

Telstra's submission to the Retail Price Controls Review Discussion Paper



18 November 2011

Contents

01	Executive summary	3
02	Policy objectives of retail price controls and the extent to which they benefit customers	3
2.1.	Fixed voice market	4
2.2.	Competitive substitutes to Telstra's fixed voice market	5
2.2.1.	Mobiles	5
2.2.2.	VoIP and Unbundled Local Loop Service (ULLS)	6
2.2.3.	HFC	7
2.3.	The wholesale access regime makes RPCs unnecessary	7
03	Implication of the NBN on the retail fixed voice market	8
3.1.	Increasing complexity in measuring compliance	8
3.2.	Possible future arrangements	9
04	Use of price controls for assisting low income consumers	10
4.1.	HomeLine Budget	11
05	Ancillary Arrangements	11
5.1.	HomeLine and BusinessLine Part	11
5.2.	Directory Assistance	11
5.3.	ACCC – LIMAC price notification	12
5.4.	Untimed local calls in extended zones	12
5.5.	Connections	12
5.5.1.	Connection over Telstra's copper	12
5.5.2.	Connections over NBN	13
5.6.	Payphones	13
06	Monitoring arrangements relating to retail prices	13
07	Transitional price control arrangements	14
08	Fixed to Mobile Sub-cap	14

01 Executive summary

This submission has been prepared in response to the Department of Broadband Communications and the Digital Economy's (DBCDE) Retail Price Control Review Discussion Paper (**Discussion Paper**).

Telstra reiterates the view expressed in its response dated 12 February 2010 (**Telstra's 2010 Submission**) to the Australian Competition and Consumer Commission's (ACCC) January 2010 Review of price controls (**ACCC 2010 Review**) – that market conditions demonstrate that retail price controls (RPCs) are no longer necessary.

As evident from falling prices, usage decline and Telstra's large surplus on Basket 1, it is competition not RPCs that is delivering cheaper fixed line services. Sources of this competition include competitive fixed line offers and pressure from mobile substitution and carrier-grade Voice over Internet Protocol (VoIP) services.

In addition, Australia has a comprehensive wholesale access regime that allows competitors to replicate the full suite of Telstra's fixed voice services. Notably prices for these underlying wholesale services were revised down in June 2011 – providing additional capability for competitors to put pressure on Telstra's fixed line margins.

The move to the National Broadband Network (NBN) will deliver increased competition to the fixed market and fundamentally change the basis on which Telstra delivers its fixed voice services. Telstra will have almost no control over the underlying cost of these services. The continued imposition of RPCs on Telstra in this environment, will limit innovation while imposing ongoing reporting complexity with no benefit to consumers.

Nevertheless, Telstra acknowledges there are community expectations associated with Telstra's provision of voice services as the Universal Service Provider including its ongoing role of fixed voice provision in a NBN environment. For that reason Telstra acknowledges that transitional measures to maintain basic protections with a focus on low income customers may be necessary.

If transitional measures are required they must simplify and reduce reporting burdens, be adaptable to a NBN environment and retain protections for low income customers. To achieve this outcome and to avoid any distortion in the market, transitional measures should be the minimum necessary. Telstra considers the following measures – applied nationally to consumer services regardless of whether the customer is on the NBN or Telstra's PSTN – meet these requirements:

- maintenance of Telstra's low income measures licence condition that has delivered around two billion dollars of value to low income customers since 2002, and extending low income reporting to whole-of-industry arrangements;
- Untimed local call capped at 22c (unless on a plan where the access price is lower than Telstra's most popular voice only access product);
- capped untimed local calls from payphones to be retained and increased;
- Extended Zones obligations maintained and imposed contractually; and
- a residential National Directory Assistance (NDA) price cap at 50c.

With these measures retained all other RPC obligations should be removed.

02 Policy objectives of retail price controls and the extent to which they benefit customers

The Discussion Paper states that two of the objectives of RPCs were to restrain Telstra's significant pricing power and to encourage efficiency in service pricing. Telstra considers these two objectives are met by competition as evidenced by falling prices, increasing market shares of our competitors and

increasing preference of consumers towards mobile and other access technologies to meet their voice telephony needs.

Telstra's views as to the competitive pressure on the fixed line voice services were raised in detail in Telstra's 2010 Submission. Telstra reiterates some of the key points.

2.1. Fixed voice market

Prices for fixed voice services have continued the downward trend reported in Telstra's 2010 Submission. In the ACCC's latest report on changes in the prices paid for telecommunications services, the ACCC noted

"In 2009–10, consumers continued to benefit from lower prices with the average real prices for fixed voice services declining by 5.8 per cent, considerably greater than the 2.6 per cent drop experienced in the year before.

*Residential customers again experienced a greater price reduction than business customers, continuing a trend since 2007–08. Average real prices for residential and business customers fell by 6.4 and 4.7 per cent respectively in 2009–10, compared to declines of 3.1 and 1.7 per cent in 2008–09."*¹

This reported price decline is illustrated in Table 1 below.

