Report 3

Telstra’s compliance with the price control arrangements: 2002–03

Contents

1 Background and summary

Under Part XIB, Division 12, paragraph 151CM(1)(b) of the ***Trade Practices Act 1974***, the Australian Competition and Consumer Commission (ACCC) must report to the Minister for Communications, Information Technology and the Arts on the adequacy of Telstra's compliance with price control arrangements.

The ACCC considers Telstra has adequately complied with its price control obligations under the 2002 Ministerial Determination. Having assessed the information provided and on the basis of the independent auditor's report, the ACCC is satisfied that Telstra has adequately complied with the price-cap of CPI–4.5 per cent for the first basket of services and the price caps of CPI+4.0 per cent for the second and CPI–0 for the third basket of services. Telstra has also complied with the metropolitan/non-metropolitan pricing parity requirement for residential, charity and business customers and with its other price control arrangements.

The dispute between Telstra and the ACCC in relation to the carry-in amount from 2001–02 for the second basket of services has been resolved, with Telstra agreeing not to use the disputed credits in the 2003–04 second basket price cap. The ACCC agrees that this is the appropriate way to ensure that the benefits of the price control arrangements are passed on to end-users.

The ACCC notes that although Telstra provided an initial 2002–03 price control report to the ACCC on 30 September 2003, detailing its compliance with the price control arrangements, it also lodged a value claim for quality improvements to the line rental service. Telstra provided its final report on 26 April 2004 following the ACCC's assessment of the value claims made by Telstra and a requirement for Telstra to make some methodological changes to its September report. Final audit clearance of Telstra's report was not obtained until 20 May 2004.

The price control arrangements which apply to Telstra for the 2002–03 financial year are specified in the Minister's ***Telstra Carrier Charges—Price Control Arrangements, Notification and Disallowance Determination No.1 of 2002*** (the Determination). Compliance with these is a condition of Telstra's carrier licence.

In August 2000, the ACCC was directed by the Minister for Communications, Information Technology and the Arts under Division 3 of Part 25 of the ***Telecommunications Act 1997*** to undertake a review of the Telstra price controls which the ACCC administers.

This direction required the ACCC to hold a public inquiry into whether there was a need for price control arrangements on Telstra to continue after the expiry of the Minister's existing determination—the ***Carrier Charges—Price Control Arrangements, Notifications and Disallowance Determination No.1 of 2000***—on 30 June 2001.

The direction also required that should the ACCC consider there was still a need for price control arrangements after this time, that the public inquiry determine what form they should take, including their duration, means of implementation and review mechanisms.

On 14 February 2001, the ACCC provided the minister with its final report. The report contained

recommendations on what form the ACCC thought future price control arrangements should take including:

- Of the services subject to retail price control arrangements in the existing determination (line rental, local calls, national long distance (STD); international long distance (IDD); fixed-to-mobile (FTM); connections; mobile phone services and leased line services), price control arrangements should be retained on all these services except mobile phone services and leased lines.
- Those services that should remain subject to retail price control arrangements should be subject to a broad CPI–X per cent price cap. Under this form of price control, Telstra would be required to reduce the 'weighted-average' price of the price controlled services by CPI–X per cent each year.
- The level of X for the broad basket of services should be in the order of 5 per cent per annum, and should apply for a period of three years.
- All other existing sub-caps in the existing price control arrangements (other than the 22 cent sub-cap on local calls) and the local call parity requirement (which required the average price of local calls in non-metropolitan areas to be reduced by roughly the same amount as the average price in metropolitan areas in any given period) should be removed
- There should be an adjustment period over which rebalancing of line rental should be allowed to occur. The ACCC recommended that this period not exceed 5 years.
- The revenue weights used to determine whether Telstra had complied with its price control arrangements should be based on past year revenue levels.
- Targeting of low-income groups should be based on measures of income rather than usage levels for telecommunications services.
- Targeted assistance or other equity measures recommended in the report should be funded from government or industry-based sources. The ACCC also advised that the under-recovered amount of one three-year period of price control arrangements should not be 'carried over' (i.e. carried forward) to the next three-year period of price control arrangements.

It was also considered that the full benefits of the ACCC's recommendations could only be achieved if they were applied together.

