



**Australian
Competition &
Consumer
Commission**

Draft Building Block Model RKR

ACCC Position Paper

March 2012



© Commonwealth of Australia 2012

This work is copyright. Apart from any use permitted by the *Copyright Act 1968*, no part may be reproduced without prior written permission from the Commonwealth available through the Australian Competition and Consumer Commission. Requests and inquiries concerning reproduction and rights should be addressed to the Director Publishing, Australian Competition and Consumer Commission, GPO Box 3131, Canberra ACT 2601.

Contents

Glossary	4
1 Executive Summary	6
1.1 Making submissions.....	6
2 Building Block Model data collection	8
2.1 Why the ACCC wants this information	8
2.2 Importance of this data.....	8
2.3 The mechanism by which data is obtained	9
3 Forecast operating expenditure	11
3.1 Assessment of forecasts	11
3.2 Explanatory statement.....	11
4 Depreciation and forecast capital expenditure.....	13
4.1 Assessment of forecasts	13
4.2 Explanatory statement.....	13
4.3 Depreciation	14
5 Forecast demand	15
5.1 Assessment of forecasts	15
5.2 Explanatory statement.....	16
6 Actual usage data	17
7 Regulatory impost and details of the proposed RKR.....	18
7.1 Reducing the regulatory burden	18
7.2 Frequency.....	18
7.3 Duration	19
7.4 National Broadband Network	19
7.5 Format	20
7.6 Flexibility.....	20
7.7 Addressee	20
7.8 Disclosure direction	21
7.9 Cost	21
Appendix A: FLSM Asset Classes	22

Glossary

ACCC	Australian Competition and Consumer Commission
Access Seeker	Has the same meaning as in section 152AG of the CCA
ASIC	Australian Securities and Investments Commission
BBM	Building block model
BBM RKR	Building block model record keeping and reporting rule
CAN	Customer access network
CCA	<i>Competition and Consumer Act 2010</i>
DSL	Digital subscriber line
DSLAM	Digital subscriber line access multiplexer
FAD	Final access determination
Fixed Line Services	Each of the fixed line services declared under Part XIC of the CCA. These are the ULLS, LCS, LSS, PSTN OTA and WLR services
FLSM	Fixed line services model
FLSM Asset Class	A class of asset, as listed in Appendix A, which appears in the FLSM and forms part of the CAN or Core network.
LCS	Local carriage service
LSS	Line sharing service
LTIE	Long-term interests of end-users
MEA	Modern equivalent asset
NBN	National broadband network
Pricing Review	The process by which the ACCC will set regulated prices to apply to the Fixed Line Services in a subsequent Regulatory Period.
PSTN	Public switched telephone network
PSTN OTA	PSTN originating and terminating access

RAB	Regulatory asset base
RAF	Regulatory Accounting Framework
Regulatory Period	The period during which the FADs for the Fixed Line Services are in force.
RKR	Record keeping and reporting rule
SIOs	Services in operation
TSLRIC	Total service long-run incremental cost
WACC	Weighted average cost of capital
WLR	Wholesale line rental
ULLS	Unconditioned local loop service

1 Executive Summary

The Australian Competition and Consumer Commission (ACCC) may make access determinations for declared services under Part XIC of the *Competition and Consumer Act 2010* (CCA). Telstra is the primary access provider of declared Fixed Line Services.

In July 2011 the ACCC made Final Access Determinations (FADs) for the declared Fixed Line Services which expire on 30 June 2014.¹ The ACCC used a Building Block Model (BBM), the Fixed Line Services Model (FLSM), to determine the prices in the FADs. In the final report accompanying the FADs, the ACCC noted that it would use a BBM approach to determine prices for the declared Fixed Line Services in future Regulatory Periods.²

To effectively implement the FLSM, the ACCC requires forecast and actual data from Telstra relating to operating expenditure, capital expenditure, depreciation and demand. In the final report the ACCC proposed a formal record keeping and reporting rule (RKR) to obtain expenditure and demand forecasts for future regulatory periods.³ The ACCC noted that the building block model record keeping and reporting rule (BBM RKR) would clearly specify the information required, the nature of the supporting information required, the format for presenting the information and the timeframes required. The ACCC noted that it would consult with industry on making a BBM RKR in order to obtain this data.⁴

This Position Paper explains the need for the information contained in the proposed BBM RKR in the context of the BBM approach. The paper then provides an explanation of the data requirement proposed by the ACCC for Telstra and how this data will be assessed. Finally, the Paper assesses the likely regulatory impact of the RKR on Telstra. The ACCC is seeking submissions on all elements of the proposed BBM RKR.