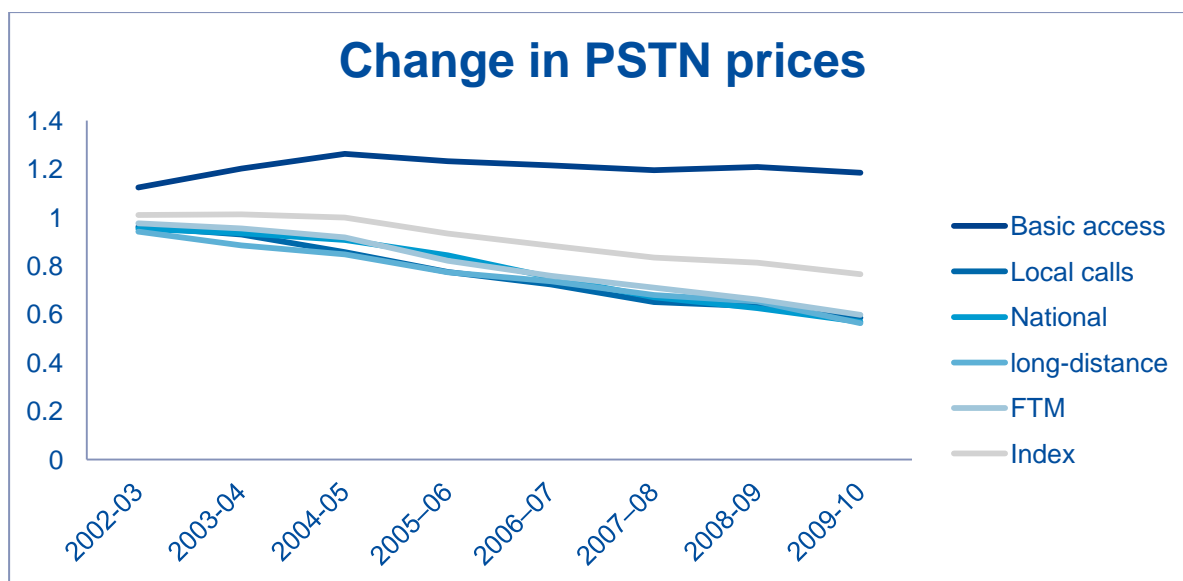


Figure 1 Index of PSTN prices 2002-03 to 2009-10 (Source ACCC)

These price reductions are reflected in Telstra's Basket 1 Price Control Reporting to the ACCC that showed a surplus at the end of FY 2009-10 of 7.1 per cent. This surplus indicates that had competition in the market not existed over and above the levels the regulations had expected, Telstra's customers would have paid up to \$260 million more for services subject to the Basket 1 controls.

The fact prices fell significantly below the Basket 1 price cap is undisputed evidence that the market is effective in passing on efficiency improvements and removal of price cap regulation will do no harm to consumers.

¹ ACCC Changes in the prices paid for telecommunications services in Australia 2009–10 p.21.

This point is further reinforced by the Australian Communications and Media Authority (**ACMA**) reporting that in 2009-10, in contrast to Telstra's decline in residential retail fixed line telephone services, Optus' reported a 12 per cent increase in its fixed-line telephone services.²

Furthermore, competition in the fixed voice market over the PSTN is also likely to intensify as a result of the recent reductions of regulated fixed services prices. This is discussed in further detail in Section 2.3.

2.2. Competitive substitutes to Telstra's fixed voice market

In addition to the direct competition from other PSTN based fixed voice services, competitive substitutes such as mobiles, Hybrid Fibre Coaxial (HFC) cable and carrier-grade VoIP services have also been effective in placing competitive disciplines on Telstra's PSTN services.

2.2.1. Mobiles

A significant impact on Telstra's fixed voice segment has been the increasing popularity and usage of mobile services as a customer's first preference for making a voice call. Mobiles are both an access and a usage substitute for fixed services, which is evidenced by customers choosing to:

- discontinue their fixed line subscription and instead use a mobile-only solution to meet their basic connectivity needs (access substitution); and
- make more calls on their mobile phones rather than their fixed line phones (usage substitution).

Although the decline in Telstra's fixed voice Services in Operation (**SIOs**) appears to have decelerated – the **usage** decline over those SIOs has continued to accelerate especially on local and long distance calling.

