



Australian  
Competition &  
Consumer  
Commission

# Telstra's compliance with the retail price control arrangements

1 July 2011 to 30 June 2012



Australian  
Competition &  
Consumer  
Commission

# Telstra's compliance with the retail price control arrangements

1 July 2011 to 30 June 2012

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

Australian Competition and Consumer Commission  
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

© Commonwealth of Australia 2012

This work is copyright. In addition to any use permitted under the *Copyright Act 1968*, all material contained within this work is provided under a Creative Commons Attribution 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication.

The details of the relevant license conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Internal Communication and Publishing Services, ACCC, GPO Box 3131, Canberra ACT 2601, or [publishing.unit@accg.gov.au](mailto:publishing.unit@accg.gov.au).

#### **Important notice**

The information in this publication is for general guidance only. It does not constitute legal or other professional advice, and should not be relied on as a statement of the law in any jurisdiction. Because it is intended only as a general guide, it may contain generalisations. You should obtain professional advice if you have any specific concern.

The ACCC has made every reasonable effort to provide current and accurate information, but it does not make any guarantees regarding the accuracy, currency or completeness of that information.

Parties who wish to re-publish or otherwise use the information in this publication must check this information for currency and accuracy prior to publication. This should be done prior to each publication edition, as ACCC guidance and relevant transitional legislation frequently change. Any queries parties have should be addressed to the Director, Internal Communications and Publishing Services, ACCC, GPO Box 3131, Canberra ACT 2601, or [publishing.unit@accg.gov.au](mailto:publishing.unit@accg.gov.au).

ISBN 978 1 921973 26 0

ACCC 11/12\_609

[www.accc.gov.au](http://www.accc.gov.au)

# Contents

<b>1</b>	<b>Background and executive summary</b>	<b>1</b>
1.1	Summary of the price control arrangements	1
<b>2</b>	<b>Methodology for determining revenue-weighted price movements</b>	<b>3</b>
<b>3</b>	<b>Auditing of Telstra's price control report</b>	<b>4</b>
3.1	Audit process and requirements	4
3.2	Audit opinion	4
<b>4</b>	<b>Telstra's compliance with the price control arrangements— 1 July 2011 to 30 June 2012</b>	<b>5</b>
4.1	An overview of the revenue-weighted price movements for Telstra's services	5
4.2	Deemed price reduction for quality improvement	6
4.3	Telstra's compliance with the price caps	6
4.4	Telstra's compliance with maximum prices for untimed local calls and calls for extended zones	8
4.5	Telstra's compliance with the metropolitan/non-metropolitan 'pricing parity' requirement	8
4.6	Telstra's compliance with requirements to offer standard line rental for residential/charity customers and schools	9
4.7	Telstra's compliance with the requirement to notify the ACCC of increases in line rental charged at residential rates	9
	<b>ACCC contacts</b>	<b>11</b>

# 1 Background and executive summary

Under s. 151CM (1)(b) of the *Competition and Consumer Act 2010*, 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 retail price control arrangements that apply to its fixed voice telephony services.

These retail price control arrangements are set by the Minister. The arrangements that apply for 2011–12 are contained in the *Telstra Carrier Charge—Price Control Arrangements, Notification and Disallowance Determination No. 1 of 2005* (the Determination).<sup>1</sup>

The ACCC considers Telstra adequately complied with these price control arrangements in 2011–12. 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 fixed voice telephony 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: HomeLine Part. In the current reporting period, this basket was subject to a price cap of CPI–0 per cent. This means that the price of this service must not increase in real terms.

The third basket consists of Telstra's most basic line rental product supplied to business customers and charity customers: BusinessLine Part. This basket is also subject to an annual price cap of CPI–0 per cent. This means that the price of this service must not increase in real terms.

The fourth basket consists of connection services and is subject to an annual price cap of CPI–0 per cent. This means that the aggregate price of all services in the basket must not increase in real terms.

All public switched telephone network (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.

