Review of Telstra Price Control Arrangements

– Discussion Paper

January 2010

Contents

1. Introduction

The Minister for Broadband, Communications and the Digital Economy (the Minister) has directed the Australian Competition and Consumer Commission (ACCC) to hold a public inquiry about the nature of price control arrangements that should apply to Telstra from July 2010 to 30 June 2012. The ACCC must report to the Minister by 12 March 2010.

The current price control arrangements – *Telstra Carrier Charges – Price Control Arrangements, Notifications and Disallowance Determination No. 1 of 2005 (Amendment No. 1 of 2009)* (the Determination) – expire on 30 June 2010.

Price control arrangements of this type have applied to Telstra (or its predecessors, Telecom and the Overseas Telecommunications Corporation) since 1989.[1]

Price controls are considered a key telecommunications consumer safeguard that aim to ensure that efficiency improvements are passed through to consumers in the form of lower prices for telecommunications services in markets where competition is not yet fully developed. They have also been used as a means for achieving the government's social policy/equity objectives.

Since their introduction, the government has commissioned periodic reviews of the price control arrangements. The most recent review concluded in 2005. These reviews have proven necessary as the telecommunications industry has gone through a number of changes since 1989. In particular, the telecommunications market has evolved from one that was supplied solely by two government-owned enterprises, to one that is now serviced by numerous carriers and carriage service providers (CSPs).

1.1 Purpose

Under Division 3 of Part 25 of the *Telecommunications Act 1997* (the Telecommunications Act), the ACCC may choose, after deciding to hold a public inquiry about a matter, to prepare a Discussion Paper. A Discussion Paper identifies those issues that the ACCC considers relevant to the matter in question, and sets out background material and discussion of those issues.

The purpose of this Discussion Paper, therefore, is to:

- identify the issues which, in the ACCC's opinion, are relevant to a public discussion regarding the nature of the current price control arrangements and those that should apply to Telstra from 1 July 2010 onwards.

[1] A summary history of the price control arrangements that have applied to Telstra and its predecessors since 1989 to December 2005 is at **Appendix 4**. The price controls that have applied from January 2006 and which will expire in June 2010 are discussed at section 4.4 below.

- set out background material about, and discussion of, those issues which the ACCC thinks should be considered in a public process and which the ACCC seeks comment on from industry participants, interest groups (including end-users) and the public more generally.

Section Two outlines the timetable and process for the public inquiry.

Section Three sets out the terms of reference for the public inquiry.

Section Four provides background information on the price control and other regulatory arrangements that apply to Telstra.

Section Five sets out the matters that the ACCC would like submissions to address.

Section Six lists the questions the ACCC has raised in the Discussion Paper.

Appendix One contains a copy of the Ministerial Direction that was given to the ACCC.

Appendix Two contains discussion of some relevant efficiency concepts.

Appendix Three sets out the terms of reference for the previous review of the price control arrangements.

Appendix Four contains a summary history of the price control arrangements that have applied to Telstra (and its predecessors) since 1989.

2. Timetable and inquiry process

Under Division 3 of Part 25 of the Telecommunications Act, the ACCC must provide a reasonable opportunity for any member of the public to make a written submission to a public inquiry. In particular, sub-section 500(2) specifies that a period of at least 28 days must be provided for the public to make written submissions to the ACCC. Accordingly, the ACCC requests written submissions by **12 February 2010**.

The ACCC does not intend to publish a Draft Report setting out preliminary findings. This reflects the direction to report to the minister by 12 March 2010.

2.1 Making a submission to the public inquiry

The ACCC encourages all industry participants, interest groups and the public more generally to consider the matters set out in this Discussion Paper, and to make submissions to the ACCC to assist its review of the current, and possible future, price control arrangements to apply to Telstra.

Although the ACCC has developed a list of questions in this Discussion Paper to assist those parties which intend to make a submission, this list should in no way restrict submitters that wish to comment on other issues/matters.

To foster an informed and robust consultative process, the ACCC proposes to treat all submissions as non-confidential, unless the submission contains information of a confidential nature and the author requests that the submission, or parts thereof, be kept confidential. Non-confidential written submissions given to the ACCC will be made available to interested parties upon request.

Submissions can be addressed to:

Tina Pigliardo
Communications Group
Australian Competition and Consumer Commission
GPO Box 520J
Melbourne VIC 3001
Facsimile: (03) 9663 3699

In addition to a hard copy, those making submissions are requested, if they are able, to provide an electronic copy to tina.pigliardo@accc.gov.au and singithi.silva@accc.gov.au

Enquiries can be made to Singithi Silva on (03) 9290 6925.

3. Terms of reference

Under sub-section 496(1) of the Telecommunications Act 1997, the Minister has the power to direct the ACCC to hold a public inquiry about a matter concerning carriage services, content services or the telecommunications industry.

Under Part 9 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999,* the Minister has the power to determine that charges for specific Telstra retail services are subject to price controls.

On 23 December 2009, the Minister directed the ACCC to hold a public inquiry about the nature of price control arrangements that should apply to Telstra after the expiry of the current price control arrangements on 30 June 2010. A copy of this Direction is at **Appendix 1**.

In this Direction, the Minister requires the ACCC to consider, among other things:

(a) the appropriate composition of service baskets and the design and level of price caps; and

(b) what parts of the current arrangements might benefit from clarification or streamlining.

In addition, the ACCC is to have regard to the following matters when holding the public inquiry:

(a) the current state of competition in each of the markets the ACCC considers relevant

(b) the impact of the current price control arrangements, and possible future price control arrangements, on:

  (i) competition;

  (ii) the availability, choice, quality and prices of services to consumers and any other impacts on consumers; and

  (iii) the telecommunications industry, including on economically efficient investment decisions.

In conducting the inquiry, the ACCC is to have regard to the intention that price controls for legacy telecommunication retail services will remain in place for a further two years, during which time consideration will be given to the impact the transition to the new National Broadband Network environment will have on pricing policy.

In addition, nothing in the Direction prevents the ACCC from considering other relevant matters as part of the inquiry.

4. Background

Price control arrangements, particularly those of the 'CPI − X' variety, have been aimed at promoting efficient pricing outcomes in telecommunications markets where competition is not yet fully developed.