1.1 Making submissions

The ACCC seeks submissions on this Position Paper by **no later than 5.00 pm on 4 May 2012**.

The ACCC prefers to receive electronic copies of submissions. Electronic submissions should be in either PDF or Microsoft Word format and allow for searchable text.

Please forward submissions and inquiries by email to the Contact Officer:

¹ ACCC, *Inquiry to make final access determinations for the declared fixed line services – final report*, July 2011.

² *ibid.*, p. 130.

³ *ibid.*, p. 58.

⁴ *ibid.*, p. 30.

Contact Officer:

Jessica Wicks
Communications Group
Australian Competition and Consumer
Commission

Email: jessica.wicks@acc.gov.au

Please copy correspondence to:

Email: bbmrkr@acc.gov.au

2 Building Block Model data collection

A BBM pricing methodology estimates prices that reflect efficient costs. The ACCC considers that adopting a BBM approach to setting prices for the declared Fixed Line Services meets the objectives of promoting the long-term interests of end-users (LTIE) because setting prices that reflect efficient costs will promote competition in the markets for carriage services and encourage efficient use of and investment in infrastructure.

2.1 Why the ACCC wants this information

The ACCC considers that adopting a BBM approach will promote the LTIE for the following reasons:

- Locking-in a value for the regulatory asset base (RAB) fosters predictable revenue and price paths, thereby minimising the likelihood of windfall gains or losses. This certainty promotes efficient use of and investment in infrastructure.
- The BBM approach ensures the access provider is adequately compensated for the cost of providing the declared Fixed Line Services over time. The estimated revenue requirement allows the access provider to recoup its efficiently incurred costs, including a commercial return on its investments.
- Determining prices through a transparent and cost-based pricing model will provide regulatory certainty for both the access provider and Access Seekers about the way in which the ACCC will set prices. Such certainty promotes efficient investment and competition in the markets for carriage services.
- Using a BBM approach will ensure that prices for the declared Fixed Line Services are based on the costs of providing access. This will promote a level playing field for access to the services needed to provide downstream services and promote competition in downstream markets.⁵

2.2 Importance of this data

Part XIC of the CCA requires the ACCC to exercise its telecommunications regulatory functions to promote the LTIE. This is achieved through the following objectives:

- promoting competition
- achieving any-to-any connectivity in relation to carriage services that involve communication between end-users
- encouraging the economically efficient use of and investment in infrastructure supplying telecommunication services.

The ACCC's statutory functions under Part XIC include declaration of listed carriage services and making access determinations relating to access to declared services. The relevant declared Fixed Line Services are the:

- unconditioned local loop service (ULLS)
- line sharing service (LSS)

⁵ ACCC, *Inquiry to make final access determinations for the declared fixed line services – final report*, July 2011, p. 133.

- wholesale line rental (WLR)
- local carriage service (LCS), and
- public switched telephone network originating and terminating access (PSTN OTA).

The ACCC has used a BBM, where the initial asset values are ‘locked in’ by setting an initial RAB, as the basis for calculating regulated prices. Key inputs required for the implementation of the BBM are forecast and actual data relating to operating expenditure, capital expenditure, depreciation and demand.

2.2.1 An overview of the Building Block Model

The BBM calculates the access provider’s (i.e. Telstra’s) total revenue requirement by adding together each of the cost categories or ‘building blocks’ faced by Telstra: this ensures that revenues calculated using the BBM will cover Telstra’s efficient costs. The ACCC’s BBM for fixed line services, the FLSM, calculates the total costs of supplying all the services provided using the Customer Access Network (CAN) and Core network assets included in the RAB.

Capital costs include a commercial return on investment that is commensurate with Telstra’s legitimate business interests. The BBM therefore requires the establishment of an initial value for Telstra’s investment. Once identified, this value is locked in as the initial RAB and rolled-forward from one Regulatory Period to the next by adjusting for depreciation, new investment (capital expenditure) and asset disposals.⁶

The BBM is explained in more detail in the ACCC’s April 2011 Discussion Paper, which commenced the public inquiry to make FADs for the declared Fixed Line Services.⁷

2.2.2 Data required

In order to set prices that will apply over a given regulatory period, the ACCC requires forecast operating expenditure, capital expenditure and demand. Forecast operating and capital expenditure are used to determine the revenue requirement in each year of the regulatory period. The revenue requirement is then allocated to each service and divided by forecast demand for that service to determine regulated prices. The ACCC requires actual usage figures in order to assess the accuracy of previous forecasts and inform its assessment of future forecasts.