---

<sup>1</sup> On 26 June 2012, following the Department of Broadband Communications and Digital Economy's review of the retail price control arrangements in 2011, the Minister extended the operation of the Determination with some amendments. The amendments to the arrangements are to be applied in 2012–13 and 2013–14.

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

- The price for untimed local calls is not to increase above 22 cents (GST inclusive) 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 residential line rentals 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 (GST inclusive).
- 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.

The ACCC has established the *Methodology for administration of the Telstra carrier charges price control arrangements* (the methodology). The ACCC commenced a process to amend the methodology to reflect the recent amendments to the Determination in June 2012. The changes will be applied in 2012–13 and 2013–14.

The methodology defines the price movement for a component service within a basket of services as a percentage change in the average price for that service in the relevant period as compared to the average price for that service in the previous period. The average price is calculated by dividing the net revenue for a service by the volume of sales (demand) for that service.

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. The price movement for each service is weighted by the service's proportion of total revenue for that basket.

## 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 the methodology
- Telstra has exercised consistency in applying the methodology specifications to its data capture systems, and
- 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.

In consultation with Telstra, Ernst & Young was appointed as auditor for the 1 July 2011 to 30 June 2012 price control compliance report.

### 3.2 Audit opinion

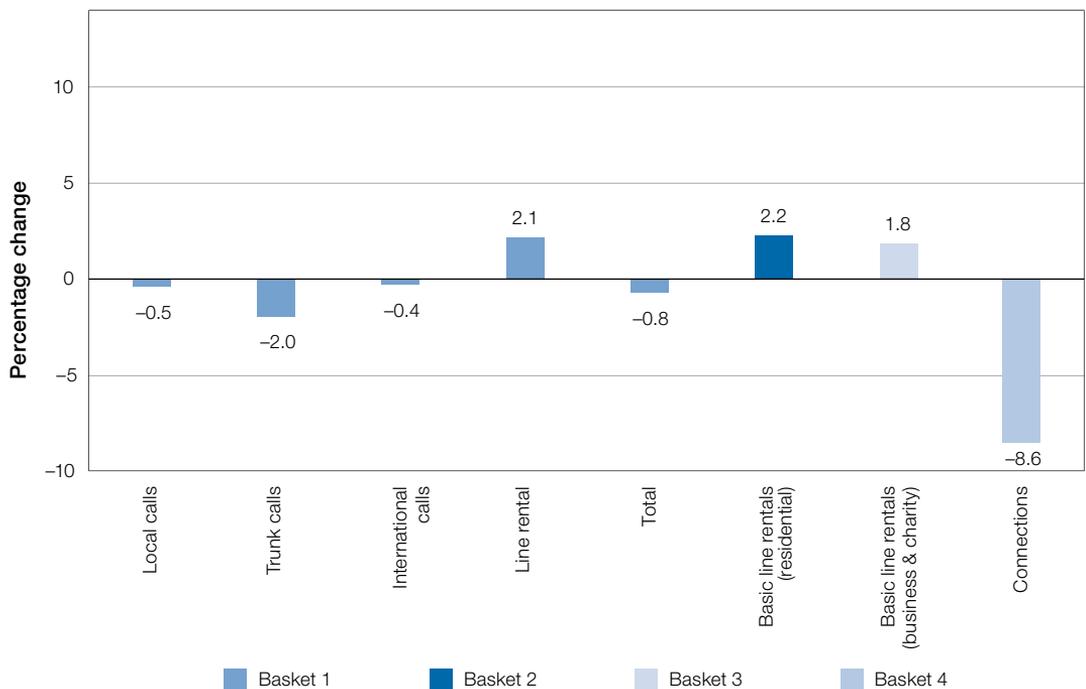
The auditor has expressed the opinion that Telstra has presented fairly, in all material respects, its compliance report to the ACCC in complying with the Determination and the methodology as it relates to the aims of the audit as described above.

# 4 Telstra's compliance with the price control arrangements – 1 July 2011 to 30 June 2012

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

Figure 1 shows the revenue-weighted nominal price movements for each of the Telstra services subject to the price control arrangements during 2011–12.

