



Australian
Competition &
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Commission

ACCC Report

TELSTRA COMPLIANCE REPORT

Compliance with retail price
control arrangements

October 2013



Australian
Competition &
Consumer
Commission

Telstra's compliance with the retail price control arrangements

1 July 2012 to 30 June 2013

Report to the Minister for Communications

October 2013

ISBN 978 1 921973 94 9

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

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1 Background and executive summary

The Australian Competition and Consumer Commission (ACCC) must monitor, and report yearly to the Minister for Communications, on the adequacy of Telstra's compliance with retail price control arrangements that apply to its fixed voice telephony services, pursuant to paragraph 151CM (1)(b) of the *Competition and Consumer Act 2010*.

Telstra's retail price control reporting obligations are set out in the *Telstra Carrier Charge—Price Control Arrangements, Notification and Disallowance Determination No.1 of 2005* (the Determination) and subsequent 2010 and 2012 amendments.¹

The Determination provides that Telstra must report to the ACCC in accordance with the requirements specified by the ACCC in its Methodology for Administration of the Telstra Carrier Charges Price Control Arrangements (the Methodology).²

The Methodology sets out a method for calculating revenue-weighted price movements and requires Telstra to have their compliance with the determination audited by an independent auditor.

Based on the audited compliance report submitted by Telstra, the ACCC considers that Telstra adequately complied with the price control arrangements in 2012–13.

1.1 Overview of the price control arrangements

The ministerial Determination applies to Telstra's public switched telephone network (PSTN) services, except for those services supplied to large business customers on individual contracts.

The Determination requires the application of price caps to fixed telephony services arranged in groups or 'baskets'. Price movements for each basket are reported separately and are not required to be averaged to an overall price movement for all services.

Telstra is allowed to accrue credits if they do not reach the price cap in any particular basket at the end of the year. These credits are carried over to the next reporting period within the relevant basket with some exclusions.³

Telstra is also able to claim credits for investing to improve the quality or for increasing the provision of a service. Such increase in value is deemed to constitute a decrease in the price of the service. This notional reduction can be used to offset an actual increase in the price of the relevant product.

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.

1 The ministerial determination was amended in 2010 and 2012. The 2012 amendment alters the calculation of price movements for connection products and extends the price control arrangements by two years until 30 June 2014.

2 ACCC, *Methodology for Administration of the Telstra Carrier Charges Price Control Arrangements*, January 2013.

3 The 2012 amendment to the Determination provides that Telstra cannot accrue credits for price reductions in the 2012–13 or 2013–14 financial years in the case of connection services.

1.2 Structure of the baskets of services

The first basket of services consists of local calls, national long-distance and fixed-to-mobile calls (grouped as 'trunk' calls), international calls and line rentals.

While Telstra is allowed to vary individual prices in the basket, the combined variation of all prices must be zero in nominal terms (i.e. Telstra must absorb any variation of the Consumer Price Index (CPI) in the relevant period).⁴

The second basket only consists of Telstra's basic line rental product offered to residential customers (branded as *HomeLine* Part). This product is capped by the amount of the Consumer Price Index for the relevant period, which implies a null variation in real terms.⁵

The third basket consists of the basic line rental product supplied to business customers and charity customers. Branded as *BusinessLine* Part, this basket is also subject to an annual price variation limited to the CPI for the period. This means that the price of this service does not increase in real terms.

A fourth basket consisting of one aggregated price for connection services has been removed in the 2012 amendment and has been replaced with a list of price caps for individual connection services. The amendment defines initial prices for the 10 individual connection products for the 2012-13 reporting period and sets out an annual price movement cap for each product in line with CPI movements for subsequent periods. The amendment also precludes any surplus from being carried forward to the following period.⁶

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 endorsed by low-income consumer advocacy groups.
- 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).

⁴ This cap is referred to in the Determination as '*CPI-CPI*'.

⁵ This cap is referred to in the Determination as '*CPI-O*'.

⁶ Telstra Carrier Charges—Price Control Arrangements, Notification and Disallowance Determination No. 1 of 2005 (Amendment No. 1 of 2012), Explanatory Statement, 26 June 2012, p.2

1.3 The 2012 Amendment to the Determination

In June 2012, following a public consultation process the Minister extended the existing price control arrangements until 30 June 2014 with some amendments.

