



Australian Government

**Department of Broadband,
Communications and the Digital Economy**

Retail Price Controls Review

Discussion paper

Introduction

The Australian Government is conducting a review of the retail price controls for fixed-line telecommunications services, which under the *Telecommunications (Consumer Protection and Service Standards) Act 1999* (the TCPSS Act) currently only apply to Telstra. The intention to conduct such a review was signalled in 2010, when the current arrangements were last extended. A review is needed because a number of important developments have occurred which have a bearing on the future of retail price controls. These include:

- the announcement of the National Broadband Network (NBN) in April 2009 and the establishment of NBN Co Limited
- passage of the *Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Act 2010* which facilitates the separation of Telstra
- proposed reforms to the Universal Service Obligation (USO) for the transition to the NBN environment including the establishment of the Telecommunications Universal Service Management Agency (TUSMA)
- announcement of the Definitive Agreements between Telstra and NBN Co on 23 June 2011.

These developments have potential implications for the existing retail price control framework and it is appropriate to consider the existing arrangements carefully and consult industry and the public. Any changes to retail price controls will need to be implemented by 30 June 2012, when the current controls are due to expire.

This discussion paper provides background on the retail price controls, explores a range of issues for the review to consider and invites submissions from interested parties on these matters.

The terms of reference for the review are:

1. The review is to provide advice to the government on:
 - a) the appropriate policy framework for retail price controls
 - b) the services, if any, which should be subject to price controls
 - c) any legislative changes required to give effect to that policy framework
 - d) any interim arrangements which would be required during the transition to a new price control framework.
2. In doing so, the review is to have regard to:
 - a) the extent to which retail price controls benefit consumers
 - b) the implications of the NBN rollout for price controls, including
 - (i) the government's commitment to uniform national wholesale pricing
 - (ii) enhanced retail competition in an open-access, wholesale-only network environment
 - (iii) the migration of fixed-line services from existing networks
 - c) whether the implementation of any price controls should be subject to different arrangements for services supplied using the NBN or Telstra's copper network
 - d) whether price controls should apply to service providers other than Telstra
 - e) whether there are cost-effective alternatives to the use of the current price control arrangements for assisting low-income users
 - f) what arrangements should apply to the provision of untimed local calls in Extended Zones

g) what arrangements for regulatory oversight should apply.

Advice will be sought from the Australian Competition and Consumer Commission (ACCC) on the matters in the terms of reference and, specifically, on the relationship between retail price controls and the availability, choice, quality and prices of services to consumers, and any impacts on economically efficient investment decisions.

The Department of Broadband, Communications and the Digital Economy will conduct the review in accordance with the principles laid out for legislation reviews contained in the Council of Australian Governments' Competition Principles Agreement.

The review's findings will inform government consideration of the future of telecommunications retail pricing policy.

Background

Under the TCPSS Act, the Minister for Broadband, Communications and the Digital Economy may determine by a legislative instrument that Telstra retail services are subject to price control arrangements (the Price Control Determination).

Retail price controls were first introduced in 1989 and, as currently implemented, apply only to certain Telstra fixed-line services. They cap the price of untimed local calls and directory assistance calls; reinforce Extended Zone calling arrangements; ensure that a basic line-rental service is offered nationally at a regulated rate; regulate prices for fixed-to-mobile, long-distance and international calls; allow schools and charities to access plans at residential service rates; and deal with various associated matters.

The services subject to price caps are split among four regulated 'baskets'. The first includes local and international calls, trunk calls and line rentals; the second covers the basic residential line rental product; the third applies to basic business and charity line rental; and the fourth comprises line connection charges. [Attachment A](#) provides more detail on the current price control arrangements.

Retail price controls on Telstra have both economic and social equity aspects. Productivity gains are passed through to consumers; legislative and licence conditions relating to universal service, untimed local calls and low-income measures are supported; and social equity is promoted by requiring reasonably-priced voice communications throughout Australia.

Discussion of issues

At various times in the past, Telstra, the ACCC and the Productivity Commission have advanced cases to scale back or eliminate retail price controls.

The ACCC noted in its 2010 review of price controls that price controls may inhibit competition, efficient investment and the long-term benefits for consumers. For instance, it stated that price caps that are too prescriptive may foreclose efficient competitors. It also stated that in markets experiencing significant changes, there may be greater risks and consequences that price control arrangements do not achieve efficiency objectives¹.

