

# **nbn** submission to the ACCC – 2014-15 Regulatory Information and LTRCM Determination

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30 October 2015

**Public Version**



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# 1 Introduction

On 30 October 2015, nbn co limited (**nbn**) lodged the regulatory information it is required to lodge with the ACCC for the Financial Year 2014-15 under Schedule 1F of **nbn**'s Special Access Undertaking (SAU), as accepted by the ACCC on 13 December 2013 (**Regulatory Information**). This Regulatory Information will be used by the ACCC in making its FY2014-15 LTRCM Determination under Schedule 1E of the SAU.

**nbn** also requested, in accordance with clause 1E.1.3(a) of the SAU, that the ACCC amend the 2013-14 LTRCM Determination to incorporate Working Inventory for the 2008-09 to 2013-14 Financial Years (this was an inadvertent omission from the 2013-14 Regulatory Information).

**nbn** submits that the ACCC should issue an LTRCM Determination for FY2014-15 that adopts the values proposed by **nbn** in the Regulatory Information with adjustments, where relevant, for the proposed amendment to the 2013-14 LTRCM Determination.

This submission is organised to provide:

- a summary of the relevant SAU provisions – section 2;
- a description of **nbn**'s approach to preparing the Regulatory Information and relevant supporting materials – section 3;
- a summary of each element in the Regulatory Information and relevant supporting materials – sections 4 to 7; and
- a summary of **nbn**'s proposed amendment to the FY2013-14 LTRCM Determination.

The confidentiality status of the Regulatory Information and relevant supporting materials is addressed in Appendix B (this is based on the ACCC's April 2014 *Confidentiality Guideline for submitting confidential material to ACCC communications inquiries*).

Capitalised terms in this submission have the same meaning given to them in the SAU.

## 2 Relevant SAU provisions

### 2.1 Regulatory Information

**nbn's** SAU includes a range of provisions relating to pricing and long term cost recovery.

In respect of the Initial Regulatory Period, which runs from the SAU Commencement Date (13 December 2013) to 30 June 2023, Schedules 1C, 1D and 1E set out the arrangements in respect of the pricing of NBN Offers and Other Charges, the calculation of **nbn's** Regulatory Asset Base (RAB) and the application of the Long Term Revenue Constraint Methodology (LTRCM).

**nbn** is required, under Schedule 1F of the SAU, to submit a set of Regulatory Information to the ACCC no later than 31 October each year in respect of the previous Financial Year. This Regulatory Information comprises:

- Actual Financial Information (including Operating Expenditure, Capital Expenditure and Revenue), as required by clause 1F.1.3 of the SAU;
- Proposed Financial Information (including **nbn's** proposed values for the Annual Building Block Revenue Requirement (ABBRR), RAB and Initial Cost Recovery Account (ICRA), which are based on the Actual Financial Information), as required by clause 1F.1.4 of the SAU;
- Information that sets out any material variance between the Forecast Financial Information and the Actual Financial Information, including reasons for the variances, as required by clause 1F.1.3(b) of the SAU;
- Expenditure Compliance Report (a certification from **nbn's** Chief Financial Officer (CFO) regarding the basis on which **nbn's** Capital Expenditure and Operating Expenditure meet the relevant prudence conditions as set out in the SAU), as required by clause 1F.2.1 of the SAU;
- Procurement Rules Compliance Report (a certification from **nbn's** Chief Procurement Officer (CPO) regarding the basis on which **nbn's** Procurement Rules meet the relevant conditions as set out in the SAU), as required by clause 1F.2.3 of the SAU; and
- Price Compliance Report (a certification from **nbn's** CFO regarding the basis on which the pricing of NBN Offers and Other Charges meet the relevant conditions as set out in the SAU), as required by clause 1F.3 of the SAU.

### 2.2 LTRCM Determination

Under clause 1E.1.2(a) of the SAU, the ACCC will issue an LTRCM Determination (by 30 June each year) in respect of:

- the ABBRR, the RAB, and the ICRA for the previous Financial Year; and
- the values of the inputs to each of those values, in accordance with Schedules 1D and 1E.

Clause 1E.1.2(c) of the SAU addresses various aspects of the LTRCM Determination process, including that the ACCC:

- must have regard to the Regulatory Information supplied by **nbn**;
- must consult with **nbn** if the ACCC intends to determine any values that are different to the values submitted by **nbn** in the Regulatory Information, and must consider any submissions received from **nbn** within the time limit specified by the ACCC;
- may consult with other persons that the ACCC considers appropriate, and must consider any submissions received within the time limit specified by the ACCC;

- may determine values for the ABBRR, RAB, ICRA and/or the value of inputs to those values that are different from the values submitted by **nbn** in the Regulatory Information, provided those values are determined in accordance with Schedules 1D and 1E;
- must publish on its website the LTRCM Determination and its reasons for the LTRCM Determination;
- must, prior to publishing the LTRCM Determination, publish on its website a draft LTRCM Determination and reasons, consult with **nbn** (and such other persons as the ACCC considers appropriate) on that draft and consider any submissions that are received within the time limit specified by the ACCC;
- must, within 40 Business Days of **nbn** submitting the Regulatory Information, notify **nbn** of the ACCC's preliminary view of the extent to which, if any, the ACCC intends to determine a substitute amount of Capital Expenditure or Operating Expenditure under the SAU; and
- must only disclose the confidential information of **nbn** in connection with an LTRCM Determination in accordance with the ACCC's confidentiality procedures, or as otherwise required or permitted by law.

## 2.3 Amendment of prior year LTRCM Determination

Under clause 1E.1.3(a) of the SAU, the ACCC may amend or revoke an LTRCM Determination no later than 12 months after the date of the relevant Determination if the ACCC considers that there is a material error or deficiency in the LTRCM Determination of one or more of the following kinds:

- a clerical error or an accidental omission;
- a miscalculation or a misdescription;
- a defect in form; or
- a deficiency resulting from the provision of false or materially misleading information to the ACCC.

## 3 Approach

**nbn** has adopted a similar approach to preparing the Regulatory Information and relevant supporting materials as with respect to FY2013-14.

In particular, **nbn** has maintained a Regulatory Accounting and Allocation Manual (RAAM) in consultation with the ACCC to support the preparation of the Regulatory Information (and relevant supporting materials). **nbn** updated the RAAM in June 2015 (in consultation with the ACCC) to take into account key learnings from the FY2013-14 Regulatory Information and LTRCM Determination process.

Noting that some of the financial concepts and definitions used in the SAU differ, given the different context, from those underpinning the **nbn** Limited General Purpose Financial Statements, the RAAM provides:

- **nbn** staff with detailed instructions on the principles, guidelines and templates to be used when preparing the Regulatory Information; and
- the independent auditor (where relevant) of the Regulatory Information with a documented reference framework against which to attest to its stated procedures for the purpose of preparing the Regulatory Information.

Consistent with the updated RAAM, **nbn** has lodged a range of supporting materials along with the Regulatory Information:

- a number of independent assurance reports from PricewaterhouseCoopers (PwC) – these are described, where relevant, in subsequent sections;
- a Price Compliance Spreadsheet that sets out the Prices that applied for each NBN Offer and Other Charge over the period 1 July 2014 to 30 June 2015, compared to the Maximum Regulated Price (MRP) that applied to each of these NBN Offers and Other Charges for the relevant period;
- an LTRCM Spreadsheet that sets out the calculation of the ABBRR, the RAB and the ICRA pursuant to the SAU – this is based on the current 2013-14 LTRCM Determination, and **nbn** has also provided an additional LTRCM Spreadsheet based on the proposed amendment to the 2013-14 LTRCM Determination (as described in section 8); and
- a copy of **nbn**'s current Chart of Accounts.