The current price control arrangements apply price controls for this purpose over baskets of fixed-line services supplied to residential and small business customers.

Price control arrangements can also be used to achieve certain social policy/equity objectives. For instance, to provide for a 'safety net' for consumers, such as those in regional areas or low-income consumers, by assuring them that maximum prices will not exceed specific levels.

This section provides some background on the nature of these efficiency and social policy/equity objectives. It then outlines the ACCC's recommendations flowing from its previous review of the price control arrangements and summarises the current price control arrangements that apply to Telstra.

4.1 Efficiency objectives

In the past, the ACCC has outlined three major types of efficiency that it believes are relevant to the pricing of telecommunications services. These are referred to as *productive*, *allocative* and *dynamic* efficiency. A brief description of each type of efficiency is provided in **Appendix 2**, along with an indication of how it may be relevant to determining price control arrangements.

These objectives have traditionally been pursued through 'CPI − X' price controls, and in some cases, over baskets of fixed-line services. The underlying rationale for these controls is that prices should be able to move to reflect changes in underlying unit costs.

In the current context, 'CPI' represents the change in the consumer price index while 'X' is a measure of firm or service-specific productivity growth, which is broadly, the difference between the change of output and the change of inputs used.

CPI − X price controls that are specified over baskets of fixed-line services are designed to:

- limit the ability of Telstra to set prices above costs
- provide an incentive to seek cost efficiencies in order to meet its price control obligations
- allow Telstra to 'rebalance' its prices for greater efficiency
- where market mechanisms are not expected to lead to these outcomes.

One reason for adopting this approach is that a supplier that has market power may have an incentive to price above-cost to extract as many rents as possible from a given market. Such profit maximising behaviour may be inefficient from a social welfare perspective as it could lead to higher prices for end-users and lower levels of output being consumed. CPI − X price controls can help prevent these efficiency losses by limiting the extent to which a firm with market power can price above-cost.

A second problem the approach aims to address is that a supplier with market power may have less of an incentive to pursue cost efficiencies compared to firms operating in a highly competitive market. CPI − X price controls aim to provide an incentive to achieve cost efficiencies in order to meet, and perhaps even exceed, those required by regulation.

A third reason for applying CPI − X price controls in these circumstances, and applying them broadly on baskets of telecommunications services, is that they give firms the freedom to structure their prices in a way that efficiently recovers 'common' costs of production. That is, the production of a series of telecommunications services often involves a number of common costs – or costs that cannot be attributed to a particular service and therefore can be allocated (using different methodologies) in some way across all services.

4.2 Social policy/equity objectives

A second major objective of the price control arrangements has been the achievement of certain social policy/equity objectives. In this regard, the government has been keen to ensure that consumers from different geographic areas and with different income levels are able to have access to affordable telecommunications services and share in the benefits arising from more competitive markets.

4.3 Previous review of price control arrangements

On 23 April 2004, the ACCC was directed by the Minister to undertake a review of the then current Telstra price controls. A copy of the Ministerial terms of reference for this review is at **Appendix 3**.

In February 2005, the ACCC made a series of recommendations to the Minister on what form it considered future price control arrangements should take.[2] These recommendations included:

- a basket containing line rental, local calls, domestic and international long-distance and fixed-to-mobile calls should decrease in price on average by 4

[2] ACCC, *Review of Price Control Arrangements*, February 2005, can be viewed at: http://intranet.accc.gov.au/content/item.phtml?itemId=670116&nodeId=87d2b6e9b5f93ed6ede6c61dd8ad1a3d&fn=Final%20report%E2%80%942004%20review%20of%20Telstra%20price%20control%20arrangements%20(Feb%2005).pdf

per cent per year in real terms, that is, be subject to a price cap of CPI – 4 per cent.

- a basket containing only connections be subject to a price cap of CPI.

- the basic telecommunications service consisting of line rental and local calls—which Telstra brands as HomeLine Part and BusinessLine Part—be price controlled such that:

  - the line rental component of the basic telecommunications service is subject to a price cap of CPI.
  - the price relativities—for the line rental component and the local call component—between the basic telecommunications service and the standard (i.e., most popular) line rental product are preserved. This would effectively require that any price movement in the HomeLine Part or BusinessLine Part package is less than the corresponding price movement for the standard line rental product.

- the cap of 22 cents on the price of a local call should remain, and should apply to low income consumers irrespective of the amount they pay for line rental.

- the cap of 40 cents for a local call from payphones should remain.

- dial-up internet calls to Internet Service Providers using the 0198 number range should be subject to the 22 cent local call cap.

- while acknowledging that direct government initiatives may be a better way to improve access for regional and rural consumers, the ACCC did not recommend ending existing metropolitan/non-metropolitan local call relativity provisions.

- discounts on line rental for schools would be more appropriately funded through direct government assistance.

- Ministerial consideration of directory assistance charges should remain, but not be extended to other ancillary charges.

- while the low-income scheme had delivered some important benefits to low income consumers, changes could be made to improve the scope and robustness of the scheme in terms of:

  - eligibility – making sure the scheme is targeted at all low-income consumers;
  - ensuring low-income consumers are not worse off if they participate in the scheme.

4.4 Current price control arrangements

The price control arrangements which apply to Telstra until 30 June 2010 are set out in the Minister's Determination No. 1 of 2005, as amended in 2006 and more recently in 2009.

The central framework of the current price control arrangements comprises price caps that apply to four separate baskets of services as outlined below.

1) A price cap of CPI − CPI per cent on a basket of local calls, trunk (which includes national long distance and fixed-to-mobile) calls, international calls and line rentals. This means that Telstra is entitled to change the individual prices of these services as long as the aggregate price of all the services in the basket does not increase in nominal terms.

2) A price cap of CPI − 0 per cent on a basket of Telstra's most basic line rental product offered to residential customers. This means that the overall revenue-weighted price for these services must not rise in real terms in any given year.

3) A price cap of CPI − 0 per cent on a basket of Telstra's most basic line rental product offered to business customers. This means that the overall revenue-weighted price for these services must not rise in real terms in any given year.

4) A price cap of CPI − 0 on a basket of connection services. This means that the overall revenue-weighted price for these services must not rise in real terms in any given year.