This forecast and actual usage data is necessary to effectively implement the FLSM, increasing certainty and improving the quality of decisions relating to price regulation in the telecommunications industry.

2.3 The mechanism by which data is obtained

The ACCC is proposing to obtain this data from Telstra by issuing the BBM RKR. Under section 151BU of the CCA, the ACCC has the power to make a RKR by written instrument which carriers and carriage service providers must comply with. The rules may specify what records must be kept, how reports are to be prepared and when these reports must be provided to the ACCC. The ACCC cannot require the

⁶ The value of Telstra’s investment, the initial RAB, as at 1 July 2011 is \$15,515,621,288.

⁷ See chapter 4 of the following document: ACCC, *Public inquiry to make final access determinations for the declared fixed line services – discussion paper*, April 2011.

keeping of records unless they contain information relevant to its responsibilities. These responsibilities include the operation of Parts XIB and XIC of the CCA.

As outlined above, the ACCC has determined that its functions under Part XIC for declared Fixed Line Services are best performed using a BBM. The ACCC considers that the information required under the draft BBM RKR is relevant to the operation of part XIC in accordance with section 151 BU of the CCA.

The ACCC considers that Telstra has the most comprehensive information regarding its own operations and services, and should therefore be best placed to create high quality forecasts. The quality of forecasts will have a direct impact on the effectiveness of the BBM. Inaccurate forecasts could result in Telstra being unable to recover the efficient costs of providing the network, or, alternatively, over-recovering and receiving monopoly profits.

Questions for submitters:

1. Do submitters have any comments on the need for this BBM RKR?

3 Forecast operating expenditure

The ACCC proposes that operating expenditure for each FLSM Asset Class should be forecast for each financial year of the Regulatory Period. The ACCC considers it necessary for Telstra to supply operating expenditure forecasts for each FLSM Asset Class as this would ensure that the data could be input directly into the FLSM if the ACCC determined that the forecasts represented an efficient level of operating expenditure.

The ACCC considers that Telstra should provide operating expenditure forecasts in nominal terms accompanied with Telstra's inflation assumptions for each year in the Regulatory Period.

3.1 Assessment of forecasts

As noted in section 2.3, the quality of the forecasts employed by the ACCC will have a direct impact on the ability of the FLSM to determine efficient prices. While Telstra is best placed to determine the most accurate operating expenditure forecasts, Telstra may also have an incentive to over-state operating expenditure and thereby obtain higher prices.

The ACCC proposes to assess the validity of Telstra's operating expenditure forecasts. In assessing Telstra's operating expenditure forecasts, the ACCC will have regard to the following principles, which were specified in the fixed principles provisions accompanying the FADs:

- the access provider's level of operating expenditure in the previous Regulatory Period
- reasons for proposed changes to operating expenditure from one Regulatory Period to the next Regulatory Period
- any relevant regulatory obligations, or changes to such obligations, applicable to providing the relevant declared fixed line services, and
- any other matters relevant to whether forecast operating expenditures reflect prudent and efficient costs.⁸

3.2 Explanatory statement

To enable the ACCC's assessment of Telstra's operating expenditure forecasts, the draft BBM RKR requires that Telstra provide an explanatory statement containing:

- the method used to determine the forecasts
- the assumptions used to determine the forecasts, and
- the basis for the assumptions.

To ensure that the requirements above are adequately addressed, the ACCC proposes that Telstra include:

- the cost drivers used for each expenditure class

⁸ ACCC, *Inquiry to make final access determinations for the declared fixed line services – final report*, July 2011, p. 183.

- the cost allocations with respect to any common or joint costs related to shared facilities or network elements, and
- a report comparing forecasts for the previous Regulatory Period with actual operating expenditure for that period, and an explanation of any differences, trends and drivers.

Questions for submitters:

2. The ACCC seeks submitters' views on the criteria by which the ACCC proposes to assess Telstra's forecast operating expenditure.
3. The ACCC seeks submitters' comments on whether the information relating to forecast operating expenditure to be provided in the proposed explanatory statement is sufficient and reasonable.

