit any variation that may exist becomes negligible.

2. Fibre

Optus submits that it receives fibre in large rolls of CiC km in length. This means that Optus requires the use of heavy lifting equipment in order to relocate the rolls from the delivery vessel (e.g. truck or container). The cost of unloading each roll is a flat charge of CiC per roll. For the purposes of this analysis Optus has assumed that all rolls of CiC km in length and submits that its choice of parameter will result in a conservative per meter cost.

Once unloaded, the fibre is converted to CiC meter rolls to allow more efficient handling. For the same reasons listed above in regards to copper rolls, Optus assumes that fibre is cut to rolls of CiC meters rather than CiC meters in length. The cost of this process is approximately CiC per CiC roll cut (inclusive of all labour and equipment charges).

The storage cost per pallet approximately the same as for copper, with **CiC** pallets costing **CiC** per week.

Therefore the total cost of fibre storage (regardless of the size of the roll) is determined by the following calculation:

$$\begin{aligned} &= \mathbf{CiC} \\ &= \$ \mathbf{CiC} \text{ per meter} \end{aligned}$$

3. Transport of Copper or Fibre pallets

Optus has noted above that its vendor prices already include a delivery charge as they are 'landed unit costs'. However, if goods have to be delivered to a location and then moved later on (i.e. after being stored for a period of time) a separate delivery cost would be incurred.

Optus submits that the average transport cost (for delivery of copper or fibre) is a flat rate charge of **CiC** per delivery. In this costing Optus has assumed that the pallets will be delivered to a location within **CiC** kilometres of a metropolitan area. Optus has also conservatively assumed that only **CiC** pallets are being delivered at a time – that is, in this analysis, the minimum 'unit' of copper or fibre available.

Therefore the total cost of transportation for either copper or fibre is determined by the following calculation:

$$\begin{aligned} &= \mathbf{CiC} \\ &= \$ \mathbf{CiC} \text{ per meter} \end{aligned}$$