Australian Competition & Consumer Commission

Telstra's compliance with the price control arrangements

1 July 2007 to 30 June 2008

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Report to the Minister for Broadband, Communications and the Digital Economy

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Contents

1 Background and executive summary

Under s. 151CM(1)(b) of the *Trade Practices Act 1974*, the Australian Competition and Consumer Commission (ACCC) must report to the Minister for Broadband, Communications and the Digital Economy on the adequacy of Telstra's compliance with the price control arrangements that apply to it.

These price control arrangements are set by the minister. The current arrangements are contained in Telstra Carrier Charge—Price Control Arrangements, Notification and Disallowance Determination No.1 of 2005 (the determination) as amended in 2006 (Amendment no. 1 of 2006).

This report relates to the second reporting period under the current arrangements—a 12-month period from 1 July 2007 to 30 June 2008.

The ACCC considers Telstra has adequately complied with these price control arrangements. This view is based on the ACCC's review of an independently audited compliance report that Telstra provided.

1.1 Summary of the price control arrangements

The central framework of Telstra's retail price control arrangements consists of a series of price caps that apply to specified 'baskets of services'.

The first basket of services consists of local calls, trunk (national long-distance and fixed-to-mobile) calls, international calls and line rentals. This basket is subject to a price cap of CPI – CPI per cent. This means that Telstra is entitled to change the individual prices of the services within the basket as it wishes, but the aggregate price of all services in the basket must not increase in nominal terms.

The second basket consists of Telstra's most basic line rental product offered to residential customers. In the current reporting period, this basket was subject to a price cap of CPI – 0 per cent.

The third basket consists of Telstra's most basic line rental product supplied to business customers and charity customers. This basket is also subject to an annual price cap of CPI – 0 per cent.

The fourth basket consists of connection services and is subject to an annual price cap of CPI – 0 per cent

All PSTN services, except those supplied to large business customers on individual contracts, are subject to the price caps.

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

Telstra is able to claim credits for investing to improve the quality of the services within the baskets, which are offset against actual price movements. Also, if Telstra prices below the maximum level permissible, the difference may be carried forward as a credit into the next price cap period.

The determination also provides for a number of other price controls.

- The price for untimed local calls is not to increase above 22 cents for each call (other than a local call made from a public payphone, or a local call made using a calling card), except in the case of discount plans when a customer may be required to pay more than 22 cents per local call.
- Local calls, and Telstra's most basic line rental product, supplied in non-metropolitan areas must be offered at the same or a lower price and on the same price-related terms as in metropolitan areas.
- Telstra must offer a line rental to schools at a price at or below the standard line rental offered to residential customers.
- Increases in line rentals charged at residential rates must be notified to the ACCC and are subject to the ACCC being satisfied that Telstra has in place a low-income package, and that Telstra consulted with the Low Income Measures Assessment Committee before making any changes to that package.
- The price of each call to an internet service provider using a data network access service number starting with the numerals 0198 is not to exceed 22 cents.
- 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 is required to report to the ACCC on its compliance with the price control arrangements, within three months of the end of a price cap period.

2 Methodology for determining revenue-weighted price movements

Under clause 13(5) of the determination, the value of a price movement for a basket of services may be determined in accordance with a methodology developed by the ACCC in writing.

Following consultations with Telstra, in January 2007, the methodology for administration of the Telstra carrier charges price control arrangements was established for the period from January 2006 to June 2009.

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

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

The price movement for a basket of services is calculated by weighting the price movement for each component service and summing the weighted price movements.

Telstra objected to how individual service price movements should be weighted to calculate the price movement for the basket and commenced proceedings in the Federal Court. The contentious issue was whether changes in the composition of the basket during the current period should be reflected in the weights. Telstra argued that these weights should be calculated from base period revenue only, whereas the ACCC's methodology provided that the weights were to be calculated from the average of base period and current period revenues.

This choice can have a material effect where the composition of a basket is changing more significantly. However, changes to the composition of these baskets have proven to be gradual and, consequently, this choice does not have a material effect on the calculated price movements.

