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Unbundled local loop - Band 2 priced at half cost?

It seems the ACCC is now pricing unbundled local loop at around \$14 for Band 2 just as Telstra seeks \$30 based on a new model. It may have to recant and repent.

On 21 December, Telstra submitted a sixth undertaking for the unbundled local loop service (ULLS) for Band 2 (urban areas) at \$30 per month [1]. On 11 January, Primus announced that the ACCC had an arbitrated Band 2 price at \$14.30; down from \$17.70. Why has the ACCC raised expectations (lowered prices) knowing that new cost models (ie including its own) would be available early this year?

Some history

ULLS was declared in July 1999 and in June 2000 Telstra submitted its first undertaking based on the PIE model with Band 2 priced at \$61 (of which \$42 was network costs). The ACCC countered in August with a proposed a price of \$30 (includes \$19 network costs) based on re-working its n/e/r/a model. This was actually revised up to \$35 (with \$33 network costs) in March 2002.

This revision was not good enough for Telstra which then built PIE II. That was tabled with a new (2nd) undertaking January 2003 with Bands 2, 3 and 4 all priced at \$40 (despite claiming network costs of \$44).

As a result of legislative changes, the ACCC had to publish its own suggested prices for ULLS. In October 2003 it suggested a price for Band 2 of \$22 based on re-working PIE II. Telstra then threw-in the towel and adopted the ACCC's ULLS prices in its November 2003 and December 2004 (3rd and 4th undertakings); but the ACCC rejected its own and Telstra's ULLS prices in August 2005!

By August 2005 the amigos had arrived and a 5th undertaking offering an averaged \$30 across Bands 1-4 was lodged in December 2005. This was rejected by the ACCC in August 2006 and Telstra lost its appeal to the ACT in May 2007 [2].

In April 2006 the ACCC arbitrated Band 2 at \$22 for Chime and from August 2006 it was settling disputes at \$17.70; until the Primus announcement of \$14.30 this month. These prices come with no visible means of support. This works for the ACCC only because there is no merits review of its arbitrations now (but rejection of an undertaking can still be appealed to the ACT).

Some models

The support for Telstra's \$30 looks impressive. As noted in my last column [3], Telstra's new cost model uses actual data on customer locations, rights of way and pillar locations instead of the mathematical algorithms that previous models had to use. Wisely, Telstra

has chosen to focus on Band 2 and to exclude those parts of the network that cannot be served by ULLS. It hopes that this will narrow debate to input assumptions. It should.

It is not clear where this leaves the new PSTN costs model that the ACCC commissioned Analysys to build. According to the RFT issued in February 2007, this is due to be completed by February-March 2008. Telstra says that it spent a year building its model and that it consulted with the ACCC. What information was shared with Analysys? Is the ACCC model redundant for ULLS?

More work needs to be done to the existing model before it can be used to estimate the sub-loop costs for non-Telstra FTTN build-out. For example, the cost of removing pair-gain systems as part of FTTN needs to be taken into account. And, the placement of nodes at or between pillars (ie to service more than one pillar) needs to be decided. But, the \$5-15 per month guesstimated in G9's FANOC proposal of May 2007, and recently rejected by the ACCC, now seems a bit optimistic.

Same story?

It seems unlikely from experience that the ACCC will accept Telstra's new undertaking. Indeed, its recent decision for Primus shows it is upping the ante. So, we shall go through another cycle of discussion paper, interim decision and then the final and inevitable rejection. And then, inevitably, Telstra will appeal the decision to the Australian Competition Tribunal.

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[1] *Telstra's ULLS Undertaking*, 21 December 2007. This is based on the ACCC's TSLRIC+ methodology which, according to footnote 5, Telstra does not accept.

[2] *The Umpire's Decision - a bit average?* In Exchange Vol. 19, No. 19, 25 May 2007

[3] *A new costs model - anyone for TEA?* In Exchange Vol. 19 No.47, 7 December 2007