Following receipt of the final report, the minister rolled over the existing price control determination for a further year, and the Department of Communications, Information and Technology and the Arts conducted a subsequent public consultation process with interested parties to obtain further views on the ACCC's recommendations.

The price control arrangements introduced by the government and applying to Telstra for the period 1 July 2002 to 30 June 2005 are set out in the minister's current Determination (the ***Telstra Carrier Charges—Price Control Arrangements, Notification and Disallowance Determination No.1 of 2002)***.

The ACCC is required to report to the minister as soon as practicable at the end of each financial year

on the adequacy of Telstra's compliance with the price control arrangements. Under the terms of the Determination, Telstra must provide a report to the ACCC within three months of the end of each financial year for the ACCC's assessment. Although the ACCC may raise concerns with Telstra about whether particular price changes would lead it to breach a cap, its monitoring and reporting on the adequacy of compliance is largely an ***ex-post*** process. While Telstra must notify the ACCC beforehand of increases in line rental at residential rates, the price control arrangements provide the ACCC with little basis on which not to consent to these increases.

1.1 Summary of the price control arrangements

The central framework of the price control arrangements pursuant to the determination is made up of price caps that apply to three separate baskets of services.

The first basket of services consists of local calls, trunk calls and international calls. The second basket contains line rentals and the third basket is made up of connection services.

The first basket is subject to a price cap of CPI–4.5 per cent. This means that Telstra is entitled to change the individual prices of the services within the price cap as it wishes, but the aggregate price of all services in the basket has to decline by 4.5 per cent annually in real terms (that is, net of inflation). If, for example, the consumer price index (CPI) increases by 3.0 per cent, the nominal price of the basket has to decline by 1.5 per cent.

The second basket, comprising line rentals is subject to a price cap of CPI+4.0 per cent. That is, any increase in average line rental charges in excess of the CPI will have to be limited to 4.0 per cent. For example, if CPI increases by 3.0 per cent, Telstra is entitled to increase line rentals by 7.0 per cent.

The third basket comprising connection services is subject to a price cap of CPI–0 per cent. This means that the overall revenue-weighted price for these services must not rise in real terms in 2002–03.

The determination provides that each price cap is an independent price cap and is not subject to any overall price cap. That is, price movements for each basket will be reported separately and are not required to be averaged to an overall price movement for all services.

The price-cap for the relevant basket in the 2002–03 financial year was taken to have been varied by the unexercised amount of the price cap for the 2001–02 financial year as provided under clause 19 of the determination.

The determination also provides for a number of other price controls (listed below) that apply to a range of services.

- The revenue-weighted average untimed local call price for residential and charity customers in non-metropolitan Australia in the 2002–03 financial year is not to exceed the revenue-weighted average untimed local call price for residential and charity customers in metropolitan Australia in the 2001–02 financial year by more than 0.4 per cent.

- The revenue-weighted average untimed local call price for business customers in non-metropolitan Australia in the 2002–03 financial year is not to exceed the revenue-weighted average untimed local call price for business customers in metropolitan Australia in the 2001–02 financial year by more than 0.4 per cent.
- The price for untimed local calls is not to increase above 22 cents for calls made from a residential or business phone, and 40 cents for calls made from a public phone, except in the case of discount plans when a customer may on occasion be required to pay more than 22 cents per local call.
- Line rentals charged at residential rates must not be increased without prior consultation with the ACCC. The ACCC must be satisfied that Telstra has complied with clause 22 of the Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997, which states Telstra must have in place a low-income package and consult with the Low-Income Measures Assessment Committee (LIMAC) if it makes changes to that package.[1]
- Telstra must notify the minister in advance if it intends to alter charges for directory assistance services, with the minister able to disallow the proposed changes if they are considered to be not in the public interest.
- Telstra must offer a line rental service to schools at a price at or below the standard line rental offered to residential customers.

Telstra is required to report to the ACCC in relation to its compliance with the price control arrangements, within three months after the end of the financial year in which a price cap applies.

1 The LIMAC comprises representatives of welfare organisations agreed to by the minister and is responsible for reporting annually to the minister on the effectiveness of the low-income package and its marketing by Telstra; and assessing proposed changes to the package or Telstra's marketing plan for the package.