Figure 1: Telstra's revenue-weighted price movements for 2011–12



## 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 below 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 (national long-distance calls and fixed-to-mobile calls), international calls and line rentals. For each component service the table sets out the:

- reported price movement
- revenue weight, and
- weighted price movement.

The table then lists the:

- overall price movement
- CPI value used
- cap (in this case CPI–CPI), and
- carry-in credit from 2010–11.

The table then records the reported surplus (in this case 7.5 per cent).

Accordingly, Telstra could have charged an average price for the first basket that was 7.5 per cent greater than it actually charged and still met this price cap. This is also the 'carry-in credit' that Telstra will be entitled to claim for 2012–13.

The reported surplus of 7.5 per cent partly reflects the carry-in (6.7 per cent) from the previous reporting period. The remainder is due to the fact that Telstra reported a 0.8 per cent decrease in the weighted average price 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 2011 to 30 June 2012<sup>2</sup>**

	<b>Service</b>	<b>Price movement (%)</b>	<b>Revenue weights</b>	<b>Weighted price movement (%)</b>
<b>Basket 1</b>	Local calls	-6.8	0.068	-0.5
	Trunk calls	-6.3	0.324	-2.0
	International calls	-12.3	0.032	-0.4
	Line rentals	3.7	0.577	+2.1
	(a) Overall		1.000	<b>-0.8</b>
	CPI			+3.1
	(b) Cap (CPI-CPI)			+0.0
	(c) Carry-in from 2010-11			+6.7 <sup>1</sup>
	<b>Surplus (%) = (b) + (c)-(a)</b>			<b>+7.5</b>
<b>Basket 2</b>	(a) Basic residential line rentals	+2.2	1.000	+2.2
	CPI			+3.1
	(b) Cap (CPI-0)			+3.1
	(c) Carry-in from 2010-11			+2.2
	<b>Surplus (%) = (b) + (c)-(a)</b>			<b>+3.1</b>
<b>Basket 3</b>	(a) Basic business and charity line rentals	+1.8	1.000	+1.8
	CPI			+3.1
	(b) Cap (CPI-0)			+3.1
	(c) Carry-in from 2010-11			+1.9
	<b>Surplus (%) = (b) + (c)-(a)</b>			<b>+3.3</b>
<b>Basket 4</b>	New connections	-6.4	0.498	-3.2
	In-place connections	-10.8	0.502	-5.4
	(a) Overall		1.000	<b>-8.6</b>
	CPI			+3.1
	(b) Cap (CPI-0)			+3.1
	(c) Carry-in from 2010-11			+5.1
	<b>Surplus (%) = (b) + (c)-(a)</b>			<b>+16.8</b>

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 1 July 2011 to 30 June 2012 the relevant CPI figure was 3.1 per cent.

<sup>2</sup> Figures may not add due to rounding.

<sup>3</sup> The ACCC reported a surplus of 7.3 per cent for the 2010-11 report. Subsequently, Telstra reported an error in its figures for services included in basket 1 due to an error in the allocation of subscription revenue and the inclusion of non-basket 1 revenue in basket 1. Telstra has corrected these errors. This report is produced using the revised Telstra figures.

## 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 (GST inclusive) for each untimed local call, other than an untimed local call made from a public payphone which is capped at not more than 50 cents each (GST inclusive).

It also requires that Telstra charge for calls between customers within an extended zone<sup>4</sup> 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 the untimed local call rate specified in clause 16 of the Determination.

The maximum prices charged for each of these calls as reported by Telstra are set out in table 2.

**Table 2: Maximum prices for untimed local calls and calls for extended zones**

Call type	Maximum charge (\$ including GST)
Extended zone call	\$0.22
Preferential call	untimed local call rate
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

The ACCC therefore considers that Telstra complied with this requirement in respect of the period 1 July 2011 to 30 June 2012.

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

The Determination requires Telstra to 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.

Telstra certified that there were no instances where it did not comply with the 'pricing parity' requirement during the period 1 July 2011 to 30 June 2012.

