Telstra's Submission in Support of its Undertakings dated 9 January 2003

1 Telstra has given to the Australian Competition and Consumer Commission ("**ACCC**") undertakings ("**the Undertakings**") dated 9 January 2003 in respect of the following services:

(a) domestic PSTN originating and terminating access service ("**PSTN OTA**") and local carriage service ("**LCS**"); and

(b) unconditioned local loop service ("**ULLS**");

(together "**the UT Services**") pursuant to section 152BS of the *Trade Practices Act* ("**the Act**"). The Undertakings relate to the 2002/03, 2003/04 and 2004/05 financial years.

2 Telstra has given these Undertakings with the primary objective of providing the industry and itself with increased regulatory certainty over future prices. Obtaining a reasonable degree of certainty is important to the future planning of Telstra's telecommunications network and for the planning purposes of businesses that seek access to Telstra's network. This in turn will allow better provision of services to end-users, which is plainly consistent with end-users' long term interests.

3 There is now a broad consensus that prices for the UT Services should approximate long run efficient costs. The ACCC estimates these costs using what is known as a Total Service Long Run Incremental Cost ("**TSLRIC**") model. Such a forward-looking optimised cost model abstracts from the actual Telstra network and seeks to approximate the costs that an efficient operator would incur in supplying the projected volume and range of UT Services in Australia using a newly built network. As noted by the ACCC in its 1997 "*Access Pricing Principles - Telecommunications*":

> *"An access price based on TSLRIC is consistent with the price that would prevail if the access provider faced effective competition, and usually best promotes the long-term interests of end users.*
>
> - *First, TSLRIC encourages competition in telecommunications markets…*
> - *Second, TSLRIC encourages economically efficient investment in infrastructure…*

- *Third, in the long term, TSLRIC provides for the efficient use of existing infrastructure…*
- *Fourth, TSLRIC provides incentives for access providers to minimise the costs of providing access…*
- *Fifth, TSLRIC, by allowing efficient access providers to fully recover the costs of producing the service, promotes the legitimate interests of the carrier or CSP providing access.*
- *Finally, TSLRIC protects the interests of persons who have rights to use the declared service."*

The ACCC reaffirmed that position in "*Pricing of unconditioned local loop services (ULLS) and review of Telstra's proposed ULLS charges Discussion Paper"* published in August 2000 in which it stated that: "[the use of the TSLRIC approach to access pricing] *…is consistent with the requirements of Part XIC of the Trade Practices Act that requires that pricing reflects the direct costs of supply, takes account of the interests of the access provider and access seekers and encourages the economically efficient use of, and the economically efficient investment in, the infrastructure of telecommunications services*".

4 An exception to this general rule relates to the pricing of LCS, where the Australian retail price control mechanism means that local calls are supplied to retail customers for less than the level of efficient costs the ACCC allocates to them. As such, pricing LCS on the basis of the ACCC's allocation of efficient long-run costs would result in wholesale prices above retail prices. Consequently, the ACCC sets LCS prices on a retail-minus basis[1], in effect requiring Telstra to bear a higher proportion of costs than its wholesale customers in the provision of this service.

5 In Telstra's view, allowing service providers to recover efficient costs is necessary if consumers are to benefit from continued investment in the telecommunications network. Such investment is essential for the supply of new and enhanced services, for the continued reduction of costs of existing services as well as to improve the quality and ensure the widest possible availability of those services. In all of these ways, allowing recovery of efficient costs is vital to promoting the long term interests of consumers of telecommunications services.

[1] See ACCC, "Local Carriage Service pricing principles and indicative prices", April 2002

6 Notwithstanding the broad consensus on the use of efficient long-run costs as the appropriate benchmark for determining prices for the UT Services, there has been dispute in the industry as to the actual level of these costs.

7 Telstra has sought to address the dispute over the appropriate measurement of costs by developing a revised economic cost model that incorporates the latest PSTN technologies and deployment practices. This model optimises the network based on over 8 million actual customer locations rather than relying on broad averages of cable lengths to calculate network costs. Telstra believes that this model is significantly superior to any other telecommunications cost model developed or used in Australia for determining efficient long-run costs, and offers new insights into telecommunications costs. Annexure A describes the UT Services, how they are provided, and the basis on which efficient long-run costs are estimated by the model. Telstra is willing to make this model available to relevant parties within the industry for review, subject to appropriate confidentiality agreements and safeguards.