2 Methodology for determining revenue-weighted price movements

Under subclause 10(2) of the determination, price movements are to be calculated according to a methodology the ACCC establishes in consultation with Telstra. Following consultations, the ***Methodology for administration of the Telstra carrier charges price control arrangements*** (the methodology) was established for the period from July 2002 to June 2005.

The current methodology differs from the previous one in a number of significant ways. First, price movements in the previous reports were calculated from the end of the previous financial year to the end of the price cap year. The current methodology defines price movement on an annual basis. That is, change in percentage terms from the average price calculated for the previous financial year to the average price in the current financial year. Secondly, revenue weights under the current methodology are derived from revenue calculated from usage in the financial year immediately preceding the price cap year. Previously, revenue weights were based on the current financial year. Thirdly, the current methodology requires that particular data sources be used in calculating price movements whereas previously these sources were to be used on a preferential basis only.

In the previous methodology, the net yield approach was provided as an alternative to the standard price approach where accurate data is not available or it becomes unworkable. The current methodology provides that the net yield approach is the only method available for measuring price movements. It also requires that price movements be calculated on the most disaggregated basis available.

The standard price method refers to measuring price movements for each component service of a basket at its lowest level of aggregation.[2] The net yield method refers to measuring price movements on the basis of changes in the average price calculated by dividing the annual net revenue for a service in the year by the volume of sales (demand) for that service in the same year.[3] If the most disaggregated data are available, then there will be little or no difference between the standard price approach and the net yield approach. However, the current methodology allows Telstra to calculate yield on a whole of service or a class of service basis if the more disaggregated data are unavailable.[4]

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2 For example, national long distance calls are a component product of the trunk calls service grouping. The price refers to listed price less discount.

3 Annual net revenue is calculated by deducting from gross revenue all discounts, rebates or markdowns.

4 The lowest level of aggregation means products or price points specified in Telstra's Standard Form of Agreement (SFOA). A whole of service basis is where all underlying products are aggregated and a single revenue weighted price movement for the entire service is calculated. A class of service basis is an intermediate level of aggregation, where underlying products and price points are aggregated in accordance with Telstra's existing reporting or management lines. Generally, a lower level of aggregation will give more accurate calculations as yields will be attributable to actual movements in discounted prices and/or customer transfers between products. The ACCC expects that more disaggregated bases will be progressively adopted when it is possible to do so.

The methodology defines the price movement for a component service within a basket of services as a percentage change between the following:

- yield calculated from post-discounted revenue and usage (demand) for the price cap year
- yield calculated from post-discounted revenue and demand for the financial year immediately preceding the price cap year.

The methodology provides a robust and transparent method for measuring movement for a single service, which can be aggregated with price movements of other services in the basket using revenue weights of the component services in a basket. Each component service in the baskets is weighted by post-discounted revenue.

2.1 Use of GL revenue data and MIS demand data

The methodology requires Telstra to calculate yield on the basis of revenue data from its general ledger (GL) and demand data from its management information system (MIS). However if revenue data and demand data on untimed local calls supplied in metropolitan and non-metropolitan areas separately, with respect to residential/charity customers or business customers cannot be obtained from these sources; then it can be obtained from a sample drawn from Telstra's billing systems. The size and structure of the sample must represent demand patterns and conform to statistical principles.

2.2 Carry-in and carry-over credits

The methodology provides that the price cap for a relevant basket of services in the 2002–03 financial year will vary by the unexercised (carry-in) amount of the price cap for the 2001–02 financial year. The methodology also requires Telstra to use GL revenue and MIS demand data in calculating carry-in for the 2002–03 report.

The unexercised amount for the first basket will be calculated by aggregating the price movement for component services with the revenue weights derived from local calls, trunk call and international calls only. That is, the revenue weight for each service will be the net revenue derived from that service in the 2001–02 financial year as recorded in the general ledger, divided by the total revenue (net of *ex ante* discounts) derived in that year from each of local calls, trunk calls and international calls.

The methodology provides that the carry-in for the second and the third baskets will be calculated by aggregating the price movement for component services with the revenue weights derived from all services in respective baskets as defined in the 2001 determination.

Telstra and the ACCC have had disparate views in relation to the size of carry-in for the second basket. In its report for 2001–02, the ACCC raised concerns about the appropriateness of the method Telstra used in that year to measure the price movement for the line rental services.