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

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

Based on Telstra's advice, the ACCC considers that Telstra complied with this requirement in respect of the period 1 July 2011 to 30 June 2012.

<sup>4</sup> In general terms, extended zones are areas that fall outside Telstra's standard local call charging zones. They are defined by telephone number ranges and are not always linked directly to a geographic boundary.

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

Under clauses 18 and 19A 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 increased from \$30.95 to \$31.95 (GST inclusive) per month, effective from 1 October 2011.

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.

During the reporting period, Telstra offered no such arrangements to residential customers.

Under clause 19 of the Determination, Telstra is required to offer to schools a line rental that is at, or below, the standard line rental 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 a line rental of \$17.73 (GST exclusive) per month.

The ACCC therefore considers that Telstra complied with the requirements in clauses 18 and 19A of the Determination in respect of the period 1 July 2011 to 30 June 2012.

## **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 to the ACCC 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 Low Income Measures Assessment Committee (LIMAC), and
- obtain and consider the LIMAC’s views on proposed changes to the package.

Telstra notified the ACCC on 6 July 2011 of increases in residential line rental charges for five HomeLine products to take effect from 1 October 2011. Telstra proposed an increase of \$2.00 per month (including GST) for HomeLine Budget (from \$20.95 to \$22.95) and HomeLine Advanced (from \$39.95 to \$41.95) products. Telstra proposed an increase of \$1.00 per month (including GST) for HomeLine Complete (from \$28.95 to \$29.95), HomeLine Plus (from \$30.95 to \$31.95) and HomeLine Part (from \$34.95 to \$35.95) products.

The ACCC considers that Telstra adequately complied with the above requirements in respect of these price increases in residential line rental in the period 1 July 2011 to 30 June 2012.

# ACCC contacts

Infocentre: 1300 302 502

Website: [www.accc.gov.au](http://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](http://www.relayservice.com.au).

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

For other business information, go to [www.business.gov.au](http://www.business.gov.au)

## Addresses

### National office

23 Marcus Clarke Street  
Canberra ACT 2601  
GPO Box 3131  
Canberra ACT 2601  
Tel: (02) 6243 1111  
Fax: (02) 6243 1199

### New South Wales

Level 20, 175 Pitt Street  
Sydney NSW 2000  
GPO Box 3648  
Sydney NSW 2001  
Tel: (02) 9230 9133  
Fax: (02) 9223 1092

### Victoria

Level 35, The Tower  
360 Elizabeth Street  
Melbourne Central  
Melbourne Vic 3000  
GPO Box 520  
Melbourne Vic 3001  
Tel: (03) 9290 1800  
Fax: (03) 9663 3699

### Queensland

*Brisbane*  
Level 24  
400 George Street  
Brisbane Qld 4000  
PO Box 12241  
George Street Post Office  
Brisbane Qld 4003  
Tel: (07) 3835 4666  
Fax: (07) 3835 4653  
*Townsville*  
Level 6, Central Plaza Building  
370 Flinders Mall  
Townsville Qld 4810  
PO Box 2016  
Townsville Qld 4810  
Tel: (07) 4729 2666  
Fax: (07) 4721 1538

### Western Australia

3rd floor, East Point Plaza  
233 Adelaide Terrace  
Perth WA 6000  
PO Box 6381  
East Perth WA 6892  
Tel: (08) 9325 0600  
Fax: (08) 9325 5976

### South Australia

Level 2  
19 Grenfell Street  
Adelaide SA 5000  
GPO Box 922  
Adelaide SA 5001  
Tel: (08) 8213 3444  
Fax: (08) 8410 4155

### Northern Territory

Level 8, National Mutual Centre  
9–11 Cavenagh Street  
Darwin NT 0800  
GPO Box 3056  
Darwin NT 0801  
Tel: (08) 8946 9666  
Fax: (08) 8946 9600

### Tasmania

Level 2, 70 Collins Street  
(Cnr Collins and Argyle streets)  
Hobart Tas 7000  
GPO Box 1210  
Hobart Tas 7001  
Tel: (03) 6215 9333  
Fax: (03) 6234 7796.