

nbn submission to the ACCC – 2016-17 Regulatory Information and LTRCM Determination

31 October 2017

Public Version



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1 Introduction

On 31 October 2017, nbn co limited (**nbn**) lodged the regulatory information with the ACCC for the Financial Year 2016-17 required 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 FY2016-17 Long Term Revenue Constraint Methodology (LTRCM) Determination under Schedule 1E of the SAU.

nbn notes that the revised SAU variation lodged with the ACCC on 22 June 2017 does not involve any changes to the LTRCM provisions in order to account for the transition to the Multi-Technology-Mix (MTM). The LTRCM has broad application in the SAU and already covers revenue and expenditure in respect of FTTB, FTTN and HFC.

nbn has used the same approach (subject to one change as agreed with the ACCC – see section 3) as it has in the past in compiling and verifying the Regulatory Information and this approach has been accepted by the ACCC in making past LTRCM Determinations.

nbn submits that the ACCC should issue an LTRCM Determination for FY2016-17 that adopts the values proposed by **nbn** in the Regulatory Information.

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; and
- a summary of each element in the Regulatory Information and relevant supporting materials – sections 4 to 7.

The confidentiality status of the Regulatory Information and relevant supporting materials is addressed in Appendix B, 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 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;
- 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;
- 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;
- Expenditure Compliance Report, signed by **nbn**'s Chief Financial Officer (CFO) with a certification regarding **nbn**'s Capital Expenditure and Operating Expenditure and the relevant prudency conditions as set out in the SAU, as required by clause 1F.2.1 of the SAU;
- Procurement Rules Compliance Report, signed by **nbn**'s Chief Procurement Officer (CPO) with a certification regarding **nbn**'s Procurement Rules and the relevant conditions as set out in the SAU, as required by clause 1F.2.3 of the SAU; and
- Price Compliance Report, signed by **nbn**'s CFO with a certification regarding the pricing of NBN Offers and Other Charges and 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 of the SAU.

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 of the SAU;
- 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.

3 Approach

nbn has adopted the same approach (subject to one change as agreed with the ACCC – see below) to preparing the Regulatory Information and relevant supporting materials as it did in respect of previous Financial Years.

In particular, as **nbn** has done in previous years, **nbn** has continued to maintain 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** recently updated the RAAM (in consultation with the ACCC) to reflect updates to **nbn**'s accounting systems and processes (including a revision to **nbn**'s Chart of Accounts) and changes to the scope of independent assurance work to be undertaken in respect of FY2016-17.

As agreed with the ACCC as part of the RAAM update, **nbn** has not sought independent assurance work in respect of price compliance for FY2016-17 because there is limited (if any) ongoing utility from such work. This is noting that **nbn**'s price compliance is actually observable by access seekers throughout the year (not just at the end of the year), with changes to SFAAs made available on **nbn**'s public website and notified under access agreement. Consistent with previous years, the **nbn** CFO's certification in the Price Compliance Report continues to be provided (as required by clause 1F.3 of the SAU), and is informed by a range of investigations and testing undertaken by **nbn** Internal Audit.

Noting that some of the financial concepts and definitions used in the SAU differ, given the different context, from those underpinning the **nbn** 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 2016 to 30 June 2017, 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; 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 confidential information, as set out in Appendix B).

4 Financial Information

In this section, **nbm** 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, **nbm** 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.

nbm 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 **nbm** 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, **nbm** 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 **nbm** 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; and 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 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, taxation asset lifetimes, regulatory depreciation and tax depreciation).¹ As noted in the ACCC’s Final Decision on the SAU², 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”³.

4.3 Independent Assurance Reports

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

- 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 FY2016-17, the relevant values in the LTRCM Spreadsheet are in accordance with the ACCC’s 2015-16 LTRCM Determination; in respect of FY2016-17, 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 states that **[CiC starts]**

[CiC ends]

¹ 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 nil 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).

² ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, pp.96-97.

³ ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, p.97.