Taken together, the Regulatory Information and supporting materials provide transparency and assurance to the ACCC and interested parties (subject to the treatment of confidentiality set out in Appendix B).

## 4 Financial Information

In this section, **nbn** provides an overview of the following items submitted to the ACCC as part of the Regulatory Information:

- the Actual Financial Information (including a statement of material variances between Forecast and Actual Operating Expenditure, Capital Expenditure and Construction in Progress) and Proposed Financial Information;
- the Basis of Preparation for the Actual Financial Information and Proposed Financial Information; and
- independent assurance reports in support of the Actual Financial Information and Proposed Financial Information.

Section 4.4 also provides a summary of the Actual Financial Information and Proposed Financial Information.

### 4.1 Actual Financial Information and Proposed Financial Information

Consistent with the RAAM, **nbn** has lodged the Actual Financial Information and the Proposed Financial Information, as part of the Regulatory Information, via the following statements (the schedule numbering is based on the RAAM):

- Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes;
- Schedule 7 – Statement of Operating Expenditure;
- Schedule 8 – Statement of Interest Expense;
- Schedule 9 – Statement of Revenue;
- Schedule 10 – Statement of LTRCM and RAB items; and
- Schedule 11 – Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances.

This is the first Financial Year for which **nbn** is required to lodge the Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances (Schedule 11) with the ACCC. **nbn** was not required to lodge a statement of material variances with respect to FY2013-14, as **nbn** was not required to lodge Forecast Financial Information, under clause 1F.1.2 of the SAU, until 30 June of the first full Financial Year of the Initial Regulatory Period (i.e. FY2014-15).

**nbn** notes that the Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances is essentially informational only – it is not an input into any of the LTRCM formulae.

### 4.2 Basis of Preparation

The Regulatory Information also includes the Basis of Preparation, which describes the relationship between the Regulatory Information and the **nbn** Limited General Purpose Financial Statements and sets out a number of Alternate Accounting Treatments that are necessary for alignment with the LTRCM concepts and definitions.

In addition to the Basis of Preparation, **nbn** notes the following in regard to the Actual Financial Information and the Proposed Financial Information.

- Capital Expenditure in Schedule 6 is reported at a level of detail that is consistent with the level at which **nbn** undertakes depreciation calculations for the purposes of its statutory accounts. At this level, there are a number of instances of negative Capital Expenditure in particular years. These occur for one of two reasons: a capitalised supplier rebate that relates to one or more asset types (this is reported as negative Capital Expenditure in a specially created asset type); the reversal of an over accrual in the prior reporting period (note that there are also instances of the reversal of an under accrual, although the resulting value is positive rather than negative).
- The Schedule 6 (Capital Expenditure) and Schedule 7 (Operating Expenditure) statements also provide a breakdown relevant to the SAU's prudency conditions (i.e. expenditure incurred before and after the SAU Commencement Date, and expenditure by deemed prudent category). These prudency conditions are discussed further below in the context of the Expenditure Compliance Report.
- The SAU is highly specific in regard to how the RAB, the ABBRR and the ICRA are to be calculated during the Initial Regulatory Period, including in regard to the determination and calculation of various intermediate inputs (such as the nominal rate of return, asset lifetimes<sup>1</sup>, taxation asset lifetimes, regulatory depreciation and tax depreciation).<sup>2</sup> As noted in the ACCC's Final Decision on the SAU<sup>3</sup>, the SAU sets out the methodologies for all of these calculations (including the prudency conditions applicable to Capital Expenditure and Operating Expenditure) and having the ACCC undertake the LTRCM Determination (rather than **nbn** determining the relevant values itself) "should provide confidence to stakeholders that the outcomes have been determined in an impartial manner by an independent party"<sup>4</sup>.
- For FY2014-15, the Annual Construction in Progress Allowance (ACIPA) that forms part of the Annual Building Block Revenue Requirement is calculated with reference to Construction in Progress including Working Inventory. Working Inventory comprises equipment held by nbn before being released into particular construction projects. It is distinct in this regard from Spares Inventory, which comprises equipment held for network maintenance purposes. In prior years, Working Inventory was omitted from Construction in Progress and (unlike Spares Inventory) was not reflected in any aspect of the LTRCM. As discussed in section 8 below, **nbn** is requesting that the ACCC amend the 2013-14 LTRCM Determination so that Working Inventory is appropriately reflected in the LTRCM for the period FY2008-09 to FY2013-14; however, the Statement of LTRCM and RAB Items (Schedule 10) is based on the values set out in the 2013-14 LTRCM Determination as issued on 11 June 2015.

### 4.3 Independent Assurance Reports

In support of the Actual Financial Information and Proposed Financial Information, and consistent with FY2013-14, **nbn** has lodged the following independent assurance reports from PwC:

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<sup>1</sup> In accordance with **nbn**'s accounting policies and the requirements of Australian Accounting Standards, during the financial year, **nbn** undertook a review of the useful lives of its assets to ensure they remain appropriate. Any revised asset lifetimes have been adopted and reported within the SAU – Regulatory Information as at 30 June 2015. The net effect of the changes in asset lifetimes is that Nominal Regulatory Depreciation and Nominal Tax Depreciation (calculated in accordance with Schedule 1E of the SAU) are slightly lower in FY2014-15 than in FY2013-14.

<sup>2</sup> In regard to the calculation of Taxable Profit under clause 1E.9.3, **nbn** notes that the general formula is subject to "for the purposes of corporate taxation: ... (iv) the treatment of assets received by NBN Co for nil consideration". For corporate tax purposes, **nbn** is required to treat the value of assets received for zero consideration (such as pit and pipe assets gifted by developers) as assessable income in the year in which **nbn** takes ownership of the assets, which results in a flow of tax depreciation over time. This tax treatment is reflected in the calculations underpinning the Statement of LTRCM and RAB items (Schedule 10).

<sup>3</sup> ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, pp.96-97.

<sup>4</sup> ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, p.97.



- Reasonable assurance audit in regard to Schedules 6 to 9 – PwC’s opinion in this regard is unqualified in nature and complements the existing auditing around the **nbn** General Purpose Financial Statement (there are no assurance gaps in preparing the former from the latter).
- Factual Findings of Agreed Upon Procedures engagement in regard to Schedule 10 – PwC checked that: in respect of years prior to FY2014-15, the relevant values in the LTRCM Spreadsheet are in accordance with the ACCC’s 2013-14 Final LTRCM Determination; in respect of FY2014-15, the relevant input values are extracted from Schedules 6 to 9 into the LTRCM Spreadsheet; and the relevant LTRCM calculations are undertaken in accordance with the SAU in order to arrive at the output values in Schedule 10 – there is no exception identified in the report.

With respect to the PwC reasonable assurance report, **nbn** would like to clarify the following:

- Where reference is made to **[CiC starts]**

**[CiC ends]**

- The report refers to **[CiC starts]**

**[CiC ends]**

## 4.4 Summary of Actual Financial Information and Proposed Financial Information

A summary of the Actual Financial Information and Proposed Financial Information is set out below (Table 1).