¹ ACCC, Review of Telstra's price control arrangements, March 2010, p. 50.

Other industry stakeholders agree. Optus has stated that there is ‘a strong case for their removal’², while according to Macquarie Telecom there are ‘fundamental limitations on the extent to which retail price controls can drive competition and address Telstra’s market power’³ and even those that support the arrangements acknowledge that the arrival of the NBN is likely to force a reassessment⁴.

To a greater or lesser degree, Telstra has priced services below the regulated caps, and it argues that competition from other providers is acting to keep prices low. In practice, retail price controls may therefore act more as a safeguard preventing sudden or severe increases, rather than a tight cap on prices.

A table summarising the price caps applying to the four baskets of services for the period 2006 to 2010 and Telstra’s compliance is set out at [Attachment B](#).

If current arrangements were renewed unaltered, retail price controls would apply to Telstra fixed-line services delivered over the fibre-optic NBN network, as well as on Telstra’s remaining copper network.

This review is an opportunity to assess the impact of the existing policy and consider how best to deliver the government’s objectives in the new NBN environment.

In reviewing retail price controls, the government does not intend to suggest that such long-standing concepts as the untimed local call requirement will not apply to services supplied using the NBN. However, some services will undoubtedly operate differently in the new context, and any price regulation will have to evolve in response. As an example, some service providers have already announced initial NBN residential broadband plans which include an IP-based telephony service with untimed local and national calls. Other providers are also expected to make competitive offerings involving pricing models that do not reflect previous constraints imposed by the structure of Telstra’s copper access network.

Policy objectives and benefits to consumers

Broadly speaking, retail price controls have had three primary objectives—to restrain Telstra’s significant pricing power, to encourage efficiency in service pricing, and to uphold social equity principles such as uniform national retail pricing and supporting the licence condition which requires Telstra to develop and comply with a plan to assist low-income consumers to access telecommunications.

Although retail competition in the telecommunications market has improved in cities and many regional areas, Telstra remains the dominant supplier of fixed-line services throughout the country. Capping prices while this continues may therefore be a reasonable consumer safeguard. However, Telstra argues that overall competition in the market has reached a stage where it cannot easily raise its prices without losing market share:

[I]nstead of not changing its price over the three years [2005-08], Telstra’s prices fell 8.7 per cent—lower than both the actual cap and the ACCC’s recommended cap ... This result is unsurprising given competitive pressure imposed by fixed to mobile substitution, broadband services and the continuing availability of wholesale services that provide PSTN inputs at regulated prices⁵.

2 Optus, Submission to ACCC’s Review of Telstra Price Control Arrangements, February 2010, p. 3

3 Macquarie Telecom, Submission to ACCC Review, p. 2

4 Competitive Carriers’ Coalition, Submission to ACCC Review, p. 1

5 Telstra, Submission in response to the ACCC’s Review of Telstra Price Control Arrangements, February 2010, p. 12

Baskets have been price-capped in such a way as to encourage efficient pricing, most notably in the case of basket 1 (including local, trunk and international calls and line rentals), the price cap of which has remained fixed at its 2005 nominal value—effectively a reduction in real price terms for that basket of services.

Social equity objectives recognise that, along with providing universal access to basic telecommunications, pricing such services at an affordable level promotes social cohesion and improves the utility of the network to all users. In this regard, retail price controls have operated in tandem with universal service arrangements.

On 23 June 2011, the Australian Government and Telstra reached an agreement for the ongoing delivery of the Universal Service Obligation for voice and payphone services and other public interest services as the telecommunications industry transitions to the NBN environment. The agreement with Telstra will be managed by a new entity, TUSMA, which is expected to commence in July 2012⁶.

It is difficult to measure the precise value of social benefits, or to make meaningful comparisons with other jurisdictions without such price regulations, where the industry structure is different.

Industry stakeholders opposed to retail price controls cite their inflexibility and their tendency to dampen incentives for competitive entry into a market, and point to overseas examples where deregulation has produced better outcomes for consumers:

The [UK National Audit Office] NAO determined that [the] most important criteria for removing RPCs [retail price controls] was that the market conditions and regulatory regime were sufficient to allow competition to develop. In this regard Optus considers that the emergence of genuine competition in the Australian fixed line market and the existence of a regulated wholesale market effectively removes the justification for retaining retail level price controls⁷.