4 Depreciation and forecast capital expenditure

The ACCC proposes that capital expenditure for each FLSM Asset Class should be forecast for each financial year of the Regulatory Period. The ACCC considers that separate forecasts should be provided for each asset class, as well as the total capital expenditure for each year.

The ACCC considers that Telstra should provide capital expenditure forecasts in nominal terms accompanied with Telstra's inflation assumptions for each year in the Regulatory Period.

4.1 Assessment of forecasts

As noted in section 2.3, the quality of the forecasts will have a direct impact on the ability of the FLSM to determine efficient prices. While Telstra is best placed to determine the most accurate capital expenditure forecasts, Telstra may also have an incentive to over-state capital expenditure and thereby obtain higher prices.

The ACCC proposes to assess the validity of Telstra's capital expenditure forecasts. In assessing Telstra's capital expenditure forecasts, the ACCC will have regard to the following principles, which were specified in the fixed principles provisions accompanying the FADs:

- the access provider's level of capital expenditure in the previous Regulatory Period
- reasons for proposed changes to capital expenditure from one Regulatory Period to the next Regulatory Period
- whether the access provider's asset management and planning framework reflects best practice
- any relevant regulatory obligations, or changes to such obligations, applicable to providing the relevant declared fixed line services, and
- any other matters relevant to whether forecast capital expenditures reflect prudent and efficient costs.⁹

The ACCC must be satisfied that any new capital expenditures are prudent and efficient, and that cost estimates are based on reasonable assumptions of the efficient costs likely to be incurred over the Regulatory Period.

Because of the volume and diversity of projects undertaken by Telstra, it is not practicable for the ACCC to examine expenditure on an individual project basis. The ACCC has previously stated that it does not intend to review projects on an individual basis.¹⁰

4.2 Explanatory statement

To enable the ACCC's assessment of Telstra's capital expenditure forecasts, the draft BBM RKR requires that Telstra provide an explanatory statement containing:

⁹ ACCC, *Inquiry to make final access determinations for the declared fixed line services – final report*, July 2011, p. 183.

¹⁰ ACCC, *Public inquiry to make final access determinations for the declared fixed line services – discussion paper*, April 2011, p. 83.

- the method used to determine the forecasts
- the assumptions used to determine the forecasts
- the basis for the assumptions, and
- any internal guidelines used by Telstra to assess the prudence of forecast capital expenditure or to tender or contract out capital expenditure projects.

To ensure that the requirements above are adequately addressed, the ACCC proposes that Telstra include:

- an explanation of the investment program detailing:
 - how non-discretionary projects relate to the drivers of investment, such as population growth and replacement of assets nearing the end of their asset lives
 - for discretionary projects, a broad description of the type of investments being undertaken and the drivers of those investments
- a report comparing forecasts for the previous Regulatory Period with the actual capital expenditure for that period, and an explanation of any differences, trends and drivers
- for discretionary projects, an explanation of any major differences in the types of investment undertaken compared to the forecasts, and
- evidence that a review of capital expenditure projects was undertaken in accordance with the investment guidelines.

4.3 Depreciation

In order to calculate straight line depreciation using the FLSM, the ACCC requires the following data:

- total asset lives for forecast capital expenditure for each FLSM Asset Class
- historic cost by vintage for each FLSM Asset Class, and
- written down values by vintage for each FLSM Asset Class.

Questions for submitters:

4. The ACCC seeks submitters' views on the proposed criteria by which the ACCC intends to assess Telstra's forecast capital expenditure.
5. The ACCC seeks submitters' comments on whether the information relating to forecast capital expenditure (and the asset classes they relate to) to be provided in the proposed explanatory statement is sufficient and reasonable.
6. In particular, do submitters have any comments on whether the asset classes into which capital is categorised appropriate and reasonable?

5 Forecast demand

The ACCC proposes that demand should be forecast for each of the following declared Fixed Line Services in order to calculate prices:

- ULLS SIOs, by geographic band
- WLR SIOs, by geographic band
- Total SIOs,¹¹ by geographic band
- PSTN OTA minutes
- LCS minutes
- LCS average call duration, and
- LSS SIOs.

The ACCC notes that forecasts will be required for each financial year of the Regulatory Period. The FLSM requires forecasts of demand for ULLS and WLR, as well as Total SIOs (see definition in footnote 11), by geographic band in order to conduct the geographic cost adjustments to cost allocation factors for these services.¹² All other services have geographically averaged prices in the FLSM, and therefore total forecast demand for the network will be sufficient. The use of national aggregate figures where possible minimises the regulatory burden on Telstra.