**Table 1: Summary of Actual Financial Information and Proposed Financial Information  
(Nominal \$'000 except where stated otherwise) <sup>5</sup>**

	<b>2013-14</b>	<b>2014-15</b>
June Quarter CPI	3.016%	1.511%
Risk free rate	3.578%	3.749%
Nominal rate of return	7.078%	7.249%
Operating Expenditure	1,215,514	1,591,220
Capital Expenditure	1,596,522	2,166,854
Construction in Progress - opening	1,332,965	2,315,416
Interest Expense	1	59
Revenue	60,958	163,867
RAB – closing	<b>2,901,139</b>	<b>4,818,889</b>
ABBRR	<b>1,681,744</b>	<b>2,218,490</b>
ICRA – closing	<b>3,899,511</b>	<b>6,236,825</b>

Source: Regulatory Information, Schedules 6 to 10

<sup>5</sup> The values in Table 1 are based on the current LTRCM Determination for FY2013-14. **nbn** notes that if the ACCC makes the proposed amendment to the FY2013-14 LTRCM Determination, as discussed in section 8 below, some of these values will change.

## 5 Expenditure Compliance Report

As part of the Regulatory Information, **nbn**'s CFO<sup>6</sup> has provided a certification pursuant to clause 1F.2.1(a) of the SAU – the Expenditure Compliance Report. There is no reported exception in relation to either Capital Expenditure or Operating Expenditure and, as such, **nbn** proposes that all Capital Expenditure and all Operating Expenditure incurred over the relevant period be included in the RAB and ABBRR, respectively.

In support of this submission, **nbn** would like to highlight the following two points.

- Firstly, the SAU's prudency conditions are intended to complement rather than substitute for **nbn**'s pre-existing incentives to incur expenditure appropriately. In its Final Decision to accept the SAU, the ACCC stated that it "considers that NBN Co will face a high degree of revenue sufficiency risk for most, if not all, of Module 1 [the period to 30 June 2023]. This is due to NBN Co's initial prices and the expected low initial take-up of NBN services. This should provide incentives for NBN Co to invest efficiently. In addition, there are measures in Module 1 [the prudency conditions] to ensure that the individual cost components of the LTRCM will only allow for NBN Co to recover prudent and efficient costs."<sup>7</sup>
- Secondly, separate to the prudency conditions in the SAU, **nbn** is subject to a high degree of oversight via existing legislative, Parliamentary and regulatory controls, and is subject to many cost transparency measures. These were described in detail by **nbn** as part of the initial, comprehensive submission lodged in support of the SAU in late 2012.<sup>8</sup>

The Expenditure Compliance Report relates to the application of the prudency conditions relevant to Capital Expenditure and Operating Expenditure. In this regard, it is important to note the following:

- All expenditure incurred between the Cost Commencement Date (9 April 2009) and the SAU Commencement Date (13 December 2013) is automatically included in the RAB or ABBRR as relevant.<sup>9</sup>
- Expenditure incurred in connection with a number of specified categories after the SAU Commencement Date is also automatically included in the RAB or ABBRR as relevant – these categories include:
  - the NBN Co Interim Satellite Network;
  - the Interim Transit Arrangements;
  - the Telstra Arrangements;
  - the Optus Arrangements;
  - the Tasmania Tri-Area Service Arrangements;
  - the First Release Trial Sites;
  - third Party Funded Network Changes;
  - (for Operating Expenditure only) the variation, change, augmentation or enhancement of the design, engineering or construction of the Relevant Assets that is required to address an urgent and unforeseen network issue as contemplated by clause 1D.7.2(a)(ix) of the SAU; and
  - (for Operating Expenditure only) a Force Majeure Event.<sup>10</sup>

<sup>6</sup> **nbn**'s CFO is Mr Stephen Rue.

<sup>7</sup> ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, p.96.

<sup>8</sup> **nbn**, *Supporting Submission – NBN Co Special Access Undertaking*, 28 September 2012, pp. 226-240.

<sup>9</sup> **nbn**, *NBN Co Special Access Undertaking*, Clause 1D.3.2(a)(ii) and Clause 1E.8.2(a)(ii). Note that this provision is not relevant in respect of Capital Expenditure and Operating Expenditure incurred in FY2014-15.

<sup>10</sup> **nbn**, *NBN Co Special Access Undertaking*, Clause 1D.3.2(a)(ii) and Clause 1E.8.2(a)(ii).

- For all other expenditure, the Prudent Cost Condition and the Prudent Design Condition for Capital Expenditure and the matters set out in clause 1E.8.3 for Operating Expenditure are applicable. The SAU exhaustively defines the SAU prudency conditions and their application is process-based in nature. Accordingly, the Expenditure Compliance Report, like the LTRCM Determination, is focussed on the extent to which Capital Expenditure and Operating Expenditure satisfy the relevant SAU prudency conditions. For example, the ACCC notes in its Final Decision that "capital expenditure that the ACCC is satisfied can be categorised as being deemed prudent or meeting the requirements of the prudent design condition and the prudent cost condition ... can be included in the RAB."<sup>11</sup>

**nbn** has adopted a the same assurance approach for Expenditure Compliance in FY2014-15 as it did with respect to FY2013-14. In particular:

- The **nbn** CFO's certification set out in the Expenditure Compliance Report is informed by a range of investigations and testing of relevant processes and controls undertaken by **nbn** Internal Audit.
- **nbn** engaged PwC to perform an independent limited assurance review to complement the **nbn** CFO's certification.

To be more specific, as for FY2013-14, the CFO engaged **nbn**'s Internal Audit function to review, document and test the underlying end-to-end business processes and the design / operating effectiveness of controls relating to Capital Expenditure and Operating Expenditure prudency to satisfy the Prudent Design Condition and the Capital Expenditure Prudent Cost Condition (and equivalent for Operating Expenditure). This included:

- performing process walkthroughs with relevant staff (e.g. in relation to each of the different network types);
- confirming end-to-end process maps;
- identifying relevant control objectives and control procedures; and
- testing of control design and effectiveness.

**nbn** Internal Audit based its work on the Australian Standard on Assurance Engagements (ASAE) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. ASAE 3000 covers engagements to provide assurance on design, implementation and operating effectiveness of internal controls.

**First**, **nbn** undertook a series of cross functional workshops involving relevant Subject Matter Experts (SMEs) to confirm the end-to-end process underpinning Expenditure Compliance. Building on the work done in FY2013-14, the resulting process maps were documented by **nbn** Internal Audit and reconfirmed by the business SMEs.

**Secondly**, based on the end-to-end processes, **nbn** identified the relevant controls, which are comprised of control objectives and control procedures. The control objectives are included in Appendix A to this submission. The control procedures<sup>12</sup> are included as part of PwC's Limited Assurance Report in regard to the design of controls applicable to Expenditure Compliance (see below).

The identified controls were revised from prior year based on the following:

- General updates to operating procedures and roles / responsibilities of control owners;
- Progression of controls from manual (detective) to automated (preventative);
- Introduction of additional technology types (e.g. FTTx) to reflect the transition to a Multi-Technology-Mix (MTM); and
- Increased auditor and management understanding of the controls that warrant detailed testing of effectiveness.

<sup>11</sup> ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, p.97.

<sup>12</sup> The control procedures are confidential of particular sensitivity – the reasons for this classification are set out in Appendix B to this submission.

If a control was determined to be adequately designed (Test of Design), it was then subject to testing to ensure it was operating as designed (Test of Effectiveness). The inherent risks within the **nbn** control environment may be mitigated through multiple controls; however not all of these controls need necessarily be tested. The methodology used by **nbn** Internal Audit requires the application of the auditor's professional judgment to determine the controls with the highest potential impact on risk mitigation.

**Thirdly**, the appropriate samples were selected to enable control testing. **nbn** Internal Audit's sampling methodology is based on generally accepted internal audit sampling criteria. In general, **nbn** Internal Audit utilises judgmental sampling in accordance with relevant assurance standards and guidelines (including Auditing Standard of Australia (ASA) 530 Audit Sampling<sup>13</sup> and the Institute of Internal Auditors 'International Professional Practices Framework' (IPPF) Practice Advisory – 2320:3 - Audit Sampling<sup>14</sup>).