After the ACCC made that report, Telstra agreed to ensure that for the 2003–04 price cap for the second basket of services (the basket that comprises line rentals) it will not use any disputed carry-in credits (3 percentage points) to ensure it aligns with what would be available had the ACCC's stated concerns had been fully addressed.

While Telstra maintains its objection to the ACCC's views on this matter, Telstra and the ACCC agree that making this commitment better ensures that the benefits of the price control arrangements are passed on to end-users in a timely manner.

As a result of making this commitment, Telstra's price cap for the 2003–04 second basket of services will be effectively tightened by 3.0 percentage points. In these circumstances, the ACCC has determined not to take any further action in respect of this matter.

2.3 Value claim

The determination provides that the ACCC may determine that the price charged for a service should be taken to have increased or decreased as compared to the price actually charged, where there has been an alteration in the quality of service or in the provision of service. For example, an increase in value due to an increase in service quality may be taken by the ACCC as a decrease in the price charged.

3 Auditing of Telstra's Price Control Report

3.1 Audit process and requirements

The methodology requires that Telstra provide a final, independently audited, report to the ACCC, providing full details of its compliance with the price cap requirements, within three months after the end of the price cap period.

The objectives (as set out in the audit guidelines in Attachment B of the methodology) of the audit are to determine whether:

- Telstra has complied with the price cap requirements as specified in the determination and the methodology
- Telstra has complied with the procedural requirements that are specified in the determination and methodology
- Telstra has exercised consistency in applying the methodology specifications to its data capture systems
- Telstra has in place internal procedures and information management systems allowing it to efficiently monitor and report on its compliance with its obligations under the determination and the methodology, including any change to these procedures or systems that may have a material effect on its monitoring and reporting.

The methodology provides that the independent auditor is to be appointed by the ACCC, so that it may be directly involved in establishing the plan and approach to the conduct of the audit as well as having direct access to the auditor's independent advice. In consultation with Telstra, Alexander & Spencer was appointed as auditor for the 2002–03 price control compliance report.

3.2 Audit opinion

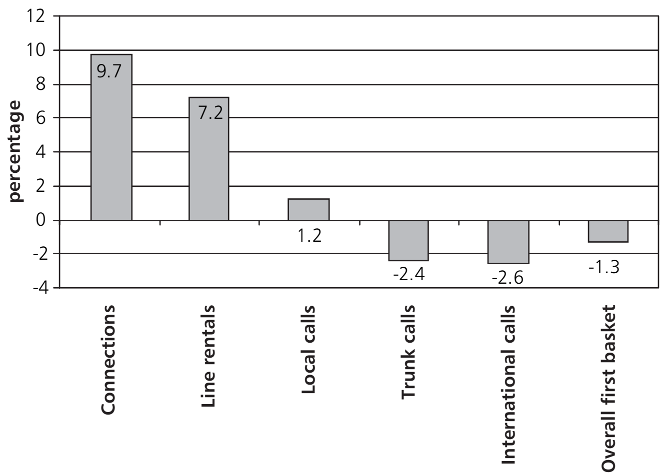
The auditor expressed the opinion that nothing had come to its attention to suggest that Telstra had not complied with its obligations under the methodology and determination.

4 Telstra's compliance with the price control arrangements in the 2002–03 financial year

4.1 An overview of the revenue-weighted price movements for Telstra's services

Figure 1 shows the size of the revenue-weighted price movements for each of the Telstra services subject to the price control arrangements. In the 2002–03 financial year the overall revenue-weighted price for the first basket declined by 1.3 per cent compared to a value adjusted 7.2 per cent increase for the second basket and a 9.7 per cent increase for the third basket. Price movements for individual services within the first basket were a 1.2 per cent increase for local calls, a 2.4 per cent decline for trunk calls and a 2.6 per cent decline for international calls.

Figure 1 Telstra's revenue-weighted price movements in the 2002–03 financial year



4.2 Telstra's compliance with the price cap for the first basket

The determination provides that the revenue-weighted price movement of the first basket (containing local calls, trunk calls and international calls) must not exceed CPI–4.5 per cent.