Reflecting this, and to avoid further dispute over the issue, the ACCC altered the methodology to permit the use of base period revenue weights. Consequently, carry-in credits from 2006–07 have been restated. This is discussed in section 4.

3 Auditing of Telstra's price control report

3.1 Audit process and requirements

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

The aim of the audit is to determine whether:

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

The methodology states that the independent auditor will be appointed by the ACCC, so that it may be directly involved in the plan and approach to the audit as well as having direct access to the auditor's independent advice. In consultation with Telstra, Ernst & Young was appointed as auditor for the 1 July 2007 to 30 June 2008 price control compliance report.

3.2 Audit opinion

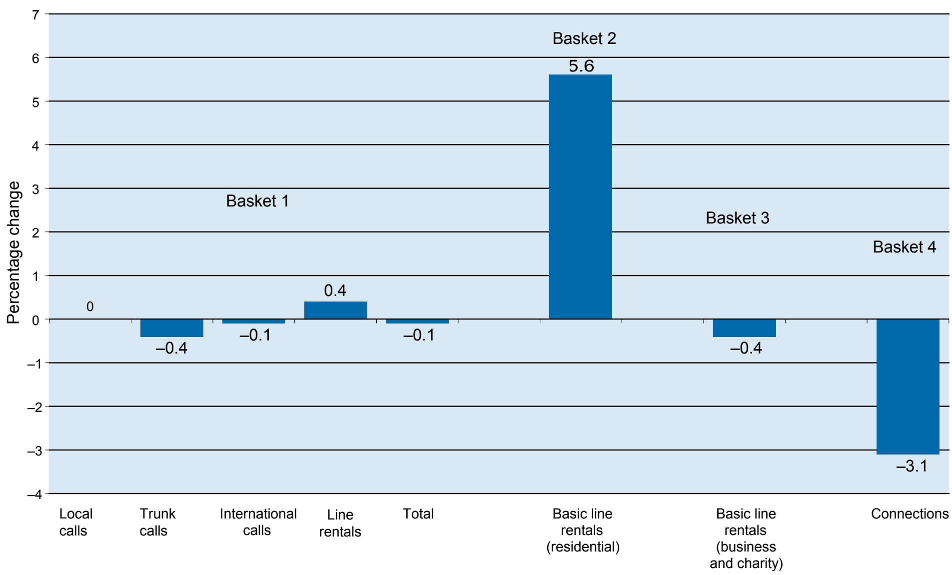
The auditor has expressed the opinion that Telstra has in all material respects fairly presented its compliance report to the ACCC in complying with the determination and methodology as it relates to the aims of the audit as described above.

4 Telstra's compliance with the price control arrangements—1 July 2007 to 30 June 2008

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

Figure 1 shows the revenue-weighted price movements for each of the Telstra services subject to the price control arrangements during the period 1 July 2007 to 30 June 2008.

Figure 1 Telstra's revenue-weighted price movements for 1 June 2007 to 30 June 2008



4.2 Deemed price reduction for quality improvement

To calculate Telstra's compliance with the price control arrangements, the determination states that Telstra can be credited with deemed price reductions where it increases the quality of its services. During the current reporting period, no quality improvement related credits were claimed.

4.3 Telstra’s compliance with the price caps

Table 1 on page 7 assesses the weighted price movements against the price cap for each of the four baskets of services during the current reporting period.

For instance, table 1 shows that the first basket of services consists of local calls, trunk calls, international calls and line rentals. (Trunk calls consist of national long-distance calls and fixed-to-mobile calls). For each component service, the reported price movement, revenue weight, and weighted price movement are provided. The table then lists the overall price movement, the CPI value used, the cap (in this case CPI – CPI), and the carry-in credit from 2006–07. The table then records the reported surplus of 4.4 per cent. Accordingly, Telstra could have charged a price for the first basket that was 4.4 per cent greater than it actually charged and met this price cap. This is also the ‘carry-in credit’ that Telstra will be entitled to claim for 2008–09. The reported surplus of 4.4 per cent largely reflects the carry-in (4.2 per cent) from the previous reporting period. Telstra reported only a small decline (0.1 per cent) in the weighted average prices of services in the first basket during the reporting period.