The amending determination implemented the Government's response to the recommendations of the *Retail Price controls Review Report* prepared by the Department of Communications (formerly Department of Broadband Communications and the Digital Economy).

The amendment:

- extends the date of the price control arrangements made by the principal Determination by two years, from 30 June 2012 to 30 June 2014
- exempts from price control arrangements services supplied by Telstra using the National Broadband Network (NBN) (or equivalent wholesale only networks), and
- replaces the former methodology for calculating price movements of the 'fourth basket of services' with a list of 'connection services products' subject to individual price caps.

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 amended the methodology to reflect the recent amendments to the Determination in June 2012. The changes are effective in the 2012-13 and 2013-14 reporting periods.

The methodology compares the average price for each product of a basket with the average price of the same product in the previous reporting period. The price movement for an individual service in a basket is the percentage change in the average price in the relevant period in relation to the average price for the same service in the previous period.

The average price is calculated dividing the revenue associated to a particular service in a period by the volume of sales for that service in the same period.⁷

The price movement for a basket is calculated as a weighted average of the price movements of the individual products in the basket. The weight allocated to a product in a basket is the proportion of the product's revenue in the total revenue for the basket.⁸

7 The volume of sales is measured in minutes for trunk and international calls, number of calls for local calls and number of services in operation for line rental products.

8 Revenue utilised for these calculations is net of all discounts rebates and markdowns. The demand or a service will be calculated exclusive of any use that Telstra makes for its own use of that service.

3 Auditing of Telstra's price control report

3.1 Audit process and requirements

The Determination imposes on Telstra various obligations in connection with the prices it charges for certain baskets of services. The Methodology developed by the ACCC interprets these obligations and provide guidance on how to perform the calculations.

The Methodology requires Telstra to provide an independently audited report to the ACCC showing its compliance with the price cap requirements set out in the Determination.

The objective 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.

The independent auditor is appointed by the ACCC in consultation with Telstra. Ernst & Young was appointed as auditor for the 1 July 2012 to 30 June 2013 price control compliance report.

3.2 Audit opinion

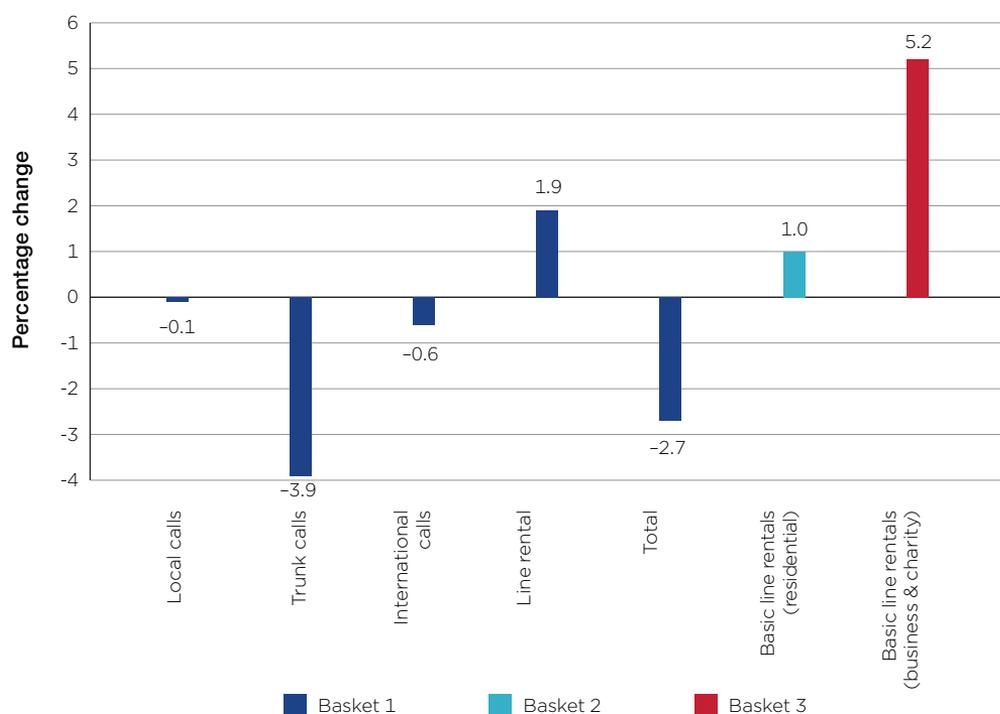
The auditor has expressed the opinion that Telstra has prepared the price control compliance report, in all material respects, in compliance with the Determination and the methodology for the year ended 30 June 2013.