As described in the IPPF Practice Advisory – 2320:3 - Audit Sampling, judgmental sampling is based on the auditor's professional judgment, and confirms a condition that is reasonably thought to exist. In the current context, the condition to be confirmed is that the relevant controls over Expenditure Compliance that **nbn** has in place (and incorporate **nbn**'s Network Design Rules and Procurement Rules) are operating effectively.

Prior to the execution of controls testing, **nbn** Internal Audit determined the controls and corresponding sample sizes to be tested through a Test of Effectiveness. This was based on a risk assessment of the processes and controls to be tested, which included considering any prior Internal Audit testing coverage as it related to the relevant processes and controls.

**nbn** Internal Audit has determined sample size guidance, as detailed in Table 2 below, with reference to relevant assurance standards and guidelines. Determining sample size requires the exercise of professional judgement and is influenced by the frequency of the control operating (i.e. how many times per day, month or year a control is to operate). **nbn**'s sampling methodology is consistent with those used by the Internal Audit practices of Australia's largest audit and assurance firms and international auditing standards.

**Table 2 nbn Internal Audit sample size guidance**

Nature of Control	Control Operating Frequency	nbn Sample Size Guidance
Manual	Multiple times daily	30
Manual	Daily	15
Manual	Weekly	5
Manual	Monthly	3
Manual	Quarterly	2
Manual	Annually	1
Automated	Test one instance of each automated control	

Based on the guidance outlined above, an appropriate judgemental sample was selected for **each** control procedure subject to a Test of Effectiveness based on the frequency of the control operating. The population source was specific to each control procedure, and related to instances of the control operating during the period 1 July 2014 through 30 June 2015. The following sample sizes were selected as a result:

<sup>13</sup> ASA 530 Audit Sampling is available from: [http://www.auasb.gov.au/admin/file/content102/c3/ASA\\_530\\_27-10-09.pdf](http://www.auasb.gov.au/admin/file/content102/c3/ASA_530_27-10-09.pdf)

<sup>14</sup> IPPF Practice Advisory – 2320:3 - Audit Sampling is available from: [http://www.iaa.nl/Sitefiles/PA\\_2320-3%20\(1\).pdf](http://www.iaa.nl/Sitefiles/PA_2320-3%20(1).pdf)

**Table 3 Sample sizes – Test of Effectiveness - Prudent Design and Prudent Cost control procedures**

Control Operating Frequency and Applicable Sample Size		Number of Controls Tested for Effectiveness (grouped by frequency)	Number of Samples Tested for Effectiveness
<b>Prudent Design Samples</b> (related to Capital Expenditure only)			
Multiple times daily	30	3	90
Daily	15	1	15
Weekly	5	2	10
Annually	1	1	1
<b>Prudent Design Total</b>		<b>7 Control Procedures Tested<sup>15</sup></b>	<b>116 Samples Tested</b>
<b>Prudent Cost Samples</b> (includes Capital Expenditure and Operating Expenditure)			
Multiple times daily	30	3	90
Daily	15	1	15
Weekly	5	1	5
Annually	1	1	1
Automated	1	5	5
<b>Prudent Cost Total</b>		<b>11 Control Procedures Tested</b>	<b>116 Samples Tested</b>

This sampling methodology differs in some respects from the approach taken by **nbn** Internal Audit with respect to FY2013-14. In respect of FY2013-14, as outlined in **nbn's** Supplementary Submission to the ACCC,<sup>16</sup> a judgemental sample of 30 relevant transactions was selected to test the operating effectiveness of the relevant controls. The population source for this sample was the General Ledger (GL) Transaction Report from 13 December 2013 to 30 June 2014, which meant that the sample transactions included Capital and Operating Expenditure that had been impacted by controls operating both during and prior to the 13 December 2013 – 30 June 2014 reporting period (e.g. Capital Expenditure incurred in FY2013-14 may have passed through Prudent Design-related controls in FY2012-13 or earlier). This approach was appropriate in the context of the First Financial Year, as it provided assurance about the cumulative effectiveness of controls applicable to expenditure that was recognised within the relevant period.

The approach taken in FY2014-15, however, was designed to test the operating effectiveness of the controls *operating within the period* 1 July 2014 - 30 June 2015. Given the annual nature of the Expenditure Compliance Report, adopting this approach on an ongoing basis provides a cumulative view of the effectiveness of the Expenditure Compliance control environment.

Accordingly, the population source for the FY2014-15 judgemental sample was defined with respect to the control procedures themselves, rather than the transactions recognised in the FY2014-15 GL Transaction Report. As outlined in table 3, a total of 232 samples were tested to confirm the operating effectiveness of the Prudent Design and Prudent Cost controls.

In making the sample size determinations, it is important to emphasise that relevant prior information was taken into account; that is, prior to any sample testing being conducted, the end-to-end process had been confirmed with relevant SMEs and the design of each control had been tested (the Test of Design noted above). Conditional on this prior information, and provided that no exceptions were identified for any of the samples tested, there would be a low likelihood that the controls relevant to Expenditure Compliance would not be operating effectively.

**Fourthly, nbn** undertook testing for each of the sample items to confirm all aspects of the controls were operating as designed (Test of Effectiveness). For each relevant control procedure, applicable supporting documentation was identified, recorded and reviewed for its appropriateness. This involved reviewing

<sup>15</sup> One additional control was subject to a Test of Design; however, the control did not operate in the period and was therefore not subject to a Test of Effectiveness.

<sup>16</sup> **nbn**, *NBN Co Supplementary Submission to the ACCC – FY13-14 Financial Information and LTRCM Determination*, December 2014, pp. 7-9.

documentation such as procurement records, contracts, purchase orders and network design documents for applicability and appropriate authorisation.

The supporting documentation was examined to determine whether it was of sufficient standing to meet what is generally termed “a re-performance standard”; that is, if required another auditor could independently re-perform the test and arrive at the same result.

In the event that an omission had been identified in relation to a primary control, a secondary (mitigating) control could have been relied on and tested for its design and operating effectiveness. **nbn** could also have undertaken further testing, which could have involved increasing the sample size.<sup>17</sup>

However, based on **nbn** Internal Audit’s sample testing, no exceptions were identified regarding Expenditure Compliance. Nevertheless, any such investigation and testing is necessarily subject to inherent limitations; there is an unavoidable risk that some deficiencies may not be detected, regardless of how carefully and thoroughly the work is planned and performed.

Consistent with this, the **nbn** CFO’s certification in the Expenditure Compliance Report is subject to appropriate qualifying language<sup>18</sup> to make clear the basis on which the certification is provided and expresses negative assurance conclusions.

**nbn** has also lodged an independent limited assurance report by PwC in relation to the design of controls applicable to Capital Expenditure and Operating Expenditure prudence. Similar to FY2013-14, PwC’s limited assurance opinion is unqualified in nature and complements the **nbn** CFO’s certification.

Like **nbn** Internal Audit, PwC conducted its work under ASAE 3000: *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. Of note, the ASAE 3000 standard was recently revised (operative for assurance engagements commencing from 1 January 2015) to provide more robust guidance, including clear objectives, more detailed requirements and application material for planning, performing and reporting. PwC’s Limited Assurance Report involves some changes of wording as compared to FY2013-14 in order to reflect the revised ASAE 3000 standard.

**[CiC starts]**

**[CiC ends]**

**nbn** submits that the Expenditure Compliance Report (taken together with the PwC Limited Assurance Report) provides an appropriate basis for the ACCC to be satisfied that all Capital Expenditure and all Operating Expenditure incurred by **nbn** over the relevant period meets the relevant prudence conditions and should be included in the RAB and ABBRR, respectively.

