

**METHODOLOGY FOR ADMINISTRATION OF THE  
TELSTRA CARRIER CHARGES PRICE CONTROL  
ARRANGEMENTS**

October 2010

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# **1. Introduction**

## **1.1. Authority**

This Methodology provides details of the administration of the price control arrangements under the *Telstra Carrier Charges - Price Control Arrangements, Notification and Disallowance Determination No 1 of 2005* (Determination) as amended. This Methodology is the methodology referred to in clause 6 and 13 of the Determination and has the formal effect set out in sub-clause 13(7) of the Determination. It is also the statement of the Commission's reporting requirements referred to in clause 21 of the Determination.

This Methodology takes effect when it is notified to Telstra and applies in respect of the price control arrangements for the financial year ending 30 June 2011 and for subsequent financial years for as long as the Determination is in force.

## **1.2. Issue resolution**

In specific situations where this Methodology or the Determination are considered to be unclear, the ACCC, in consultation with Telstra, will take into account the objects of the *Telecommunications (Consumer Protection and Service Standards) Act 1999* (the Act) and the overall intention of the Determination (as set out in its accompanying Explanatory Statement and Regulatory Impact Statement) and will provide written advice to Telstra regarding its approach.

## **1.3. Amendment, variation or replacement of this Methodology**

The ACCC, in consultation with Telstra, may amend, vary or replace this Methodology from time to time as the ACCC considers appropriate having regard to the objects of the Act and the overall intention of the Determination (as set out in its accompanying Explanatory Statement and Regulatory Impact Statement).

The Commission will consult Telstra on any variation to or replacement of this Methodology and, in particular, on when any variation or replacement of the methodology is to take effect, including whether a variation or replacement should take effect from the time it is communicated to Telstra or deferred until the commencement of the next price-cap year.

In making this decision, the Commission will have regard for the time at which the matter the subject of the variation or replacement was first brought to Telstra's attention and any other matter that the Commission considers to be relevant.

## **2. Interpretation of Terms**

Where this Methodology uses a term that is defined in the Determination, the term will have the same meaning.

*‘Relevant period’* means the period in respect of which a price movement is being calculated, and *‘Previous period’* means the period immediately before the Relevant Period that clause 13 of the Determination specifies as the base period for the purposes of calculating that price movement.

## **3. Calculation of Revenue Weighted Price Movements**

### **3.1. Services Under Price Control**

Carrier charges for the services listed in Clause 11 of the Determination are subject to price control arrangements.

### **3.2. Exclusion of certain supplies**

The following supplies are to be disregarded in calculating price movements (and subordinate calculations, i.e., in calculating average prices in the Relevant Period and in the Previous Period, and revenue weights):

- Services supplied to a carrier, carriage service provider, or an excluded customer.
- Voice Over Internet Protocol (VoIP) services (unless they are supplied in fulfilment of a Universal Service Obligation).
- National and international operator call connection services and directory assistance services.

*Note:* Clauses 7, 8, 9 and 10 of the Determination exclude these supplies from those parts of the Determination dealing with price movements.

Unless VoIP services that are supplied to customers in fulfilment of a Universal Service Obligation could reasonably be expected to comprise a material proportion of the total supplies of the Services that are subject to price control arrangements in the Relevant Period, all instances of VoIP services may be disregarded in calculating price movements. In making this assessment, VoIP services supplied to Excluded Customers are to be disregarded.

A customer is not to be treated as an Excluded Customer on the basis of Telstra having applied a particular code to the customer, unless:

- the basis for that coding aligns directly with the definition of Excluded Customer; or
- Telstra has undertaken a study that demonstrates that within the Relevant Period there was unlikely to be a material discrepancy between the class of customers coded in that way and the class of Excluded Customers.

### **3.3. Level of Product Aggregation at which to calculate Price Movements**

The price movement for each service that is subject to price control will be calculated at the level of product aggregation that is specified in this clause.

The lowest level of product aggregation that may be adopted is where all supplies that are an instance of the service are aggregated to standard form of agreement (SFOA) product descriptions or price points. The intermediate level of product aggregation is where supplies

are aggregated to classes of service (i.e., aggregations of products used by Telstra from time to time for internal management purposes) that comprise only products that are instances of the service. The highest level of product aggregation that may be adopted is where all products that are an instance of the service are aggregated.