4 Telstra's compliance with the price control arrangements—1 July 2012 to 30 June 2013

4.1 Overview of revenue-weighted price movements for Telstra's services

Figure 1 shows the revenue-weighted price variations for the first three baskets of services subject to the price control arrangements during 2012-13 before adjusting for CPI and for carry-in credits from the previous period.

Figure 1: Telstra's revenue-weighted price movements for 2012-13 (%)



4.2 Deemed price reduction for quality improvement

During the current reporting period, no quality improvement related credits were claimed.

4.3 Telstra's compliance with the price caps for Baskets 1 to 3

Table 1 below provides a snapshot of the weighted price variation against relevant caps for the first three baskets.

For each component service the table sets out the:

- reported price movement
- revenue weight in relation to the whole basket, and
- weighted price movement.

Table 1: Telstra's weighted price movements in relation to all four baskets of services during 1 July 2012 to 30 June 2013

	Service	Price movement (%)	Revenue weights	Weighted price movement (%)
Basket 1	Local calls	-2.5	0.057	-0.1
	Trunk calls	-13.3	0.291	-3.9
	International calls	-20.7	0.027	-0.6
	Line rentals	3.0	0.624	1.9
	(a) Overall		1.000	-2.7
	CPI			2.3
	(b) Cap (CPI-CPI)			0
(c) Carry-in from 2011-12			7.5	
	Surplus (%) = (b) + (c) - (a)			10.2
Basket 2	(a) Basic residential line rentals	1.0	1.000	1.0
	CPI			2.3
	(b) Cap (CPI-0)			2.3
	(c) Carry-in from 2011-12			3.1
	Surplus (%) = (b) + (c) - (a)			4.3
Basket 3	(a) Basic business and charity line rentals	5.2	1.000	5.2
	CPI			2.3
	(b) Cap (CPI-0)			2.3
	(c) Carry-in from 2010-11			3.3
	Surplus (%) = (b) + (c) - (a)			0.4

* The Consumer Price Index (CPI) is defined by the Australian Bureau of Statistics as a measure of changes, over time, in retail prices of a constant basket of goods and services representative of consumption expenditure by resident households in Australian metropolitan areas. From June 2012 to June 2013 the CPI increase was 2.3 per cent.

Note: Numbers may not add to one decimal place due to rounding.

For each basket, the table lists the:

- overall price movement
- CPI value used
- cap (in terms of the relevant year's CPI)
- carry-in credit from 2011–12, and
- any unused credits carried over to the following period (surplus).

The Determination allows Telstra to either claim part or all of the exceeding credits in the current reporting period or have them carried over to the next period. For example, for the first basket of services Telstra could have charged an average price 10.2 per cent greater than it actually charged and still meet this price cap.

The ACCC therefore is satisfied that Telstra complied with the caps restrictions for the first three baskets of services in respect of the period 1 July 2012 to 30 June 2013.

4.4 Telstra's compliance with the price caps for connection services

Table 2 shows initial prices for the 10 connection services specified in the 2012 amendment to the Determination.

Table 2: Telstra's price movements in relation to connection services during 1 July 2012 to 30 June 2013

Service 1	Previous period price	Relevant period price	Price movement
Existing phone line, no technician visit required, standard connection	\$59.00 for first line and \$59.00 for each additional line	\$59.00 for first line and \$59.00 for each additional line	0.0%
CPI			2.3%
Surplus			2.3%
Service 2	Previous period price	Relevant period price	Price movement
Existing phone line, no technician visit required, temporary connection	\$159.00 for first line and \$159.00 for each additional line	\$159.00 for first line and \$159.00 for each additional line	0.0%
CPI			2.3%
Surplus			2.3%
Service 3	Previous period price	Relevant period price	Price movement
Existing phone line, technician visit required, no cabling work needed, standard connection	\$125.00 for first line and \$75.50 for each additional line and \$75.00 technician call out fee	\$125.00 for first line and \$75.50 for each additional line and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%