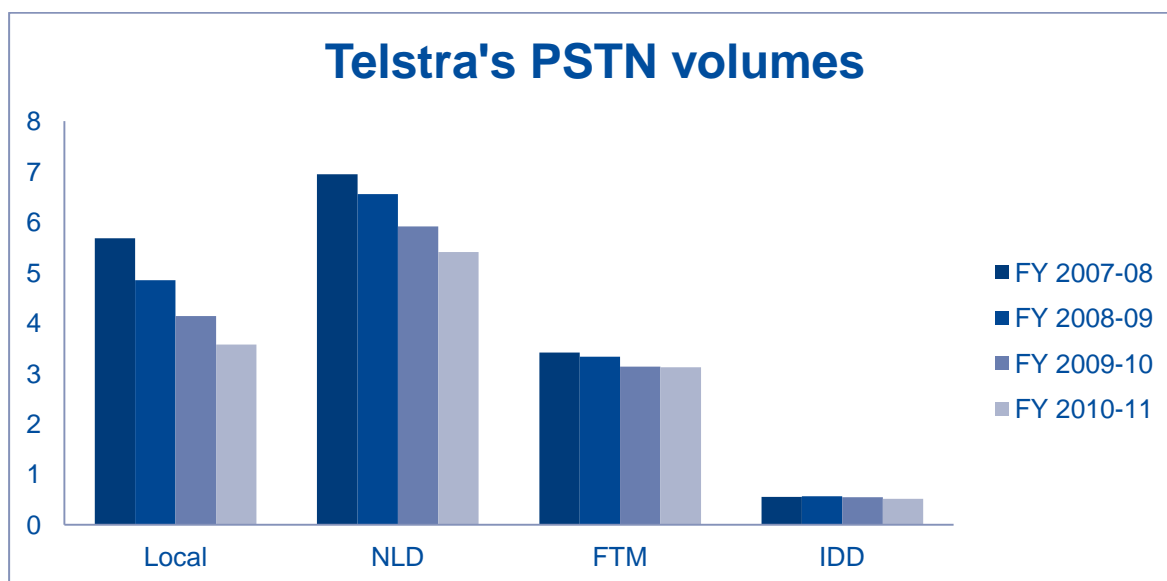


Figure 2 Change in Telstra PSTN service volumes (Billions of minutes) (Source Telstra annual reporting)³

The decline in fixed voice usage can be contrasted with the increase of mobile voice minutes.

² ACMA Communications Report 2009-10 p.29.

³ Local call volumes reflect number of calls.

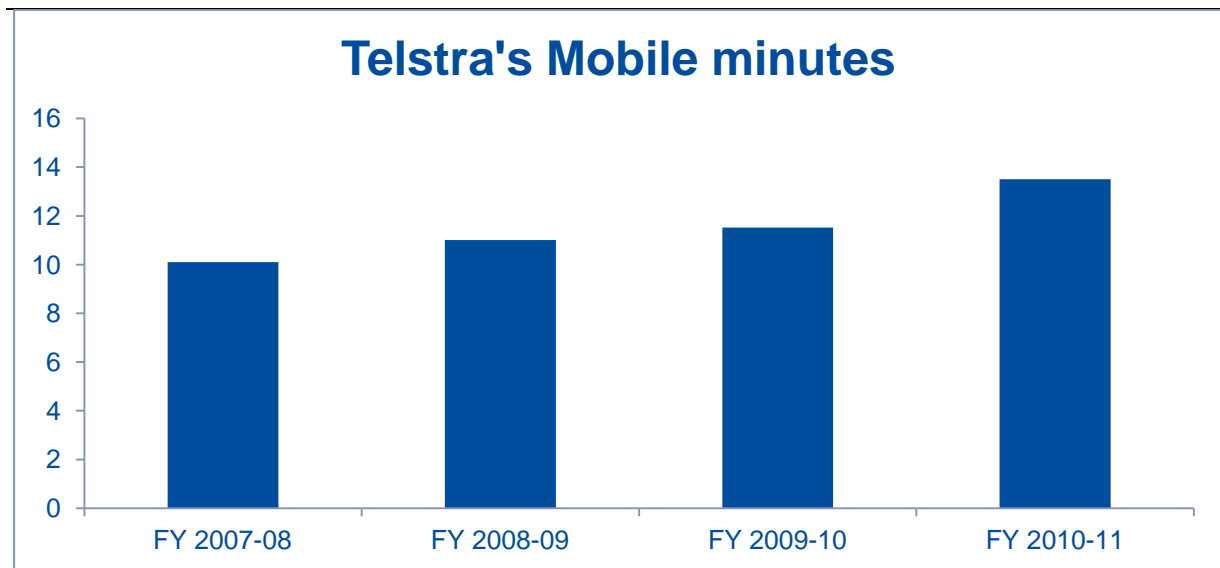


Figure 3 Change in Telstra mobile minutes (Billions) (Source Telstra Annual Report)

Taken as a whole, the shift in traffic away from fixed to mobile services is evident in Figure 4.