Services to business customers who are supplied with any or all of the price capped services on terms and conditions other than those set out in Telstra's standard form of agreement (currently referred to by Telstra as "Our Customer Terms") are excluded from the price caps.

Calls originated by means of a Voice over Internet Protocol (VOIP) service, except where the VOIP service is supplied in fulfilment of the universal service obligation (USO), are excluded from the price caps. The price caps also do not apply to charges for national and international operator call connection services and directory assistance services.

The Determination also provides for a number of other price controls that apply to a range of services:

- The price for untimed local calls, or calls to a data network access service number with the prefix 0198, is not to increase above 22 cents for calls made from a residential or business phone, and 50 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 as part of such plans.

- Calls in and between adjacent extended zones, and Bigpond calls made from these zones, are required to be charged as untimed local calls, and a price cap of 27.5 cents per 12 minute block applies to preferential calls.

- Telstra must offer a line rental service to schools at a price at or below the standard line rental offered to residential customers.

- 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 License Conditions (Telstra Corporation Limited) Declaration 1997* to have in place a low-income package. This Declaration includes a requirement that Telstra consult with the Low-Income Measures Assessment Committee (LIMAC) if it makes changes to the low-income package.[3] This is discussed further in section 4.5 below.

- 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 not to be in the public interest.

- A local call – and basic line rental – pricing parity obligation applies, whereby Telstra must offer local calls and *basic* line rentals in non-metropolitan areas, on the same price terms as they are offered in metropolitan areas.

A copy of the current price control arrangements can be located at http://www.comlaw.gov.au/ComLaw/Legislation/LegislativeInstrumentCompilation1.nsf/0/6AE14257BBCFE656CA2575CC0017A40F/$file/2005No1_20090609_2009No1_inuse.pdf

4.5 Other arrangements which may affect Telstra's retail pricing

As previously noted, the ACCC has been directed to hold a public inquiry about the nature of price control arrangements that should apply to Telstra. Accordingly, the ACCC interprets this as a direction to assess/review the current price controls with a view to determining the nature/form of future price control arrangements that should apply to Telstra.

Notwithstanding this, the ACCC notes that in addition to price control arrangements, Telstra is subject to a number of other regulatory arrangements which affect the price it can charge in certain telecommunications markets. A summary of these other arrangements is provided below.

[3] 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.

As noted in section 4.4 above, the current price control arrangements require that 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 License Conditions (Telstra Corporation Limited) Declaration 1997*. It is important to note, however, that this Declaration is a separate legislative instrument from the price control arrangements, and is administered by the Australian Communications and Media Authority (ACMA). In effect, this means that the ACCC has a strictly limited role in ensuring that Telstra complies with the low-income measures outlined above.[4]

Telstra is also subject to a telecommunications-specific regulatory regime, under Parts XIB and XIC of the *Trade Practices Act 1974* (the TPA) which are administered by the ACCC.

Part XIB of the TPA prohibits a carrier or CSP from engaging in anti-competitive conduct – a prohibition known as the competition rule.

Part XIC of the TPA, aims to promote competition in telecommunications markets by establishing the rights of third parties to gain access to certain (declared) services provided by Telstra's infrastructure which are needed by such parties in order for them to provide telecommunications services. Under this provision, the ACCC may be required to specify the terms and conditions (including price) of access.[5] The interaction between the access regime and retail price controls is explored in section 5.2. The mechanisms by which the ACCC can set access terms under Part XIC is currently being reviewed.

Under Division 2 of Part 2 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999*, Telstra is subject to a USO. The main requirement of the USO is that standard telephone services, payphones and prescribed carriage services are reasonably available to all people in Australia on an equitable basis. There is also an obligation relating to access to digital data services. At present, Telstra is the universal service provider (USP). To the extent that this might generate losses for Telstra because the provision of services to customers in certain parts of Australia generates revenues below the cost of supply, the Universal Service regime allows for the losses to be shared amongst all carriers in proportion to their aggregate telecommunications revenue. Hence, Telstra is able to recover some of its losses from the USO from other carriers in the telecommunications industry.

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[4] Sub-clause 22(1) of this Declaration provided that by 1 July 2001 Telstra was required to offer, or have a plan for offering, products and arrangements to low-income customers that has been endorsed by low-income consumer advocacy groups and notified in writing to the predecessor of the ACMA, the Australian Communications Authority. Moreover, sub-clause 22(4) provides that Telstra must maintain and adequately resource LIMAC

[5] In its *Access Pricing Principles Telecommunications – a guide (1997)* the ACCC indicates that the prices of services declared under Part XIC that are necessary for competition in telecommunications markets should, in the usual case, be cost-based. The ACCC went on to note that, in the usual case, cost-based pricing of access services in telecommunications will encourage efficient entry into telecommunications markets and economically efficient investment in telecommunications infrastructure.

5. Matters submissions should address

In order to help facilitate the public inquiry process, the ACCC has identified a series of issues that it considers pertinent to addressing the terms of reference outlined in section 3. These issues are divided up in accordance with the matters the ACCC has been directed to have regard to.

A complete list of all the questions raised in this section is provided in section 6.

5.1 Current state of competition in markets

Assessing the extent of competition in the markets within which telecommunications services are supplied is a key consideration in determining the possible future price control arrangements that should apply to Telstra.

To the extent that price controls are considered necessary in markets where market discipline does not constrain Telstra's market power, it follows that where it operates in an effectively competitive market there is no need on efficiency grounds to maintain price controls.[6] Moreover, where the nature and/or extent of competition has changed in a particular telecommunications market, there may be a case for removing the price control constraints which currently exist, changing the nature/structure of price controls that already apply to a service or re-introducing price controls on a particular retail service – depending on the most recent competition assessment.

In the ACCC's 2001 and 2005 review of the price control arrangements it concluded that retail price controls should be retained on line rental, local call, national long distance, fixed-to-mobile (FTM), international long distance and connection services. In reaching this view, the ACCC noted that competition had not yet developed fully in the markets in which local calls, line rentals and connection services were supplied, and that it was not convinced that competitive forces were sufficiently strong enough to achieve effectively competitive pricing outcomes in the markets in which national long distance, international long distance and FTM services were supplied.