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<sup>17</sup> Note that no omissions were identified in relation to primary controls for FY2014-15.

<sup>18</sup> **nbn** has had regard to ASAE 3000 “*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*” in developing the qualifying language in the certification.

## 6 Procurement Rules Compliance Report

As part of the Regulatory Information, **nbn**'s CPO<sup>19</sup> has provided a certification pursuant to clause 1F.2.3(a) of the SAU – the Procurement Rules Compliance Report. There is no reported exception in relation to this report, which relates to whether, over the period from 1 July 2014 to 30 June 2015, **nbn**'s Procurement Rules satisfied the requirements in clause 1D.5.1 of the SAU.

The **nbn** CPO's certification set out in the Procurement Rules Compliance Report is informed by a range of investigations, and identified the following.

- As at 1 July 2014, **nbn**'s Procurement Rules comprised:
  - Procurement Manual v19 (this was the same as the Procurement Manual v18 as provided to the ACCC on 20 December 2013 with the exception of an immaterial amendment to recognise the commencement of the SAU on 13 December 2013); and
  - Buying Guide v2.0 (as provided to the ACCC on 20 December 2013)
- Over the period to 30 June 2015:
  - the Procurement Manual was updated to v20 for effect from 1 August 2014 – this updated version was provided to the ACCC on 18 August 2014 (within 30 days after making any material amendments to Procurement Rules, as required by clause 1D.5.2);
  - the Buying Guide was updated to v3.0 for effect from 1 August 2014 – this updated version was provided to the ACCC on 18 August 2014 (within 30 days after making any material amendments to Procurement Rules, as required by clause 1D.5.2); and
  - the Buying Guide was updated to v4.0 for effect from 18 March 2015 – this involved an immaterial amendment to reflect **nbn**'s new Corporate Card Policy.

Any such investigation is necessarily subject to inherent limitations; there is an unavoidable risk that some deficiencies may not be detected, regardless of how carefully and thoroughly the work is planned and performed.

The **nbn** CPO's certification in the Procurement Rules Compliance Report is subject to appropriate qualifying language<sup>20</sup> to make clear the basis on which the certification is provided and expresses negative assurance conclusions.

**nbn** notes that the Procurement Rules are commercially sensitive and for the purposes of the SAU have never been provided to any party other than the ACCC.

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<sup>19</sup> **nbn**'s CPO is Ms Coretta Bessi.

<sup>20</sup> **nbn** has had regard to the Australian Standard on Assurance Engagements ASAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" in developing the qualifying language in the certification.



## 7 Price Compliance Report

As part of the Regulatory Information, **nbn**'s CFO has provided a certification pursuant to clause 1F.3(a) of the SAU – the Price Compliance Report. There is no reported exception in relation to this report, which relates to whether, over the period from 1 July 2014 to 30 June 2015, **nbn**'s pricing of NBN Offers and Other Charges satisfied the relevant requirements in Schedule 1C.

The **nbn** CFO's certification in the Price Compliance Report is informed by a range of investigations and testing. This includes:

- identification of the Price Lists that applied under WBA2 (in respect of fibre and fixed wireless) and the Satellite WBA (in respect of the interim satellite service) over the relevant period; and
- checking of these Price Lists (and any changes made over the relevant period) for consistency with Schedule 1C of the SAU – this analysis is set out in the Price Compliance Spreadsheet, which **nbn** has provided to the ACCC to complement the Price Compliance Report – note that the Price Compliance Spreadsheet builds on (but does not repeat) explanations provided by **nbn** in the course of the 2013-14 LTRCM Determination process regarding how the SAU's price controls apply in various situations.<sup>21</sup>

Any such investigation and testing is necessarily subject to inherent limitations; there is an unavoidable risk that some deficiencies may not be detected, regardless of how carefully and thoroughly the work is planned and performed.

The **nbn** CFO's certification in the Price Compliance Report is subject to appropriate qualifying language<sup>22</sup> to make clear the basis on which the certification is provided and expresses negative assurance conclusions.

**nbn** notes that there were only a relatively small number of changes made to the Price Lists over the period. These related to:

- in respect of the NBN Co Fibre Network, the introduction of the following CVC speed tiers:
  - TC-4 – 3000, 4000, 5000, 6000, 7000, 8000, 9000 and 10000 Mbps
  - TC-1 – 50, 100, 150, 200, 250, 300, 400 and 500 Mbps;
- in respect of the NBN Co Fibre Network, NBN Co Wireless Network, NBN Co Interim Satellite Network and NBN Co FTTB Network<sup>23</sup>, the reduction of CVC TC-1, TC-2 and TC-4 Prices to \$17.50 per Mbps per month; and
- the introduction into WBA2 of NEBS supplied by means of the NBN Co FTTB Network.

**nbn** has lodged an independent assurance report by PwC in regard to the design effectiveness of the control procedures applicable to price compliance (the same PwC report also addresses **nbn**'s control procedures over Capital and Operating Expenditure prudence).

PwC conducted its work under the Australian Standard on Assurance Engagements ASAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". PwC was provided with the relevant control objectives, control procedures and end-to-end process maps by **nbn**.

<sup>21</sup> **nbn**, Supplementary submission to the ACCC – 2013-14 Regulatory Information and LTRCM Determination, 8 December 2014, pp. 13-15.

<sup>22</sup> **nbn** has had regard to the Australian Standard on Assurance Engagements ASAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" in developing the qualifying language in the certification.

<sup>23</sup> **nbn** notes that Prices for services supplied by means of the NBN Co FTTB Network are not subject to the pricing provisions in Schedule 1C of the SAU - and are therefore not relevant for the purposes of the Price Compliance Report. They have been referred to here for completeness only.

**[CiC starts]**

**[CiC ends]**

PwC's limited assurance opinion is unqualified in nature and complements the **nbn** CFO's certification.

## 8 Proposed amendment to 2013-14 LTRCM Determination

In the 2013-14 LTRCM Determination, the ACCC accepted **nbn**'s proposed values for the ABBRR, RAB and ICRA. The Annual Construction in Progress Allowance (ACIPA) that forms part of the ABBRR was calculated for each financial year from 2008-09 to 2013-14 with reference to the opening value of Construction in Progress, but this value inadvertently omitted Working Inventory. Unlike Spares Inventory, which is reflected in Capital Expenditure, Working Inventory was not otherwise reflected in any aspect of the LTRCM.

**nbn** requests that the ACCC amend the 2013-14 LTRCM Determination to correct for this omission.

As discussed in section 4.2, Working Inventory comprises equipment held by **nbn** before being released into particular construction projects. It is distinct in this regard from Spares Inventory, which comprises equipment held for network maintenance purposes. For FY2014-15, the Annual Construction in Progress Allowance (ACIPA) that forms part of the Annual Building Block Revenue Requirement has been calculated with reference to Construction in Progress including Working Inventory.

The opening value of Working Inventory for each of the financial years 2008-09 to 2013-14 can be calculated from the Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes (Schedule 6) for each of those years. The item "Construction in Progress (Movement)" listed under the Reconciliation to **nbn**'s Audited General Purpose Financial Statement actually includes the movement in Working Inventory over the relevant Financial Year. When the value of this item is compared to the Opening and Closing values of Construction listed earlier in the Statement for the relevant Financial Year, the difference is the movement in Working Inventory for that year – see Table 4 below.