Q1: To what extent are retail price controls beneficial to consumers? In what circumstances are they needed as a substitute for competitive market pressures? To what extent do they limit competition?

The effects of the NBN

The NBN represents a transformative change to the telecommunications market in Australia, one likely to have a particularly large impact at the retail level. In its review of retail price controls last year, the ACCC observed:

The transition to a NBN environment, including the establishment of NBN Co combined with the possible separation of Telstra is likely to see significant structural and competitive changes to the Australian communications industry. For example it is possible that Telstra's market power will reduce over the longer term as the NBN is established and competing services provided over that network mature. Should this occur, it is unlikely that

⁶ Details of planned changes to universal service arrangements are available at www.dbcde.gov.au/broadband/national_broadband_network/universal_service_policy

⁷ Optus, Submission to ACCC Review of Telstra Price Control Arrangements, February 2010, p. 18–19.

*retail price control arrangements would be required for efficiency reasons, although social policy objectives may support retail price controls in these circumstances*⁸.

The NBN is likely to stimulate further innovation and uptake of new applications which challenge traditional models of service delivery and charging. VoIP residential use grew by 16 per cent to 2.9 million in 2009–10⁹ using current technologies. The NBN will accelerate this and provide greater competition for voice and other communications services.

Uniform national wholesale pricing

In December 2010, the government directed NBN Co through its Statement of Expectations to offer uniform national wholesale prices. NBN Co has announced its proposed wholesale pricing, which will apply uniformly across its network. Its lowest price will be \$24 per access service, with some additional capacity charges. The prices for these capacity charges will be uniform from end-user premises to a point of interconnect. NBN Co's national network will offer about 121 points of interconnect across the country. Early announcements of retail prices and service packages by service providers indicate that they will be at least as cost-effective as the offerings currently available via Telstra's copper network.

The ACCC's recent Interim and Final Access Determinations have adopted more uniform pricing than previously, most notably by setting a single charge for the wholesale unconditioned local loop service (ULLS) across Bands 1 to 3, which comprise the bulk of the population.

Enhanced retail competition in an open-access network environment

As Australia's first national, wholesale-only open access broadband network, the NBN will drive more vigorous competition between retail service providers, leading to better services and more choice for consumers and businesses.

This is likely to remove one of the main reasons for the existence of price controls—the lack of competitive alternatives to Telstra in parts of the market. The government anticipates that the level playing field afforded by the NBN will mean that carriage service providers will compete on price and non-price offerings to consumers in a manner that is not possible today.

In such an environment, the market is likely to be more effective in preventing instances of significant price increases, mainly through enhanced choice for consumers. In addition, the ACCC has powers granted under Parts XIB and XIC of the *Competition and Consumer Act 2010* to promote and protect competition in telecommunications markets. This includes mechanisms to deal with anti-competitive conduct.

The migration of fixed-line services from existing networks

As the NBN is deployed across Australia and the copper network is decommissioned in fibre areas, consumers will expect the migration process to be smooth and transparent, including in relation to the pricing of retail voice services.

One possible way of facilitating this goal might be the use of a standalone 'anchor' voice product which provides access to a fixed-line voice service at a regulated rate.

⁸ ACCC, Review of Telstra's price control arrangements, March 2010, p. 10.

⁹ Australian Communications and Media Authority, Communications Report 2009–10, p. 23.

Even in areas where copper is expected to remain in use—that is, the last 7 percent of the premises outside the fibre footprint—the existence of an alternative infrastructure to copper (NBN wireless and satellite services) will provide an unprecedented level of wholesale service competition.

TUSMA will engage Telstra, as the Universal Service Provider, to be the retail service provider of last resort for basic voice services.

Q2: Once a more effective competitive market emerges via the NBN, will retail price controls still be necessary?

Q3: Should price controls remain in place for services over the copper network during the NBN deployment?

Key services

The creation and maintenance of an economically-efficient and competitive market for telecommunications services is a key objective, but so is the provision of socially-important services which enhance inclusiveness at a reasonable cost to all. From this perspective, retail price controls imply a level of subsidy across the customer base.