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)

| | 2015-16 | 2016-17 |
|------------------------------------|------------------|-------------------|
| June Quarter CPI | 1.023% | 1.934% |
| Risk free rate | 3.021% | 2.129% |
| Nominal rate of return | 6.521% | 5.629% |
| | | |
| Operating Expenditure | 2,259,775 | 3,726,986 |
| Capital Expenditure | 4,523,447 | 6,026,916 |
| Construction in Progress - opening | 3,482,834 | 3,991,030 |
| Interest Expense | 247 | 5 |
| Revenue | 421,455 | 1,001,002 |
| | | |
| RAB – closing | 8,944,763 | 14,369,643 |
| ABBRR | 3,198,728 | 5,057,117 |
| ICRA – closing | 9,428,175 | 14,014,956 |

Source: Regulatory Information, Schedules 6 to 10

5 Expenditure Compliance Report

As part of the Regulatory Information, **nbn** has submitted an Expenditure Compliance Report signed by **nbn**'s CFO with a certification regarding **nbn**'s Capital Expenditure and Operating Expenditure and the relevant prudency conditions as set out in the SAU, as required by clause 1F.2.1 of the SAU. 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 points.

- Firstly, the SAU's prudency conditions are intended to complement **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."⁴
- Second, in addition 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 2012.⁵
- Third, as part of the 2015-16 LTRCM Determination process, the ACCC sought further information from **nbn** in relation to its procurement processes, including: general information on **nbn**'s procurement activities; case studies and examples of various types of procurements; and a number of specific matters relating to **nbn**'s Procurement Rules. Following the ACCC's review of the information provided by **nbn** (which included a briefing to the ACCC by **nbn**'s procurement team in April 2017), the ACCC stated in its 2015-16 Final LTRCM Determination "the ACCC was satisfied that NBN Co has appropriate procedures and processes in place to ensure that its expenditures are in accordance with the prudency conditions set out in the SAU"⁶.

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.⁷
- 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;

⁴ ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, p.96.

⁵ **nbn**, *Supporting Submission – NBN Co Special Access Undertaking*, 28 September 2012, pp. 226-240.

⁶ ACCC, *NBN Co Special Access Undertaking LTRCM 2015-16: Final Determination and Price compliance reporting*, 23 June 2017, pp. 10.

⁷ **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 and FY2015-16.

- 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.⁸
- 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.”⁹

nbn has adopted the same assurance approach for Expenditure Compliance in FY2016-17 as it did with respect to previous Financial Years. 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 previous Financial Years, 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 new Australian Standard on Assurance Engagements (ASAE) 3150: *Assurance Engagements on Controls* (issued in January 2016). ASAE 3150 provides guidance for identifying the nature of the procedures which are conducted at a minimum in a limited assurance engagement and the additional procedures which are conducted in a reasonable assurance engagement.

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 FY2015-16, the resulting process maps were documented by **nbn** Internal Audit, reconfirmed by the business SMEs and updated where required, based on consultations with the SMEs.

⁸ **nbn**, *NBN Co Special Access Undertaking*, Clause 1D.3.2(a)(ii) and Clause 1E.8.2(a)(ii).

⁹ ACCC, *NBN Co Special Access Undertaking Final Decision*, 13 December 2013, p.97.

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 and control procedures¹⁰ are included in Appendix A to this submission.

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

- General updates to operating procedures and roles / responsibilities of control owners;
- Introduction of additional technology types (e.g. HFC) 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.

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 Sampling¹¹ and the Institute of Internal Auditors 'International Professional Practices Framework' (IPPF) Practice Advisory – 2320:3 - Audit Sampling¹²).

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 | 25- 30 |
| Manual | Daily | 25 |
| Manual | Weekly | 5 |
| Manual | Monthly | 3 |

¹⁰ The control procedures are confidential of particular sensitivity – the reasons for this classification are set out in Appendix B to this submission.