**Table 4 Calculation of opening value of Working Inventory for 2008-09 to 2013-14 (Nominal \$'000 except where stated otherwise)**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
(1) CIP – opening – from Schedule 6	-	-	33,642	234,677	604,369	1,332,965
(2) CIP – closing – from Schedule 6	-	33,642	234,677	604,369	1,332,965	2,221,088
(3) = (2) – (1)	-	33,642	201,035	369,691	728,597	888,123
(4) CIP (Movement) – from Schedule 6 Reconciliation	-	33,642	201,035	396,657	766,017	918,066
(5) = (4) – (3) Working Inventory – movement	-	-	-	26,966	37,420	29,943
(6) Working Inventory – opening (equals closing value from prior year)	-	-	-	-	26,966	64,386
(7) = (6) + (5) Working Inventory – closing	-	-	-	26,966	64,386	94,329
(8) = (1) + (6) CIP (including Working Inventory) – opening	-	-	33,642	234,677	631,334	1,397,352
(9) = (2) + (7) CIP (including Working Inventory) – closing	-	33,642	234,677	631,334	1,397,352	2,315,416

Note: Totals may not add due to rounding

Based on the opening value of Construction in Progress including Working Inventory, **nbn** has prepared an additional LTRCM Spreadsheet that recalculates the ABBRR and ICRA values for the period from FY2008-09 to FY2014-15 – see Table 5 below. (Note that the RAB values are unaffected as a result of including Working Inventory in Construction in Progress.)

The cumulative effect of including Working Inventory in Construction Progress is that the closing value of the ICRA as at 30 June 2014 increases by \$6.4 million.

**Table 5 ABBRR and ICRA values recalculated after including Working Inventory in Construction in Progress (Nominal \$'000 except where stated otherwise)**

	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
ABBRR	139	82,255	335,551	599,568	1,017,657	1,686,301	2,218,490
(change)	(0)	(0)	(0)	(0)	(+1,755)	(+4,557)	(0)
ICRA - closing	139	82,407	425,296	1,060,024	2,129,857	3,905,948	6,243,728
(change)	(0)	(0)	(0)	(0)	(+1,755)	(+6,437)	(+6,903)

Note – in respect of FY2014-15, the change is relative to the values included in the Proposed Financial Information described in section 4.4.

# Appendix A Control objectives provided to PwC – Price and Expenditure Compliance

## A.1 Price compliance

Control objective 1: Controls are in place to ensure that the price for the supply of each NBN Offer and/or Other Charge (including “hourly labour rate” and “hourly labour rate plus cost of materials basis”) does not exceed the Maximum Regulated Price, and that any changes to Zero-Priced NBN Offers or Other Charges are subject to appropriate notice to Access Seekers and the ACCC and consultation with Access Seekers is performed where relevant, as defined in the ‘NBN Co Special Access Undertaking’ accepted 13 December 2013.

## A.2 Expenditure compliance - Prudent Design Condition

Control objective 2: Controls are in place to ensure that all Network Capital Expenditure costs incurred are substantially consistent with or within the scope of the Network Design Rules, an approved Permitted Variation, or an Endorsed Network Change or a Network Change as otherwise determined or permitted by the ACCC.

Control objective 3: Controls are in place to ensure that all necessary Permitted Variations and Endorsed Network Changes are identified and verified during Product Development and Solution Development processes, and are communicated to the ACCC at least on an annual basis.

## A.3 Expenditure Compliance - Capital Expenditure Prudent Cost Condition (and equivalent for Operating Expenditure)

Control objective 4: Controls are in place to ensure that the procurement of supplier contracts and associated expenditure is sourced in accordance with the guiding principles in the Buying Guide and Procurement Manual.

Control objective 5: Controls are in place to ensure that only valid purchase requisitions and purchase orders are created and approved in accordance with the relevant **nbn** delegations of authority.

Control objective 6: Controls are in place to ensure that goods/services received are appropriately receipted and /or accrued for.

Control objective 7: Controls are in place to monitor supplier contract expenditure.

## Appendix B Confidentiality

This Appendix sets out the confidentiality status of the Regulatory Information and relevant supporting materials provided by **nbn** to the ACCC. **nbn** has determined the confidentiality status of each of these materials in accordance with the ACCC's April 2014 *Confidentiality Guideline for submitting confidential material to ACCC communications inquiries*.

### **B.1 Status of Regulatory Information and supporting materials**

#### ***Public information***

The following Regulatory Information and supporting materials are public in their entirety:

- Regulatory Information - Basis of Preparation;
- Schedule 8 – Statement of Interest Expense;
- Schedule 9 – Statement of Revenue;
- Schedule 10 – Statement of LTRCM and RAB items;
- Regulatory Information – SAU Declaration;
- Schedule 12 – Expenditure Compliance Report;
- Schedule 13 – Procurement Rules Compliance Report;
- Schedule 14 – Price Compliance Report;
- Price Compliance Spreadsheet; and
- Cover Letter

#### ***Public information, with limited redactions (redacted information is either confidential or confidential of particular sensitivity)***

The following Regulatory Information and supporting materials are public, with limited redactions made to information that is confidential or confidential of particular sensitivity. Confidential information may be made available to a limited class of persons under appropriate confidentiality arrangements (as described in Table A.1 below). Confidential information of particular sensitivity will not be made available to any other parties, even under confidentiality arrangements.

- Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes;

- Schedule 7 – Statement of Operating Expenditure;
- Schedule 11 – Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances;
- Supporting Submission (this document);
- LTRCM Spreadsheet (public version); and
- Additional LTRCM Spreadsheet (public version).

### ***Confidential information***

The following supporting materials are confidential. These materials may be made available to interested parties under appropriate confidentiality arrangements with **nbn**.

- Reasonable Assurance audit report - Schedules 6 to 9;
- Agreed Upon Procedures report - Schedule 10;
- Limited Assurance report – Schedules 12 and 14 (Body of the Report);
- LTRCM Spreadsheet (confidential version); and
- Additional LTRCM Spreadsheet (confidential version).

### ***Confidential information of particular sensitivity***

The following information will not be made available to any other parties, including under confidentiality arrangements:

- Limited Assurance Report – Schedules 12 and 14 (Appendix A – Control Objectives and Procedures)
- **nbn**'s current Chart of Accounts; and
- Regulatory Accounting and Allocation Manual (RAAM).

## **B.2 Reasons for confidentiality**

Table A.1 sets out the reasons as to why the information classified as confidential:

- is commercially sensitive;
- if released, could cause **nbn** detriment; and



- if released to other interested parties would cause **nbn** significant commercial harm (for 'confidential information of particular sensitivity' only).