The level of product aggregation used will depend on whether the two criteria set out below are satisfied. If those criteria are satisfied in respect of a service that is subject to price control at a given level of product aggregation, then the revenue weighted price movement for that service will be calculated at that level of product aggregation. If the criteria are not satisfied at that level of product aggregation, then the next highest level of aggregation will be assessed.

The relevant criteria are:

- (a) The requisite data are available to allow revenue weighted price movements to be calculated in accordance with the requirements set out in clauses 3.3 to 3.9 at the level of product aggregation under consideration for that service; and
- (b) No items at the level of product aggregation under consideration, i.e., standard form of agreement products or classes of service, as the case may be, have been introduced or withdrawn in the Relevant Period or in the Previous Period. However, a component product will not be taken to have been introduced or withdrawn solely due to a change in the terms and conditions on which the product has previously been supplied, or a class of service be taken to have been introduced or withdrawn solely due to a change in the products that are included within the class.

*Note:* the requisite data concerns Relevant Period revenues and measures of demand, and prior year revenues.

*Examples:* Each of the following are instances of where a component product is not to be taken to have been withdrawn or introduced: an existing product is renamed; a change is made to the SFOA price for an existing product; there is a minor change in the other product specific terms of supply and after the change there are the same number of component products on offer within the relevant class; there is a change in the non-product specific terms of supply.

Where this clause requires that price movements are to be calculated:

- at the lowest level of product aggregation, or
- at the intermediate level of product aggregation

separate revenue weighted price movements for each standard form of agreement product or class of service, as the case may be, will be calculated. The price movement for the service will be the sum of these underlying individual product or class revenue weighted price movements. The same level of product aggregation will be used to calculate revenue weights as was used to calculate price movements.

Where this clause requires that price movements are to be calculated at the lowest level of product aggregation or at the intermediate level of product aggregation, clauses 3.4 to 3.9 will be applied to calculate price movements and revenue weights as though any references to 'a service' was a reference to either 'a standard form of agreement product or price point' or 'a class of service', as is appropriate.

### **3.4. Treatment of Bad or Doubtful Debts**

It may be necessary to calculate a measure of net revenue for a service by deducting any discounts, specials or markdowns from gross revenue. If this is the case, then any write downs or allowances made in respect of bad or doubtful debts or compromises made after the relevant service was billed will not be deducted.

### 3.5. Calculation of demand

Measures of demand for a service will be calculated exclusive of any use that Telstra makes for its own use of that service.

### 3.6. Price Movement for a Service in the First Basket

The price movement for a service in the First Basket is the percentage change in the Average Price for that service in the Relevant Period as compared to the average price for that service in the Previous Period, i.e.,

$$\Delta p = \left( \frac{p_2}{p_1} - 1 \right) \times 100$$

where

subscript 1 refers to the Previous Period; and

subscript 2 refers to the Relevant Period; and

$p$  is the Average Price, calculated as follows (subject to clause 5 of this Methodology):

*Calculation of Average Price for services in the first basket*

**Average price** is calculated by dividing the Net Revenue for a service in the Relevant Period or in the Previous Period, as the case may be, by the Volume of Sales (Demand) for that service in the same Period.

**Net Revenue** is obtained from Telstra's general ledger and is calculated by deducting from gross revenue all discounts, rebates or markdowns.

**Volume of Sales (Demand)** is obtained from Telstra's information systems, and for a given service is the measure specified in the following table:

<i>Service/ Pricing element</i>	<i>Measure</i>
Line Rental	Average number of PSTN services in operation (SIOs) each month: calculated by summing the number of SIOs at start of the month and the number of SIOs at end of the month and dividing by two
Local calls	Total number of successful calls
Trunk calls	Total number of minutes of successful calls
International calls	Total number of minutes of successful calls

To avoid doubt, Volumes of Sales (Demand) are calculated from the number of actual line rentals, subscription pricing plans, local calls, and the actual conversation minutes of trunk calls and international calls, that Telstra supplies, as disclosed in Telstra's information systems, and are not to be implied from other data.