On the other hand, the ACCC has considered that certain services should be removed from retail price control arrangements on the basis that they were being supplied in sufficiently competitive markets. For instance, in the 2001 review the ACCC reached the view that the market for the supply of mobile services had become sufficiently competitive such that it should be removed from the price control arrangements. Similarly, in the 2005 review the ACCC reached the view that the large business segment of fixed line voice services should be removed from the price control arrangements.

[6] However, this would still leave a possible distributional justification for maintaining price controls albeit one which may involve some trade-off with efficiency goals.

The ACCC's most recent competition assessment *Telecommunications competitive safeguards for the 2007-08 financial year*[7] report noted that, whilst signs of competition can be seen in some geographical areas in the markets within which fixed voice telecommunications services (e.g. local call and line rental services) are provided, and more extensively in mobile services, competition remains heavily reliant on regulatory mechanisms for its existence and development. The report noted that the incumbent retains substantial market power, with a share of 72 per cent of retail PSTN voice services in 2007–08.[8] The ACCC concluded that the incumbent continues to dominate; levels of concentration are high; competition is growing at different rates in different areas; and intervention is required in a consistently large number of commercial negotiations for network access.

In terms of fixed to mobile substitution, the ACCC noted that whilst there are signs that some competitive influence is being exerted on fixed voice and broadband services by the mobile voice and data services provided by the mobile networks of Telstra, Optus and Vodafone/Hutchison, they are yet to reach the point of being full or effective substitutes.[9] Wireless technologies continue to be used primarily as a complementary service by most consumers, so for the purposes of its most recent regulatory decisions the ACCC has considered that any constraint that these technologies assert on the relevant fixed broadband or voice services market is only likely at the margins.[10]

In finalising the 2009 Mobile Terminating Access Service (MTAS) Pricing Principles[11] the ACCC noted a lack of pass-through of reductions in wholesale mobile termination rates to retail FTM call rates despite significant falls in the regulated indicative price of the MTAS. The ACCC noted in the 2009 Pricing Principles that expectations of increased competition in the market including FTM calls (which would lead to greater pass-through of MTAS reductions) had not eventuated.

Subsequent to the 2009 MTAS Pricing Principles the ACCC commissioned Analysys Mason to provide the ACCC with a report that benchmarked and researched international regulatory approaches to FTM pass-through, and conducted a welfare model to estimate social welfare effects between different regulatory scenarios.[12] The

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7 ACCC, *Telecommunications competitive safeguards for 2007–2008 — changes in the prices paid for telecommunications services in Australia 2007–2008*, 2009, pp. 12-13.

8 The examination of retail PSTN voice services, retail broadband and retail mobile services data should not be taken to indicate the ACCC's views on the boundaries for relevant communications markets for the purposes of regulatory decision making under Part XIC or enforcement activities under Part IV or XIB of the TPA, but rather as an indicator of the relative extent of competition that may exist in various markets. Many aspects of communications service segments are converging and distinct boundaries are becoming difficult to identify. Markets can become more granulated—when considering geography and consumer types—or more aggregated because of bundling or substitution possibilities.

9 ACCC, *Telecommunications competitive safeguards for 2007–2008* pp. 12-13.

10 Ibid.

11 *Domestic Mobile Terminating Access Service Pricing Principles Determination and indicative prices for the period 1 January 2009 to 31 December 2011*, March 2009. Available at: http://www.accc.gov.au/content/item.phtml?itemId=864976&nodeId=1e1b39d5ede14c87b6482438d70ca1df&fn=MTAS%20pricing%20principles%20determination%202009%E2%80%9311.pdf.

12 A public version of Analysys Mason's report is available from the ACCC's website: *Regulatory treatment of fixed-to-mobile passthrough*, October 2009. Available at

results of Analysys Mason's benchmarking research indicated that the absence of regulation of FTM calls leads to an increase in FTM retention margins in a number of benchmarked countries including Australia. The results of Analysys Mason's welfare analysis showed that regulating FTM pass-through (for example, through price cap regulation) would have a positive impact on overall social surplus.

***Questions to assist those preparing submissions*:**

- Are any of the current price controlled markets now sufficiently competitive to warrant the removal of price controls on the relevant telecommunications service?
- Having regard to the level of competition, are there any telecommunications services that should be subject to price controls that are not within the scope of the current arrangements?

5.2 Impact of price controls on competition, availability, choice, quality, price and investment

In considering the impact of the current, and possible future, price control arrangements the ACCC has been directed to have regard to the following factors:

- competition;
- the availability, choice, quality and prices of services to consumers and any other impacts on consumers; and
- the impact on the telecommunications industry, including on economically efficient investment decisions.

Each of these factors is considered in turn below.

Impact on competition

The extent to which current, and possible future, price control arrangements impact on the development of competition is an important issue for consideration.

The two main ways that competition can develop in telecommunications markets is through facilities-based, and access or service-based, entry. Facilities-based competitors offer services by connecting users to their own network. For example, Telstra, SingTel Optus and Vodafone/Hutchison are facilities-based competitors in the mobile telecommunications market.

In contrast, access/service-based competitors provide services to consumers by purchasing services from a facilities-based supplier, and in some cases, combine this

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http://www.accc.gov.au/content/item.phtml?itemId=897537&nodeId=a31ef9fd399ac98ad77bce21e6ff53cb&fn=Analysys%20Mason%20final%20report%20on%20FTM%20passthrough.pdf

with their own network elements. For example, a number of telecommunications carriers/CSPs purchase a domestic PSTN origination/termination service from Telstra and use it to provide a range of fixed-line voice services to end-users.[13] More recently a number of access seekers have invested in unbundled local loop or line sharing services – quasi facilities based entry.

Price control arrangements may have an important impact on the extent and type of competition that develops in telecommunications markets, and therefore, on the operation on Parts XIB and XIC of the TPA.

For example, new entrants are attracted to a market by the prospect of financial return that is commensurate with the risks involved in their investment. Below-cost pricing for some services brought about by price controls may discourage entry in some markets unless an entrant expects to be able to recover projected losses from above-cost pricing from other services or areas.

