

**IN THE MATTER OF UNDERTAKING DATED
22 MARCH 2006 BY TELSTRA CORPORATION
LIMITED TO THE AUSTRALIAN
COMPETITION AND CONSUMER
COMMISSION IN RESPECT OF PUBLIC
SWITCHED TELEPHONE NETWORK
ORIGINATING AND TERMINATING ACCESS
("the Access Undertaking")**

STATEMENT OF [C-I-C]

On 15 September 2006, I, [C-I-C] of [c-i-c], state as follows:

- 1 The information in this statement is confidential to Telstra. I have prepared this statement on the basis that the information in it will remain confidential and that the information will only be disclosed to a person:
 - (a) who had executed a confidentiality undertaking in terms that are satisfactory to Telstra; and
 - (b) who may only use the information for the following purposes:
 - (i) making submissions to the Australian Competition and Consumer Commission ("ACCC") in respect of the Access Undertaking; or
 - (ii) any application made to the Australian Competition Tribunal under s152E of the *Trade Practices Act 1974 (Cth)* ("TPA") for review of a decision made by the ACCC in respect of any of the Access Undertaking; or
 - (iii) any other purpose approved by Telstra in writing.
- 2 I make this statement from my own knowledge and based on my own enquiries, except where stated otherwise.

Background

- 3 [c-i-c] I am responsible for, amongst other things, conducting asset service life reviews of Telstra's communication plant assets to ensure that they reflect their revenue earning life.
[c-i-c].

4 **Telstra Asset Life Reviews**

5 Each year after a consultation process which I conduct, Telstra sets the service lives of its various assets. The asset service life is a forecast of the revenue earning life of that asset. The determination of a service life by Telstra is based on the collective experience of Telstra's leading technologists. These technologists determine a service life on the basis of the advice of subject matter experts and their knowledge and expectation of the future direction of the telecommunications business at that time. The asset lives determined from this process are used by Telstra for both internal and external reporting purposes.

6 Telstra's Corporate Accounting Instructions, in compliance with Accounting Standard ASRB 1021, require that the service life of assets be reviewed annually for the purpose of ensuring that the service lives "*reflect the most recent assessment of the useful lives of the respective assets, having regard to such factors as asset usage and the rate of technical and commercial obsolescence ...*".

7 The service lives set by Telstra are based on a consultative process and reflect the collective views of Telstra's Managing Directors responsible for technology direction and infrastructure deployment, together with the subject matter experts responsible for each asset.

8 The consultation process commences with an identification of the expected requirements for communications plant infrastructure to support Telstra's anticipated business direction. In this regard, I interview Telstra's Managing Directors who are responsible for the company's technology direction ("**the Managing Directors**").

9 Issues considered with the Managing Directors are:

- (a) future technology which Telstra is considering;
- (b) Telstra's major plans or programmes which may impact on asset service lives;
- (c) Telstra's future business plans; and
- (d) international trends in the market, including the trends of Telstra's equipment suppliers.

10 The asset service lives determined by Telstra in the consultation process are reviewed by the Australian National Audit Office.

- 11 Telstra uses these asset lives in order to determine depreciation for the purposes of its profit and loss statement.

The Asset Lives Used in the PIE II Model

- 12 I have been asked to comment on the appropriateness of the following asset lives used in the PIE II model:
- (a) local switching;
 - (b) signalling transfer point; and
 - (c) transit switching.

Each of these issues is dealt with in greater detail below.

Spectrum Licence

- 13 I understand that this asset category is limited to radio spectrum licenses for the 500MHz band and that [c-i-c] is used as its service life in the PIE II model.
- 14 Radio Spectrum is the “right to use” radio spectrum for a given frequency within a designated geographic set of areas. The 500Mhz spectrum licence is typically used for delivery of customer concentrator radio access services. The initial licences issued in 1997 were for [c-i-c] years. On 4 May 2001 the licences were subsequently extended by the Government to 2012 for the cost of an additional 50% in fee. Given this, a service life of 10 years is appropriate.

Local Switching, Signalling Transfer Point and Transit Switching

- 15 I understand that [c-i-c] years is used as the service life of local switching, and [c-i-c] years is used as the service lives of signalling transfer point and transit switching in the PIE II model.
- 16 The Signalling Transfer Point asset is an overlay network which provides the C7 signalling capability in the voice frequency (“VF”) switched networks. The VF switched network includes AXE switches, System 12 switches, DMS and mobile networks, including 3G.
- 17 The increasing use by customers of alternatives to the fixed telephony service, such as the use of the mobiles and the internet, has initiated and will precipitate the reduction of the

existing Public Switched Telephone Network (“PSTN”) technology and ultimately its replacement.

18 [c-i-c].

DATED 15 September 2006

.....
[c-i-c]