### 3.7. Price Movement for a Service in the Second or Third Basket

The price movement for a service in the Second Basket or the Third Basket is the percentage change in the average price for that service in the Relevant Period as compared to the average price for that service in the Previous Period, i.e.,

$$\Delta p = \left( \frac{p_2}{p_1} - 1 \right) \times 100$$

where

subscript 1 refers to the Previous Period;

subscript 2 refers to the Relevant Period, and,

$p$  is the average price calculated as follows (subject to clause 5 of this Methodology):

*Calculation of Average Price for services in the second or third basket*

**Average price** is calculated by dividing the Net Revenue for a service in the Relevant Period or in the Previous Period, as the case may be, by the Volume of Sales (Demand) for that service in the same Period.

**Net Revenue** is obtained from Telstra's general ledger and is calculated by deducting from gross revenue all discounts, rebates or markdowns.

**Volume of Sales (Demand)** is obtained from Telstra's information systems, and for a given basic line rental product is the sum of the average number of services in operation (SIOs) for each calendar month within the Relevant Period. The average number of SIOs for each month is to be calculated by summing the number of SIOs at start of the month and the number of SIOs at end of the month and dividing by two. To avoid doubt, Volumes of Sales (Demand) are to be calculated from the number of actual number of SIOs, as disclosed in Telstra's information systems, and are not to be implied from other data.

### 3.8. Price Movement for a Service in the Fourth Basket

The price movement for a service in the Fourth Basket is the percentage change in the Average Price for that service in the Relevant Period as compared to the average price for that service in the Previous Period, i.e.,

$$\Delta p = \left( \frac{p_2}{p_1} - 1 \right) \times 100$$

where

subscript 1 refers to the Previous Period;

subscript 2 refers to the Relevant Period;

$p$  is the Average Price, calculated as follows (subject to clause 5 of this Methodology):

*Calculation of Average Price for services in the fourth basket*

**Average price** is calculated by dividing the Net Revenue for a service in the Relevant Period or in the Previous Period, as the case may be, by the Volume of Sales (Demand) for that service in the same period.

**Net Revenue** is obtained from Telstra’s general ledger and is calculated by deducting from gross revenue all discounts, rebates or markdowns.

**Volume of Sales (Demand)** is obtained from Telstra’s information systems, and for a given service is the measure specified in the following table:

<i>Service</i>	<i>Measure</i>
New Service Connections	Total number of new standard telephone services connected
In-place Connections	Total number of in-place standard telephone services connected

To avoid doubt, Volumes of Sales (Demand) are to be the number of actual connections that Telstra supplies, as disclosed in Telstra’s information systems, and are not to be implied from other data.

### 3.9. Price Movement for a Basket

The price movement for a basket,  $\Delta P$ , is defined in Clause 13 of the Determination, and may be expressed as:

$$\begin{aligned}\Delta P &= \sum_i w_i \times \Delta p_i \\ &= \sum_i \frac{R_i}{R} \times \Delta p_i\end{aligned}$$

where

$i$  represents each respective component service that makes up the basket

$w_i$  is the revenue weight for service  $i$ ,

$R$  is the total Net Revenue for all services in the basket in the Previous Period,

$R_i$  is the Net Revenue derived from service  $i$  in the Previous Period, and

$\Delta p_i$  is the price movement, as defined above, for service  $i$ .

## 4. Treatment of particular revenue, discount or usage items

### 4.1. Subscription-pricing plans – ‘notional charges’

*Note:* Monthly charges for Telstra’s subscription-style plans are described as comprising a ‘notional access charge’ and a ‘notional subscription charge’ – see Telstra, Our Customer Terms Basic Telephone service Section, B – HomeLine Plan, accessed 8 September 2010, at page 29, 32 and 36.

*Note:* The following Homeline plans are examples of a subscription-pricing plan where the monthly charge is described as comprising a ‘notional access charge’ and a ‘notional subscription charge’: Reach, Together, Ultimate.

Average prices (yields) for monthly charges payable on Telstra subscription plans will be derived as follows:

- first, the revenue attributable to non price controlled components that have formed part of the plan from the time of its introduction should be deducted from package revenue,



- second, revenue received from the fixed and recurrent subscription pricing package charge should be brought to account in the same way as line rental revenue, and movement in prices underlying this revenue should be ascertained by dividing the sum of all such total revenue by the number of packages and services in operation; and third, the revenue included as call revenue should be confined to that package revenue that is derived from the supply of calls for which a specific charge is levied, but the full numbers of calls supplied under these packages should be included within the denominator in the usual way (and not just those for which an additional charge is applicable).