If it was determined that some form of retail price control remained desirable in pursuit of these objectives, the question arises as to which services would most require regulatory protection.

Submitters are invited to consider which key services are most important for consumers, and why a regulated retail price might be warranted.

Submitters should take into account the ACCC's view that it

considers that a service or market segment should only be subject to a price cap where the conditions for effective competition to emerge are not present¹⁰.

Q4: If price controls are retained, which key services should be regulated?

Applying retail price regulation to the NBN

A primary rationale for retail price controls has been to restrain the power of a dominant provider (Telstra) to set prices unreasonably high in relation to the underlying cost of supply, which it has largely controlled, thereby disadvantaging consumers. Ensuring uniform national pricing for basic services was also a key consideration.

Both of these concerns are ameliorated once service delivery is via a ubiquitous open-access wholesale network subject to regulated wholesale pricing. In this context the large, vertically-integrated supplier loses the advantages it derives from its vertical integration and the ability to set

¹⁰ ACCC, Review of Telstra's price control arrangements, March 2010, p. 23.

prices unreasonably high. The case for retail price controls applying to the NBN may be considered weak on these grounds.

An alternative view is that there is a case for preserving consumer safeguards in the new environment by providing some kind of cap or ceiling on the price of key telecommunications services as a form of safety net. This may, however, come at some cost to the level of competition in the market.

It is difficult to anticipate the new types of services that might emerge on the NBN, or predict how users' consumption of existing services could change. Mobile services have been largely unregulated, and as a result there has been considerable innovation in the way voice services are provided and new services such as SMS have evolved. The same dynamic is likely to occur on the NBN, given its inherent utility.

Q5: If retail price controls are retained on the copper network, should they be also be applied to services provided via the NBN fibre network? If not, why not?

Application to other suppliers

If retail price controls continue in some form beyond 30 June 2012, the government will consider whether they should continue to apply only to Telstra or if they should expand to apply to key services supplied by some or all other retailers.

Telstra's historically-dominant position in the market has made a reasonable degree of extra regulation appropriate, particularly in light of its vertical integration and control of an economic bottleneck (the copper customer access network). However, once this situation changes and Telstra faces an environment where all providers use most of the same inputs and competitive retail services exist, imposing additional regulation on one company alone may be more difficult to justify.

All providers are currently required to provide customers with an untimed local call option, but only Telstra has its retail price capped. Other providers tend to price their local calls relatively close to Telstra's offering, which suggests it is used as a market benchmark. If Telstra's retail call price remained capped on the NBN, a similar outcome might result, without requiring any extension of regulation to other providers.

The expectation is that, once effective competition exists, supply and demand forces will allow the market to find its natural level. Any regulation of retail prices is likely to interfere with this process. However, if there is a strong case for capping one or more services, it may be preferable in the NBN context to apply the cap generally.

Q6: If price controls continue in future, should they apply to all service providers? Would this restrict competition by smaller service providers?

Protecting low-income consumers

Under clause 22 of the Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997, Telstra is required to:

- have a low-income package in place endorsed by low-income consumer advocacy groups and specified in writing to the Australian Communications and Media Authority
- have a marketing plan in place for the package, approved by the Low Income Measures Assessment Committee (LIMAC)
- obtain and consider the views of LIMAC on proposed changes to the package.

No other supplier is subject to this type of licence condition, although some (including Optus) may provide pensioner discounts on request.

The Price Control Determination links ACCC approval of any proposed residential line rental increases to Telstra's satisfactory compliance with clause 22. Telstra has consistently complied with this requirement.

Telstra's low-income package is marketed as the Access for Everyone program (www.telstra.com.au/accessforeveryone). Some measures are targeted at particular consumers, such as pensioners or those without stable accommodation, while others are more widely available.

In this way, the targeted approach of the low-income package has worked in tandem with the broader application of retail price controls.

As stated above, the government recognises that providing universal access to basic telecommunications at an affordable level is an important social objective, and TUSMA will have an important role to play in this regard. However, the achievement of this objective may not necessarily depend on the use of retail price controls.

The Productivity Commission has stated that:

[T]he Commission ... reiterates that effective support for low income and other disadvantaged groups should remain a centrepiece of consumer policy in the utilities area. But this is not the role of price regulation. Hence, once utility markets are fully contestable—as the telecommunications market evidently already is—retail price regulation should be abolished¹¹.

