

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 14 – 15 February 2007

Question: **Item 1 (ACCC)**
Topic: **Telstra Fibre to the Node Talks**
Hansard Page: **Written**

Senator CONROY asked:

- 1. Does the Commission support the *concept* of an explicit surcharge on wholesale prices to recover that part of the net non-commercial USO costs incurred by Telstra that are not funded by the current level of the USO? Please answer YES or NO.**
 - a. Why?**
 - b. Please detail exactly what the position of the ACCC was to this proposition when it was discussed with Telstra in the FTTN talks.**
- 2. Does the ACCC believe that the USO subsidy covers the entire amount of the funding shortfall that arises as a result of the imposition of de-averaged wholesale prices by the ACCC and averaged retail prices by the government?**
- 3. How does the ACCC either go about or would propose to go about assessing whether there is any shortfall in USO funding and how large such a shortfall is?**
- 4. The ACCC's answer 6 to SBT 109 from the Supplementary Budget Estimates states that the ACCC is not able to assess the accuracy of Telstra's claim that it must provide additional internal cross-subsidies to meet its universal service and price control obligations over and above explicit universal service funding without public scrutiny and testing. Does the ACCC believe the validity of this claim is relevant to its decision to de-average ULL pricing?**
 - a. If not, why not?**
 - b. If so, why hasn't the ACCC tested the validity of this claim in the public inquiries associated with the ACCC's decision to de-average ULL prices?**
- 5. Please explain how the government's Broadband Connect program could be relevant to reducing the need for Telstra to use internal cross-subsidies (over and above explicit universal service funding) to meet its universal service obligations (as implied in the ACCC's Answer 6 to SBT 109 from the Supplementary Budget Estimates)?**
 - a. Does the ACCC concede that the Broadband Connect program could actually exacerbate the ability for existing levels of universal service funding to cover the cost of Telstra's universal service obligation by creating competing infrastructure that may reduce Telstra's returns in USO areas (by taking customers of Telstra infrastructure) without reducing its net non-commercial USO costs (as Telstra would still be required to maintain this infrastructure)?**

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Answer:

1. The ACCC cannot comment on whether there is any part of the net non-commercial USO costs incurred by Telstra that are not funded by the current level of the USO. The ACCC does not make decisions about the level of universal service funding. Questions on universal service funding should be directed to the Department of Communications, Information Technology and the Arts (DCITA) and the Australian Communications and Media Authority (ACMA).
2. Questions about the level of universal service funding should be directed to DCITA and the ACMA.
3. Questions on universal service funding should be directed to DCITA and the ACMA.
4. No. The Net universal service costs reflect the difference between Telstra's costs and revenues in loss-making rural areas. In those loss-making rural areas, de-averaged ULL prices are *higher* than averaged prices would be, so do not increase net universal service costs. Any questions about the level of universal service funding should be directed to DCITA and the ACMA.
5. If Telstra receives Broadband Connect funding it may reduce its net universal service cost by expanding its ability to secure economies of scale and scope in service provision and increasing the revenue from various services available to it in currently loss-making areas. Alternatively, another party entering the market after gaining funding may reduce Telstra's revenue and therefore increase its net universal service cost. Questions on universal service funding should be directed to DCITA and the ACMA.