8 The model indicates that the efficient network costs of the UT Services (assuming that local calls bear costs up to the price cap of those calls) are as follows:

Service	**EFFICIENT NETWORK COSTS***		
	2002/03	**2003/04**	**2004/05**
PSTN OTA	3.1677¢ per call end minute	2.4145¢ per call end minute	2.0820¢ per call end minute
LCS	17.51¢[2] per call	17.51¢[3] per call	17.51¢[4] per call
ULLS - for RSS connected services	$44.71 per service per month	$43.69 per service per month	$43.72 per service per month

*In addition to the figures in this table, long run efficient costs include non-network costs incurred by a supplier of the UT Services, such as wholesale billing, marketing and administration costs. These costs are substantial and must be added to those set out in the above table.

[2] Assuming that LCS can only bear costs up to 17.51c per call.

[3] Assuming that LCS can only bear costs up to 17.51c per call.

[4] Assuming that LCS can only bear costs up to 17.51c per call.

9 Telstra is aware that these costs are higher than the prices that currently prevail for the UT services in the Australian telecommunications market – prices which were set in the context of costs estimated by the ACCC's economic cost model which was developed for the ACCC by NERA 5 years ago. Telstra contends that the revised economic cost model that it has developed demonstrates that current wholesale prices do not reflect those that an efficient operator would expect to receive under the TSLRIC pricing standard.

10 There may be a concern that an immediate shift to prices based on efficient costs could have a short term adverse impact on wholesale customers. On the other hand, to delay shifting prices to reflect efficient costs will have a long term impact on market participants who supply the PSTN, and will, in a range of ways, promote inefficiency. Indeed, Telstra does not consider that if it is required to persistently price below efficient costs, telecommunications competition and investment will be promoted and the long term interests of end-users advanced. For this reason, and in order to enable Telstra to make an appropriate return on its current and future investments, Telstra's long term policy and commercial goal is to price at efficient cost.

11 That said, Telstra proposes to transition to efficient cost based prices over the long term rather than immediately. Such an approach strikes a balance between short term commercial impacts and the longer term imperative of efficiency.

12 Telstra initially proposes to set prices similar to those currently prevailing at the upper end of the market for the UT Services - in effect, the prices that a party with no volume commitments or other ways of providing for lower costs (for example, by allowing cost savings through joint efficiency-increasing initiatives), could reasonably expect to be offered. These prices are significantly below efficient costs. Telstra proposes to hold prices for the UT Services at this level for the three years of the Undertakings, so that, over the longer term, the prices will come closer to efficient per unit costs (which, are themselves, falling over time). The prices for the UT Services proposed by Telstra in the Undertaking (the "**UT Prices**") (excluding GST) correspond to or are:

Service	UT PRICES		
	2002/03	**2003/04**	**2004/05**
PSTN OTA	on average 1.7¢[5] per call end minute	on average 1.7¢[6] per call end minute	on average 1.7¢[7] per call end minute
LCS	14.5¢[8] per call	14.5¢[9] per call	14.5¢[10] per call
ULLS - for a RSS connected service	$20.00 per service per month in Band 1 and $40.00 per service per month in Bands 2, 3 and 4.	$20.00 per service per month in Band 1 and $40.00 per service per month in Bands 2, 3 and 4.	$20.00 per service per month in Band 1 and $40.00 per service per month in Bands 2, 3 and 4.

13 For the reasons set out in Annexure B, Telstra has averaged the price of ULLS in Bands 2, 3 and 4. This will reduce the prices payable for ULLS by wholesale customers in rural areas and thus reduce the prices of those services in those areas.

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[5] The disaggregated price in the Undertakings is as follows:

CCA Category	Intra CCA flagfall Charge (Cents per successful Call)	Intra CCA conveyance Charge (Cents per conversation Minute)
CBD	1.8706	0.7459
Metro	1.8493	0.8630
Provincial	1.9704	1.0987
Rural	3.3329	4.6710

[6] The disaggregated price in the Undertakings is as follows:

CCA Category	Intra CCA flagfall Charge (Cents per successful Call)	Intra CCA conveyance Charge (Cents per conversation Minute)
CBD	1.9699	0.7458
Metro	1.9536	0.8615
Provincial	2.0623	1.0603
Rural	3.2983	4.1244

[7] The disaggregated price in the Undertakings is as follows:

CCA Category	Intra CCA flagfall Charge (Cents per successful Call)	Intra CCA convenyance Charge (Cents per conversation Minute)
CBD	2.0390	0.7604
Metro	2.0211	0.8749
Provincial	2.1300	1.0741
Rural	3.3654	4.1359

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[8] On the basis that the access seeker acquires basic access from Telstra at retail prices.