**Table B.1 Reasons for confidentiality**

	Information	Confidentiality status	Reasons
1	<p><b>Schedule 6</b></p> <p><b>Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes &amp; Taxation Asset Lifetimes</b></p>	<ul style="list-style-type: none"> <li>• Public, with the following information redacted: <ul style="list-style-type: none"> <li>○ Disaggregated Capital Expenditure and Disposals values (Confidential)</li> <li>○ Disaggregated Asset Type names, Asset Lifetimes and Taxation Asset Lifetimes (Confidential)</li> <li>○ Values under Reconciliation to <b>nbn</b>'s Audited General Purpose Financial Statement (Confidential of particular sensitivity)</li> <li>○ Values relating to deemed prudent capital expenditure categories (Confidential of particular sensitivity)</li> </ul> </li> </ul>	<p><i>Disaggregated Capital Expenditure and Disposals values</i></p> <ul style="list-style-type: none"> <li>• Visibility over this information (in combination with metrics disclosed in <b>nbn</b>'s Annual Report, the <b>nbn</b> website and other public sources) would enable interested parties to calculate a breakdown of <b>nbn</b>'s Cost Per Premise (CPP) for each network.</li> <li>• Providing suppliers/contractors or competitors with the information required to determine the breakdown of <b>nbn</b>'s CPP could: <ul style="list-style-type: none"> <li>○ have an adverse impact on <b>nbn</b>'s negotiations with suppliers/contractors by providing suppliers/contractors with a commercial advantage; and</li> <li>○ enable competitors to determine <b>nbn</b>'s costs, providing them with a unfair competitive advantage in building competing infrastructure.</li> </ul> </li> <li>• To account for these risks, <b>nbn</b> is prepared to make this information available to only a limited class of persons under appropriate confidentiality arrangements. This limited class of persons would: <ul style="list-style-type: none"> <li>○ Include employees of <b>nbn</b> access seekers and relevant consultants retained by an <b>nbn</b> access seeker – consistent with the ACCC's Statement of Reasons on the Disclosure Notice given to Telstra regarding the BBM RKR information (p. 8), the class of persons most likely to have the expertise to make well-informed submissions to the LTRCM Determination process is the class composed of <b>nbn</b> access seekers; but</li> <li>○ Exclude such employees or relevant consultants where the relevant <b>nbn</b> access seeker is: <ul style="list-style-type: none"> <li>▪ In the process of negotiating significant arrangements with <b>nbn</b> (note that this is not intended to extend to any negotiation with an <b>nbn</b> access seeker in regard to purchasing <b>nbn</b> services, such as under WBA2 (FTTP and fixed wireless) or the S-WBA (interim satellite)) – the information (if provided to such an <b>nbn</b> access seeker) could be used in a manner adverse to <b>nbn</b>'s commercial interests. <b>nbn</b> notes that in its Disclosure Notice to Telstra regarding the BBM RKR information, the ACCC excluded employees of</li> </ul> </li> </ul> </li> </ul>

	Information	Confidentiality status	Reasons
			<p><b>nbn</b> from the class of persons to whom restricted extracts could be disclosed due to the ongoing commercial negotiations between Telstra and <b>nbn</b>; or</p> <ul style="list-style-type: none"> <li>▪ An actual or potential competitor of <b>nbn</b> – as outlined above, there is a risk that actual or potential competitors could use this information, whether deliberately or inadvertently, to gain a competitive advantage over <b>nbn</b>.</li> <li>○ <b>nbn</b> intends to adopt a case-by-case approach to applying these limitations as part of assessing requests for access to the confidential information in Schedule 6. Given the nature of the limitations, it is infeasible to set out detailed assessment criteria that will be suitable in all circumstances.</li> </ul> <p><i>Disaggregated Asset Type names, Asset Lifetimes and Taxation Asset Lifetimes</i></p> <ul style="list-style-type: none"> <li>• Disclosure of this information would provide interested parties with visibility over the types of assets <b>nbn</b> uses in its network and how it uses those assets. This could cause <b>nbn</b> significant commercial harm by: <ul style="list-style-type: none"> <li>○ providing suppliers with an unfair commercial advantage in negotiations with <b>nbn</b> by understanding the value <b>nbn</b> places on different assets; and</li> <li>○ providing competitors with an unfair competitive advantage by understanding the types of assets <b>nbn</b> uses in its network and how it uses those assets.</li> </ul> </li> <li>• To account for these risks, <b>nbn</b> is prepared to make this information available to only a limited class of persons under appropriate confidentiality arrangements, as described above.</li> </ul> <p><i>Values under Reconciliation to <b>nbn</b>'s Audited General Purpose Financial Statement</i></p> <ul style="list-style-type: none"> <li>• <b>nbn</b> has confidentiality obligations to third parties for the values of a number of reconciling items.</li> <li>• Values for other reconciling items have also been redacted to protect the commercial sensitivity of the values for which <b>nbn</b> has confidentiality obligations to third parties.</li> </ul> <p><i>Values relating to deemed prudent capital expenditure categories</i></p> <ul style="list-style-type: none"> <li>• <b>nbn</b> has confidentiality obligations to third parties for all financial aspects of the Telstra and Optus arrangements.</li> <li>• Values for other deemed prudent capital expenditure categories have also been redacted to protect the commercial sensitivity of the values relating to</li> </ul>

	Information	Confidentiality status	Reasons
			the Telstra and Optus arrangements.
2	<p><b>Schedule 7</b></p> <p><b>Statement of Operating Expenditure</b></p>	<ul style="list-style-type: none"> <li>• Public, with the following information redacted: <ul style="list-style-type: none"> <li>○ Values relating to deemed prudent operating expenditure categories (Confidential of particular sensitivity)</li> <li>○ Values under Reconciliation to <b>nbn's</b> Audited General Purpose Financial Statement (Confidential of particular sensitivity)</li> </ul> </li> </ul>	<p><i>Values relating to deemed prudent operating expenditure categories</i></p> <ul style="list-style-type: none"> <li>• <b>nbn</b> has confidentiality obligations to third parties for all financial aspects of the Telstra and Optus arrangements.</li> <li>• Values for other deemed prudent operating expenditure categories have also been redacted to protect the commercial sensitivity of the values relating to the Telstra and Optus arrangements.</li> </ul> <p><i>Values under Reconciliation to <b>nbn's</b> Audited General Purpose Financial Statement</i></p> <ul style="list-style-type: none"> <li>• <b>nbn</b> has confidentiality obligations to third parties for the values of a number of reconciling items. Specifically: <ul style="list-style-type: none"> <li>○ Licenced Assets and Property Assets under Finance Leases – this item relates predominantly to the Telstra Arrangements. To the extent that this item captures other Licenced Assets and Property Assets under Finance Leases, the associated values have been redacted to protect the commercial sensitivity of the values related to the Telstra Arrangements.</li> <li>○ Migration payments – this item relates predominantly to the Optus Arrangements. To the extent that this item captures other Migration Payments, the values of those payments have been redacted to protect the commercial sensitivity of the values related to the Optus Arrangements.</li> </ul> </li> <li>• The value for Provisions (and detail of what the value includes) has also been redacted to protect the commercial sensitivity of the values for Licenced Assets and Property Assets under Finance Leases and Migration Payments.</li> </ul>
3	<p><b>Schedule 11</b></p> <p><b>Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances</b></p>	<ul style="list-style-type: none"> <li>• Public, with the following information redacted: <ul style="list-style-type: none"> <li>○ Actual Capital Expenditure values are redacted to the same extent as in "Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes &amp; Taxation Asset Lifetimes" – these redacted values are Confidential</li> <li>○ Forecast Capital Expenditure and Operating Expenditure values –</li> </ul> </li> </ul>	<p><i>Disaggregated Actual Capital Expenditure values</i></p> <ul style="list-style-type: none"> <li>• See explanation in relation to Schedule 6, above.</li> </ul> <p><i>Forecast Capital Expenditure and Operating Expenditure values, variances and reasons for variances</i></p> <ul style="list-style-type: none"> <li>• Disclosure of this information to any interested party would involve an unacceptable risk of significant commercial harm to <b>nbn</b>. In particular, information about the nature and source of variances between <b>nbn's</b> forecast and actual expenditure could provide competitors or suppliers with an unfair commercial advantage. For example, such information could enable competitors or suppliers to draw inferences about <b>nbn's</b> expected activities and costs in future years.</li> </ul>