#### **4.2. Treatment of capped products**

Revenues earned from the minimum monthly commitment charge payable under capped plans will be allocated to mobile and fixed calls included within the capped plan in accordance with the number of calls (or call minutes) for the respective service relative to the total calls/minutes supplied pursuant to that capped plan. All other revenue earned from such plans will be allocated to the component from which the relevant charge is imposed (which in the case of call-related revenues will reflect the order in which the calls are made).

*Note:* The following plans are examples of a capped plan: Home and Mobile Plans, Office and Mobile Plans.

*Note:* If necessary, this usage data can be obtained by means of sampling conducted in accordance with clause 5 of this methodology

## **5. Sampling**

Sampling is to be used only where data relating to all relevant supplies that are reasonably necessary to calculate an average price are not available within Telstra's General Ledger or other information systems (for example, where the reporting class at which data are available in those information systems does not align with the class of supplies subject to the price control arrangements, and the misalignment is reasonably material).

Sampling is to be conducted in accordance with the following principles:

- Accounts included within the sample population are to be randomly drawn
- The characteristics of the accounts which are included in the sample are to be generally reflective of the known characteristics of the entire population in that:
  - the proportion of accounts that relate to services located in metropolitan or non-metropolitan areas; and,
  - (except where a single line rental product or subscription-style plan is being sampled) the proportion of accounts that relate to each line rental service or subscription-style plan that Telstra supplies;
 are to generally accord with those proportions observed in the entire population.
- Accounts that relate to supplies made to excluded customers, or which related to a service that was not connected for the entirety of the billing period, are to be excluded.

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<sup>1</sup> The subsequent addition of ancillary services to existing plans will be dealt with under clause 6 of the Determination.

- Accounts are to be drawn equally from each calendar quarter within the Relevant Period and Previous Period.
- The sample size is to be determined such that the resulting sample mean can be expected to fall within a 95% confidence interval of the actual mean i.e. population mean.
- Revenue, usage and demand data are to be specific to the accounts used in the sample, i.e., they should not be estimated from higher-level data.

## **6. Compliance Report**

### **6.1. Authority**

Clause 21 of the Determination provides that Telstra must report to the ACCC on its compliance with the price-cap within 3 months after the end of the Relevant Period, in accordance with the requirements that the ACCC has specified after consulting with Telstra.

### **6.2. Report Requirements**

Telstra is required to comply with clauses 6.3 and following in reporting to the ACCC on its compliance with the price caps.

### **6.3. Contents of Report**

Telstra's compliance report must include:

- (a) a summary report;
- (b) supporting documentation; and
- (c) an auditor's report.

### **6.4. Draft Report**

The compliance report (excluding the auditor's report) must be provided to the ACCC in draft form at least 21 days before the end of the three-month period. This is to enable the ACCC to consult with Telstra prior to finalisation of the report.

### **6.5. Format of Summary Report**

The Summary Report is to be in the form of a set of tables which are to be in the format and contain the information specified in Attachment A.

*Table 1:* The first table relates to compliance with paragraph (a) of sub-clause 12(1) or 12(2) (as appropriate) of the Determination for the First Basket of Services.

*Table 2:* The second table relates to compliance with paragraph (b) of sub-clause 12(1) or 12(2) (as appropriate) of the Determination for the Second Basket of Services.

*Table 3:* The third table relates to compliance with paragraph (c) of sub-clause 12(1) or 12(2) (as appropriate) of the Determination for the Third Basket of Services.

*Table 4:* The fourth table relates to compliance with paragraph (d) of sub-clause 12(1) or 12(2) (as appropriate) of the Determination for the Fourth Basket of Services.

*Table 5:* The fifth table relates to compliance with clauses 15, 16 and 17 for maximum prices charged for calls in relation to Extended Zones, Untimed Local Calls, and Dial-up Internet Calls.

*Table 6:* The sixth table relates to compliance with clauses 18 and 19 of the Determination for Line Rentals for Residential/Charity Customers, products that bundle Line Rentals and Untimed Local Calls, and Line Rentals offered to Schools.

*Table 7:* The seventh table relates to compliance with sub-clause 16(5), 16(6) and 16(7), and clause 19A.

## 6.6. Supporting Documentation

The Summary Report must be accompanied by Supporting Documentation that comprises underlying data and references to the information systems from which those data have been extracted as relevant to each table of the Summary Report.

