Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates 1 - 2 November 2006

Question: **sbt 109 (ACCC)**

Topic: **Collapse of Fibre to the Node Talks**

Hansard Page: **Written**

Senator CONROY asked:

1. It seems like the issue of subsidising the cost of services in rural and regional areas was a topic of significant discussion between Telstra and the ACCC. What is the ACCC's attitude to funding telecommunications services in high cost areas. In particular, the relevance of the cost of providing a service to rural, regional and remote Australia to FTTN pricing.

Does the ACCC believe that the costs of fixed line telecommunications are the same across Australia?

2. Why then does Telstra currently charge a flat retail $30 line rental across the country?

3. There's cross-subsidisation going on isn't there? The reason Australians have been able to enjoy telecommunications services at a consistent retail price regardless of where they live is because of this cross-subsidisation isn't it?

4. A consistent retail price across Australia isn't just a historic position either, its government policy too isn't it? The Minister has communicated the Government's support for averaged retail pricing to the Commission hasn't she?

5. Given this, it's fair to say that in practice, the price at which Telstra is allowed to charge city residents for fixed line services influences the price they are able to charge to rural and regional Australians?

6. Technologically speaking, Telstra's proposed FTTN network replaced large segments of its city fixed line network didn't it?

Isn't Telecommunications commentator Graeme Lynch right when he says that *"the FTTN net replaces the PSTN and thus becomes the primary engine of Telstra's fixed line revenues and profits (and thus, the source of its internal cross subsides)?"*

7. So, in practice, even assuming that Telstra's FTTN network never left the cities, why wouldn't the pricing of its network in the cities affect the pricing of its network in the bush? It would still need to be able to cross-subsidise rural and regional services with above cost prices in the cities wouldn't it?

8. But the ACCC couldn't reach agreement with Telstra on what the size of this cross-subsidy should be – is that correct?

9. But there was a recognition that there was a need for a cross-subsidy in order to fund the costs of providing a network to rural and regional Australia?

Telstra has claimed there was in principle agreement on this issue with the ACCC on this issue. There nowwearetalking website states that: *"While the principle of providing a subsidy was recognised by the ACCC, the talks reached an impasse when the regulator refused to accept Telstra's actual costs."*
http://www.nowwearetalking.com.au/Home/Page.aspx?mid=215

Is this correct?

10. Can I get the ACCC's response to some figures that Telstra has released on this issue?

Telstra claim that according to the ACCC's own pricing methodology, the cost of fixed line services in Band 4 ie rural areas is $174 per month. Is this a reasonable statement? If not, why?

11. Telstra charges about $29 a month for retail line rental – is that correct?

12. So, for argument's sake, if we limit the analysis to Telstra's guaranteed revenues ie line rental, that would constitute a monthly shortfall of $145 per line in band 4. Is that reasonable?

13. Extrapolating that out, Telstra claim that a $145 a month shortfall across 1.022 million lines in Band 4 would result in a total structural shortfall in band 4 of $1.78 billion per annum.

14. Taking into account USO funding for band 4 of $137million, this leaves a shortfall of $1.64 billion based on the assumption that Telstra retained its current line rental charges in rural and regional Australia. Is this a reasonable analysis?

15. In the ACCC's modelling of Telstra's costs for its ULL decisions, how does the ACCC see Telstra recouping this shortfall? The ACCC has made it pretty clear that it doesn't want averaged pricing across all four ULL bands to meet this short-fall, and the USO obviously doesn't come close, so where does the ACCC believe this shortfall should be made up?

Answer:

1. No.

2. The universal service obligation requires Telstra to ensure that all persons in Australia, wherever they reside or carry on business, have reasonable access to standard telephone services and payphones, on an equitable basis. The price controls on Telstra require that Telstra offer a basic line rental product at the same retail price across Australia. The price controls also require parity in local call prices offered to metropolitan and regional and rural consumers.

3. There is explicit cross-subsidisation occurring, as provided for under the *Telecommunications (Consumer Protection and Service Standards) Act 1999.* The universal service obligation and the price controls ensure that all persons in Australia have reasonable access to standard telephone services and payphones on an equitable basis, wherever they reside or carry on business.

These services are then cross-subsidised by all carriers in proportion to their share of eligible retail revenue, through the Universal Service Fund.

The ACCC understands the next regular review of universal service arrangements is scheduled for 2008. Further queries about universal service arrangements should be directed to the Australian Communications and Media Authority (ACMA) which has administratively responsibility for the universal service arrangements.

There are also taxpayer subsidies for infrastructure which can support broadband in regional and rural areas, through funding programmes such as Broadband Connect. Further queries about such programmes should be directed to the Department of Communications, Information Technology and the Arts (DCITA).

4. See answers to questions 2 and 3.

5. The price Telstra is able to charge rural, regional and metropolitan residents for basic line rental and local calls is subject to price controls. See answers to questions 2 and 3.

6. According to Telstra's public briefings, the FTTN footprint covered 5 capital cities and included approximately 4 million households.

   Mr Lynch's observations are relevant to the extent (if any) that Telstra must provide additional internal cross-subsidies to meet its universal service and price control obligations, over and above explicit universal service funding.

   Telstra claimed during FTTN discussions that notwithstanding other policy tools directed towards this issue, such as universal service funding and the Broadband Connect programme, Telstra would face a shortfall that would require additional internal cross-subsidies.

   Whether or not Telstra's claim is correct, for the purposes of a post-FTTN environment, the ACCC was willing to continue discussions with Telstra on this matter. Had the FTTN proposal then proceeded to public consultation, the ACCC would have received evidence from all parties on the matter on which to make an assessment. Since Telstra chose to withdraw its FTTN proposal, (including these costings), before being subjected to public scrutiny and testing, it was not possible for the ACCC to assess whether its claim was correct.

   The ACCC notes that current universal service subsidies are assessed from time to time by the government, and were most recently determined in 2005. The ACCC understands these are to be reviewed next by 2008. Further questions on current universal service funding should be directed to DCITA and ACMA.

7. See answer to question 6.

8. See answer to question 6.

9. See answer to question 6.

10. No. The ACCC notes that this claim is a Telstra figure and not an ACCC figure, based on data drawn from Telstra's own PIE2 model and highly disputed by other stakeholders. Elements of the pricing regime, particularly relating to the PIE2 model are currently being considered by the Australian Competition Tribunal.

11. Approximately. There are some retail line rental products with higher prices and some with lower prices but on average this is approximately correct.

12. No. This calculation (and those in questions 13 to 15) ignores a range of other revenues that Telstra earns in Band 4, and as noted above the cost estimate is disputed.

    On the revenue side, it is not clear why the analysis would be restricted to 'guaranteed' revenues. The ACCC understands that the usual basis for calculating universal service subsidies is the net avoidable cost for a net loss area, ie. the difference between the cost of providing non-commercial services to a loss-making rural area and the revenues received by the universal service provider because it provided the services. To allow a universal service provider to claim that an area was non-commercial, then to both claim the costs and keep all the commercial revenues received, would appear to potentially provide the universal service provider with a very large double-dip against consumers.

    On the cost side, these costs are highly disputed by stakeholders – see question 10.

    Questions about current universal service funding should be directed to DCITA and ACMA.

13. See answer to question 12.

14. See answer to question 12.

15. See answer to question 12.