	Information	Confidentiality status	Reasons
		<p>these redacted values are Confidential of Particular Sensitivity (consistent with the confidentiality status of the Forecast Financial Information when lodged with the ACCC on 30 June 2014).</p> <ul style="list-style-type: none"> <li>○ Variances between forecast and actual expenditure values and reasons for the variances – this redacted information is Confidential of Particular Sensitivity</li> </ul>	<ul style="list-style-type: none"> <li>• <b>nbn</b> does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect <b>nbn</b> from this risk of significant commercial harm.</li> <li>• <b>nbn</b> considers that non-disclosure of the forecast expenditure values, variances and reasons for variances will not unduly affect interested parties' ability to provide informed submissions to the 2014-15 LTRCM Determination process.</li> </ul>
4	<b>Reasonable assurance audit report (Schedules 6 to 9)</b>	<ul style="list-style-type: none"> <li>• Confidential</li> </ul>	<ul style="list-style-type: none"> <li>• This report is a special purpose report, prepared for a very particular objective and audience. By agreement with PwC, the report is not designed or prepared for public release.</li> <li>• <b>nbn</b> notes that the key conclusions from the report have been disclosed publicly in <b>nbn</b>'s Supporting Submission.</li> <li>• <b>nbn</b> may be prepared to make this report available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with <b>nbn</b> a Hold Harmless Letter prepared by PwC),<sup>24</sup> to employees of <b>nbn</b> access seekers and relevant consultants retained by an <b>nbn</b> access seeker.</li> </ul>
5	<b>Agreed Upon Procedures report (Schedule 10)</b>	<ul style="list-style-type: none"> <li>• Confidential</li> </ul>	<ul style="list-style-type: none"> <li>• This report is a special purpose report, prepared for a very particular objective and audience. By agreement with PwC, the report is not designed or prepared for public release.</li> <li>• <b>nbn</b> notes that key conclusions from the report have been disclosed publicly in <b>nbn</b>'s Supporting Submission.</li> <li>• <b>nbn</b> may be prepared to make this report available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with <b>nbn</b> a Hold Harmless Letter prepared by PwC), to employees of <b>nbn</b> access seekers and relevant consultants retained by an <b>nbn</b> access seeker.</li> </ul>
6	<b>Limited assurance report (Schedules 12 and 14)</b>	<i>Body of the Report</i>	<p><i>Body of the report</i></p> <ul style="list-style-type: none"> <li>• This report is a special purpose report, prepared for a very particular objective</li> </ul>

<sup>24</sup> A Hold Harmless Letter provides a mechanism to enable a third party to gain access to the PwC reports on the terms set out in the letter, subject to PwC's agreement. The letter's terms include that the third party is not entitled to rely on the PwC reports and that the third party must release and indemnify PwC from certain claims in connection with the reports.

	Information	Confidentiality status	Reasons
		<ul style="list-style-type: none"> <li>• Confidential</li> </ul> <p><i>Appendix A – Control Objectives and Procedures</i></p> <ul style="list-style-type: none"> <li>• Confidential of particular sensitivity</li> </ul> <p>[Note that the Control Objectives are public and set out in Appendix A to this submission]</p>	<p>and audience. By agreement with PwC, the report is not designed or prepared for public release.</p> <ul style="list-style-type: none"> <li>• <b>nbn</b> notes that the key conclusions from the report have been disclosed publicly in <b>nbn</b>'s Supporting Submission.</li> <li>• <b>nbn</b> may be prepared to make the body of the report available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with <b>nbn</b> a Hold Harmless Letter prepared by PwC), to employees of NBN access seekers and relevant consultants retained by an <b>nbn</b> access seeker.</li> </ul> <p><i>Appendix A</i></p> <ul style="list-style-type: none"> <li>• The Control Procedures in Appendix A contain detailed information about <b>nbn</b>'s internal policies and procedures relating to network design, procurement and pricing. Such information: <ul style="list-style-type: none"> <li>○ is proprietary information;</li> <li>○ could be used by potential suppliers or contractors to gain a commercial advantage in negotiations with <b>nbn</b>, by understanding how our processes work; and</li> <li>○ would provide competitors with an unfair competitive advantage by providing them with information about how <b>nbn</b> prices its products and manages its processes internally.</li> </ul> </li> <li>• Disclosure of such information would be adverse to <b>nbn</b>'s legitimate commercial interests and could cause significant commercial harm.</li> <li>• Given the level of detail in the Control Procedures, <b>nbn</b> does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect <b>nbn</b> from the risk of the harm described above.</li> </ul>
7	<b>Supporting Submission</b>	<ul style="list-style-type: none"> <li>• Public, with the following information redacted: <ul style="list-style-type: none"> <li>○ References to information contained within the PwC reasonable assurance audit report and the PwC limited</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• See explanations in relation to the PwC reports, above.</li> <li>• <b>nbn</b> may be prepared to make this information available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with <b>nbn</b> a Hold Harmless Letter prepared by PwC),<sup>25</sup> to employees of <b>nbn</b> access seekers and relevant consultants retained by an <b>nbn</b> access seeker.</li> </ul>

<sup>25</sup> A Hold Harmless Letter provides a mechanism to enable a third party to gain access to the PwC reports on the terms set out in the letter, subject to PwC's agreement. The letter's terms include that the third party is not entitled to rely on the PwC reports and that the third party must release and indemnify PwC from certain claims in connection with the reports.

	Information	Confidentiality status	Reasons
		assurance report	
8	<b>LTRCM Spreadsheet and additional LTRCM Spreadsheet</b>	<ul style="list-style-type: none"> <li>• Public versions: <ul style="list-style-type: none"> <li>○ Information redacted to the same extent as in "Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes &amp; Taxation Asset Lifetimes"</li> <li>○ Formulae for the following items have been converted to values to avoid any changes to the LTRCM outputs: the <u>totals</u> for Nominal Capital Expenditure, Assets Received for Nil Consideration, Nominal Disposals, Net Real Capex, Net Nominal Capex, Real Straight Line Depreciation and Nominal Tax Depreciation.</li> <li>○ All redacted information is Confidential</li> </ul> </li> <li>• Confidential versions: <ul style="list-style-type: none"> <li>○ No information (or formulae) redacted</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The redactions in the LTRCM Spreadsheet and additional LTRCM Spreadsheet mirror the redactions in "Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes &amp; Taxation Asset Lifetimes". <i>'Input sheet' and 'Regulatory &amp; tax depreciation'</i></li> <li>• These worksheets contain disaggregated Capital Expenditure values, Asset Type names, Asset Lifetimes and Taxation Asset Lifetimes. This information is Confidential (see explanation in relation to Schedule 6, above).</li> </ul>
9	<b>Chart of Accounts and Regulatory Accounting and Allocation Manual (RAAM)</b>	<ul style="list-style-type: none"> <li>• Confidential information of particular sensitivity</li> </ul>	<ul style="list-style-type: none"> <li>• These documents contain information about <b>nbn's</b> internal policies, procedures and accounts, which is proprietary information.</li> <li>• Disclosure of this information could cause <b>nbn</b> significant commercial harm. For example, disclosure could: <ul style="list-style-type: none"> <li>○ have an adverse impact on <b>nbn's</b> negotiations with suppliers by providing suppliers with visibility over <b>nbn's</b> internal policies and procedures, and highly disaggregated cost information; and</li> <li>○ provide competitors with an unfair competitive advantage by having visibility over <b>nbn's</b> internal policies, procedures and accounts.</li> </ul> </li> <li>• <b>nbn</b> does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect <b>nbn</b> from the risk of this harm.</li> <li>• <b>nbn</b> considers that non-disclosure of the Chart of Accounts and the RAAM will not unduly affect interested parties' ability to provide informed submissions to</li> </ul>

	<b>Information</b>	<b>Confidentiality status</b>	<b>Reasons</b>
			the LTRCM Determination process. Those aspects of the RAAM that are relevant for interested parties to provide informed submissions (i.e. the Alternative Accounting Treatments) are outlined and disclosed publicly in the Basis of Preparation in the SAU – Regulatory Information.