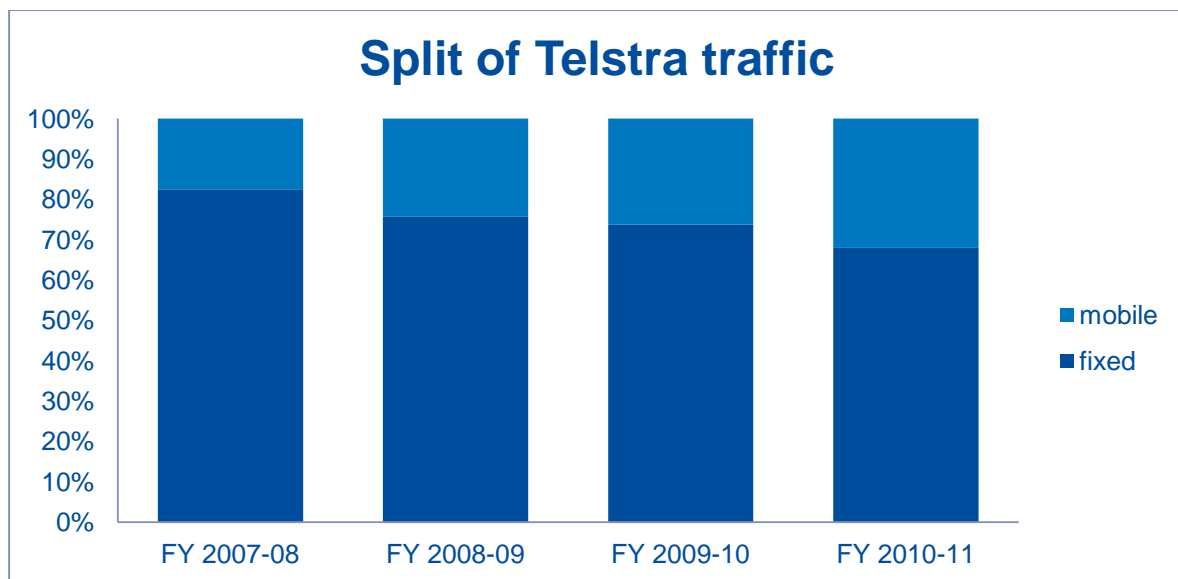


Figure 4 Split of total traffic between fixed and mobile minutes (Source Telstra Annual Report)

A comparison between fixed and mobile usage shows a clear shift in the market from fixed to mobile voice and is supported by the ACMA's finding that the number of Australians aged 14 years and over without a fixed-line telephone service at home increased by 35 per cent from 1.7 million to 2.3 million.⁴ This dynamic continues to place pressure on Telstra's fixed voice prices.

2.2.2. VoIP and Unbundled Local Loop Service (ULLS)

In addition to mobile substitution, Telstra's PSTN voice telephony business is facing increasing pressure from the increased popularity of carrier-grade VoIP services.

⁴ ACMA Communications Report 2009-10 p.14.

Like mobile voice, VoIP usage continues to increase. The ACMA's latest reporting on VoIP services noted that VoIP usage increased by 16 per cent from 2.5 to 2.9 million Australians⁵. This increased take up is likely to be a function of the increased prevalence of VoIP offers from Internet Service Providers (ISPs). The popularity of carrier-grade VoIP as a standard offering has reached the point where it has overtaken PSTN based voice telephony as a bundled offer.⁶ Many of these bundles offer discounted or free local call and national calling.⁷ Take up of VoIP is likely to continue and increase significantly with the launch of the NBN.

ISPs can use VoIP over the top of a variety of access services, wholesale DSL, LSS and ULLS. As an access service, ULLS is unique as it allows the ISP to provision broadband and VoIP services independent of the supply of a PSTN service. The popularity of ULLS has continued to increase. From June 2010 to June 2011, ULLS SIOs increased by around 170,000.⁸ It is likely that as a result of the recent Final Access Determination No. 5 of 2011 (ULLS) which averaged the ULLS price across three bands, ULLS and VoIP offers will become available to more customers, putting further competitive pressure on Telstra's fixed voice prices.

2.2.3. HFC

In addition to competition to Telstra's fixed voice services from mobile and ULLS access substitutes, there are competitive voice services provided over competitor HFC networks. Telstra acknowledges that Optus' HFC network will be progressively decommissioned as NBN is rolled out (as will Telstra's copper network). However, up until that time the Optus HFC network will remain a competitive substitute to Telstra's fixed line services.

2.3. The wholesale access regime makes RPCs unnecessary

RPCs are also unnecessary because Australia has a comprehensively regulated wholesale access regime. Telstra's retail PSTN products can be replicated by other operators using declared wholesale inputs with regulated wholesale prices such as wholesale line rental (WLR) and combining them with their own or other competitively available infrastructure.

The ACCC has declared the following services that are relevant to fixed line access services:

- Domestic PSTN Originating and Terminating Access (OTA);
- Line Sharing Service (LSS);
- Local Carriage Service (LCS);
- Domestic Transmission Capacity Service (DTCS);
- ULLS; and
- WLR.

In July 2011, after a review of the fixed line access arrangements, the ACCC finalised its fixed line services Final Access Determinations and for a period of three years has:

- averaged the ULLS price across three bands – almost halving the cost of a ULLS in regional Band 3 exchanges;
- reduced WLR by \$2.73;
- reduced LSS by 70c;

⁵ ACMA Communications Report 2009-10 p.14.