The current state of competition in markets within which local telecommunications services (line rentals and local calls) are provided could potentially be influenced by price control arrangements. For example, the ACCC has noted that a degree of quasi-facilities based competition has emerged in low cost regions such as the CBDs and metropolitan areas,[14] yet there is considerably less facilities-based competition in higher cost regions.

That said, there could be a variety of reasons for the nature and extent of facilities based competition that has developed which do not concern the retail price control arrangements. For instance, access prices or other input costs might be prohibitively high, or necessary inputs might not be available, to enter certain markets or areas.

Questions to assist those preparing submissions:

- What impact, if any, have the current price control arrangements had on the development of competition in telecommunications markets?

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[13] Cases where an access seeker does not use any of its own network components in supplying a service but instead completely utilises a facilities-based competitor's network, are variously known as wholesale or resale competition. For example, some carriage service providers that supply a resale local call service do this by purchasing a complete LCS service from Telstra, but typically provide their own billing and customer support services.

[14] Indeed, evidence of competing networks capable of providing voice services in CBD areas, combined with the increased availability of alternative facilities and lower level regulated access services such as the ULLS and local PSTN originating and terminating services, led the ACCC to remove access regulation of Telstra's Local Carriage Service for CBD areas from July 2003. More recently, the ACCC granted Telstra an exemption from its obligation to supply PSTN OA in each of the CBD exchange service areas included in its 2007 CBD exemption application, concluding that there was a sufficient presence of alternative infrastructure in these areas capable of providing voice services at the wholesale and retail service levels. ACCC, *Telecommunications competitive safeguards for 2007–2008 — changes in the prices paid for telecommunications services in Australia 2007–2008,* 2009, p. 67.

Impact on availability, choice, quality and price

The ACCC has been directed to consider the impact of the current and possible future price control arrangements on the availability, choice, quality and price of services to consumers.

Price control arrangements can have a direct impact on the retail price of particular telecommunications services. For example, the current price control arrangements provide for maximum prices for local calls (including from payphones) and a nominal price freeze (CPI-CPI) cap for a basket of PSTN services.

Perhaps less obvious than the effect on price, price control arrangements can also have an impact on the *quality* of telecommunications services – particularly those subject to price controls. If a price cap is too tight, a regulated firm may be prevented from maintaining its quality of service, such as by introducing new features or enhancing service reliability. However, this is not to say that a firm would always maintain a high quality of service in the absence of price control arrangements, particularly as the relevant markets would most likely not be subject to effective competition.

Further, price control arrangements can guard against artificial constraints on service quality by allowing credits for quality improvements to be claimed. For instance, the current price control arrangements provide for the price that Telstra charges for a service to be taken to have decreased below the actual price where there has been an improvement in the quality of the service.

There is also a possibility that the current, or possible future, price control arrangements affect the *availability* and *choice* of telecommunications services. For example, price control arrangements which require that Telstra price below-cost in certain markets may discourage efficient facilities-based entry in these markets, thus reducing the potential for alternate suppliers to offer telecommunications services to end-users in the future.

Questions to assist those preparing submissions:

- What affect do the current price control arrangements have on the availability and/or choice of telecommunications services?
- Are the current price control measures that allow credits for quality improvements necessary, and if so an effective means, to ensure the quality of price controlled services can be maintained or enhanced? What alternative means should be considered?

Impact on economically efficient investment decisions

As noted earlier, maintaining a structure of retail prices that differ from the costs of provision can adversely affect the manner in which both facilities and access-based competition develops in telecommunications markets, and the type and level of investment in these markets.

There are potentially a number of tensions between the deployment of facilities-based entry, investment and retail price controls. Where retail price controls result in a uniform price across different markets – such as the current requirement that local calls be offered on uniform price terms and at prices that do not exceed 22 cents – there is the potential for higher margins for facilities-based competitors on customers that are less costly to service. The margins will be lower (and even negative) for those that are more costly to service. The differences in these margins can have a number of adverse consequences on the development of facilities-based competition and investment.

First, facilities-based entry may be artificially restricted. Although facilities-based entry will be attractive where the costs of servicing customers are low it will be less attractive in other areas and for other customers. The increase in customer choice and the range of services available to consumers that facilities-based competition can stimulate will be restricted to certain areas, and within those areas, only to certain customers.

Second, in the areas where facilities-based entry does occur, there is the potential for inefficient investment. To the extent that entry occurs in metropolitan areas, the requirement to offer uniform prices for some services may prevent Telstra from competing on price in metropolitan areas. The entrant may, as a result, gain market share even though Telstra has lower costs of serving those customers.

Retail price controls that allow greater alignment with costs, or which are limited to providing a safety net, may overcome the potential for these tensions to occur. For instance, although the current price controls require Telstra's most basic line rental product to be offered at a uniform price, this product is very rarely supplied, and is relatively expensive compared to other less costly, and higher quality, line rental products that Telstra supplies.

Similar tensions may also arise between the development of access-based entry, investment and the retail price controls, when a cost-based access approach is coupled with an average retail price approach that abstracts from such cost differences. Under a cost-based access regime, the current retail price controls will similarly result in higher margins when providing local services to high-volume customers and customers that are less costly to service. The margins will be lower (and even negative) for low volume users and users that are more costly to service. The differences in margins can have the same adverse consequences for the development of access-based entry as described above for facilities-based entry.

Questions to assist those preparing submissions:

- What impact, if any, do the current price control arrangements have on economically efficient investment in telecommunications markets?

- What role, if any, do the restrictions on line rental charges have on investment in telecommunications markets? Has this changed over the course of the price control arrangements as line rental and call charges have been rebalanced?

- Are there any other important ways in which the current price controls impact on economically investment in the telecommunications market?

5.3 Form of next price control arrangements

The Ministerial direction specifies that the ACCC should consider:

(a) the appropriate composition of service baskets and the design and level of price caps; and

(b) what parts of the current arrangements might benefit from clarification or streamlining.

This raises for consideration what services should be subject to price control arrangements, and whether price caps should apply to individual services or a basket of services.