The Commission also stated that:

Ensuring that disadvantaged consumers continue to have sufficient access to utility services at affordable prices should be pursued through transparent community service obligations, supplier-provided hardship programs, or other targeted mechanisms that are monitored regularly for effectiveness¹².

Submissions are invited on the appropriate mechanism for providing low-income consumers with access to affordable basic telecommunications services.

It is likely that supporting the needs of a core cohort of low-income consumers will require a long-term strategy. In this regard, the existence of LIMAC may be significant. Indications so far are that the Committee has been an essential bridge between Telstra and advocates for those most in need when it comes to formulating socially-useful telephone products and services. Depending on future arrangements for low-income customers, LIMAC may continue to have a role to play in any future low-income policy arrangements.

Submitters are asked to consider the role that LIMAC might play in future arrangements for low-income consumers or whether an alternatively-constituted body might be more appropriate.

¹¹ Productivity Commission, Review of Australia's Consumer Policy Framework, April 2008, p. 115.

¹² Ibid, Recommendation 5.4, p. 116.

Q7: How should low-income users be provided with equitable access to affordable basic telecommunications services and how should such access be delivered and funded?

Q8: What is the ongoing role for LIMAC or should it be replaced, and if so, by whom?

Extended Zones

Extended Zones are large regional call zones which lie outside of Telstra's standard local call zones. They are sparsely populated and geographically diverse. Because of the large distances involved, a phone call to a neighbour or local regional centre has the potential to attract long-distance charges. To address this, under sections 107(6) and (6A) of the TCPSS Act, the Communications Minister is required to ensure that, at all times, there are regulations or other arrangements in place to provide customers in the Extended Zones with access to untimed calls.

To this end, the government and Telstra in 2001 signed the 'Agreement for the provision of untimed local calls, untimed internet access and other carrier services to Extended Zones'. This ensures that customers calling fixed-line services located in their own and adjacent Extended Zones will be charged at untimed local call rates, which are specified in clause 16 of the Price Control Determination.

This agreement is referred to in clause 15 of the Determination, but it is a separate document which is only dependent on price controls to the extent that they set the price of a local call.

The original Extended Zones agreement recently expired. However the Department of Broadband, Communications and the Digital Economy has negotiated a new agreement with Telstra which extends through to 30 June 2012, bringing it into line with the price control expiry date.

Submitters are invited to comment on policy issues relating to the price of untimed calls in the Extended Zones.

Q9: Is there a long-term need for a legislative obligation to have regulations or other arrangements in place to provide untimed calls within and between adjacent Extended Zones?

Q10: What is the best option for meeting this obligation?

Regulatory oversight

The ACCC has a number of responsibilities in relation to regulatory oversight of the telecommunications industry.

Since competition in telecommunications was introduced in 1997 the ACCC has also been closely involved in setting wholesale access prices for declared services—an activity which, because of recent regulatory reforms, it is now able to carry out by setting up-front prices in an access determination.

The ACCC will also have scrutiny of NBN Co's wholesale pricing arrangements. The NBN will increasingly provide the wholesale services used for the supply of any retail services that may be subject to retail price controls.

The ACCC's role in relation to wholesale prices can be contrasted to that which it fulfils regarding retail price controls. Retail price controls are determined by the Minister, with the ACCC primarily fulfilling monitoring and reporting functions in relation to them. Under the Competition and Consumer Act, the ACCC is required to report annually to the Minister on Telstra's compliance with retail price controls¹³. The Price Control Determination further provides that Telstra may not increase the price of its residential line-rental service unless the ACCC has verified its compliance with the carrier licence condition on low-income measures.

Finally, in 2004 and 2010, the Minister directed the ACCC to undertake public enquiries and provide advice about specific, limited aspects of the retail price controls¹⁴.

Q11: What regulatory oversight is required for the effective operation of the retail price controls? What role should the ACCC play in this?

Transitional arrangements

If the government decides to significantly alter or dispense with retail price controls beyond June 2012, certain transitional measures may be required.

For example, there might be a need for a consumer safety net of price caps during the NBN rollout, which apply to areas that do not presently have effective competition in place.

Comments are invited on the need for transitional arrangements.

Q12: What transitional arrangements might be required should price control arrangements be changed?

