

TELSTRA'S SUBMISSION TO THE ACCC FIXED LINE SERVICES FINAL ACCESS DETERMINATION SUMMARY

The fixed line services review covers important and complex issues. We have developed this summary of our submission to help explain some of these issues to key stakeholders, including Australian consumers of voice and internet services on the Telstra fixed network. We have included this summary as part of our larger submission on this matter to the Australian Competition and Consumer Commission (ACCC).

Voice and internet services in Australia

The voice and internet services most Australians have in their home are delivered over Telstra's fixed line copper network. We use this network to offer retail voice and internet services to our customers and other providers can also access the Telstra copper network to offer their own retail services.

The access other companies – including Optus, iiNet, M2, TPG and many others – have to our network is regulated by the ACCC which sets the wholesale price and terms for access to the copper network.

The ACCC is currently considering what the price should be on seven different wholesale products¹ we offer for access to our network in the years ahead. The ACCC's review comes at a critical time for the industry and Australian telecommunications consumers. In the next few years the industry will undergo a fundamental transition as people migrate from Telstra's fixed line copper network to the National Broadband Network (NBN).

Undoubtedly, the transition to the NBN will significantly accelerate the decline in demand for fixed line network services and impact on the costs of operating our network.

Full and fair cost allocation

The ACCC has established core principles to guide its decision making when determining what the wholesale prices should be for access to Telstra's network. These principles state Telstra must have the opportunity to recover our costs fairly across all users of the Telstra network.

As most of Telstra's network costs are fixed, it is inevitable that as the number of people who use our network fall our cost per user will rise.

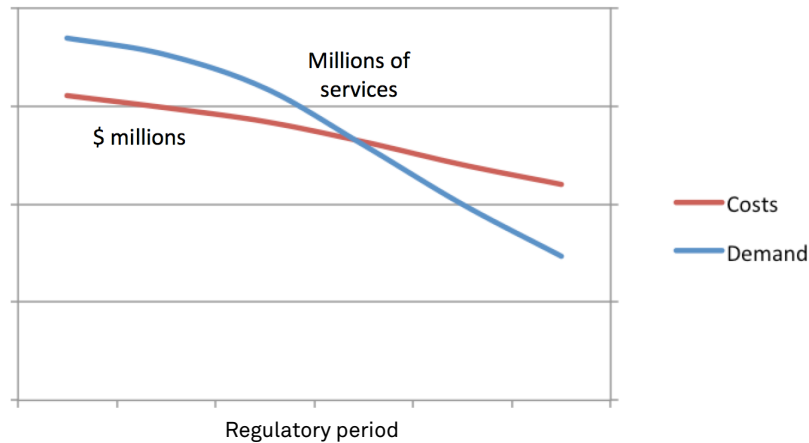
Using the latest information available on the NBN rollout, we expect demand for fixed line services will fall by as much as 60% over the next five years. Over this same period, we will reduce our costs significantly, although not to the same extent given the fixed nature of many of our costs.

Given these market realities, regulated wholesale fixed line service prices will need to increase, at least in nominal terms, between now and 2019.

¹ These seven services are called the Unconditioned Local Loop Services (ULLS), Line Sharing Service (LSS), Wholesale Line Rental (WLR), Local Carriage Service (LCS), Fixed Originating Access and Terminating Access and Wholesale ADSL

TELSTRA'S SUBMISSION TO THE ACCC FIXED LINE SERVICES FINAL ACCESS DETERMINATION SUMMARY

Forecast trends in demand and costs



Regulatory certainty in the transition to the NBN

The ACCC's pricing principle of giving Telstra the opportunity to recover its costs will mean the ACCC needs to account for the fact that as the number of users our network declines fixed costs per user increases. At the same time, the Australian Government is committed to its NBN policy whereby NBN Co will be the monopoly wholesale service provider in the years ahead while we will progressively disconnect our fixed line network.

The transition to the NBN is in its early days but we are already seeing it will be complex and challenging as millions of consumers take up a new voice and/or internet service. To support the transition, the Government has said the ACCC should avoid introducing any price shocks on the legacy network as this would only lead to greater uncertainty for industry and confusion for consumers.

We agree with the Government that to encourage the smooth transition to the NBN, the ACCC needs to provide certainty as well as maintain incentives for retailers to promote NBN services.

Nominal price increase

Based on the ACCC's principles, our forecast expenditure, NBN Co's current corporate plan and the Government's policy objectives, we forecast that a one-off increase of 7.2% in the first year across all the declared services, followed by no price increases in the subsequent three years, would fairly account for changes in Telstra's per unit costs.

This approach would deliver real price stability across the four years – indeed by FY2019 real prices are likely to have fallen given forecast CPI increases – and maintain current price differentials between products.

Applying the ACCC's principles means it is not right to take account of revenue streams unrelated to costs. Specifically, payments Telstra receives as part of its commercial arrangement with NBN Co for access to our infrastructure and in relation to disconnecting our network when theirs becomes available are irrelevant to determining our costs and setting wholesale prices.