[9] On the basis that the access seeker acquires basic access from Telstra at retail prices.

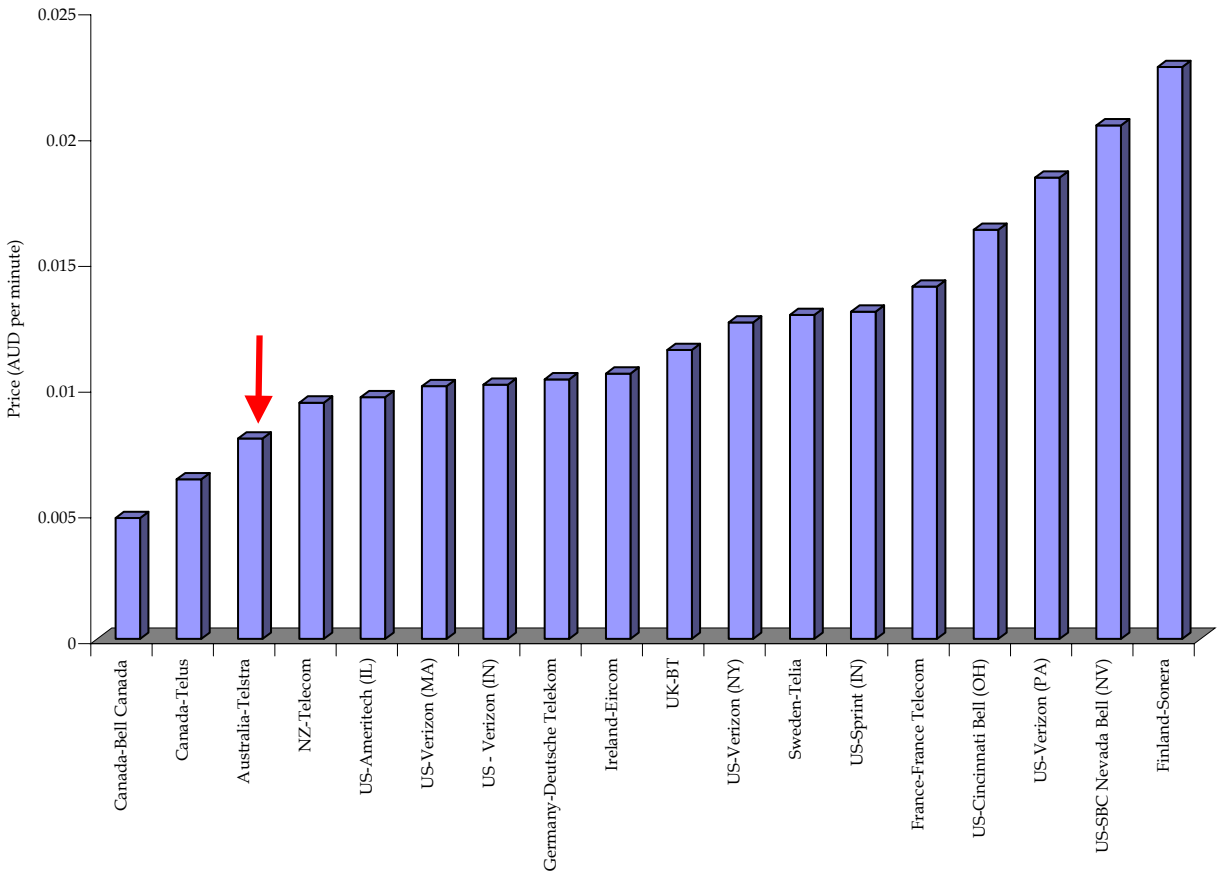
[10] On the basis that the access seeker acquires basic access from Telstra at retail prices.

14 Telstra believes that, given the efficient costs for the years concerned, the prices for the UT Services represent a constructive and extremely generous offer on its part having regard to the interests of access seekers, while ensuring that, over time, the legitimate rights of investors to a reasonable return on their investment is recognised.