¹¹ ASA 530 Audit Sampling is available from: http://www.auasb.gov.au/admin/file/content102/c3/ASA_530_27-10-09.pdf

¹² 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)

| Nature of Control | Control Operating Frequency | nbn Sample Size Guidance |
|-------------------|---------------------------------------------|--------------------------|
| 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 2016 through 30 June 2017. The following sample sizes were selected as a result:

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 |
|--------------------------------------------------------------------------------------|----|--------------------------------------------------------------------|--------------------------------------------|
| Prudent Design Samples (related to Capital Expenditure only) | | | |
| Multiple times daily | 30 | 5 | 150 |
| Weekly | 5 | 1 | 5 |
| Quarterly | 2 | 1 | 2 |
| Annually | 1 | 1 | 1 |
| Prudent Design Total | | 8 Control Procedures Tested¹³ | 158 Samples Tested |
| Prudent Cost Samples (includes Capital Expenditure and Operating Expenditure) | | | |
| Multiple times daily | 30 | 3 | 90 |
| Monthly | 3 | 2 | 6 |
| Annual | 1 | 1 | 1 |
| Automated | 1 | 5 | 5 |
| Prudent Cost Total | | 11 Control Procedures Tested | 102 Samples Tested |

This sampling methodology is consistent with the approach taken by **nbn** Internal Audit in respect of FY2015-16. The approach taken in FY2015-16 was designed to test the operating effectiveness of the controls *operating within the period* 1 July 2015 - 30 June 2016. 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 FY2016-17 population source for judgemental sampling was defined with respect to the control procedures themselves, rather than the transactions recognised in **nbn's** General Ledger Transaction Report for FY2016-17. As outlined in table 3, a total of 260 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 documentation such as procurement records, contracts, purchase orders and network design documents for applicability and appropriate authorisation.

¹³ 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.

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.¹⁴

However, based on **nbn** Internal Audit’s sample testing, no exceptions were identified regarding Expenditure Compliance. Nevertheless, as in previous years, 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 language¹⁵ to make clear the basis on which the certification is provided and expresses negative assurance conclusions. This is the same certification and wording used in previous years.

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 FY2015-16, 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 3150: *Assurance Engagements on Controls*.

[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.

¹⁴ Note that no omissions were identified in relation to primary controls for FY2016-17.

¹⁵ **nbn** has had regard to ASAE 3150 “*Assurance Engagements on Controls*” in developing the qualifying language in the certification.

6 Procurement Rules Compliance Report

As part of the Regulatory Information, **nbn** has provided a Procurement Rules Compliance Report signed by **nbn**'s EGM Procurement (as successor to the Chief Procurement Officer role at **nbn**) with a certification regarding **nbn**'s Procurement Rules and the relevant conditions as set out in the SAU, as required by clause 1F.2.3 of the SAU. There is no reported exception in relation to this report, which relates to whether, over the period from 1 July 2016 to 30 June 2017, **nbn**'s Procurement Rules satisfied the requirements in clause 1D.5.1 of the SAU.

nbn notes that, as mentioned in section 5, as part of the 2015-16 LTRCM Determination process, the ACCC sought further information from **nbn** in relation to its procurement processes. Following the ACCC's review, the ACCC was satisfied that **nbn** has appropriate procedures and processes in place to ensure that its expenditures are in accordance with the prudence conditions set out in the SAU.

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

- From 1 July 2016 to 27 November 2016, **nbn**'s Procurement Rules comprised:
 - the Procurement Guidelines v1.0 (which came into effect on 1 May 2016) – the Procurement Guidelines v1.0 were provided to the ACCC on 19 May 2016 (within 30 days after making any material amendments to Procurement Rules, as required by clause 1D.5.2). The Procurement Guidelines v1.0 reflected an effective merging of the two documents that previously formed the Procurement Rules (i.e. the Procurement Manual v20 and the Buying Guide v4.0).
- From 28 November 2016 to 30 June 2017, **nbn**'s Procurement Rules comprised:
 - the Procurement Guidelines v1.1 (which came into effect on 28 November 2016) – the Procurement Guidelines v1.1 were provided to the ACCC on 22 December 2016 and contained a small number of relatively minor changes to more closely align some process and terminology aspects with **nbn**'s then current business practices.

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** EGM Procurement's certification in the Procurement Rules Compliance Report is subject to appropriate qualifying language¹⁶ to make clear the basis on which the certification is provided and expresses negative assurance conclusions. This is the same certification and wording as used in previous years.

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.

¹⁶ **nbn** has had regard to ASAE 3150 "Assurance Engagements on Controls" in developing the qualifying language in the certification.