5.1 Assessment of forecasts

As noted in section 2.3, the quality of the forecasts will have a direct impact on the ability of the FLSM to determine efficient prices. The ACCC proposes to assess the validity of Telstra's demand forecasts. In assessing Telstra's demand forecasts, the ACCC will have regard to the following principles, which were specified in the fixed principles provisions accompanying the FADs. The forecasts must:

- be based on an appropriate forecasting methodology
- be based on reasonable assumptions about the key drivers of demand
- be determined utilising the best available information before the ACCC, including historical data that can identify trends in demand, and

¹¹ Total Services in Operation (SIOs) are calculated as the sum of the three types of SIOs specified in subsection 5.6 of the CAN RKR. These three types of SIOs are:

- a) the number of voice-only SIOs being the total number of Telstra retail and wholesale Voice SIOs where the End User takes only voice provided by a Telstra PSTN switch and no DSL Service is provided on that line by any carrier.
- b) The number of DSL-only Services in Operation being the total number of Telstra retail and wholesale digital subscriber line SIOs where the End User only takes DSL provided by a Telstra DSLAM and no Voice Service is provided on that line by any carrier.
- c) The number of voice and DSL bundle SIOs being the total number of Telstra retail and wholesale DSL and Voice Services provided as part of the same SIOs where the End User takes both voice provided by a Telstra PSTN switch and DSL provided by a Telstra DSLAM.

¹² In estimating prices for the FADs, the ACCC made adjustments to some of the cost allocation factors for the ULLS and WLR service—namely 'ducts and pipes' and 'copper cables'—to reflect the differing geographic costs of supplying these services in different geographic bands.

- be determined taking into account current demand and economic conditions.¹³

The ACCC may also have regard to alternative forecasts, for example by private forecasting groups, in assessing the reasonableness of Telstra's demand forecasts.

5.2 Explanatory statement

To enable the ACCC's assessment, the draft BBM RKR requires that Telstra provide an explanatory statement containing:

- the method used to determine the forecasts
- the assumptions used to determine the forecasts, and
- the basis for the assumptions.

To ensure that the requirements above are adequately addressed, the ACCC proposes that Telstra include:

- key demand drivers taken into account
- the data sources used, and
- a report comparing forecasts for the previous Regulatory Period with the actual usage data for that period, and an explanation of any differences, trends and drivers.

Questions for submitters:

7. The ACCC seeks submitters' views on the criteria by which the ACCC will assess Telstra's forecast demand.
8. The ACCC seeks submitters' comments on whether the information relating to forecast demand to be provided in the proposed explanatory statement is sufficient and reasonable.

¹³ ACCC, *Public inquiry to make final access determinations for the declared fixed line services – discussion paper*, April 2011, p. 83.

6 Actual usage data

Telstra already provides usage data to the ACCC for the ULLS, PSTN OTA and LSS under the Regulatory Accounting Framework (RAF) RKR and the CAN RKR. However, in order to assess demand forecasts for all declared Fixed Line Services, the draft BBM RKR requires Telstra to provide actual usage data for the LCS and WLR service.

Telstra is required to record:

- the total number of WLR SIOs used by Access Seekers as at 30 June each year, in each of the four geographic bands
- the total number of LCS call minutes used by Access Seekers over the course of each financial year
- the average call duration for the LCS over the course of each financial year.

The ACCC requires the actual usage data provided in the BBM RKR to assist in assessing the reasonableness of forecasts provided in price review processes.

The ACCC will require disaggregated WLR demand in order to monitor the accuracy of WLR demand forecasts. As the FLSM sets nationally averaged prices for LCS, national aggregate totals will be sufficient for LCS demand. The ACCC proposes not to require Telstra to provide LCS data for each geographic band or each Access Seeker, in order to minimise the regulatory burden on Telstra.

Questions for submitters:

9. The ACCC seeks submitters' comments on the proposed data sets.

7 Regulatory impost and details of the proposed RKR

This chapter begins by discussing the regulatory burden of the proposed BBM RKR. This is followed by a discussion of the proposed details of the BBM RKR, including the proposed reporting frequency, duration and format of the BBM RKR.

