

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates, 16 February 2006

**Question: AT 48**

**Topic:** *Backhaul inquiry*

**Hansard Page:** Written

**Senator CONROY asked:**

1. The ACCC initiated an inquiry into the pricing of backhaul services in Australia in early May of last year with a view to potentially issuing indicative for declared transmission services. Can you provide us with an update on where that inquiry is up to?
2. While we are talking about backhaul, will the findings of this inquiry feed into the development of the pricing equivalence framework required by the government's operational separation model?
3. Will the prices that Telstra charges itself for backhaul services on specific routes be visible within this pricing equivalence framework?
4. If these prices aren't visible, how could competitors who are considering installing competitive infrastructure in regional exchanges be sure that Telstra is acquiring backhaul services to that exchange on the same terms as they are?
5. I mean given the potential for the introduction of averaged ULL pricing in Australia, and given that the stated objective of this pricing construct is to encourage the installation of competitive DSLAMs in rural and regional areas, won't the importance of access to backhaul services at competitive costs only grow?
6. If there is no transfer pricing for the backhaul services that Telstra provides itself for specific routes, how can competitors be confident that they are obtaining backhaul services at equivalent prices? It doesn't do regional infrastructure competitors much use to have a \$30 ULL rate if they are paying twice what Telstra is for backhaul to service the DSLAMs in their exchanges.
7. Is it fair to say that if we don't get backhaul pricing right there is no chance that an averaged ULL price will encourage ADSL infrastructure investment in rural and regional Australia?

**Answer:**

**Question 1**

(1) The ACCC made inquiries of providers of wholesale transmission capacity services and downstream suppliers of retail broadband services concerning the supply of transmission capacity in regional areas.

## Senate Economics Legislation Committee

### ANSWERS TO QUESTIONS ON NOTICE

#### Treasury Portfolio

Additional Estimates, 16 February 2006

(2) The purpose of the inquiry was to determine whether further high-level intervention (in the form of publishing indicative rates or more particularised pricing principles for regional transmission capacity services) would promote the long term interests of end-users.

(3) As a result of these inquiries, the ACCC determined not to proceed with further high-level intervention. The reasoning behind this decision was that:

(a) although competition for wholesale transmission capacity remained patchy at best, there already was potential for competition on a number of transmission routes to develop in the short to medium term

(b) it was not clear what instances of transmission capacity (in terms of the routes, the technology, and the level of capacity) would become prevalent — and as such it was not clear towards what forms of the service any further high-level guidance should be directed

(c) other barriers to entry for regional broadband suppliers, in addition to terms of supply of wholesale transmission, would in any event remain.

(4) As such, the ACCC will regulate in respect of the specific instances of the service in respect of which disputes are notified or undertakings lodged. In this regard, there is a recently notified dispute in respect of wholesale transmission.

#### Question 2

(1) The findings of the inquiry have informed the formulation of operational separation to the extent that domestic transmission capacity services have been included within that regime. The price equivalence framework within the regime is currently being formulated.

#### Question 3

(1) Given that the price equivalence framework is still to be determined, it is too early to speculate on what form it will take, and what level of transparency is provided to interested parties.

#### Questions 4 and 6

(1) It is too early to say whether or not direct visibility of prices will be provided by the price equivalence framework. It is also too early to say the extent to which the price equivalence framework will impose price restraint on Telstra.

#### Question 5

(1) Growth in downstream demand for broadband services (in terms of the number of services and the data rates necessary to support demanded applications) will be a key driver of backhaul demand

#### Question 7

(1) ULL prices and backhaul transmission prices (or the costs of alternative networks) are two matters that can raise barriers to entry in downstream markets, but there are many other barriers to entry for broadband service providers in regional areas, such as level of demand to support competitive services in particular towns or localities. The ACCC does not consider that an averaged ULL price will in fact encourage ADSL infrastructure investment in significant parts of rural Australia because of the distance limitations of DSL technology, which cannot be used to provide broadband services beyond about 4 kilometres from an exchange or network location.