Table 1 Telstra's weighted price movements in relation to all four baskets of services during 1 July 2007 to 30 June 2008

	Service	Price movements (%)	Revenue weights	Weighted price movement (%)
Basket 1	Local calls	–0.2	0.126	0.0
	Trunk calls	–1.1	0.374	–0.4
	International calls	–3.1	0.035	–0.1
	Line rentals	–0.9	0.464	+0.4
	Overall		**1.000**	**–0.1**
	CPI			+2.9
	Cap (CPI – CPI)			+0.0
	Carry-in from 2006–07			+4.2
	Surplus (%)			**+4.4***
Basket 2	Basic resident line rentals	+5.6	1.000	+5.6
	CPI			+2.9
	Cap (CPI – 0)			+2.9
	Carry-in from 2006–07			+3.1
	Surplus (%)			**+0.4**
Basket 3	Basic business and charity line rentals	–0.4	1.000	–0.4
	CPI			+2.9
	Cap (CPI – 0)			+2.9
	Carry-in from 2006–07			+5.3
	Surplus (%)			**+8.6**
Basket 4	New connections	–0.6	0.47	–0.3
	In-place connections	–5.3	0.53	–2.8
	Overall		1.000	–3.1
	CPI			+2.9
	Cap (CPI – 0)			+2.9
	Carry-in from 2006–07			+2.5
	Surplus (%)			**+8.6**

* Figures do not add due to rounding.

The specified CPI measure represents the aggregate price movement in the 'all groups' basket for the weighted average of the eight Australian capital cities, as published by the Australian Bureau of Statistics, for the financial year immediately preceding the financial year in which the relevant price control is to apply. From June 2006 to June 2007 the CPI increase was 2.9 per cent.

The reported carry-in credits reflect any restatements consequent to the change in methodology that was discussed in section 2. Basket 4 is the only basket affected—its associated carry-in credit reduced by 0.1 percentage points. The carry-in credits associated with the other baskets do not change as measured to one decimal point.

The reported price increase in basket 2 reflects that in October 2007 the price of Telstra's basic residential line rental product (HomeLine Part) increased from $31.95 to $33.45, as well as changes to the discount regime.

The reported surpluses for baskets 1 and 4 reflect rounding.

4.4 Telstra's compliance with maximum prices for untimed local calls and calls for extended zones

The determination requires that Telstra charge a price of not more than 22 cents for each untimed local call (other than a local call made from a public payphone) and not more than 50 cents for each untimed local call made from a public payphone.

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

The maximum prices charged for each of these calls as reported by Telstra are set out in table 5.

Table 5 Maximum prices for untimed local calls and calls for extended zones

Call type	Maximum charged ($ including GST)
Extended zone call	$0.22
Preferential call	Untimed local rate introduced
Call to Telstra's Big Pond internet service	$0.22
Local call from payphone	$0.50
Local call	$0.22
Dial-up internet call (0198)	$0.22

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

The determination requires that Telstra offer untimed local calls, extended zone calls and dial-up internet calls in metropolitan areas at the same or lower price per call and on the same price-related terms as those charged to its customers in non-metropolitan areas.

The rationale for this price control arrangement is to ensure that price reductions in areas where competition has developed also become available to customers in areas where competition may not yet have developed.

Similarly, Telstra is obliged to offer its most basic line rental products[1] on the same price terms or, better, in non-metropolitan areas. Only a small proportion of customers are acquiring this particular line rental. Should other more popular line rentals increase significantly in price, however, the basic line rental product could act as a safety net, and the 'parity arrangement' will ensure that the safety net is equally available in metropolitan and non-metropolitan areas.

Telstra certified that there were no instances where it did not comply with the 'pricing parity' requirements during the period 1 July 2007 to 30 June 2008.

Telstra reported that its standard offers do not differ between customers in metropolitan areas and non-metropolitan areas.