For a multi-product service provider, price caps can be implemented by way of an average price cap. With an average price cap, only an average 'basket' price is controlled, and the service provider is free to control the pattern of relative prices within the basket. The impact of individual prices on the overall price cap can be weighted by the consumption levels of each service within the basket. The service provider can then adjust its prices subject to the requirement that the weighted average of the prices does not change by more than the regulated adjustment factor.

The overall price cap is set at a level that allows the service provider to earn a target revenue if it meets its consumption forecasts — if it sells more services than forecast within a regulated period, it is allowed to keep any excess revenue; conversely, should the target revenue requirement not be met it may suffer a loss. So, in addition to the cost side efficiency gains delivered by the adjustment to the level of the cap over time (outlined in section 4.1 and appendix 2), this creates incentives for the service provider to price its different services to expand consumption.

When designing a basket, careful consideration must be given to the bundle of services to be covered by the cap. Generally, services that should be protected from price increases or decreases relative to certain other services are placed in separate baskets. If the basket provides too little flexibility to service providers, then opportunities to rebalance prices will be limited. On the other hand, if the basket is poorly designed, there may be potential for anti-competitive abuse, particularly in the context of a vertically integrated service provider.

With respect to the adjustment factor, in the past, price caps have tended to be overly generous, as indicated by the recommended price caps; the implemented price cap; and the reported price movements outlined in **Table 1**. (All values are presented in nominal terms.)

Table 1 Comparison of price control arrangements — Basket 1[15]

Year	Implemented price cap %	Recommended price cap %	Reported price movement %
2005-06	0.0	-1.6	-4.4
2006-07	0.0	-1.3	-4.2
2007-08	0.0	-1.1	-0.1
Sum	0.0	-4.0	-8.7

As outlined in section 5.1, competition can be seen in patches in some geographical areas in the markets within which fixed voice telecommunications services (e.g. local call and line rental services) are provided. However, competition still remains heavily reliant on regulatory mechanisms. Further, whilst there are signs that some competitive influence is being exerted on fixed voice services by mobile voice services, they are yet to reach the point of being full or effective substitutes. For the reasons outlined in section 4.1, a potential need for retail price controls to apply to certain fixed voice services may therefore remain. Nonetheless, broad based baskets could be appropriate on efficiency grounds even when there is competition in the provision of some individual services within the basket.

***Questions to assist those preparing submissions*:**

- What services should be subject to price control arrangements? Submitters are asked to separately consider local access services (line rental and local calls), FTM calls and other PSTN calls types.
- Should price caps apply to individual or baskets of services? How should any baskets be constructed?
- What efficiency improvements if any should be required by the price controls? For instance, if the price controls take the form of a CPI − X cap, what value should X be set at?
- Are there any areas in the current retail price control arrangements that could be streamlined?

[15] ACCC, *Submission to the Department of Broadband, Communications and the Digital Economy "National Broadband Network: Regulatory Reform for 21st Century Broadband"*, June 2009.

6. Summary of questions

- Are any of the current price controlled markets now sufficiently competitive to warrant the removal of price controls on the relevant telecommunications service?
- Having regard to the level of competition, are there any telecommunications services that should be subject to price controls that are not within the scope of the current arrangements?
- What impact, if any, have the current price control arrangements had on the development of competition in telecommunications markets?
- What affect do the current price control arrangements have on the availability and/or choice of telecommunications services?
- Are the current price control measures that allow credits for quality improvements necessary, and if so an effective means, to ensure the quality of price controlled services can be maintained or enhanced? What alternative means should be considered?
- What impact, if any, do the current price control arrangements have on economically efficient investment in telecommunications markets?
- What role, if any, do the restrictions on line rental charges have on investment in telecommunications markets? Has this changed over the course of the price control arrangements as line rental and call charges have been rebalanced?
- Are there any other important ways in which the current price controls impact on economically investment in the telecommunications market?
- What services should be subject to price control arrangements? Submitters are asked to separately consider local access services (line rental and local calls), FTM calls and other PSTN calls types.
- Should price caps apply to individual or baskets of services? How should any baskets be constructed?
- What efficiency improvements if any should be required by the price controls? For instance, if the price controls take the form of a CPI − X cap, what value should X be set at?
- Are there any areas in the current retail price control arrangements that could be streamlined?

Appendix 1 Ministerial direction

Commonwealth of Australia

Telecommunications Act 1997

Australian Competition and Consumer Commission (Inquiry into Price Control Arrangements) Direction (No. 1) 2009

I, STEPHEN MICHAEL CONROY, Minister for Broadband, Communications and the Digital Economy, make the following Direction under subsection 496(1) of the *Telecommunications Act 1997*.

Dated 2009

STEPHEN CONROY
Minister for Broadband, Communications and the Digital Economy

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1 Name of Direction

This Direction is the *Australian Competition and Consumer Commission (Inquiry into Price Control Arrangements) Direction (No. 1) 2009.*

2 Commencement

This Direction commences on the day after it is registered on the Federal Register of Legislative Instruments.

3 Cessation

This Direction ceases on the day after the ACCC provides its report to me in accordance with clause 6.

4 Definitions

In this direction:

ACCC means the Australian Competition and Consumer Commission.

Telstra has the same meaning as in the *Telstra Corporation Act 1991*.

5 Direction – Public Inquiry about Price Control Arrangements for Telstra Services and Facilities

(1) I direct the ACCC to hold a public inquiry under Division 3 of Part 25 of the *Telecommunications Act 1997* about aspects of the price control arrangements that should apply under Part 9 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999* for:

(a) carriage services;

(b) content services; and

(c) facilities,

supplied by Telstra after the expiry of the *Telstra Carrier Charges – Price Control Arrangements, Notification and Disallowance Determination No. 1 of 2005* at the end of 30 June 2010.

(2) In conducting this inquiry, I direct the ACCC to have regard to the intention that price controls for legacy telecommunications retail services will remain in place for a further two years, during which time consideration will be given to the impact the transition to the new National Broadband Network environment will have on pricing policy.

(3) In conducting this inquiry, I direct the ACCC to consider:

(a) the appropriate composition of service baskets and the design and level of price caps; and

(b) what parts of the current arrangements might benefit from clarification or streamlining.