Service 4	Previous period price	Relevant period price	Price movement
Existing phone line, technician visit required, no cabling work needed, temporary connection	\$225.00 for first line and \$175.50 for each additional line and \$75.00 technician call out fee	\$225.00 for first line and \$175.50 for each additional line and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%
Service 5	Previous period price	Relevant period price	Price movement
Existing phone line, technician visit required, cabling work needed, standard connection	\$299.00 for first line and \$179.00 for each additional line and \$75.00 technician call out fee	\$299.00 for first line and \$179.00 for each additional line and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%
Service 6	Previous period price	Relevant period price	Price movement
Existing phone line, technician visit required, cabling work needed, temporary connection	\$399.00 for first line and \$279.00 for each additional line and \$75.00 technician call out fee	\$399.00 for first line and \$279.00 for each additional line and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%
Service 7	Previous period price	Relevant period price	Price movement
New service connection, technician visit required, not a Telstra Velocity service, standard connection	\$299.00 and \$75.00 technician call out fee	\$299.00 and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%

Service 8	Previous period price	Relevant period price	Price movement
New service connection, technician visit required, not a Telstra Velocity service, temporary connection	\$399.00 and \$75.00 technician call out fee	\$399.00 and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%
Service 9	Previous period price	Relevant period price	Price movement
New service connection, technician visit required, Telstra Velocity service, standard connection	\$299.00 for first line and \$179.00 for each additional line and \$75.00 technician call out fee	\$299.00 for first line and \$179.00 for each additional line and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%
Service 10	Previous period price	Relevant period price	Price movement
New service connection, technician visit required, Telstra Velocity service, temporary connection	\$399.00 for first line and \$279.00 for each additional line and \$75.00 technician call out fee	\$399.00 for first line and \$279.00 for each additional line and \$75.00 technician call out fee	0.0%
CPI			2.3%
Surplus			2.3%

The ACCC is satisfied that Telstra complied with the individual price caps set out in Schedule 3 of the 2012 amendment to the Determination.

4.5 Telstra's compliance with maximum prices for untimed local calls and dial-up internet calls

The Determination requires that Telstra charge a price of not more than 22 cents (GST inclusive) for each untimed local call or dial-up internet calls. An untimed local call made from a public payphone is capped at not more than 50 cents each (GST inclusive).

The maximum prices charged for each of these calls as reported by Telstra are set out in table 3.

Table 3: Maximum prices for untimed local calls

Call type	Maximum charge (\$ including GST)
Local call from payphone	\$0.50
Local call	\$0.22
Dial-up internet call	\$0.22

The ACCC therefore considers that Telstra complied with this requirement in respect of the period 1 July 2012 to 30 June 2013.

4.6 Telstra's compliance with the requirement to offer line rental services to residential/charity customers and schools

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

The standard line rental is defined as the most popular line rental charged at residential rates. During the price cap period, the standard line rental was *HomeLine Plus*.

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 price cap period, Telstra provided a product priced below the standard line rental (branded as *HomeLine budget rental*).

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 providing schools the line rental prices that Telstra offers to non-profit organisations, namely, *BusinessLine Complete* (non-profit organisation).

The ACCC therefore considers that Telstra complied with the requirements in clauses 18 and 19 of the Determination in respect of the period 1 July 2012 to 30 June 2013.

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

Clause 19A of the Determination requires Telstra to offer untimed local 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 2012 to 30 June 2013.

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 2012 to 30 June 2013.

4.8 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 18 July 2012 of increases in residential line charges for four home line products effective 1 October 2012. Telstra proposed to increase its HomeLine Complete product from \$29.95 to \$31.95, its HomeLine Plus product from \$31.95 to \$33.95, its HomeLine advanced product from \$41.95 to \$44.95 and its HomeLine together product from \$69.901 to \$74.70 (GST inclusive).

Telstra also proposed to increase the Australian Capital Territory Government Utilities Tax Charge (UT) for customers in the ACT effective 1 September 2012. Telstra proposed to increase the UT from \$2.45 to \$2.51 (GST inclusive).

The ACCC authorised the proposed increases for the period 1 July 2012 to 30 June 2013 on the basis that it considered that Telstra adequately complied with the above requirements for residential line rental.

ACCC contacts

Infocentre: 1300 302 502

Website: www.accc.gov.au

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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

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

Suncorp Plaza
Suite 2 Level 9
61-73 Sturt Street
Townsville QLD 4810

PO Box 2016
Townsville Qld 4810

Ph: (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



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