In the 2001–02 financial year the CPI increase was 2.9 per cent.[5] As a result, Telstra would have been required to reduce its overall revenue-weighted prices by 1.6 per cent (2.9 per cent – 4.5 per cent) in the 2002–03 financial year. However, a carryover of 7.4 per cent was available from the previous financial year.[6] Consequently, Telstra could increase the weighted-average price for the first basket by 5.8 per cent without exceeding the price cap. As indicated in Table 1 the weighed-average price has actually decreased by 1.3 per cent. Accordingly, Telstra could have charged a weighted-average price for the first basket 7.1 per cent more than it in fact charged and met this price cap. This will form the carry-over credit Telstra can take forward for the first basket in the 2003–04 financial year.

Table 1 Telstra's compliance with the price cap for the first basket

Service	Price movements (%)	Revenue weights	Weighted price movement (%)
Local calls	+1.2	0.318	+0.4
Trunk calls	–2.4	0.604	–1.4
International calls	–2.6	0.078	–0.2
First basket average		**1.000**	**–1.3**
CPI			2.9
CPI–X			–1.6
Carry-in from 2001–02			7.4
Carry-over to 2003–04			7.1

The largest contribution to the decrease in the price of the first basket for the financial year 2002–03 was made by trunk call services. The price of trunk call services fell by 2.4 per cent, which contributed to a decrease of 1.4 per cent in the overall first basket price in 2002–03. The decline in the price of trunk call services was considerably less than the 3.9 per cent decline in 2001–02 and 5.3 per cent in 2000–01.

The decrease in the price of international calls by 2.6 per cent, although larger than that in the price of trunk calls, contributed only 0.2 percentage points to the total fall in the overall first basket price because of its relatively lower importance in the basket.

5 The CPI, expressed as a percentage, for the financial year immediately preceding the price cap year, that represents the aggregate price movement in the all-groups basket for the weighted average of the eight Australian capital cities, as published by the Australian Bureau of Statistics.

6 The 7.4 per cent carry-in is larger than the 4.5 per cent carry-over reported in the 2001–02 price cap report. This is because of the re-constitution of the first basket in the 2002 determination. See section 2.2 for more details.

The price of local calls increased by 1.2 per cent, making a negative contribution by 0.4 per cent to the decrease in the overall basket price. This is first time since 1996 that the price of Telstra's local call services has increased.

Telstra could increase the weighted average price for the services within the first basket in future price cap years without exceeding the price cap, given a significant carry-in credit to 2003–04. The opportunity to increase the price for any particular service within the first basket would also depend on changes in prices charged for the other services within the basket.

The carry-in to the first basket in 2002–03 was at a substantially higher level of 7.4 per cent compared to 3.8 per cent in 2001–02 and 2.2 per cent in 2000–01. This was due to the reconstruction of the first basket for the 2002–03 financial year containing local calls, trunk calls and international calls only, whereas the previous first basket contained eight services including the three in the current first basket. The component services within the re-constituted first basket have higher weights compared to the old first basket. Consequently, price movements for these services in the 2001–02 financial year contributed more to the carry-in credit for the current first basket under the 2002 determination.

4.3 Telstra's compliance with the price cap for the second basket

The second basket comprises line rentals. The price movement for line rentals must not exceed CPI+4.0 per cent, although this can be adjusted to reflect carry-in credit and deemed price reductions as a consequence of an improvement in quality. The CPI applicable to the 2002–03 reporting period was 2.9 per cent. Telstra's compliance with the second basket is summarised in Table 2. The issues of carry-in credit and deemed price reduction for quality improvement are discussed below.

Table 2 Telstra's compliance with the price cap for the second basket

Service	Price movements (%)	Revenue weights	Weighted price movement (%)
Line rentals	+8.4	1.000	+8.4
Value claim for quality	–1.2	1.000	–1.2
Overall		**1.000**	**+7.2**
CPI			2.9
CPI–X			6.9
Carry-in from 2001–02			3.0*
Adjusted carry-over to 2003–04			–0.3**

* According to Telstra's interpretation of the 2001–02 methodology

** Telstra's ability to raise line rental prices in 2003–04 has been reduced by agreement to the extent of 3 per cent.

4.3.1 2002–03 second basket carry-in credit

In its report for 2001–02, the ACCC raised various concerns about the appropriateness of the method Telstra used in that year to measure the price movement for the line rental service. Applying the ACCC's view on the appropriate method to measure this price movement, there would be no carry-in credit available to Telstra for the 2002–03 second basket of services.