(4) In conducting this inquiry, I direct the ACCC to have regard to the following matters:

(a) the current state of competition in each of the markets the ACCC considers relevant;

(b) the impact of the current price control arrangements, and possible future price control arrangements, on:

(i) competition;

(ii) the availability, choice, quality and prices of services to consumers and any other impacts on consumers; and

(iii) the telecommunications industry, including on economically efficient investment decisions.

(5) For the avoidance of doubt, nothing in this Direction prevents the ACCC from considering other relevant matters as a part of this inquiry.

6 Direction – Report on the Findings as a Result of the Inquiry

I direct the ACCC to provide me with a report setting out its finding as a result of the inquiry by 12 March 2010.

Appendix 2 Efficiency Concepts

Productive efficiency

Productive efficiency refers to the ability of firms to produce given quantities of a good or service at the lowest possible cost.

Under efficient competitive markets, firms have an incentive to find the least cost way of producing a good or service so they can establish a cost advantage over their competitors. In contrast, where the market is serviced by a firm with market power, that firm may not have sufficient incentives to find the least cost way of producing a good or service.

Typically, a CPI − X per cent price cap requires a regulated firm to reduce its prices for a basket of services by X per cent each year. The value of X is set according to some estimate of the cost savings an efficient telecommunications firm should be able to achieve in the provision of a service over a given year. Hence, CPI − X price caps are seen as one way of encouraging a regulated firm to strive for productive efficiencies, as they encourage firms to reduce their costs in order to meet their price cap obligations. A further incentive to seek productive efficiencies is provided because if they reduce their costs by more than X per cent, they can keep the difference between price and the lower cost until X is re-set.

Allocative efficiency

Allocative efficiency refers to the deployment of resources to those areas of the economy where they are valued most and therefore provide the greatest benefit to society.

In the absence of externalities, allocative efficiency is achieved when the price of a given service equals the marginal cost of producing it.[16] The reason for this is that consumers will only be willing to pay for a good if they value it by an amount equal to, or greater than, the price they have to pay for it. Hence, if the price of a good equals the marginal cost of producing it, the valuation of the good by all consumers must be equal to, or greater than, the cost of producing it as they are prepared to pay the price for it. Hence, allocative efficiency will be generated, as resources are directed towards producing a good (or service) which is valued more by consumers than the cost of producing it.

Under efficient competitive markets, the price of services will be driven towards cost. In contrast, when a market is serviced by a firm with market power, there may not be pressure on that firm to push prices towards cost. If this is the case, allocative efficiency may be undermined. This is because there will be some consumers who value the service at more than the cost of producing, but at less than the price at which

[16] Marginal cost is defined as the additional cost of producing an extra unit of a given service. In the long run, this comprises the change in both capital and operating costs.

the firm with market power is selling it. These consumers will not be willing to purchase the service at this price, even though the cost of supplying it is below their valuation of it.

CPI − X per cent price controls, therefore, can be used to improve allocative efficiency if the price controls are able to push the price of a good or service closer to cost.

Dynamic efficiency

Dynamic efficiency refers to the development of efficient production processes over time. Hence, firms will be dynamically efficient if they have the incentive to invest, innovate, improve the range and quality of goods and services, increase productivity and lower costs through time.

Again, the use of CPI − X per cent price caps can help a monopolist achieve dynamic efficiencies by providing them with the incentive to continue to seek increased productivity and lower costs over time in order to meet – or exceed – their price cap obligations.

Appendix 3 Terms of reference for previous review

Commonwealth of Australia

Telecommunications Act 1997

Direction to the Australian Competition and Consumer Commission No. 1 of 2004

I, DARYL ROBERT WILLIAMS, Minister for Communications, Information Technology and the Arts, acting under subsection 496(1) of the Telecommunications Act 1997, direct the Australian Competition and Consumer Commission (the Commission) to hold a public inquiry under Division 3 of Part 25 of that Act about the nature of price control arrangements that should apply under Part 9 of the Telecommunications (Consumer Protection and Service Standards) Act 1999 for carriage services, content services and facilities supplied by Telstra Corporation Limited (ABN 33 051 775 556) (Telstra) after the expiry of the Telstra Carrier Charges – Price Control Arrangements, Notifications and Disallowance Determination No.1 of 2002 at the end of 30 June 2005.

I direct the ACCC, in connection with this inquiry, to consider, among other things:

(a) the appropriate form of future price control arrangements, including the composition of baskets and the level of price caps;

(b) the duration of any such arrangements;

(c) the means of implementation of any such arrangements;

(d) whether any other complementary arrangements are required to work in conjunction with the future price controls and, if so, their nature; and

(e) mechanisms for assessing and enforcing compliance.

I direct the ACCC, in addition to providing a reasonable opportunity for any member of the public to make written submissions and releasing a draft report, to consult directly with relevant stakeholders in connection with the conduct of the inquiry including, but not limited to, the telecommunications industry, business, small business and residential consumer organisations and rural and regional organisations.

I direct the ACCC to have regard to the following matters when conducting this inquiry:

(a) the current state of competition in each of the markets the ACCC considers relevant;

(b) the impact of the current price control arrangements, and possible future price control arrangements, on:

(i) competition and the future development of competition, having regard in particular to the telecommunications anti-competitive conduct regime and telecommunications access regime under Parts XIB and XIC of the *Trade Practices Act 1974*;

(ii) the availability, choice, quality and prices of services to consumers and any other impacts on consumers; and

(iii) the telecommunications industry, including on economically efficient investment decisions;

(c) the distribution of the short-term and long-term community and economic benefits and costs, including the impacts on different types of households and business consumers and geographic areas, from the current price control arrangements and, possible future price control arrangements, in particular, relating to any re-balancing of line rental and call charges;

(d) the implications of new and emerging technologies on price control arrangements and of price control arrangements on new and emerging technologies; and

(e) the appropriateness of the current price control arrangements, and possible future price control arrangements for the protection of potentially disadvantaged residential and business customers in both metropolitan and rural areas.

I direct the ACCC to provide me with a report setting out its findings as a result of the inquiry by 31 January 2005.

Dated 2004

Minister for Communications, Information Technology and the Arts

Appendix 4 History of the Price Control Arrangements

The following summary provides some broad details on the structure of the price control arrangements, and how they have changed over the five control periods. It is not an exhaustive list of provisions or changes.