Telstra also reports that it may negotiate non-standard contracts with some customers, meaning that certain offers are not available in all areas. Telstra states however that its preparedness to negotiate non-standard contracts with customers does not vary between metropolitan and non-metropolitan areas.

4.6 Telstra's compliance with requirements to offer standard line rental for residential/charity customers and schools

Under clauses 18 and 19 of the determination, Telstra is required to offer a standard line rental for residential/charity customers.

The standard line rental is the most popular line rental charged at residential rates. During the price cap period, the standard line rental was HomeLine Plus and the price was $29.95 (GST inclusive) per month.

Should Telstra supply a residential/charity customer with line rental at a price below that charged for a standard line rental, Telstra is allowed to charge that customer for untimed local calls in excess of the maximum untimed local call price set out in the determination—i.e. greater than $0.22 per call.

1 During the reporting period, Telstra's most basic line rental products were HomeLine Part and BusinessLine Part.

During the reporting period, Telstra offered one such arrangement to residential customers, namely:

- HomeLine Budget on which Telstra charged $19.95 (GST inclusive) for line rental and $0.30 per local call (GST inclusive).

Telstra is required to offer to schools a line rental charge that is at, or below, the standard line rental charge it offers to residential and charity customers.

Telstra reports that it has satisfied this obligation by noting within its standard customer terms that schools are eligible to receive the line rental prices that Telstra offers to non-profit organisations, namely:

- BusinessLine Complete (non-profit organisation)—on which Telstra charges $17.73 (GST exclusive) per month for line rental.

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

Under the determination, line rentals charged at residential rates must not be increased unless Telstra has notified the price increase and the ACCC is satisfied that Telstra has complied with clause 22 of the Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997 (the declaration). The ACCC cannot refuse to consent to a proposed line rental increase on any other basis.

Clause 22 of the declaration requires Telstra to have measures in place to ensure that low-income customers have access to basic telephony services. Specifically, clause 22 of the declaration requires that Telstra must:

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

The ACCC is satisfied that Telstra complied with these requirements in the period 1 July 2007 to 30 June 2008.

Telstra notified the ACCC in August 2007 of the increase in basic residential line rental (HomeLine Part) charges effective from October 2007.

ACCC contacts

Infocentre: 1300 302 502

Website: www.accc.gov.au

Callers who are deaf or have a hearing or speech impairment can contact the ACCC through the National Relay Service: www.relayservice.com.au.

Voice-only (speak and listen) users—phone 1300 555 727 and ask for 1300 302 502.

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This report relates to the second reporting period under the current arrangements—a 12-month period from 1 July 2007 to 30 June 2008.

The ACCC considers Telstra has adequately complied with these price control arrangements. This view is based on the ACCC's review of an independently audited compliance report that Telstra provided.

1.1 Summary of the price control arrangements

The central framework of Telstra's retail price control arrangements consists of a series of price caps that apply to specified 'baskets of services'.

The first basket of services consists of local calls, trunk (national long-distance and fixed-to-mobile) calls, international calls and line rentals. This basket is subject to a price cap of CPI – CPI per cent. This means that Telstra is entitled to change the individual prices of the services within the basket as it wishes, but the aggregate price of all services in the basket must not increase in nominal terms.

The second basket consists of Telstra's most basic line rental product offered to residential customers. In the current reporting period, this basket was subject to a price cap of CPI – 0 per cent.

The third basket consists of Telstra's most basic line rental product supplied to business customers and charity customers. This basket is also subject to an annual price cap of CPI – 0 per cent.

The fourth basket consists of connection services and is subject to an annual price cap of CPI – 0 per cent

All PSTN services, except those supplied to large business customers on individual contracts, are subject to the price caps.

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

Telstra is able to claim credits for investing to improve the quality of the services within the baskets, which are offset against actual price movements. Also, if Telstra prices below the maximum level permissible, the difference may be carried forward as a credit into the next price cap period.

The determination also provides for a number of other price controls.