15 For the reasons set out in Attachment C, the UT Prices meet and go beyond statutory criteria in sections 152BV(2) and 152AH of the Act, except to the extent to which they impose a greater burden on Telstra than Telstra could otherwise expect to incur.

16 Finally, Telstra notes that the UT prices compare extremely favourably with prices applicable for substantially similar services in other countries. In order to enable such a comparison, the contribution to CAN costs (see paragraphs 19-22 of Annexure A) needs to be removed from the prices of those services. The PSTN OTA price, after the removal of the contribution to CAN costs, is 0.7971¢ per call end minute. As an example, the figure below clearly indicates that the proposed net PSTN originating access service price (after removing any contribution to CAN costs) sits in the bottom part of the range of prices for equivalent services in comparable jurisdictions (after removing any contribution to CAN costs).

Comparison of Telstra's proposed net PSTN originating access service price with PSTN originating access prices in other jurisdictions



17 In conclusion Telstra believes the prices it is seeking in the Undertakings:

(a) are below the efficient costs of providing the UT Services;

(b) are below the prices which Telstra is entitled to charge pursuant to Part XIC of the Act;

(c) are below prices which an access seeker ought fairly to pay for the UT Services; and

(d) meet with the legislative criteria set out in Part XIC of the Act, except to the extent to which they impose a greater burden on Telstra than Telstra could otherwise expect to incur.

ANNEXURE A - ESTIMATING EFFICIENT COSTS OF UT SERVICES

A. THE UT SERVICES

1 PSTN OTA involves the carriage of calls to/from an end user connected to Telstra's Public Switched Telephone Network ("**PSTN**") from/to a point of interconnection between Telstra's PSTN and the network of an access seeker ("**POI**"). PSTN OTA is a service used by access seekers to supply local, domestic long distance, international long distance, fixed to mobile and mobile to fixed calls to end users ("**Retail PSTN Services**"). As PSTN OTA is an input into Retail PSTN Services, its costs are generally recouped from prices charged for Retail PSTN Services to the end users.

2 LCS involves the sale of local calls to access seekers. It involves the carriage of calls from an end user to a separately located end user in the same local calling area, with both the end-users being connected to Telstra's PSTN. LCS is used by access seekers to supply local calls to end users.

3 The price of local calls sold by Telstra is subject to a price cap of 22 cents per call (including GST)[11]. This price cap does not apply to the price of local calls supplied by Telstra to access seekers, nor does it apply to the price of local calls supplied by access seekers to their end user customers. Local calls are generally not offered by access seekers to end users without also supplying other Retail PSTN Services. Accordingly, the cost of LCS and the other UT Services is generally recouped from prices charged to end user customers for a bundle of Retail PSTN Services supplied, including local calls.

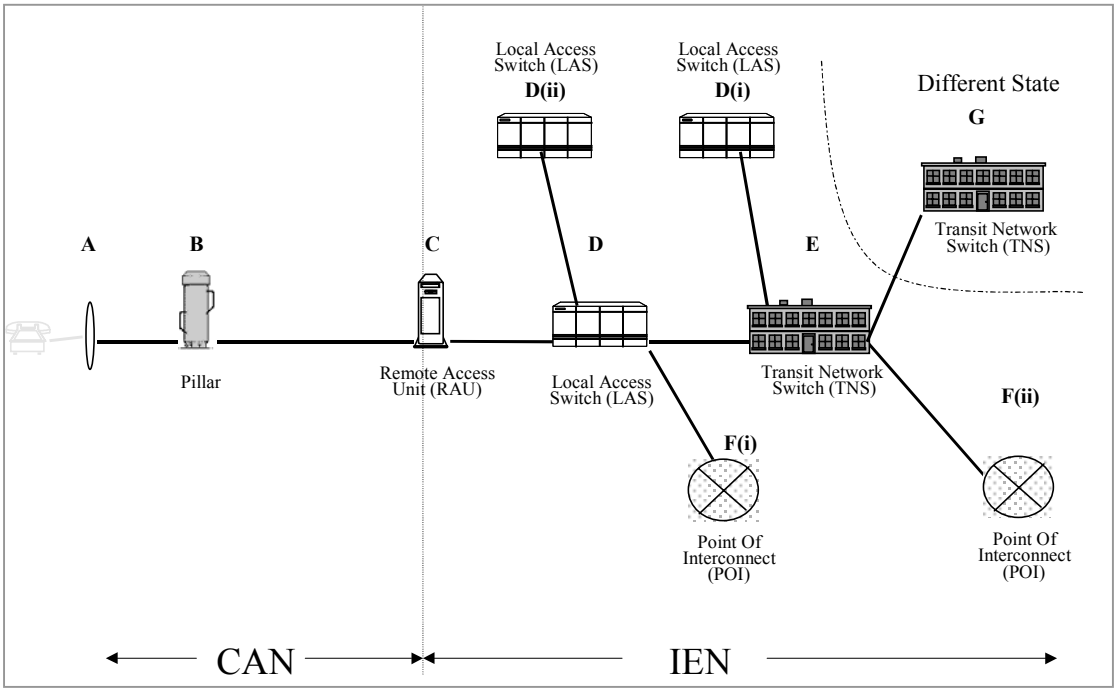
4 ULLS involves the provision of a copper wire from end user customers to a POI on the end user side of a customer access module. Put simply, ULLS provides the access seeker with the use of the copper wire connecting the end user customer to Telstra's network. ULLS can be used by access seekers to provide voice and data calls such as the Retail PSTN Services. The costs of ULLS are generally recovered from the prices charged to end user customers for services supplied using ULLS, whether they are voice or data services.