⁶ In 2009-10, 55 per cent of ISPs offered a VOIP service, 52 per cent offered a home service. ACMA Communications Report 2009-10 p.15.

⁷ inet Netphone1 and Netphone2 Bundle.

⁸ ACCC Snapshot of Telstra's customer access network as at June 2011.

- reduced PSTN OTA by 0.05c; and
- reduced LCS by 8.46c.

These wholesale price changes provide further opportunity for Telstra's competitors to pass through this benefit to retail customers through lower prices, in turn placing further downward pressure on Telstra's retail prices.

Question and Answers

To what extent are RPC beneficial to consumers?

Telstra considers there are sufficient competitive market pressures placed on its fixed line services to ensure consumers enjoy efficient prices. This is evident from Telstra's 7 per cent surplus in Basket 1. Furthermore, there is a comprehensive regulated access regime designed to ensure effective competition.

In what circumstances are they needed as a substitute of competitive market pressures?

Telstra does not believe that RPCs are needed as a substitute as there is effective competition.

To what extent do they limit competition?

The prescriptive nature of the RPCs can limit competition and innovation by directing what type of price changes are required instead of allowing market forces to determine the efficient pricing. Telstra considers that in an effectively competitive market they are unnecessary.

03 Implication of the NBN on the retail fixed voice market

The NBN will fundamentally shift the manner in which telecommunication services are provided in Australia. It will establish a national IP based fixed fibre access network which service providers must use if they wish to offer fixed voice services to customers.

Telstra agrees with the comment in the Discussion Paper that the case for price control regulation in a NBN environment is weak. The NBN roll out represents a disruptive influence to Telstra's pricing of fixed line services. Telstra will become an access seeker with little ability to influence the underlying cost of the service. This includes other external costs.

If Telstra is subject to a retail price cap over all of its retail voice services with little control over the underlying costs it may be forced into a regulated margin squeeze. This would negatively impact both on Telstra which would have to offer mass market voice services at below cost and on Telstra's competitors who would also have to price below cost to compete.

RPCs become redundant in this environment because:

- they constrain the ability of Telstra to adjust access prices in response to changes in costs; and
- there will be increasing competitive pressure on the voice services provided over the NBN access service.

3.1. Increasing complexity in measuring compliance

The regime for assessing Telstra's compliance is already very complex. With the increasing take up of subscription pricing becoming the norm along with bundled services with discounts over voice, allocating revenue between price controlled and non-price controlled services has become increasingly complex.

Telstra considers the current regime will lead to additional compliance overheads on the delivery of innovative services under the NBN. For example, in a NBN world – how should revenue be allocated to services where the voice service is 'free' but the customer purchases the broadband service?

Furthermore, in a fixed voice environment characterised by falling prices and increasing competition maintaining complex arrangements and rules to assess Telstra's compliance is excessive red tape.

3.2. Possible future arrangements

Telstra does not support the ongoing price regulation of its fixed voice services. The current arrangements impose pricing risks and additional reporting burdens, in a market which is characterised by increasing competition and falling prices.

If the Government wishes to have some transition measures in place in the move to the removal of RPC these measures must satisfy the following principles:

1. **Simple** – It must be implemented in a manner that clearly articulates specific protections to the Australian public while removing the compliance burden on Telstra;
2. **Targeted** – It must be focussed on low income customers who require ongoing support in managing the cost of their fixed voice services; and
3. **Flexible** – It must provide enough flexibility for Telstra to respond to changes in the underlying input costs, customer preferences and market developments without exposing it to regulated margin squeeze.

To achieve this outcome and to avoid any distortion in the market, transitional measures should be the minimum necessary.

The remainder of this paper outlines Telstra's views on specific elements of price control regulation and the form these transitional arrangements could take.

Questions and Answers

Once a more effective competitive market emerges via the NBN, will RPC still be necessary?

Telstra considers RPCs are unnecessary today as the market is already effectively competitive – NBN will only increase the level of competition.

Should RPC remain in place for services over the copper during NBN deployment?

Telstra does not support the ongoing use of RPC. However, this submission contains details on what regulatory arrangements should remain in place during the transition to full RPC deregulation. These arrangements should follow the principle of being simple, targeted and flexible.

If price controls are retained which key services should be regulated?

See above.

If RPC are retained on the copper network should they be also be applied to services provided via the NBN, if not why not?

To minimise reporting complexity and confusion for customers, Telstra considers that any arrangements that remain in place during the transition should apply equally regardless of whether the service is provided via the NBN or via the copper.

If RPC continue in the future, should they apply to all service providers? Would this restrict competition by smaller service providers?

Telstra considers that all service providers should be subject to RPC arrangements. If the transitory measures are simple, targeted and flexible then it should not provide a hurdle for other service providers.