7 Price Compliance Report

As part of the Regulatory Information, **nbn** has provided a Price Compliance Report signed by **nbn**'s CFO with a certification regarding the pricing of NBN Offers and Other Charges and the relevant conditions as set out in the SAU, as required by clause 1F.3 of the SAU. There is no reported exception in relation to this report, which relates to whether, over the period from 1 July 2016 to 30 June 2017, **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, long term satellite and fixed wireless), the Satellite WBA (in respect of the interim satellite service) and the CSAS Interim Agreement (in respect of the Cell Site Access Service) over the relevant period;
- 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;¹⁷ and
- work performed by **nbn** Internal Audit over relevant processes and controls via process walkthroughs and detailed testing – to be more specific, consistent with previous years, **nbn** Internal Audit reviewed, documented and tested the underlying end-to-end business processes and the design and operating effectiveness of controls (which are comprised of control objectives and control procedures) relating to Price Compliance. The control objectives and control procedures¹⁸ are included in Appendix A to this submission.

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 language¹⁹ to make clear the basis on which the certification is provided and expresses negative assurance conclusions and is the same as previous years.

nbn notes that a number of changes were made to the WBA2 Price List over the period. These related to:

- in respect of the NBN Co Satellite Network, the introduction of the following Service Transfer charges:
 - Service Transfer
 - Transfer Reversal
 - Non Infrastructure Transfers (per Service Transfer);
- in respect of the NBN Co Fibre Network, NBN Co FTTB Network and NBN Co FTTN Network, the introduction of the following Enhanced Fault Rectification Service options:
 - Enhanced-6
 - Enhanced-6 (24/7)

¹⁷ **nbn**, Supplementary submission to the ACCC – 2013-14 Regulatory Information and LTRCM Determination, 8 December 2014, pp. 13-15.

¹⁸ The control procedures are confidential of particular sensitivity – the reasons for this classification are set out in Appendix B to this submission.

¹⁹ **nbn** has had regard to ASAE 3150 "Assurance Engagements on Controls" in developing the qualifying language in the certification.

- Enhanced-4
- Enhanced-4 (24/7);
- in respect of the NBN Co FTTB Network and NBN Co FTTN Network, clarification of terms and conditions associated with early disconnection or modification of AVC TC-2 services;
- in respect of the NBN Co Fibre Network, NBN Co FTTB Network and NBN Co FTTN Network, the introduction of the following After Hours Installation charges:
 - After Hours Installation
 - Late Cancellation (After Hours Installation Appointment)
 - Missed Appointment (After Hours Installation Appointment);
- in respect of the NBN Co HFC Network, the introduction of the following AVC speed tiers:
 - AVC TC-1 - 0.5Mbps
 - AVC TC-1 - 1Mbps;
- in respect of the NBN Co HFC Network, the introduction of the following Enhanced Fault Rectification Service options:
 - Enhanced-12
 - Enhanced-12 (24/7)
 - Enhanced-8; and
 - Enhanced-8 (24/7).

The Satellite WBA (including the Price List) expired on 28 February 2017 (the same day that **nbn** withdrew the Interim Satellite Service in accordance with clause 1I.5 of the SAU). There were no changes to the Satellite WBA Price List between 1 July 2016 and 28 February 2017.

The CSAS Interim Agreement Price List was published on 22 September 2016. There were no changes to the CSAS Interim Agreement Price List between 22 September 2016 and 30 June 2017.

Appendix A Control Objectives and Procedures – Price and Expenditure Compliance

A.1 Price compliance

| Control Objective | Control Procedures |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| <p>CO1: 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.</p> | <p>[CiC starts]</p> <p>[CiC ends]</p> |

A.2 Expenditure Compliance - Prudent Design Condition

| Control Objectives | Control Procedures |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| <p>CO2: 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 (via detailed planning documents), an approved Permitted Variation, or an Endorsed Network Change or a Network Change as otherwise determined or permitted by the ACCC.</p> | <p>[CiC starts]</p> |

| Control Objectives | Control Procedures |
|--------------------|--------------------|
| | |

| Control Objectives | Control Procedures |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| | <p data-bbox="562 528 703 560">[CiC ends]</p> |
| <p data-bbox="107 587 510 842">CO3: Controls are in place to ensure that all necessary Permitted Variations and Endorsed Network Changes are identified and verified during the Develop Engineering Capability process, and are communicated to the ACCC at least on an annual basis.</p> | <p data-bbox="562 600 719 632">[CiC starts]</p> <p data-bbox="562 938 703 970">[CiC ends]</p> |