[11] Telstra Carrier Charges - Price Control Arrangements, Notification and Disallowance Determination No. 1 of 2002, para 13(2).

B. THE INFRASTRUCTURE USED TO PROVIDE THE UT SERVICES

5 The UT Services are supplied by Telstra using the infrastructure of Telstra's PSTN which is also used by Telstra to supply Retail PSTN Services to its own end user customers. The PSTN largely consists of switches connected by transport systems somewhat similar to road intersections with traffic lights (switches) connected by roads (transport systems). Switches are complex devices (comprising hardware and software) which enable temporary connections to be established on demand between end user customers wishing to communicate with each other. They are also used to route calls along appropriate transport systems. Transport systems can transmit calls by using electrical current (along copper wires) or by using light (along optical fibre). Other devices may also be located along the transport systems to aggregate the calls or to amplify the signal along the route. Additional specialised equipment is also used in the PSTN to provide things such as network control, synchronisation and the power supply.

6 Although the design of the PSTN is complicated, it can be simply represented as follows:



7 The PSTN is made up of the Customer Access Network ("**CAN**") and the Inter-Exchange Network ("**IEN**"). The CAN extends between points A and C on the above diagram and is typically made up of:

(a) a link (copper wire based) between the end user customer and a pillar (A to B);

(b) a pillar which aggregates all the links from up to approximately - 160 customers (B). This is done to reduce the number of copper wires required in the next transport system link;

(c) transport system (copper wire based) between the pillar and the Remote Access Unit ("RAU") (B to C); and

(d) RAU which concentrates customer calls to ensure efficient use of the capacity in the next transport system link (C).

The IEN extends between points C and E (or F) on the above diagram and is made up of:

(a) switches (eg D, E & G);

(b) transport systems between switches (which are normally optical fibre based systems) (eg C to D, D to D(ii), D to E, E to D(i) and E to F(ii)); and

(c) POI's (eg F(i) or F(ii)).

The above is a simplistic representation of any PSTN. In reality the make up of the PSTN is much more complex.

8 The UT Services use the following PSTN infrastructure as illustrated in the diagram:

(a) PSTN OTA uses the infrastructure from A to F(i) and/or F(ii), being the transport system connecting the end user customer to the pillar, the pillar, the transport system connecting the pillar to the RAU, the RAU, the transport system connecting the RAU to the switch, the switches and the transport system between the switches limited in area to one interconnect call charging area;

(b) LCS uses the entire PSTN, with the exception of transport between capital centres (E to G);

(c) ULLS uses the CAN infrastructure from A to C, being the transport system connecting the end user customer to the pillar, the pillar and the transmission system connecting the pillar to the RAU.

Accordingly, the UT Services share the infrastructure that constitutes the PSTN, together with the Retail PSTN Services supplied by Telstra.

9 The UT Services may also give rise to service specific costs. For example in order to provide ULLS, alterations and additions must be made to the computer systems that manage wholesale products to cater for the specific characteristics of ULLS.