Price control arrangements from 1989 to 2005

July 1989 to June 1992	▪ Arose from 1988 Ministerial Review that rejected rate-of-return regulation in favour of price-capping regulation of "CPI minus X per cent" kind. ▪ Revenue weighted basket of line rentals, local calls, STD and IDD calls capped at CPI – 4 per cent. ▪ Sub-caps of CPI on local calls and residential rentals. ▪ Notifiable and disallowable: connection fees, payphone calls, calls to directory assistance, 008 services*, leased line charges*, mobile services*. ▪ AUSTEL regulated for compliance. ▪ (* notifiable and disallowable only from January1991)
July 1992 to June 1995 (December 1995 on extension)	▪ Basket now combined domestic and international and extended to include service connection charges, mobile services and domestic and international leased lines. ▪ Revenue weighted basket of connections, line rentals, local calls, STD calls, IDD calls, domestic leased lines, international leased lines, mobile services, was capped at CPI – 5.5 per cent. ▪ Sub-cap of CPI – 2 per cent on connections, rentals and local calls. ▪ Sub-cap of CPI – 5.5 per cent on STD calls. ▪ Sub-cap of CPI – 5.5 per cent on IDD calls. ▪ In addition, prices for connections, rentals, local calls and STD calls could not increase by more than CPI each year. ▪ Notifiable and disallowable: payphone calls, calls to

	directory assistance, connections for resellers. ▪ AUSTEL remained as regulator.
January 1996 to December 1998 (June 1999 on extension)	▪ Revenue weighted basket of its main services (connections, line rentals, local, trunk and international calls, leased lines and mobile services) by 7.5 per cent in real terms for each calendar year between January 1996 and December 1998. ▪ Sub-cap on untimed local calls, which could not rise above 25 cents per call for calls made from residential or business phones, and 40 cents per call for calls made from a public payphone.** ▪ Sub-cap on standard prices for connections, line rentals, trunk calls and international calls by CPI – 1 per cent. ▪ Notifiable and disallowable: payphone calls, calls to directory assistance, increase in any charge subject to the price control arrangements by more than the CPI. ▪ ACCC became the regulatory body in mid-1997. ▪ ** Local call parity introduced December 1997 – untimed local calls in non-metropolitan areas not to exceed untimed local calls in metropolitan areas in previous period. Applies to both business and residential (separately).
July 1999 to June 2001 (these price control arrangements were rolled over for the 2001-02 financial year)	▪ Revenue weighted basket of its main services (connections, line rentals, local, trunk and international calls, leased lines and mobile services) by 5.5 per cent in real terms for each year between July 1999 and June 2001. ▪ Sub-cap of CPI – 0 per cent on a basket of local calls and line rental services. ▪ Sub-cap of CPI – 0 per cent on a basket of connection services. ▪ Prior to June 2000, cap of 25 cents per call on the provision of basic untimed local calls, with a similar cap of 45 cents per call applicable to calls made from Telstra public payphones. Post July 2000, cap of 22 cents per call for local calls (GST inclusive) and 40 cents for payphone calls

	(GST inclusive). ▪ Low-spending residential sub-cap of CPI – 1 per cent on a basket of services comprising connections, line rentals, local calls, trunk calls and international calls. The revenue weights are based on the average bill size of the bottom (low-spend) 50 per cent of Telstra's pre-selected customers. ▪ Local call parity conditions – residential, business and charity customers in non-metropolitan areas must not pay higher average prices (by more than 0.4 per cent) than residential, business and charity customers in metropolitan areas in the previous period. ▪ Telstra must obtain prior consent from the ACCC if it proposes to increase its line rental charge by more than CPI and that line rental is to be used by anyone falling within the bottom (low-spend) 10 per cent of Telstra's pre-selected customers. The ACCC cannot consent unless Telstra can provide that these customers (low-spend) would, on average, experience no real increase in their average telephone bill.
July 2002 to December 2005	▪ A price cap of CPI − 4.5 per cent on a basket of local, trunk and international calls. ▪ A price cap of CPI + 4.0 per cent on a basket of business and residential line rentals. ▪ A price cap of CPI − 0 on a basket of connection services. ▪ Local call parity conditions – residential, business and charity customers in non-metropolitan areas must not pay higher average prices (by more than 0.4 per cent) than residential, business and charity customers in metropolitan areas in the previous period. ▪ 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 as part of such plans. ▪ Calls in and between adjacent extended zones, and Bigpond calls made from these zones, are required to be charged as untimed local calls, and a price cap of 27.5 cents per 12 minute block applies to preferential calls. ▪ 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 License Conditions (Telstra Corporation Limited) Declaration 1997* to have in place a low-income package. ▪ 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 not to be 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.
January 2006 – June 2009 (extended until 30 June 2010)	▪ A price cap of CPI – CPI per cent on a basket of local, trunk and international calls and line rentals ▪ A price cap of CPI – 0 per cent on a basket of Telstra's most basic line rental product offered to residential customers. ▪ A price cap of CPI – 0 per cent on a basket of Telstra's most basic line rental product offered to business customers. ▪ A price cap of CPI – 0 per cent on a basket of connection services. ▪ The price for untimed local calls, or calls to a data network access service number with the prefix 0198, is not to increase above 22 cents for calls made from a residential or business phone, and 50 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 as part of such plans. ▪ Calls in and between adjacent extended zones, and Bigpond calls made from these zones, are required to be charged as untimed local calls, and a price cap of 27.5 cents per 12 minute block applies to preferential calls. ▪ Telstra must offer a line rental service to schools at a price at or below the standard line rental offered to residential customers. ▪ 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 License Conditions (Telstra Corporation Limited) Declaration 1997* to have in place a low-income package. This Declaration includes a requirement that Telstra consult with the Low-Income Measures Assessment Committee (LIMAC) if it makes changes to the low-income package.[17] This is discussed further in section 4.5 below. ▪ 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 not to be in the public interest. ▪ A local call – and basic line rental – pricing parity obligation applies, whereby Telstra must offer local calls and *basic* line rentals in non-metropolitan areas, on the same price terms as they are offered in metropolitan areas.

[17] 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.