[CiC starts]

[CiC ends]

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

| Control Objectives | Control Procedures |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| <p>CO4: Controls are in place to ensure that the procurement of supplier contracts and associated expenditure is sourced in accordance with the applicable version of the Procurement Guidelines.</p> | <p>[CiC starts]</p> <p>[CiC ends]</p> |
| <p>CO5: Controls are in place to ensure that only valid purchase requisitions and purchase orders are created and</p> | <p>[CiC starts]</p> |

| Control Objectives | Control Procedures |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------|
| approved in accordance with the relevant nbn delegations of authority. | [CiC ends] |
| CO6: Controls are in place to ensure that goods/services received are appropriately receipted and /or accrued for. | [CiC starts] [CiC ends] |
| CO7: Controls are in place to monitor supplier contract expenditure. | [CiC starts] [CiC ends] |

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 C.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); and
- 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 – Schedule 12 (Body of the Report); and
- 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 – Schedule 12 (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 C.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>Schedule 6</p> <p>Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes & Taxation Asset Lifetimes</p> | <ul style="list-style-type: none"> • Public, with the following information redacted: <ul style="list-style-type: none"> ○ Disaggregated Capital Expenditure and Disposals values (Confidential) ○ Disaggregated Asset Type names, Asset Lifetimes and Taxation Asset Lifetimes (Confidential) ○ Values under Reconciliation to nbn's Audited General Purpose Financial Statement (Confidential of particular sensitivity) ○ Values relating to deemed prudent capital expenditure categories (Confidential of particular sensitivity) | <p><i>Disaggregated Capital Expenditure and Disposals values</i></p> <ul style="list-style-type: none"> • Visibility over this information (in combination with metrics disclosed in nbn's Annual Report, the nbn website and other public sources) would enable interested parties to calculate a <u>breakdown</u> of nbn's Cost Per Premise (CPP) for each network. • Providing suppliers/contractors or competitors with the information required to determine the breakdown of nbn's CPP could: <ul style="list-style-type: none"> ○ have an adverse impact on nbn's negotiations with suppliers/contractors by providing suppliers/contractors with a commercial advantage; and ○ enable competitors to determine nbn's costs, providing them with a unfair competitive advantage in building competing infrastructure. • To account for these risks, nbn 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"> ○ Include employees of nbn access seekers and relevant consultants retained by an nbn 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 nbn access seekers; but ○ Exclude such employees or relevant consultants where the relevant nbn access seeker is: <ul style="list-style-type: none"> ▪ In the process of negotiating significant arrangements with nbn (note that this is not intended to extend to any negotiation with an nbn access seeker in regard to purchasing nbn services, such as under WBA2/WBA3) – the information (if provided to such an nbn access seeker) could be used in a manner adverse to nbn's commercial interests. nbn notes that in its Disclosure Notice to Telstra regarding the BBM RKR information, the ACCC excluded employees of nbn from the class of persons to whom restricted extracts could be disclosed due to the ongoing commercial negotiations between Telstra and nbn; or |

| | Information | Confidentiality status | Reasons |
|--|-------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | <ul style="list-style-type: none"> ▪ An actual or potential competitor of nbn – 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 nbn. ○ nbn 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. <p><i>Disaggregated Asset Type names, Asset Lifetimes and Taxation Asset Lifetimes</i></p> <ul style="list-style-type: none"> • Disclosure of this information would provide interested parties with visibility over the types of assets nbn uses in its network and how it uses those assets. This could cause nbn significant commercial harm by: <ul style="list-style-type: none"> ○ providing suppliers with an unfair commercial advantage in negotiations with nbn by understanding the value nbn places on different assets; and ○ providing competitors with an unfair competitive advantage by understanding the types of assets nbn uses in its network and how it uses those assets. • To account for these risks, nbn is prepared to make this information available to only a limited class of persons under appropriate confidentiality arrangements, as described above. <p><i>Values under Reconciliation to nbn's Audited General Purpose Financial Statement</i></p> <ul style="list-style-type: none"> • nbn has confidentiality obligations to third parties for the values of a number of reconciling items. • Values for other reconciling items have also been redacted to protect the commercial sensitivity of the values for which nbn has confidentiality obligations to third parties. <p><i>Values relating to deemed prudent capital expenditure categories</i></p> <ul style="list-style-type: none"> • nbn has confidentiality obligations to third parties for all financial aspects of the Telstra and Optus arrangements. • Values for other deemed prudent capital expenditure categories have also been redacted to protect the commercial sensitivity of the values relating to the Telstra and Optus arrangements. |