C. THE PRINCIPLES FOR EFFICIENT COST DETERMINATION

10 In order to ensure that investment in the PSTN in Australia continues (whether that investment is in an alternate PSTN to Telstra's PSTN or by way of upgrade or extension of the existing Telstra PSTN), investors must have an expectation that the costs of building and maintaining the PSTN will be recovered from prices paid for the Retail PSTN Services and the UT Services. To do otherwise, will make it difficult to attract investment in the PSTN thus causing a loss of both social and economic benefits from such investment and, more generally, from the operation and use of the PSTN. Those benefits include the value consumers place on Retail PSTN Services, including the value to end users of being able to contact other end users with whom they wish to communicate. In addition, investors must also recover any costs incurred directly as a result of providing the UT Services (which costs are additional to the general costs of the PSTN). Otherwise investors would not provide those services.

11 Ideally, each UT service would cover its incremental costs, with all UT and Retail PSTN Services together covering the common costs which their provision entails. In practice, regulatory and other constraints on the prices that can be charged for particular Retail PSTN Services may prevent a particular PSTN Service from covering the costs that would normally be allocated to it. As a result some UT or Retail PSTN Services may need to contribute less than they otherwise would towards the costs of providing them, while others may need to pay more. What is important is that the charges for the UT and Retail PSTN Services sold by an investor in the PSTN cover the total costs of the PSTN which an investor incurs.

12 The costs allocated to each of the UT Services should be consistent with those allocated to Retail PSTN Services sold by the efficient access provider. To do otherwise would mean that the input costs into the Retail PSTN Services faced by the efficient access provider and an access seeker would be different. If the efficient access provider faces higher input costs for Retail PSTN Services than those faced by access seekers, then the access seekers could undercut the efficient access provider in end user markets, potentially take the majority of the market for Retail PSTN Services and thus prevent the efficient access provider from recouping all of the costs of its investment. This is because the efficient

access provider would no longer sell the Retail PSTN Services from which higher costs were recovered but would be forced to sell the UT services from which lower costs were recovered.

13 In addition, prices ought to be determined on a consistent basis for each of the different UT services. To do otherwise could cause:

(a) usage of the various services to shift from less costly to more costly ones even though that may not be the efficient outcome;

(b) the non recovery of all costs of the PSTN from the UT and Retail PSTN Services**.**

14 In line with previous ACCC statements and decisions, Telstra accepts that the prices for the UT Services will be set on the basis of their TSLRIC plus an allocation of common costs, most importantly the PSTN CAN costs and any service specific costs. The resulting costs are often called "Efficient Costs". Incremental costs do not ordinarily include common costs, but unless an allocation of common costs is recovered from the UT Services, the total costs of PSTN will not be recovered.

15 The Efficient Costs are generally intended to represent the costs which an efficient provider of the services would incur today, were it today constructing a network to provide those services in Australia. To that extent, the Efficient Costs reflect the least amount a hypothetical provider of the UT Services, using a newly built PSTN, would need to expect to receive in order to be willing to build that PSTN. If such a hypothetical service provider could not expect to recover all of its common costs, it would not choose to build the PSTN that was being modelled.

16 Charges set on the basis of the Efficient Costs ought to be determined in such a way as to ensure that the hypothetical access provider would be no worse off constructing and operating the hypothetical new build PSTN than it would be merely seeking access to it as an access seeker. This is the principle of competitive neutrality. If this principle is not respected, an otherwise efficient provider of the service being modelled would choose not to provide it, and no Retail PSTN Services would be provided to the community.

17 If the prices are set at Efficient Costs, Telstra would not be rewarded for any inefficiency which may exist in its current provision of the UT Services.

D. THE EFFICIENT COSTS OF EACH OF THE UT SERVICES

Quantification of Efficient Costs

18 The network Efficient Costs of a UT Service are best approximated by using a total element long run incremental cost ("**TELRIC**") model. This approach has been adopted by regulators in all major jurisdictions. As previously stated, Telstra has constructed a TELRIC model. This model is called PIE II. The PIE II model is more appropriate in assessing the network Efficient Costs of the UT Services than any other model that has previously been used in the Australian context (including the NERA model and the PIE model) because:

(a) it is based on the best in use technology as at 1 July 2002;

(b) it calculates costs using actual customer locations rather than estimates of average distances between customer locations and the nearest telephone exchange;

(c) it is more detailed than other models that had been developed, and therefore more accurately reflects the conditions of supply of services within Australia.