- The price for untimed local calls is not to increase above 22 cents for each call (other than a local call made from a public payphone, or a local call made using a calling card), except in the case of discount plans when a customer may be required to pay more than 22 cents per local call.
- Local calls, and Telstra's most basic line rental product, supplied in non-metropolitan areas must be offered at the same or a lower price and on the same price-related terms as in metropolitan areas.
- Telstra must offer a line rental to schools at a price at or below the standard line rental offered to residential customers.
- Increases in line rentals charged at residential rates must be notified to the ACCC and are subject to the ACCC being satisfied that Telstra has in place a low-income package, and that Telstra consulted with the Low Income Measures Assessment Committee before making any changes to that package.
- The price of each call to an internet service provider using a data network access service number starting with the numerals 0198 is not to exceed 22 cents.
- 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 is required to report to the ACCC on its compliance with the price control arrangements, within three months of the end of a price cap period.

2 Methodology for determining revenue-weighted price movements

Under clause 13(5) of the determination, the value of a price movement for a basket of services may be determined in accordance with a methodology developed by the ACCC in writing.

Following consultations with Telstra, in January 2007, the methodology for administration of the Telstra carrier charges price control arrangements was established for the period from January 2006 to June 2009.

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

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

The price movement for a basket of services is calculated by weighting the price movement for each component service and summing the weighted price movements.

Telstra objected to how individual service price movements should be weighted to calculate the price movement for the basket and commenced proceedings in the Federal Court. The contentious issue was whether changes in the composition of the basket during the current period should be reflected in the weights. Telstra argued that these weights should be calculated from base period revenue only, whereas the ACCC's methodology provided that the weights were to be calculated from the average of base period and current period revenues.

This choice can have a material effect where the composition of a basket is changing more significantly. However, changes to the composition of these baskets have proven to be gradual and, consequently, this choice does not have a material effect on the calculated price movements.

Reflecting this, and to avoid further dispute over the issue, the ACCC altered the methodology to permit the use of base period revenue weights. Consequently, carry-in credits from 2006–07 have been restated. This is discussed in section 4.

3 Auditing of Telstra's price control report

3.1 Audit process and requirements

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

The aim of the audit is to determine whether:

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

The methodology states that the independent auditor will be appointed by the ACCC, so that it may be directly involved in the plan and approach to the audit as well as having direct access to the auditor's independent advice. In consultation with Telstra, Ernst & Young was appointed as auditor for the 1 July 2007 to 30 June 2008 price control compliance report.

3.2 Audit opinion

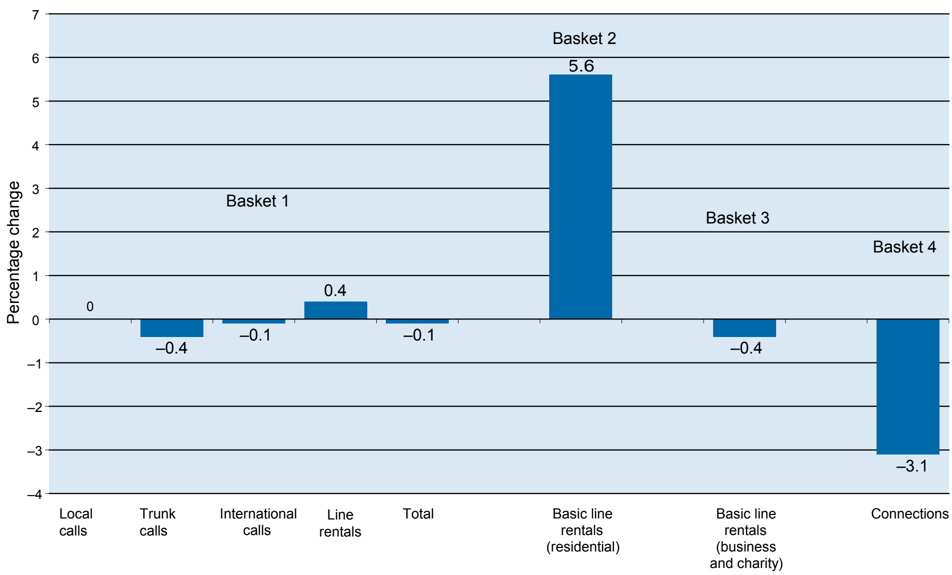
The auditor has expressed the opinion that Telstra has in all material respects fairly presented its compliance report to the ACCC in complying with the determination and methodology as it relates to the aims of the audit as described above.