7.1 Reducing the regulatory burden

In order to assess the regulatory impost of the proposed BBM RKR, the ACCC notes that price determinations under the TSLRIC+ (total service long-run incremental cost, plus a contribution to indirect costs) model required the identification and pricing of Modern Equivalent Assets (MEAs). This required extensive consultation with industry and usually involved modelling of potential MEAs by Telstra. The BBM replaces TSLRIC+ pricing and removes the need to determine MEAs. Therefore, the regulatory burden imposed by the BBM RKR should be evaluated in light of the reduced regulatory burden arising from the removal of the MEA component of regulation.

7.2 Frequency

7.2.1 Reporting forecast data

The ACCC is mindful that the frequency for reporting under the BBM RKR impacts the regulatory burden. As a result, the ACCC proposes that forecast data (and the historic cost data specified in section 4.3) should be provided when the ACCC commences a Pricing Review prior to each Regulatory Period. The ACCC will announce its intention to hold a Pricing Review and request forecast data from Telstra in writing at least 12 months prior to the commencement of the next Regulatory Period. The proposed length of the relevant Regulatory Period will be confirmed in the written request.¹⁴

This will ensure that data is available when needed to determine prices, but avoids placing an unnecessary regulatory burden on Telstra by imposing a regular, more frequent schedule.

The ACCC proposes to give Telstra eight weeks following the written request to determine forecasts and prepare the explanatory statement. This is longer than the standard allowance of four weeks for the preparation of regulatory documentation in recognition of the fact that Pricing Reviews are independent of other reporting schedules and may commence at any time, potentially coinciding with other reporting requirement deadlines.

7.2.2 Reporting actual usage data

The ACCC proposes that actual usage data should be provided on an annual basis following the end of each financial year. The draft BBM RKR specifies that Telstra is required to lodge this report with the ACCC:

¹⁴ A final decision on the length of the Regulatory Period will occur following the Pricing Review consultation process.

...within 4 weeks of the date upon which Telstra is required to lodge its annual report with ASIC [Australian Securities and Investments Commission] pursuant to section 319 of the *Corporations Act 2001*.¹⁵

This timeframe is equivalent to the annual RAF reporting schedule to avoid multiple reporting dates and minimise the regulatory burden on Telstra.

Annual reporting is necessary to ensure data is regularly updated and sufficient monitoring of actual in comparison to forecast data can occur. The ACCC considers that the more frequent biannual and quarterly reporting schedules in place for the RAF and CAN RKR would place an unnecessary regulatory burden on Telstra for the purposes of implementing the BBM RKR.

7.3 Duration

The ACCC proposes that the BBM RKR will commence on 1 July 2012, and will continue in its current form until 30 June 2021 at which time the ACCC will conduct a limited review. The proposed expiry date of the BBM RKR aligns with the expiry date of the Fixed Principles Provisions specified in the final report accompanying the FADs for the declared Fixed Line Services.¹⁶ The ACCC considers that aligning the two expiry dates is reasonable. The ACCC proposes that the review be limited to the forecast data components of the BBM RKR. The ACCC proposes that the actual usage data requirements will remain in place irrespective of the outcome of the review.

The ACCC proposes that the review will include industry consultation and will consider whether the BBM RKR has successfully facilitated the implementation of the BBM. The proposed review will also consider whether the BBM is expected to continue to apply to Telstra's declared Fixed Line Services.

7.4 National Broadband Network

There remains uncertainty at present about the impacts of the National Broadband Network (NBN) roll-out on fixed line demand, expenditures and asset disposals. Accounting for the impacts of the NBN may require adjustment of the FLSM in future Regulatory Periods. For example, the NBN roll-out's impact on expenditures relating to the maintenance of, and investment in, the PSTN, as well as the demand for services provided over the PSTN, will need to be taken into account.

For the next regulatory period, the ACCC may need to ensure that appropriate adjustments are made to the RAB to reflect the following impacts of the NBN:

- **Decommissioning of assets:** Telstra has agreed to decommission its copper network in areas where the NBN will provide fibre services to customers. The agreement provides for a per customer migration payment from NBN Co to Telstra as customers are disconnected from the copper network.
- **Ownership transfer:** NBN Co will purchase from Telstra the conduits that connect a house to the network at street level. Telstra will subsequently be allowed to access the conduits for free (for example to provide pay television services).

¹⁵ ACCC, *Draft Building Block Model, Record Keeping and Reporting Rule*, March 2012, p.6

¹⁶ ACCC, *Inquiry to make final access determinations for the declared fixed line services – final report*, July 2011, p. 182.