PSTN CAN costs

19 The costs that need to be recovered from PSTN and UT Services include the costs of the PSTN CAN, which is a cost common to all of the services using the PSTN. To calculate the PSTN CAN costs, the costs of the CAN should be allocated between PSTN access services and other access services which also use the CAN. The CAN costs allocated to the PSTN ought then be distributed amongst the Retail PSTN Services and the UT Services (which use the PSTN and are acquired by access seekers and used by them in the provision of access seekers' own Retail PSTN Services), subject to the following adjustments.

20 First, Telstra receives some revenue from the sale of the basic access service to both end user customers and to access seekers. This revenue is subject to a regulatory price cap. This revenue would equally be available to a hypothetical provider of the UT Services over a new build PSTN. Thus, to the extent that Telstra is able to receive such revenue (up to the level of the price cap), such revenues ought to be deducted from the costs of the PSTN CAN before the PSTN CAN costs are allocated to the Retail PSTN and UT Services.

21 Second, Telstra receives payments pursuant to Universal Service Obligation Scheme ("**USO Scheme**") under *Telecommunications (Consumer Protection and Service Standards) Act 1999*. These payments (insofar as they relate to the PSTN) would also be available to a hypothetical provider of the UT Services over a new build PSTN. The amount received from the USO scheme that can be attributed to the PSTN CAN ought, therefore, be deducted from the costs of the PSTN CAN.

22 The net PSTN CAN costs (derived by deducting the two amounts of revenue identified above from the total PSTN CAN costs) ought to be recovered from all of the Retail PSTN and UT Services provided by Telstra. Given that the PSTN CAN costs are generally fixed irrespective of the amount of traffic on the PSTN, the PSTN CAN costs ought to be allocated pro rata across all Retail PSTN and UT Service calls. If one of the Retail PSTN or UT Services is unable to bear the costs so allocated to it (for example, due to legislative caps imposed on retail prices) the other UT and Retail PSTN Services ought to bear those costs proportionately.

Service Specific Costs

23 The service specific costs incurred as a result of providing the particular UT Service ought to be recovered from prices of that UT Service.

ANNEXURE B - AVERAGING THE PRICE OF ULLS

1 ULLS was declared by the ACCC so as to facilitate the provision of Retail PSTN Services by competing service providers. ULLS can be used by access seekers to bypass the other UT Services and the Retail PSTN Services provided by either Telstra or by a hypothetical PSTN provider. Thus, an access seeker acquiring ULLS may not acquire basic access or other UT Services.

2 The retail price of basic access is uniform in all regions. This means that the price of basic access in some geographic areas (eg CBD) exceeds the cost of providing the infrastructure required to provide basic access (i.e. the PSTN CAN) in those areas while the price of basic access in other areas falls short of the cost of the PSTN CAN in those areas. Thus, the provision of basic access in low cost areas will reduce the amount of unrecovered PSTN CAN costs while its provision in high cost areas will add to those costs. If an access seeker acquires ULLS in a low cost area (where the cost of ULLS is below the price of basic access), Telstra will lose:

(a) the revenue contribution that the basic access service would ordinarily have made to the unrecovered PSTN CAN costs; and

(b) the revenue contribution that the Retail PSTN and/or UT Services (if Telstra provided these over the basic access service) would have made to the unrecovered PSTN CAN costs.

3 Access seekers currently do not acquire ULLS in rural areas and have little incentive to do so, as the cost (and therefore the price) of ULLS exceeds the price of basic access. To avoid the investor in the PSTN being increasingly unable to recover its costs, the price of ULLS ought to be averaged across the regions, just as the price for basic access is averaged across all regions.

4 However, a difficulty with averaging the price of ULLS is that it creates a risk of by-pass by access seekers using facilities constructed by them rather than leased from Telstra in low cost areas. This is because access seekers, who, unlike Telstra, are not required to deliver a PSTN that services all areas, are able to invest in infrastructure in low-cost areas only, at costs lower than the average costs of providing the PSTN in all areas. Such selective by-pass is potentially inefficient, as the costs it involves may exceed the costs

Telstra would incur in providing the ULLS. Avoiding this inefficiency imposes some constraints on the extent to which averaging of ULLS price can occur. In addition, ULLS is used by access seekers to provide non-Retail PSTN Services. Balancing these considerations with the wish to provide more competitive prices for services in rural areas, the price of ULLS ought to be averaged in the non CBD areas but charged at the deaveraged cost in CBD areas.