After the ACCC made that report, Telstra agreed to ensure that for the 2003–04 price cap for the second basket of services (the basket that comprises line rentals) it will not use any disputed carry-in credits (3 percentage points) to ensure it aligns with what would have been available if the ACCC's stated concerns had been fully addressed.

While Telstra maintains its objection to the ACCC's views on this matter, Telstra and the ACCC agree that making this commitment better ensures that the benefits of the price control arrangements are passed on to end-users in a timely manner.

As a result of making this commitment, Telstra's price cap for the 2003–04 second basket of services will be effectively tightened by 3.0 percentage points. In these circumstances, the ACCC has determined not to take any further action in respect of this matter.

4.3.2 Deemed price reduction for quality improvement

Under the 2002 determination, prices that Telstra has actually charged for a service may be deemed to have decreased where there has been an improvement in the quality of service. Telstra claimed that the value of its line rental service had increased in 2002–03 as a result of its introduction of Priority Assistance and 1# functionality.

Priority Assistance involves Telstra offering priority service for connections, fault handing, service reliability and credit management to eligible customers. To be eligible, a customer must register with Telstra and be assessed as having a particular type of health condition. Telstra introduced this service to comply with its carrier licence condition. Telstra's 1# service is an alternative interface by which end-users can access call forwarding and call waiting on their line rental service.

In assessing Telstra's value claim the ACCC considered it would be in the long term interest of the end-users to value the quality improvement at the lower of:

(i) a cost method where the incremental costs of introducing the service was allocated to Telstra's wholesale and retail lines and net of additional call revenues

(ii) the estimated value to consumers based on customer take-up and an implicit price on the basis of customers' willingness to pay for the service having regards to similar service offerings.

Based on this principle, the ACCC determined the value of quality improvement due to the introduction of Priority Assistance as $21.047 million and that of 1# as $4.5 million. This provides a price reduction equivalent of 1.2 per cent.

4.3.3 Adequacy of compliance with the 2002–03 second basket price cap

As noted previously, if the ACCC's interpretation of the relevant price control arrangements were applied, Telstra would have a lesser carry-in credit for the 2002–03 second basket of services than it has claimed. Under these circumstances, Telstra would not, in the ACCC's opinion, have met the price cap requirements for the 2002–03 second basket.

The ACCC notes, however, that Telstra's relevant pricing decisions appear to have been based upon an interpretation of the price control arrangements which Telstra believed to be reasonably open, legally defensible and that interpretation (if adopted) would have allowed the price cap for the second basket of services to be met.

While the ACCC does not adopt Telstra's view of the price control arrangements that would have allowed the price cap for the 2002–03 second basket of services to be met, it notes that Telstra has agreed to ensure that it will not use the disputed access credits (3 percentage points) in the 2003–04 second basket price cap to ensure it aligns with the ACCC's interpretation of the relevant price control arrangements. The ACCC agrees that in the current circumstances this is the appropriate means to ensure that the benefits of the price control arrangements are passed on to end users. In these circumstances, the ACCC does not intend to take further action in respect of these disputed matters.

4.4 Telstra's compliance with the price cap for the third basket

The third basket comprises connections. The overall revenue-weighted price movement for this service (comprising new and in-place connections) must not exceed CPI–0 per cent.

The CPI applicable to the 2002–03 reporting period was 2.9 per cent and a carryover of 14.3 per cent was available from the previous financial year. As a result, Telstra was required to not increase its overall revenue-weighted price by more than 17.2 per cent (2.9 per cent – 0 per cent + 14.3 per cent).

Table 3 illustrates that the revenue-weighted price for connections increased by 9.7 per cent. This being set against Telstra's unused entitlement of 14.3 per cent and the CPI increase of 2.9 per cent provides a carryover of 7.5 per cent to the 2003–04 financial year.