4 Telstra's compliance with the price control arrangements— 1 July 2007 to 30 June 2008

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

Figure 1 shows the revenue-weighted price movements for each of the Telstra services subject to the price control arrangements during the period 1 July 2007 to 30 June 2008.

Figure 1 Telstra's revenue-weighted price movements for 1 June 2007 to 30 June 2008



4.2 Deemed price reduction for quality improvement

To calculate Telstra's compliance with the price control arrangements, the determination states that Telstra can be credited with deemed price reductions where it increases the quality of its services. During the current reporting period, no quality improvement related credits were claimed.

4.3 Telstra's compliance with the price caps

Table 1 on page 7 assesses the weighted price movements against the price cap for each of the four baskets of services during the current reporting period.

For instance, table 1 shows that the first basket of services consists of local calls, trunk calls, international calls and line rentals. (Trunk calls consist of national long-distance calls and fixed-to-mobile calls). For each component service, the reported price movement, revenue weight, and weighted price movement are provided. The table then lists the overall price movement, the CPI value used, the cap (in this case CPI – CPI), and the carry-in credit from 2006–07. The table then records the reported surplus of 4.4 per cent. Accordingly, Telstra could have charged a price for the first basket that was 4.4 per cent greater than it actually charged and met this price cap. This is also the 'carry-in credit' that Telstra will be entitled to claim for 2008–09. The reported surplus of 4.4 per cent largely reflects the carry-in (4.2 per cent) from the previous reporting period. Telstra reported only a small decline (0.1 per cent) in the weighted average prices of services in the first basket during the reporting period.

Table 1 Telstra's weighted price movements in relation to all four baskets of services during 1 July 2007 to 30 June 2008

	Service	Price movements (%)	Revenue weights	Weighted price movement (%)
Basket 1	Local calls	–0.2	0.126	0.0
	Trunk calls	–1.1	0.374	–0.4
	International calls	–3.1	0.035	–0.1
	Line rentals	–0.9	0.464	+0.4
	Overall		**1.000**	**–0.1**
	CPI			+2.9
	Cap (CPI – CPI)			+0.0
	Carry-in from 2006–07			+4.2
	Surplus (%)			**+4.4***
Basket 2	Basic resident line rentals	+5.6	1.000	+5.6
	CPI			+2.9
	Cap (CPI – 0)			+2.9
	Carry-in from 2006–07			+3.1
	Surplus (%)			**+0.4**
Basket 3	Basic business and charity line rentals	–0.4	1.000	–0.4
	CPI			+2.9
	Cap (CPI – 0)			+2.9
	Carry-in from 2006–07			+5.3
	Surplus (%)			**+8.6**
Basket 4	New connections	–0.6	0.47	–0.3
	In-place connections	–5.3	0.53	–2.8
	Overall		1.000	–3.1
	CPI			+2.9
	Cap (CPI – 0)			+2.9
	Carry-in from 2006–07			+2.5
	Surplus (%)			**+8.6**

* Figures do not add due to rounding.

The specified CPI measure represents the aggregate price movement in the 'all groups' basket for the weighted average of the eight Australian capital cities, as published by the Australian Bureau of Statistics, for the financial year immediately preceding the financial year in which the relevant price control is to apply. From June 2006 to June 2007 the CPI increase was 2.9 per cent.

The reported carry-in credits reflect any restatements consequent to the change in methodology that was discussed in section 2. Basket 4 is the only basket affected—its associated carry-in credit reduced by 0.1 percentage points. The carry-in credits associated with the other baskets do not change as measured to one decimal point.

The reported price increase in basket 2 reflects that in October 2007 the price of Telstra's basic residential line rental product (HomeLine Part) increased from $31.95 to $33.45, as well as changes to the discount regime.

The reported surpluses for baskets 1 and 4 reflect rounding.