| | Information | Confidentiality status | Reasons |
|---|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | <p>Schedule 7</p> <p>Statement of Operating Expenditure</p> | <ul style="list-style-type: none"> • Public, with the following information redacted: <ul style="list-style-type: none"> ○ Values relating to deemed prudent operating expenditure categories (Confidential of particular sensitivity) ○ Values under Reconciliation to nbn's Audited General Purpose Financial Statement (Confidential of particular sensitivity) | <p><i>Values relating to deemed prudent operating expenditure categories</i></p> <ul style="list-style-type: none"> • nbn has confidentiality obligations to third parties for all financial aspects of the Telstra and Optus arrangements. • 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. <p><i>Values under Reconciliation to nbn's Audited General Purpose Financial Statement</i></p> <ul style="list-style-type: none"> • nbn has confidentiality obligations to third parties for the values of a number of reconciling items. Specifically: <ul style="list-style-type: none"> ○ 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. ○ 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. • 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. |
| 3 | <p>Schedule 11</p> <p>Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances</p> | <ul style="list-style-type: none"> • Public, with the following information redacted: <ul style="list-style-type: none"> ○ Actual Capital Expenditure values are redacted to the same extent as in "Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes & Taxation Asset Lifetimes" – these redacted values are Confidential ○ Forecast Capital Expenditure and Operating Expenditure values – these redacted values are Confidential of Particular Sensitivity | <p><i>Disaggregated Actual Capital Expenditure values</i></p> <ul style="list-style-type: none"> • See explanation in relation to Schedule 6, above. <p><i>Forecast Capital Expenditure and Operating Expenditure values, variances and reasons for variances</i></p> <ul style="list-style-type: none"> • Disclosure of this information to any interested party would involve an unacceptable risk of significant commercial harm to nbn. In particular, information about the nature and source of variances between nbn's 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 nbn's expected activities and costs in future years. |

| | Information | Confidentiality status | Reasons |
|---|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>(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"> ○ Variances between forecast and actual expenditure values and reasons for the variances – this redacted information is Confidential of Particular Sensitivity | <ul style="list-style-type: none"> • nbn does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect nbn from this risk of significant commercial harm. • nbn 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 2016-17 LTRCM Determination process. |
| 4 | Reasonable assurance audit report (Schedules 6 to 9) | <ul style="list-style-type: none"> • Confidential | <ul style="list-style-type: none"> • 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. • nbn notes that the key conclusions from the report have been disclosed publicly in nbn's Supporting Submission. • nbn may be prepared to make this report available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with nbn a Hold Harmless Letter prepared by PwC),²⁰ to employees of nbn access seekers and relevant consultants retained by an nbn access seeker. |
| 5 | Agreed Upon Procedures report (Schedule 10) | <ul style="list-style-type: none"> • Confidential | <ul style="list-style-type: none"> • 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. • nbn notes that key conclusions from the report have been disclosed publicly in nbn's Supporting Submission. • nbn may be prepared to make this report available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with nbn a Hold Harmless Letter prepared by PwC), to employees of nbn access seekers and relevant consultants retained by an nbn access seeker. |
| 6 | Limited assurance report (Schedule 12) | <p><i>Body of the Report</i></p> <ul style="list-style-type: none"> • Confidential | <p><i>Body of the report</i></p> <ul style="list-style-type: none"> • 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. |