- **Leased assets:** Telstra will lease some assets (such as ducts and pipes) to NBN Co. These assets are currently included the RAB. The leased assets may be fully or partly used by the NBN.

7.5 Format

A key objective for the ACCC from this process is the effective electronic manipulation of the data obtained.

To enable faster manipulation of the data, the ACCC proposes to ask Telstra to submit forecast and actual data electronically in an Excel spreadsheet in a specified format.

Although Telstra may need to undertake some reordering and recompiling of existing data for the BBM RKR, the ACCC considers that the burden on Telstra will be relatively low given it is currently likely that:

- Telstra already records historical cost and written down values for its assets for internal purposes
- actual usage data for the LCS and WLR is recorded for internal accounting purposes, and
- Telstra prepares forecasts of capital and operating expenditure and demand for its own internal planning purposes.

7.6 Flexibility

If, during the period of the BBM RKR, discussed in clause 7.3 above, it becomes apparent that particular data required in Attachments A, B and C of the BBM RKR is no longer required, the ACCC may, in consultation with Telstra and interested parties, vary or amend the requirement for Telstra to continue to submit that data.

Specifically, the ACCC may expressly vary or amend in writing a requirement to provide any of the data listed in Attachment A, Attachment B or Attachment C¹⁷ of the RKR if:

- (a) it has consulted with Telstra and any other person who appears to the ACCC to be interested; and
- (b) it is satisfied that the variation or amendment is required for the purposes of the Building Block Model Approach..

The ACCC may authorise a member of the ACCC or a member of the ACCC staff, to exercise its functions in this regard.

7.7 Addressee

The ACCC proposes that the BBM RKR will require only Telstra—the owner of the CAN and Core network used to provide declared Fixed Line Services—to disclose the information sought. The ACCC's BBM, the FLSM, is used to set prices based on the assessed costs of providing each of the declared Fixed Line Services over the copper network.

¹⁷ ACCC, *Draft Building Block Model, Record Keeping and Reporting Rule*, March 2012, p.8-19

7.8 Disclosure direction

Division 6 of Part XIB of the CCA makes provision for reports or extracts of reports prepared by a carrier or a carriage service provider in accordance with the RKR to be disclosed. This can occur if the ACCC is satisfied that the disclosure of the reports or extracts would be likely to facilitate the operation of Part XIC. At this stage, the ACCC is considering whether disclosure, under sections 151BUA and 151BUB, of reports or extracts of reports received in accordance with the RKR would facilitate the operation of Part XIC by aiding the regulatory process.

7.9 Cost

The ACCC recognises the cost that record keeping and reporting places on Telstra. Accordingly, the ACCC seeks an itemised estimation of the costs of compliance with the proposed BBM RKR from Telstra.

Questions for submitters:

10. Do submitters have comments on the proposed timeframe for Telstra to report the forecast data component of the proposed BBM RKR?
11. Do submitters have comments on the proposed annual frequency for the actual usage data component of the proposed BBM RKR?
12. The ACCC seeks submitters' views on the timing and scope of the proposed review of the forecast data component of the BBM RKR at 30 June 2021?
13. The ACCC seeks submitters' views on: what data might be required to address the impacts of the NBN on the FLSM; and whether this data should be requested under the BBM RKR or a separate process.
14. In particular, do submitters have any comments on whether the ACCC should request data on asset disposals under the BBM RKR?
15. Do submitters have comments regarding disclosure of the RKR information to facilitate the regulatory process?
16. The ACCC seeks from Telstra an itemised estimation of the costs associated with meeting the requirements of the proposed BBM RKR.

Appendix A: FLSM Asset Classes

The following lists comprise the FLSM Asset Classes for which capital expenditure and operating expenditure is to be forecast under the proposed BBM RKR.

CAN Asset Classes

- Ducts and pipes
- Copper cables
- Other cables
- Pair gain systems
- CAN radio bearer equipment
- Other CAN assets
- Other communications plant and equipment
- Network land
- Network buildings/support
- Indirect capital assets

Core Asset Classes

- Switching equipment – Local
- Switching equipment – Trunk
- Switching equipment – Other
- Inter-exchange cables
- Transmission equipment
- Core radio bearer equipment
- Other communications plant and equipment
- Network land
- Network buildings/support
- Indirect capital assets
- LSS equipment