The Supporting Documentation must be provided in electronic form.

The Supporting Documentation must include the information specified in the following table:

Summary Report Table	Contents	Aggregation
# 1, 2, 3,4	<p>Underlying data and source references for those data used in calculating Average Prices, Revenue Weights and revenue Weighted Price Movements (ie, Gross Revenue, <i>Ex Ante</i> Discounts Etc, Net Revenue, Volumes of Sales (Demand)).</p> <p>(ii) Reconciliation of underlying data used in calculating Average Prices, Revenue Weights and revenue Weighted Price Movements to annual report data or the financial results for the half year ended 31 December as appropriate</p> <p>(iii) A statement of the method used to calculate Price Movement</p>	<p>(i) By Telstra supplied product, class of service and/or service subject to price control, as is consistent with the level of product aggregation used in calculating the price movement for the service; and,</p> <p>(ii) By calendar month</p> <p>(i) By service subject to price control</p> <p>(i) By service subject to</p>



	which the products are supplied	
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## **6.7. Audit**

The compliance report must be audited at Telstra's expense in accordance with Attachment B.

## **7. Credits for not charging the maximum price**

### **7.1. Authority**

Clause 13(5) and 13(6) of the Determination.

### **7.2. Application of Clause 22 of the Determination in respect of the unused part of the price-cap for the 2009/10 price-cap period**

Clause 22(1) of the Determination is to be applied as follows in calculating the unused part of the price-cap for the 2009/10 price-cap period: the value of the price movement is to be calculated in accordance with clause 13(1), (1A), (2), (3), (3A) and (4) of the Determination and clause 3 of this Methodology.

## **8. Changes in the Quality or Provision of a Service**

### **8.1. Authority**

Clause 6(9) of the Determination.

### **8.2. Decreases in value**

The price charged for a service may be taken by the ACCC to have increased by an amount calculated by the ACCC if the value of the service reduces because of an alteration made by Telstra to the quality of the service or the provision of the service.

The amount of the deemed price increase will be calculated having regard to the amount that a customer would be reasonably expected to pay for the particular functionality/quality that was withdrawn, having regard to the amounts paid for that or similar functionality/quality.

### **8.3. Increases in value**

An increase in the value of a service due to an alteration made by Telstra to the quality of the service or the provision of the service may be treated as constituting a decrease in the price of the service.

The amount of the deemed price increase will be calculated having regard to the annualized capital and operating expense reasonably incurred by Telstra in bringing about the increase in quality (net of any offsetting revenue gain).

In order for the claim to be assessed as a price movement that occurred within the Relevant Period, Telstra must present the details of the increase in quality of the service and the associated claimed price reduction to the ACCC in writing at or before the time at which it provides its compliance report concerning the Relevant Period in which the quality increase is claimed to have occurred.

Where a claim is not made until after the time that Telstra provides its compliance report concerning the Relevant Period in which the quality increase is claimed to have occurred, the ACCC will consider the claim to the extent that the relevant price control arrangements have

permitted the adjustment of price-caps to correct for errors in calculating prior year price movements.

Subject to the above, the ACCC must assess the claim and notify Telstra in writing of any deemed price reduction that is allowed.

## ATTACHMENT A

### Telstra Carrier Charges – Price Control Arrangements, Notification and Disallowance Determination No 1 of 2005: Summary Report for {Relevant Period}

**Table 1      The First Basket of Services**

Service	Previous Period Revenue	Revenue Weight	Price Movement	Revenue Weighted Price Movement
Line rental		Weight	Price Move't	
Local Calls		Weight	Price Move't	
Trunk Calls		Weight	Price Move't	
International Calls		Weight	Price Move't	
Basket Total		1.000		
CPI				
CPI-X				
Carry-in				
Surplus/(Deficit)				

*Note:* The line items in this report will mirror the level of product aggregation at which the price movement for the service has been calculated

^ not required for the first price cap period

**Table 2      The Second Basket of Services**

Service	Previous Period Revenue	Revenue Weight	Price Movement	Revenue Weighted Price Movement
Basic Line Rental Products (Residential)		Weight	Price Move't	
Basket Total		1.000		
CPI				
CPI-X				
Carry-in				
Surplus/(Deficit)				

*Note:* The line items in this report will mirror the level of product aggregation at which the price movement for the service has been calculated