²⁰ 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 |
|---|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p><i>Appendix A – Control Objectives and Procedures</i></p> <ul style="list-style-type: none"> • Confidential of particular sensitivity [Note that the Control Objectives are public and set out in Appendix A to this submission] | <ul style="list-style-type: none"> • nbn notes that the key conclusions from the report have been disclosed publicly in nbn's Supporting Submission. • nbn may be prepared to make the body of the report available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with nbn a Hold Harmless Letter prepared by PwC), to employees of nbn access seekers and relevant consultants retained by an nbn access seeker. <p><i>Appendix A</i></p> <ul style="list-style-type: none"> • The Control Procedures in Appendix A contain detailed information about nbn's internal policies and procedures relating to network design and procurement. Such information: <ul style="list-style-type: none"> ○ is proprietary information; and ○ could be used by potential suppliers or contractors to gain a commercial advantage in negotiations with nbn, by understanding how our processes work. • Disclosure of such information would be adverse to nbn's legitimate commercial interests and could cause significant commercial harm. • Given the level of detail in the Control Procedures, nbn does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect nbn from the risk of the harm described above. |
| 7 | Supporting Submission | <ul style="list-style-type: none"> • Public, with the following information redacted: <ul style="list-style-type: none"> ○ References to information contained within the PwC reasonable assurance audit report and the PwC limited assurance report – this information is Confidential. ○ Control Procedures in respect of Price and Expenditure Compliance (as set out in Appendix A) – this | <p><i>References to information in PwC reports</i></p> <ul style="list-style-type: none"> • See explanations in relation to the PwC reports, above. • nbn may be prepared to make this information available, under appropriate confidentiality arrangements (and subject to relevant parties co-signing with nbn a Hold Harmless Letter prepared by PwC),²¹ to employees of nbn access seekers and relevant consultants retained by an nbn access seeker. <p><i>Control Procedures in Appendix A</i></p> <ul style="list-style-type: none"> • The Control Procedures contain detailed information about nbn's internal policies and procedures relating to network design, procurement and pricing. Such information: |

²¹ 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 |
|---|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | information is Confidential of Particular Sensitivity. | <ul style="list-style-type: none"> ○ is proprietary information; ○ could be used by potential suppliers or contractors to gain a commercial advantage in negotiations with nbn, by understanding how our processes work; and ○ would provide competitors with an unfair competitive advantage by providing them with information about how nbn prices its products and manages its processes internally. <ul style="list-style-type: none"> • Disclosure of such information would be adverse to nbn's legitimate commercial interests and could cause significant commercial harm. • Given the level of detail in the Control Procedures, nbn does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect nbn from the risk of the harm described above. |
| 8 | LTRCM Spreadsheet | <ul style="list-style-type: none"> • Public version: <ul style="list-style-type: none"> ○ Information redacted to the same extent as in "Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes & Taxation Asset Lifetimes" ○ 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. ○ All redacted information is Confidential • Confidential version: <ul style="list-style-type: none"> ○ No information (or formulae) redacted | <ul style="list-style-type: none"> • The redactions in the LTRCM Spreadsheet mirror the redactions in "Schedule 6 – Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes & Taxation Asset Lifetimes". <i>'Input sheet' and 'Regulatory & tax depreciation'</i> • 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). |
| 9 | Chart of Accounts and Regulatory Accounting | <ul style="list-style-type: none"> • Confidential information of particular sensitivity | <ul style="list-style-type: none"> • These documents contain information about nbn's internal policies, procedures and accounts, which is proprietary information. |

| | Information | Confidentiality status | Reasons |
|--|-------------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | and Allocation Manual (RAAM) | | <ul style="list-style-type: none"> • Disclosure of this information could cause nbn significant commercial harm. For example, disclosure could: <ul style="list-style-type: none"> ○ have an adverse impact on nbn's negotiations with suppliers by providing suppliers with visibility over nbn's internal policies and procedures, and highly disaggregated cost information; and ○ provide competitors with an unfair competitive advantage by having visibility over nbn's internal policies, procedures and accounts. • nbn does not consider that a confidentiality undertaking could be drafted in such a way that would adequately protect nbn from the risk of this harm. • nbn considers that non-disclosure of the Chart of Accounts and the RAAM will not unduly affect interested parties' ability to provide informed submissions to 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. |