04 Use of price controls for assisting low income consumers

Telstra considers the most competitively neutral way of addressing concerns on the affordability of telecommunication services for customers is via transparent government subsidies. This view was echoed by the ACCC in 2002 when the low income licence condition was first considered.⁹

The Federal Government currently provides support to users of telecommunications services through a telephone allowance which for many low income households was included from late 2009 as part of the pensioner and seniors supplement. Based on Federal Government reporting, this concession was paid to over 2.25 million, low income households in FY 2009-10. One method of addressing concerns around affordability would be to increase the size of this payment and extend its coverage to people in receipt of a Health Care Card, thus making it a comprehensive low income supplement.

Telstra acknowledges there are community expectations associated with Telstra's provision of voice services as the Universal Service Provider and its ongoing role of fixed voice provision in a NBN environment.

Telstra has specific low income obligations which provide low income customers with specific protections.¹⁰ These arrangements were introduced from 2002 to provide protection to low income customers from increases in line rental as a result of rebalancing for access and voice services.

Telstra is required under its low income obligation to offer products and arrangements to low income customers – the Low Income Package (**LIP**). Telstra must also have a marketing plan to make low income customers aware of the LIP. Telstra must also maintain and resource a Low Income Measures Assessment Committee (**LIMAC**) who will assess the LIP and the marketing plan and also report to the Minister on the effectiveness of the plan. The marketing plan has to be approved by LIMAC and Telstra must seek and consider LIMAC's views before any significant changes to the LIP. The LIP currently includes the following commitments:

- InContact;
- Sponsored Access Program for SAAP funded crisis accommodation properties;
- HomeLine Budget;
- Pensioner Discount;
- Telstra MessageBox;
- Access to the Centrelink Centrepay bill payment service;
- Telstra Bill Assistance Program; and
- Telstra Phone card/ PhoneAway Card Assistance Program.

As competition in the fixed line market is delivering efficient and competitive outcomes, the Government's focus should be on the third objective of price control regulation – upholding social equity. We consider this objective is best met via the existing low income regulation.

⁹ Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997 (Amendment No. 2 of 2002) Regulation Impact Statement.

¹⁰ Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997, clause 22.

LIMAC has been effective in influencing Telstra's design and delivery of the LIP. This package of services, self funded by Telstra, has delivered measurable benefits to low income customers in the order of two billion dollars since 2002 with a relatively low regulatory overhead. The low income customer base is diverse and different customers have different needs – the structure of the low income regulation provides Telstra with the flexibility to adapt and meet the needs of low income customers.

More broadly, in a NBN environment and with increasingly diverse service offerings, Telstra also considers there is merit in expanding the remit of LIMAC to encompass other major service providers and to provide reporting to Government of the adequacy of their arrangements. This would encourage other service providers to broaden the range and choice of options available to low income customers.

4.1. HomeLine Budget

Of relevance to many low income customers is HomeLine Budget which allows low income customers to access fixed voice services at a low access price point. As HomeLine Budget forms part of Telstra's LIP, Telstra will continue to offer and market HomeLine Budget nationally to low income customers both on the NBN and PSTN.

HomeLine Budget is also subject to a CPI cap in the low income package. This price cap effectively keeps a representative basket of HomeLine Budget services constant in real terms at 2002 prices. This will continue to limit the amount by which Telstra can increase the access price of HomeLine Budget in a NBN environment.

Question and Answers

How should low income users be provided with equitable access to affordable basic telecommunication services and how should such access be delivered and funded?

Telstra considers that a Government subsidy is the most competitively neutral way of addressing concerns around affordability of fixed voice services. However, Telstra considers the existing protections applied nationally for low income customers offered by the low income licence condition has effectively delivered and will continue to deliver, benefits to low income customers while providing a low regulatory overhead.

What is the ongoing role for LIMAC, or should it be replaced, and if so by whom?

In a NBN environment with increasingly diverse service offerings, Telstra considers there is merit in expanding the remit of LIMAC to encompass other major service providers and to provide reporting to Government as to the adequacy of industry-wide arrangements to meet the needs of people on a low income.

05 Ancillary Arrangements

In addition to the Basket 1 cap of Telstra's basic telephony services, there are additional obligations that are imposed on Telstra under the RPCs. The following section outlines the rationale as to why these measures are able to be removed or amended without detriment to competition or consumer welfare.

5.1. HomeLine and BusinessLine Part

Telstra is subject to a CPI cap on its pre-selection services HomeLine and BusinessLine Part. With so few customers, HomeLine and BusinessLine Part provide no meaningful contribution to fixed line competition and any possible objective of the price controls. In Telstra's view, pre-selection should be removed from the copper service altogether. Any move to continue to price control these services will make future policy decisions on the future of pre-selection unnecessarily complex.