**Table 3      The Third Basket of Services**

Service	Previous Period Revenue	Revenue Weight	Price Movement	Revenue Weighted Price Movement
Basic Line Rental Products (Business and Charity)		Weight	Price Move't	
Basket Total		1.000		
CPI				
CPI-X				
Carry-in				
Surplus/(Deficit)				

*Note:* The line items in this report will mirror the level of product aggregation at which the price movement for the service has been calculated



**Table 4            The Fourth Basket of Services**

Service	Previous Period Revenue	Revenue Weight	Price Movement	Revenue Weighted Price Movement
Connections		Weight	Price Move't	
Basket Total		1.000		
CPI				
CPI-X				
Carry-in				
Surplus/(Deficit)				

*Note:* The line items in this report will mirror the level of product aggregation at which the price movement for the service has been calculated

**Table 5            Maximum Prices for Untimed Local Calls, Calls in Relation to Extended Zones and dial-up internet calls**

Call Type	Maximum Charged
Clause 15(1) – Extended zone calls	Max Price
Clause 15(2) – Preferential calls	Max Price
Clause 15(4) – Extended zone Bigpond dial-up calls	Max Price
Clause 16(1) – Local Call from Payphone	Max Price
Clause 16(2) – Local calls	Max Price
Clause 17(1) – Dial up internet calls	Max Price

**Table 6            Line Rentals – Clause 18, 19 and 19A**

Month	Standard Line Rental	School Product	Higher Local Call Bundled Product
Each month	Name/Rental	Name/Rental	Name/Rental

**Table 7            Geographic pricing of local services – Clauses 16 and 19A**

This table must comprise particulars of any instances in which Telstra did not offer local calls and/or basic line rental products in accordance with clauses 16 and 19A respectively. The table must include a declaration from the executive within Telstra responsible for documenting and overseeing the standard customer terms on which Telstra deals with retail customers. The aforementioned declaration must stipulate that, except for the instances listed in the table (if any) in respect of, firstly, residential/charity customers and, secondly, business customers

- (i) Telstra offered local calls at the same price per call and on the same price-related terms in non-metropolitan areas as it did in metropolitan areas at all times in the period; and,
- (ii) Telstra offered basic line rental products at the same or a lower price and on the same price-related terms in non-metropolitan areas as it did in metropolitan areas at all times in the period.

# **ATTACHMENT B**

## **AUDIT GUIDELINES**

### **Background to Audit**

The Minister has issued *The Telstra Carrier Charges—Price Control Arrangements, Notification and Disallowance Determination No. 1 of 2005* (“the Determination”) as amended. The Determination creates for Telstra various obligations in, or in connection with, the prices it charges for particular services or particular baskets of services.

The ACCC has in consultation with Telstra issued *The Methodology for the Administration of the Telstra Carrier Charges Price Control Arrangements* (“the Methodology”). The Methodology explains or interprets the obligations specified by the Determination including how calculations are to be performed.

Telstra is required to comply with its obligations under the Determination and the Methodology, and to prepare a report concerning its compliance with them.

This report is required to be audited. The purpose of the audit is to determine whether or not the report gives a true and fair view of Telstra’s compliance with its obligations under the Determination and Methodology. The audit is required as the ACCC makes critical regulatory financial and economic decisions based upon Telstra’s reports.

### **Audit Objectives**

The audit objectives are:

- To determine whether Telstra’s pricing has complied with the price caps imposed on it under the Determination and Methodology.
- To determine whether Telstra has complied with the procedural requirements that are specified in the Determination and Methodology.
- To determine whether Telstra exercises consistency in applying the Methodology specifications to their data capture systems.
- To determine whether Telstra has in place internal procedures and information management systems that allow 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 audit report must express an opinion concerning each of these objectives. Where possible, this opinion should not be qualified. If however the auditor cannot give an unqualified opinion in respect of any of these matters, the auditor’s statement should include a full explanation of why the opinion has been qualified.

In conjunction with these objectives, the ACCC requires that high standards of professional conduct and performance are maintained during the course of the audit. The audit process is to be conducted with due regard to the principles and standards of auditing outlined in the AUS accounting standards.