Table 3 Telstra's compliance with the price cap for the third basket

Service	Price movements (%)	Revenue weights	Weighted price movement (%)
Connections	+9.7	1.000	+9.7
Overall		**1.000**	**+9.7**
CPI			2.9
CPI–X			2.9
Carry-in from 2001–02			14.3
Carry-over to 2003–04			7.5

4.5 Telstra's compliance with the metropolitan/ non-metropolitan pricing parity

The Determination requires that price reductions in Telstra's untimed local calls in metropolitan areas flow on to prices charged for those calls in non-metropolitan areas. This price control arrangement ensures that price reductions that occur in geographic areas with greater competition flow on to customers in areas where competition may not yet have developed.

In the 2002–03 financial year Telstra complied with these requirements, with the revenue-weighted-average untimed local call prices for residential, charity and business customers in non-metropolitan areas not exceeding by 0.4 per cent the revenue-weighted average untimed local call prices for the respective customer segments in metropolitan areas in the 2001–02 financial year. This is illustrated in table 4.

Table 4 Metropolitan/non-metropolitan pricing parity—untimed local calls

Market segment	Metropolitan average price 2001–02 ($)	Non-metropolitan average price 2002–03 ($)
Business	0.2147	0.1580
Residential/charity	0.2015	0.1752

4.6 Telstra's compliance with maximum prices for untimed local calls and calls in relation to extended zones

The determination requires Telstra not to charge a price of more than 22 cents for each untimed local call (other than a local call made from a public payphone) and more than 40 cents for each untimed local call made from a public payphone.

It also requires Telstra to charge for calls between customers within an Extended Zone and between a customer in an Extended Zone and a customer in an adjacent Extended Zone at an untimed local call rate. Moreover, Telstra must not charge for preferential calls at a rate of more than 27.5 cents per 12 minute block of time (or part thereof).

The ACCC is satisfied that Telstra has adequately complied with the above obligations as described in Table 5.

Table 5 Maximum prices for untimed local calls and calls in relation to extended zones

Call type	Maximum charged ($, including GST)
Payphone	0.40
Not payphone or bundled products	0.22
STD Preferential Call	0.275 per 720 seconds
Call to Telstra's Big Pond Internet Service	0.22
Payphone	0.40
Not payphone or bundled products	0.22

4.7 Standard line rental for residential/charity customers and schools

Under clauses 14 and 15 of the determination, Telstra is required to offer a standard line rental for residential/charity customers and schools. However, Telstra is allowed to offer an untimed local call as a joint product in combination with a line rental that is lower than the standard line rental for residential/charity customers.

The ACCC is satisfied that Telstra has adequately complied with these price control arrangements. The applicable line rental products and the prices charged for them are set out in Table 6.

Table 6 Line rental prices for standard residential/charity, school and bundled products in the 2002–03 financial year

Month	Standard product	School product	Higher local call bundled product
July	HomeLine Complete, $18.09	Non-Profit Business Service, $15.91	N/A
August	HomeLine Complete, $19.91	Non-Profit Business Service, $15.91	HomeLine Budget, $15.91
September	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
October	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
November	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
December	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
January	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
February	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
March	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
April	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
May	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91
June	HomeLine Complete, $19.91	Non-Profit Business Service, $17.73	HomeLine Budget, $15.91

Notes Prices quoted are per month and exclude GST.

4.8 Telstra's compliance with the requirement to notify the ACCC of increases in line rental that is charged at residential rates

Under the determination, line rentals charged at residential rates must not be increased without prior consultation with the ACCC and it being satisfied that Telstra has complied with clause 22 of the Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997 (the Declaration) to have in place measures to ensure that low-income customers have access to affordable telephone services.

The ACCC must consent to an increase in residential line rental charges provided requirements of clause 22 of the Declaration have been met, such as consultation with the LIMAC. Specifically, clause 22 of the Declaration requires that Telstra must:

- have a low-income package in place which has been endorsed by low-income consumer advocacy groups and specified in writing to the Australian Communications Authority (ACA)
- have a marketing plan in place for the package, approved by the LIMAC
- obtain and consider the LIMAC's views on proposed changes to the package.

The determination specifies that the requirements of clause 22 of the Declaration are the only ones that the ACCC can have regard to in giving its consent to a proposed line rental increases at residential rates.

In 2002–03 Telstra increased residential line rental charges by $2.00–$3.00 per month with effect from August 2002. The ACCC was satisfied that Telstra adequately complied with the above requirements in respect of these increases.

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