5.2. Directory Assistance

Telstra residential NDA should be made subject to a price cap of 50c under s 154(1) of the *Telecommunications (Consumer Protection and Service Standards) Act 1999 (TCPSS Act)* rather than Ministerial notification and disallowance under s 157(1). As recommended by the ACCC, a price cap of

50c is appropriate because it would remove both the inconsistency between the prices Telstra and Optus charge for the same NDA service and the price disincentive to the emergence of competitive providers. At the same time, it would ensure that low-cost NDA remains available to Telstra's residential customer base.

Telstra shares the ACCC's view that direct ministerial oversight of NDA pricing is no longer necessary.¹¹ This provision dates from a time when the only alternative source of directory information was the printed telephone book and telephony access prices were subsidised from calling revenue in the context of limited competition. The landscape today is dramatically different. Alternative sources of directory information are abundant (many are free), price rebalancing has removed cross-subsidies, and access and calling prices continue to fall as competition strengthens.¹² The entire market is now competitive.

5.3. ACCC – LIMAC price notification

Telstra is required to obtain ACCC consent to increases in residential line rental rates. ACCC consent is contingent on Telstra demonstrating it has complied with the LIMAC licence condition. Since LIMAC was introduced there has been no suggestion of Telstra not complying with its obligations to engage or consult – a point acknowledged in the Discussion paper. Furthermore, each meeting of Telstra's LIMAC is attended by generally four representatives of the Government. Requiring Telstra to provide this further evidence of compliance to the ACCC is an example of redundant red tape regulation that should be removed.

5.4. Untimed local calls in extended zones

Telstra acknowledges that the TCPSS Act requires the Minister to have in place arrangements to allow customers in specified zones to enjoy the benefits of untimed local calls in circumstances in which they may ordinarily be charged at national long distance rates. However, the Minister's obligation to ensure this is in place can be discharged through an agreement that puts such arrangements into effect.

This object is achieved contractually. Although the agreement referenced in the current RPCs expired in May 2011, with the provisions no longer having operative effect, Telstra has entered into a new agreement with the Commonwealth which expires on 30 June 2012. Access to local call rates for extended zone calls should continue to be on contractual terms, which have proved to be effective thus far.

5.5. Connections

Telstra seeks the removal of price caps from connection services - the establishment of a standard telephone service to the boundary of the Telstra network as defined by s 22 of the *Telecommunications Act 1997*.

5.5.1. Connection over Telstra's copper

As outlined in Section 2, take-up of fixed voice services continues to decline as a result of competitive pressure from alternative infrastructure substitutes such as mobile services.

Unlike mobile services, fixed voice services have an upfront charge to establish the connection. Increasing these charges in an environment of increasing competition will simply lead to customers either choosing another service provider or taking up a mobile service. As a result, Telstra has no commercial incentive for increasing these prices – this is evident from the fact that:

- new connection charges have remained unchanged since 2004-05;
- in-place connection charge has remained unchanged since 2001;

¹¹ ACCC, *Review of Telstra's price control arrangements*, March 2010, p.39.

¹² See for example ACCC, *Changes in prices paid for telecommunications services in Australia*, 2009-10, p. 89.

- there are no connection charges for customers with in-place connections taking Telstra's Complete Home bundles (http://telstra.com.au/bundle_save/home-bundles.html)¹³

5.5.2. Connections over NBN

Connection services over the NBN will be provided to Telstra on a wholesale basis.

The NBN costs for connection services will be presented to Telstra and other service providers on an equivalent basis. Each operator will need to consider the level and structure of their connection charges to meet their NBN strategy. In an environment where customer acquisition is paramount, charging connections at a level above a competitor will put an operator at a competitive disadvantage. Furthermore, any price cap would potentially cause Telstra to face a price squeeze between the NBN input cost and the price controlled amount.

5.6. Payphones

The proposed new arrangements under the TUSMA Definitive Agreement will see an increase in the USO funding for payphone services. Although a significant portion of this payment will be funded by Telstra, it will improve the business case for a number of payphones. However, even with this payment, a number of payphones will remain unprofitable due to the overall decline in payphone usage which is projected to continue to decline over the coming years.

If the underlying capped price for a local call from a payphone is increased, the business case for many payphones would improve, extending their presence in local communities.

06 Monitoring arrangements relating to retail prices

One of the key outcomes Telstra is seeking is the simplification of RPC monitoring and reporting obligations.

Currently, Telstra is required to report on its compliance with the RPCs as set out in the current *Telstra Carrier Charges - Price Control Arrangements, Notification and Disallowance Determination No 1 of 2005 (Determination)* and the ACCC's Methodology for the Administration of the Telstra Carrier Charges Price Control Arrangements. Telstra's regulatory reporting obligations under the Determination are in some cases different to those rules applied by Telstra's internal accounts. As a result, Telstra's existing internal reporting must be adapted to comply with the Determination. This leads to complex restatements, revisions and additional overheads for Telstra's financial reporting functions that have not led to any material benefit to consumers.