ANNEXURE C - ASSESSMENT OF THE UT PRICES AGAINST THE STATUTORY CRITERIA

Section 152AH criteria	Comments
Long term interests of end users - objective of promoting competition in markets for listed services	The UT prices are intended to transition to efficient cost-based prices in the long term. With efficient cost-based pricing, access seekers will face prices for the inputs to Retail PSTN Services reflective of cost. Thus, in the long term in markets for Retail PSTN Services Telstra and access seekers will be placed on an equal footing in relation to their input costs and the most efficient retailer will be able to win the market. In the long term, efficient cost-based access pricing also will create appropriate incentives for access seekers to choose to build infrastructure rather than compete through resale. Facilities-based competition for the UT Services will therefore emerge based upon relative efficiency.
Long term interests of end users - promoting any-to-any connectivity	Efficient cost-based pricing encourages economically efficient investment in networks by both access provider and access seeker. Accordingly, in the long term, the safe and reliable provision of carriage services will be maintained and any-to-any connectivity thereby promoted.
Long term interests of end users - objective of encouraging economically efficient use of and investment in infrastructure	In the long term, efficient cost-based pricing will afford Telstra a normal commercial return on efficient investments. Telstra therefore will have appropriate incentives to invest at efficient levels. The competitive neutrality as between Telstra and access seekers which arises under efficient cost-based pricing will also ensure that churn occurs on the basis of relative efficiency and not pricing distortions, thereby ensuring infrastructure is utilised in the most efficient way.
Legitimate business interests of the provider/ carrier and the provider's/ carrier's investment in facilities	The consideration of legitimate business interests of the access provider should not be limited to interests in relation to individual UT Services, but more broadly. From this perspective, in the long term, efficient cost-based pricing for the UT Services used by access seekers to compete with Telstra for the services in downstream markets such as Retail PSTN Services will ensure that Telstra earns a normal commercial return on its investment in the PSTN, which is consistent with its legitimate business interests. In the short term, the UT prices are below efficient costs and thus transitioning those prices to efficient costs as quickly as possible is consistent with Telstra's legitimate business interests.

Section 152AH criteria	Comments
Interest of access seekers	The interests of access seekers need to be considered in the context of the access seekers' commercial interests in the broad sense, and not narrowly by reference only to the input costs and revenues from one UT Service. From this perspective, the access seekers' interests are their interests in being able to compete efficiently in the Retail PSTN Services, over which competition is occurring at the retail level. Access seekers have been competing for the Retail PSTN Services by using the UT Services for some time. Stability in the UT prices over time in order to, in the long term, recover efficient costs takes account of the access seekers' interests. In the short term, there may be a concern that an immediate shift to prices based on efficient costs may have a short term adverse impact on wholesale customers. Thus Telstra proposes to transition to efficient cost based prices over the long term (within which many efficient costs are falling). That said, the UT prices which are set below efficient costs can stimulate entry or expansion by inefficient access seekers. This harms consumers in the longer term, and also harms efficient access seekers. The interests of efficient access seekers are therefore best served by a transition to access prices that send economically efficient signals for entry and expansion.
Direct costs of providing access	This criterion is intended to preclude the access provider recovering compensation for consequential loss of monopoly profits as a result of the provision of access. The UT Prices are below the efficient costs of the UT Services (ie costs which would be incurred in a market subject to effective competition), and therefore, by definition, cannot permit recovery of compensation in excess of such costs.
Safe and reliable operation of a carriage service, a telecommunications network or a facility	Since efficient cost-based pricing encourages economically efficient investment, in the long term, cost based prices will enable the access provider to maintain the safety and reliability of the operation of its PSTN infrastructure and services provided over the PSTN. In the short term, consistent with this criterion, the UT prices should transition to efficient cost-based prices.
Economically efficient operation of a carriage service, a telecommunications network or a facility	Since efficient cost-based pricing encourages economically efficient investment and use in the long term, the UT prices are consistent with the economically efficient operation of networks, including competitors' networks. In the short term, consistent with this criterion, the UT prices should transition to efficient cost-based prices as quickly as possible.