¹³ Competition and Consumer Act 2010, Part XIB, Division 12.

¹⁴ The Minister has a general power to direct the ACCC to undertake public inquiries in relation to the telecommunications industry under subsection 496(1) of the Telecommunications Act 1997.

Submissions

Submissions to this review from industry stakeholders and the public are welcome. Please lodge submissions by **5.00 pm AEDT on 18 November 2011**.

The preferred method for lodging submissions is by email to pricecontrols@dbcde.gov.au

All emailed submissions should adhere to the following requirements.

- Include the submitter's full name (whether individual or organisation) in each file name and indicate whether the file concerned is a submission or an appendix to a submission.
- Submit the main document in Microsoft Word or in a compatible format. Acceptable files formats for attachments are PDF (not secured), GIF, TIFF, JPG, TXT or ZIP.
- The total file size of a submission, including the main submission and any attachments, should not exceed 3 megabytes.

If you must provide any material as hard copy, please send it to:

Price Control Review Team
Department of Broadband, Communications and the Digital Economy
GPO Box 2154
Canberra ACT 2601.

Publication of submissions

Please note that the department intends to publish submissions on its website.

However, the department reserves the right not to publish any submission, or part of a submission, which in its view contains potentially defamatory material, or where it considers it appropriate to do so for confidentiality or other reasons.

Please note that some delays in publishing submissions may occur if a large number are received. If the department receives a submission from a person or organisation more than once it will publish only one format of that submission.

The department will not acknowledge receipt of submissions.

Confidential information

All submissions will be treated as non-confidential information unless specifically requested. Email disclaimers or confidentiality markings are not considered sufficient confidentiality requests. Note that submissions or comments will generally be subject to freedom of information provisions.

The department expects that any information lodged will be able to be made publicly available to facilitate public consultation and debate. The department recognises, however, the need to protect certain information where public disclosure may harm the legitimate commercial interests of a submitter.

If a submitter considers that information should be kept confidential, it may identify this in its submission together with the reasons. The department will consider the request for confidentiality, but gives no undertaking that the information will be kept confidential. Any decision to keep the information confidential or make it publicly available is at the department's discretion.

If the department decides that particular information for which confidentiality is claimed should be made publicly available, it will advise the relevant submitter and give the submitter the opportunity to consider whether that information should remain part of that submission and made public, or whether to withdraw the information from that submission.

In relation to information that the department agrees to treat as confidential, submitters should understand that the department is subject to the legislative and administrative accountability and transparency requirements of the Commonwealth, including disclosure to the parliament and its committees.

Accordingly, submitters are advised that any information (whether confidential or otherwise) contained in or relating to any material submitted relating to the implementation of the government's retail price control policy may be disclosed:

- to responsible Ministers
- in response to a request by a House or a committee of the parliament of the Commonwealth of Australia
- within the department, or to another agency, where this serves the Commonwealth's legitimate interests
- where the information is authorised or required by law to be disclosed, noting that all information lodged with the Australian Government is subject to the *Freedom of Information Act 1982* and its requirements
- where the information is in the public domain.

Privacy

The department is subject to the operation of the *Privacy Act 1988*. Any personal information you provide to the department through your submission to this discussion paper is used only for the purposes of consideration of issues raised in this paper.

Attachment A—Retail Price Control Arrangements

Telstra retail prices for a range of fixed-line services are capped under the Telstra Carrier Charges—Price Control Arrangements, Notification and Disallowance Determination No.1 of 2005 ('the Determination'). Retail price controls in one form or another have been in place since 1989, and apply solely to Telstra. The current Determination commenced on 1 January 2006 and (following amendments in 2009 and 2010 to extend the determination) is due to expire on 30 June 2012. The ACCC is responsible for reporting to the Minister on the adequacy of Telstra's compliance with the price controls.