With the introduction of NBN, Telstra anticipates there will be a further evolution in the types of market offers available to consumers – without a simplification of the arrangements greater complexity in reporting will be the likely result.

Future price control arrangements must be narrowed and simplified significantly to reduce this regulatory burden. Removing the need for complex rules to handle evolving product constructs and minimise potential for differences in interpretation regarding the application of rules should be a key goal of the current review.

Questions and Answers

What regulatory oversight is required for the effective operation of RPC? What role should the ACCC play?

Telstra considers future price control arrangements must be simplified so that compliance can be measured and reported in a more straight forward manner. If the Government considers that ongoing monitoring is required of simplified arrangements, current oversight of compliance by

¹³ Temporary connections fees apply if the customer disconnects their service within 3 months.

the ACCC could be maintained – with LIMAC and Extended Zones having separate arrangements not monitored by the ACCC as they are not strictly part of RPCs.

07 Transitional price control arrangements

As outlined in this paper, Telstra considers the current market dynamics and the onset of the NBN have created the necessary conditions for RPC repeal. Should transitional measures be required to retain basic protections for low income customers, they should be simplified with reduced reporting burdens.

Telstra considers retention of the low income licence condition provides sufficient protections to low income customers both on the NBN and PSTN.

Telstra also understands ongoing protections may be needed to retain controls over untimed local calls, calls from payphones and to residential NDA.

However, it is Telstra's expectation that in time business models and changes in product dynamics will also lead to these obligations largely becoming redundant. For example:

- in time, market offers are likely to emerge where basic fixed voice telephony is likely to be incorporated within the access price leading to most if not all call types becoming untimed or free; and
- recent advances in voice recognition technology, such as Apple's integration of the Siri application into the iPhone 4S, signal a future where there is mass market adoption of devices that deliver identical functionality to Telstra's NDA. For example, instead of calling a directory assistance service, consumers will be able to verbally query their device (phone/tablet/desktop) for directory assistance in an identical manner to NDA.

Questions and Answers

What transitional arrangements might be required should RPC be changed? i.e. Should there be a safety net during NBN rollout which apply to areas that don't have effective competition?

As a transition to full price control removal – Telstra considers that the following arrangements would be suitable – applied nationally to consumer services on both NBN and PSTN

- **maintenance of the LIMAC licence condition and extending low income reporting to whole-of-industry arrangements;**
- **Untimed local calls capped at 22c (unless on a plan where the access price is lower than Telstra's most popular voice only access product);**
- **capped untimed local calls on payphones to be retained and increased;**
- **Extended Zones obligations to be imposed contractually; and**
- **a residential NDA price cap introduced at 50c.**

08 Fixed to Mobile Sub-cap

Although not raised as part of the Discussion Paper, Telstra notes the ACCC advised in its draft MTAS Final Access Determination that parties who wish to raise the option of a FTM sub-cap should do so as part of the Government's Price Control Review.

Telstra's reasoning as to why a FTM sub-cap is unnecessary is detailed in our initial and supplementary submissions to the ACCC Discussion paper on Domestic Mobile Terminating Access Service (MTAS),

as well as our submission in response to the ACCC's 2010 review of the Price Control Arrangements.
1415

These submissions make a number of important points as to why a FTM sub-cap is inappropriate:

- FTM is part of a fixed services bundle and the bundle price has fallen more than the changes in input costs of the services that make up the bundle;
- even if FTM is treated as a single product, the reduction in retail prices reflect the reductions in Telstra's MTAS liabilities (i.e. the MTAS costs paid for off-net traffic); and
- A FTM sub-cap is not in the long term interest of end users as it removes the commercial flexibility for Telstra to pass on the benefits of operational savings in a way that best meets its customer needs. This was recognised by the Australian Competition Tribunal and the ACCC when assessing Vodafone's MTAS undertakings in 2006/2007.¹⁶

Telstra considers the perception of a lack of response of retail prices to changes to wholesale prices is due to a misunderstanding of the benefit to an integrated operator (i.e. an operator with a fixed and mobile network) from a reduction in the MTAS rate.

Unlike a fixed only operator, for an integrated operator like Telstra, a 1c reduction in the wholesale price does not equal a 1c saving on all of its FTM traffic. It only equates to a 1c saving on its off-net FTM traffic. Attempting to make a 1:1 match in price changes in wholesale rates to retail rates is erroneous.

Finally, Telstra notes the ACCC did not recommend the imposition of a sub-cap on FTM calls in its 2010 review of Retail Price Controls.

¹⁴ www.accc.gov.au/content/index.phtml/itemId/1000778.

¹⁵ www.accc.gov.au/content/index.phtml/itemId/914312.

¹⁶ Re: Application For Review Of The Final Decision Of The Australian Competition And Consumer Commission Dated 31 March 2006 In Relation To The Ordinary Access Undertaking Lodged By Vodafone Network Pty Ltd And Vodafone Australia Limited For The Gsm Terminating Access Service [2007] ACompT 1 pp 268, 290.