During the audit the ACCC envisages that the auditor would consider the following areas:

- (i) transaction testing (eg. general ledger mapping to the compliance report and testing of cost and revenue allocations to the regulatory financial reports);

- (ii) review of models, surveys and samples. The auditor's selections of models, surveys and samples should be incorporated in the draft audit plan. The audit of models, surveys and samples would cover, as a minimum, such matters as:
  - data collection techniques and procedures including consistency across Telstra Divisions;
  - interpretation of the data; and
  - conformity to the statistical principles including reflection of the demand patterns.

### **Audit Methodology**

The auditor should adequately plan the audit through the development of an audit plan or work program. The plan should provide an overview of the audit coverage or scope of the audit and detail fieldwork to be undertaken during the course of the audit. The audit plan must be agreed between the auditor and Telstra and then submitted by Telstra to the ACCC for approval prior to commencement of the audit.

The audit will be conducted using a risk based approach, which provides for the determination of an acceptable level of risk regarding the possibility that the audit will not detect errors that are on such a scale as to result in a material distortion or shortcomings in the information provided under the specifications contained within the Methodology. This approach is designed to be cost effective in accordance with modern auditing techniques.

Audit procedures under the risk based approach incorporate both compliance testing and substantive testing of detail and the use of analytical review techniques such as the analysis of significant ratios and trends. Compliance testing is to include the audit of the effectiveness of Telstra's internal control procedures designed to ensure compliance with its obligations under the Determination or the Methodology. Audit conclusions will be supported by substantive testing and analytical review to determine whether transactions are accurate, bona fide and complete.

### **Appointment of Auditor**

The independent auditor is to be appointed by ACCC. Telstra will be consulted on the appointment.

### **Audit Reporting**

During the course of the audit, it will be necessary for a consultative process to be developed and undertaken between the auditor, the ACCC and Telstra. This consultative process is to be addressed under the Audit Liaison Group as outlined below.

#### *Audit Liaison Group's (i.e., ACCC, Telstra and Auditor) Role*

It is envisaged that significant problems encountered by the auditor during the audit and any significant deviations from the ACCC agreed plan will be reported to the Audit Liaison Group. The Audit Liaison Group meetings can take the form of meetings at the ACCC or Telstra premises or verbal 'conference calls'. The ACCC, Telstra or the auditor may initiate these meetings and 'conference calls'.

For the sake of clarity, the term "significant problems" includes:

- (i) any difficulty in obtaining access to information, facilities or other cooperation reasonably required for the purposes of the audit;
- (ii) any significant differences of opinion between Telstra and the auditor over the consistent and proper application of the procedures set out in the Methodology; or

- (iii) any material errors identified by the auditor in the reports which have been submitted to the ACCC by Telstra.

The ACCC will be briefed on all contacts between the auditor and Telstra during the audit process.

Following completion of the audit, the auditor is required to provide the ACCC with an independent audit report providing an expression of opinion as to whether Telstra has complied with its obligations under the Determination and the Methodology and each of the matters discussed above.

The audit report is to be issued to Director of Telstra Regulatory and the ACCC concurrently.

### **Audit Costs**

All costs incurred in the conduct of the annual audit are to be borne by Telstra.

In accordance with generally accepted accounting practices (and Auditing Standard AUS 604 - "Considering the Work of Internal Auditing") the ACCC does not preclude the auditor utilising Telstra's Internal Audit resources in order to minimise audit costs.

The auditor will be entitled to payment on performance of services in accordance with the contract that is negotiated, provided that:

- (a) the total amount claimed does not exceed a capped amount to be negotiated between the ACCC and the auditor in consultation with Telstra; or
- (b) the total amount claimed exceeds the capped amount but relates to services performed after first receiving ACCC consent to performing the services that are in excess of the capped amount.

The ACCC will consult Telstra on the costs to be incurred in the conduct of the audit. This consultation will include:

- (a) the negotiation of an amount at which the audit cost is to be initially capped that is reasonable having regard to the complexity of the audit process and prevailing market rates for audit services; and,
- (b) consulting on whether or not additional audit services should be performed in circumstances when the cost of those services would exceed the initial cap.

### **Confidentiality**

The auditor will be required to give an undertaking to Telstra and the ACCC concerning the use or disclosure of information that it obtains in the course of the audit. No such undertaking shall operate to prevent the auditor:

- (a) using the information for the purposes of the audit;
- (b) disclosing information to the ACCC; or
- (c) preparing and retaining work papers that are necessary for the purposes of the audit.