The Determination:

1. Places caps which are linked to movements in the Consumer Price Index (CPI) for Telstra residential and business customers on price increases for baskets of services:
 - first basket*—line rental, local calls, trunk calls (including national long-distance and fixed-to-mobile calls), international calls
 - second basket*—basic residential line rental (HomeLine Part)
 - third basket*—basic business line rental (BusinessLine Part)
 - fourth basket*—connection services.
2. Places a cap of 22 cents on untimed local calls (except in the case of a discount or bundled plan) and on calls to 0198 dial-up internet services (clauses 16 and 17).
3. Places a cap of 50 cents on untimed local calls from a Telstra payphone (clause 16).
4. Requires Telstra to offer local calls in non-metropolitan areas at the same or lower prices and on the same price-related terms as are offered in metropolitan areas (clause 16).
5. Requires Telstra to offer schools access to rates for the most popular residential line rental service available (clause 19).
6. Requires Telstra to offer basic line rental services in non-metropolitan areas at the same or lower prices and on the same price-related terms as are offered in metropolitan areas (clause 19A).
7. Requires calls within an Extended Zone and between adjacent Extended Zones to be charged at the same rate as untimed local calls elsewhere in Australia (clause 15).
8. Requires Telstra to seek the consent of the ACCC to increase the rates of residential line rental services, with the consent conditional on Telstra fulfilling its obligations in respect of low-income customers (clause 24).
9. Requires Telstra to notify the Minister of proposed increases to the rates of directory assistance services, and allows the Minister the option of disallowing the increases if they are not considered in the public interest (clause 29).

Charges for telephone calls and line rental services are regulated through the use of a broad basket of services. This approach enables Telstra flexibility in its pricing, which leads to more efficient pricing than the use of individual caps.

Attachment B—Telstra's compliance with the price control arrangements 2006–10

	2006-07	2007-08	2008-09	2009-10
Basket 1: local calls, trunk (national long-distance and fixed-to-mobile) calls, international calls and line rental	Price cap of CPI-CPI Price increase= -4.2% Cap =+0.0% Carry-in from 2005–06=+0.0% Surplus=+4.2%	Price cap of CPI-CPI Price increase= -0.1% Cap =+0.0% Carry-in from 2006–07=+4.2% Surplus=+4.4%	Price cap of CPI-CPI Price increase =+1.5% Cap =+0.0% Carry-in from 2007–08=+4.4% Surplus=+2.9%	Price cap of CPI-CPI Price increase= -0.9% Cap =+0.0% Carry-in from 2008–09=+2.9% Surplus=+3.7%
Basket 2: basic line rental for residential customers	Price cap of CPI-CPI Price increase= -3.1% Cap =+0.0% Carry-in from 2005–06=+0.0% Surplus=+3.1%	Price cap of CPI-0 Price increase= +5.6% CPI=+2.9% Cap =+2.9% Carry-in from 2008–09=+3.1% Surplus=+0.4%	Price cap of CPI-0 Price increase= +3.3% CPI=+3.4% Cap =+3.4% Carry-in from 2008–09=+0.4% Surplus=+0.6%	Price cap of CPI-0 Price increase= +3.3% CPI=+3.1% Cap =+3.1% Carry-in from 2008–09=+0.6% Surplus=+0.4%
Basket 3: basic line rental for business customers and charity customers	Price cap of (CPI-0)*1.5 Price increase= -1.2% CPI=+2.7% Cap =+4.1% Carry-in from 2005–06=+0.0% Maximum permitted=+5.3%	Price cap of CPI-0 Price increase= -0.4% CPI=+2.9% Cap =+2.9% Carry-in from 2008–09=+5.3% Surplus=+8.6%	Price cap of CPI-0 Price increase= +10.5% CPI=+3.4% Cap =+3.4% Carry-in from 2008–09=+8.6% Surplus=+1.5%	Price cap of CPI-0 Price increase= +4.3% CPI=+3.1% Cap =+3.1% Carry-in from 2008–09=+1.5% Surplus=+0.3%
Basket 4: connection services	Price cap of (CPI-0)*1.5 Price increase= +1.5% CPI=+2.7% Cap =+4.1% Carry-in from 2005–06=+0.0% Maximum permitted=+2.6%	Price cap of CPI-0 Price increase= -3.1% CPI=+2.9% Cap =+2.9% Carry-in from 2008–09=+2.5% Surplus=+8.6%	Price cap of CPI-0 Price increase= -6.4% CPI=+3.4% Cap =+3.4% Carry-in from 2008–09=+8.6% Surplus=+18.4%	Price cap of CPI-0 Price increase= +9.9% CPI=+3.1% Cap =+3.1% Carry-in from 2008–09=+18.4% Surplus=+11.7%