

**IN THE MATTER OF UNDERTAKINGS  
DATED 23 DECEMBER 2005 LODGED BY  
TELSTRA CORPORATION LIMITED  
WITH THE AUSTRALIAN COMPETITION  
AND CONSUMER COMMISSION IN  
RESPECT OF UNCONDITIONED LOCAL  
LOOP SERVICE  
(“the Access Undertakings”)**

**STATEMENT OF [c-i-c]**

On 21 July 2006, I, [c-i-c] of 242 Exhibition Street Melbourne in the State of Victoria, Manager, state as follows:

1 [removed]

**Background**

2 I am [c-i-c] for Telstra Consumer and Channels and Social Obligations. I have been in that role since [c-i-c]. In the role, my responsibilities include:

- (a) managing all matters related to Telstra’s interactions with the ACCC and the Federal Government as they relate to retail Price Controls arrangements;
- (b) managing all matters related to Telstra’s ongoing compliance with retail Price Control arrangements;
- (c) managing Telstra’s ongoing effort to seek reform to the Social Obligations regulatory framework; and
- (d) managing the interactions between Telstra’s Consumer and Channels Business Unit and Telstra’s regulatory group.

**Price controls**

3 I have been asked to comment on Telstra’s ability to increase the price of line rental services to its end user customers.

4 Telstra’s line rental services are subject to the price cap arrangements under the *Telstra Carrier Charges—Price Control Arrangements, Notifications and Disallowance Determination No 1 of 2005* as amended by the *Telstra Carrier*

*Charges—Price Control Arrangements, Notification and Disallowance Determination No. 1 of 2005 (Amendment No. 1 of 2006)* (“**Price Control Determination**”), a copy of which is Annexure A to this Statement.

- 5 In summary, the Price Control Determination imposes price cap arrangements on carrier charges for local calls, trunk calls, international calls, line rentals, and connections. It does this by placing price caps on four separate baskets of services, the first three of which are relevant to the pricing of line rental services.
- 6 The first basket of services consists of local calls, trunk calls, international calls and line rentals. The second basket comprises “basic line rental services” supplied to residential customers, and the third basket comprises “basic line rental services” supplied to business and charity customers.
- 7 Telstra currently offers the following line rental services to residential customers:
- (a) HomeLine Advanced;
  - (b) HomeLine Budget;
  - (c) HomeLine Complete;
  - (d) HomeLine Low Income Health Care Card;
  - (e) HomeLine Part;
  - (f) HomeLine Plus;
  - (g) HomeLine Reach;
  - (h) HomeLine Together;
  - (i) HomeLine Ultimate; and
  - (j) HomeLine Value.
- 8 Telstra currently offers the following line rental services to business customers:
- (a) BusinessLine Complete;
  - (b) BusinessLine Plus; and

(c) BusinessLine Part.

9 Telstra currently offers the following line rental services to charitable customers:

(a) BusinessLine Complete; and

(b) BusinessLine Plus.

10 A basic line rental service is defined as a “*line rental supplied in conjunction with a service supplied to a customer in order to comply with the requirement to provide pre-selection under a determination made by the Australian Communications and Media Authority under Part 17 of the Telecommunications Act 1997, other than a line rental in respect of which the customer contractually agrees not to exercise the right to pre-select in favour of a carriage service provider other than Telstra.*” The only line rental services to which this applies are HomeLine Part and BusinessLine Part.

11 Under clause 24 of the Price Control Determination, if Telstra proposes to increase a line rental charged at residential rates, it must obtain the consent of the ACCC to do so.

**Second basket—price cap on basic line rental services supplied to residential customers**

12 The second basket, comprising basic line rental services supplied to residential customers, is subject to a price cap of \$31.95 over the “first price-cap period” which concludes at the end of 30 June 2007. The price cap over the subsequent two financial years is  $CPI - 0$ .

13 The monthly line rental charge that Telstra charges for the HomeLine Part (the residential basic line rental service) service is currently set by Telstra at \$31.95 (GST inclusive).

**Third basket—price cap on basic line rental services supplied to business customers**

14 The third basket, comprising basic line rental services supplied to business and charity customers, is subject to a price cap of  $(CPI - 0) \times 1.5$  over the “first price-cap period” which concludes at the end of 30 June 2007. The price cap over the subsequent two financial years is  $CPI - 0$ .

- 15 The monthly access charge that Telstra charges for the BusinessLine Part is currently set by Telstra at \$34.95 (GST inclusive).

**First basket of services—price cap on line rental services as one of a number of components**

- 16 The first basket is subject to a price cap of CPI – CPI. This means that Telstra is entitled to change the individual prices of the services within the basket as it wishes, but the aggregate revenue-weighted price of all services in the basket must not increase.

**Pricing parity**

- 17 I have also been asked to comment on Telstra’s obligations to offer a basic line rental service at the same price across Australia.
- 18 Since 28 February 2006, when clause 19A was inserted into the Price Control Determination, Telstra has been required to provide basic line rental services in non-metropolitan areas at the same or a lower price, and on the same price-related terms, as it offers basic line rental services to customers in metropolitan areas. The obligation applies to basic line rental services to residential and charity customers, basic line rental services to business customers and basic line rental services within a bundle.
- 19 Although this obligation currently only applies to two of Telstra’s line rental services, that is HomeLine Part and BusinessLine Part, the consequence of the pricing parity obligation is to make the other services listed in paragraphs 7 and 8 above, effectively subject to it as well. This is because customers make pricing decisions based on a view of relative prices. If, for example, Telstra were to implement differential pricing for a residential line rental service not subject to the pricing parity obligation, such as HomeLine Complete, HomeLine Complete customers in high-cost areas would move away from that service to the HomeLine Part service, which is priced below cost in high-cost areas.
- 20 Telstra has provided line rental services in non-metropolitan areas at the same price as the basic line rental service in metropolitan areas prior to 28 February 2006. Telstra did not look to implement differential geographic pricing at the retail level because it had been informed on a number of occasions in meetings with officials from the Department of Communications, Information Technology and the Arts

(“DCITA”), that if Telstra moved away from the parity arrangements the government would seek to rapidly implement a pricing parity obligation along the lines set out in clause 19A.

- 21 For example, I attended a meeting with [c-i-c] and [c-i-c] from Telstra, and [c-i-c] and [c-i-c] from DCITA on or about October 2005 at which [c-i-c] a Director from DCITA, said words to the effect that if Telstra tried to implement retail geographic deaveraging, the Minister will come down hard. [c-i-c] and [c-i-c] both said words to the effect “I agree with [c-i-c] comments”.
- 22 I had no reason to doubt the sincerity of the comment made by [c-i-c] at that meeting.
- 23 Further, if Telstra had implemented differential geographic pricing, only to have to reverse it when the government implemented a pricing parity obligation, the adverse impact on Telstra would have been significant. Not only would Telstra have faced the financial costs of changing its billing systems and communicating both sets of pricing changes to its 7.7 million (as at 31 December 2005) retail residential and business customers, it would have also had to manage a surge on call centre activity, and incur significant business relations costs.
- 24 It is for the reasons that I outline in paragraphs 21 to 23 that I believe that Telstra did not look to implement differential geographic pricing at the retail level before 28 February 2006.

**DATED:** 21 July 2006

.....  
[c-i-c]

**ANNEXURE A TO STATEMENT OF [c-i-c]**

Telstra Carrier Charges—Price Control Arrangements, Notifications and Disallowance  
Determination No 1 of 2005