4.4 Telstra's compliance with maximum prices for untimed local calls and calls for extended zones

The determination requires that Telstra charge a price of not more than 22 cents for each untimed local call (other than a local call made from a public payphone) and not more than 50 cents for each untimed local call made from a public payphone.

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

The maximum prices charged for each of these calls as reported by Telstra are set out in table 5.

Table 5 Maximum prices for untimed local calls and calls for extended zones

Call type	Maximum charged ($ including GST)
Extended zone call	$0.22
Preferential call	Untimed local rate introduced
Call to Telstra's Big Pond internet service	$0.22
Local call from payphone	$0.50
Local call	$0.22
Dial-up internet call (0198)	$0.22

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

The determination requires that Telstra offer untimed local calls, extended zone calls and dial-up internet calls in metropolitan areas at the same or lower price per call and on the same price-related terms as those charged to its customers in non-metropolitan areas.

The rationale for this price control arrangement is to ensure that price reductions in areas where competition has developed also become available to customers in areas where competition may not yet have developed.

Similarly, Telstra is obliged to offer its most basic line rental products[1] on the same price terms or, better, in non-metropolitan areas. Only a small proportion of customers are acquiring this particular line rental. Should other more popular line rentals increase significantly in price, however, the basic line rental product could act as a safety net, and the 'parity arrangement' will ensure that the safety net is equally available in metropolitan and non-metropolitan areas.

Telstra certified that there were no instances where it did not comply with the 'pricing parity' requirements during the period 1 July 2007 to 30 June 2008.

Telstra reported that its standard offers do not differ between customers in metropolitan areas and non-metropolitan areas.

Telstra also reports that it may negotiate non-standard contracts with some customers, meaning that certain offers are not available in all areas. Telstra states however that its preparedness to negotiate non-standard contracts with customers does not vary between metropolitan and non-metropolitan areas.

4.6 Telstra's compliance with requirements to offer standard line rental for residential/charity customers and schools

Under clauses 18 and 19 of the determination, Telstra is required to offer a standard line rental for residential/charity customers.

The standard line rental is the most popular line rental charged at residential rates. During the price cap period, the standard line rental was HomeLine Plus and the price was $29.95 (GST inclusive) per month.

Should Telstra supply a residential/charity customer with line rental at a price below that charged for a standard line rental, Telstra is allowed to charge that customer for untimed local calls in excess of the maximum untimed local call price set out in the determination—i.e. greater than $0.22 per call.

1 During the reporting period, Telstra's most basic line rental products were HomeLine Part and BusinessLine Part.

During the reporting period, Telstra offered one such arrangement to residential customers, namely:

- HomeLine Budget on which Telstra charged $19.95 (GST inclusive) for line rental and $0.30 per local call (GST inclusive).

Telstra is required to offer to schools a line rental charge that is at, or below, the standard line rental charge it offers to residential and charity customers.

Telstra reports that it has satisfied this obligation by noting within its standard customer terms that schools are eligible to receive the line rental prices that Telstra offers to non-profit organisations, namely:

- BusinessLine Complete (non-profit organisation)—on which Telstra charges $17.73 (GST exclusive) per month for line rental.

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

Under the determination, line rentals charged at residential rates must not be increased unless Telstra has notified the price increase and the ACCC is satisfied that Telstra has complied with clause 22 of the Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997 (the declaration). The ACCC cannot refuse to consent to a proposed line rental increase on any other basis.

Clause 22 of the declaration requires Telstra to have measures in place to ensure that low-income customers have access to basic telephony services. Specifically, clause 22 of the declaration requires that Telstra must:

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

The ACCC is satisfied that Telstra complied with these requirements in the period 1 July 2007 to 30 June 2008.

Telstra notified the ACCC in August 2007 of the increase in basic residential line rental (HomeLine Part) charges effective from October 2007.

ACCC contacts

Infocentre: 1300 302 502

Website: www.accc.gov.au

Callers who are deaf or have a hearing or speech impairment can contact the ACCC through the National Relay Service: www.relayservice.com.au.

Voice-only (speak and listen) users—phone 1300 555 727 and ask for 1300 302 502.

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