IMPUTATION TESTING AND NON-PRICE TERMS AND CONDITIONS REPORT RELATING TO THE

ACCOUNTING SEPARATION OF TELSTRA

FOR THE SEPTEMBER QUARTER 2010

September 2010

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Glossary and acronyms

ADSL	Asymmetric digital subscriber line is a digital technology that supports high speed services over conventional copper telephone lines. It is a high bandwidth downstream service (toward the customer) with a lower bandwidth upstream service.
ISDN	The integrated services digital network is a network that has evolved from the PSTN. ISDN services enable end users to send and receive information at faster speeds and with greater reliability than is possible using the standard PSTN service.
KPI	key performance indicators
LCS	The local carriage service is a service for local call resale. That is, the carriage of telephone calls from customer equipment at an end-user's premises to separately located customer equipment of an end-user in the same standard zone.
PSTN	The public switched telephone network is the standard fixed-line telephone network, used primarily for the supply of long-distance, fixed-to-mobile and mobile-to-fixed calls to end-users in Australia.
PSTN-O	PSTN originating access service
PSTN-T	PSTN terminating access service
RAF	Telecommunications industry regulatory accounting framework
RKR	Record-keeping rules are rules issued by the ACCC under s. 151BU of the Trade Practices Act that require carriers or carriage service providers to keep and retain records and to give any or all of the reports to the ACCC as required.
SIO	services in operation
ULLS	The unconditioned local loop service involves the use of unconditioned lines (typically copper) between end-users and a telephone exchange, where the line terminates. This service enables the supply of advanced, high-speed data services to customers as well as local and long-distance voice services.
WACC	weighted average cost of capital
WLR	wholesale line rental

Summary

This is the 28th set of reports produced in accordance with a direction issued by the Minister for Communications, Information Technology and the Arts on 19 June 2003.

The reports are intended to provide greater transparency of Telstra's operations to ensure that it does not unfairly discriminate between access seekers using its network and its own retail operations.

Imputation testing

Imputation testing is designed to reveal whether sufficient margins exist between Telstra's retail prices and the prices Telstra charges access seekers to use its network (plus related costs) to enable equally efficient access seekers to compete in retail telecommunications markets.

A negative imputation margin could indicate Telstra is engaging in anti-competitive behaviour (eg a price squeeze) against its retail competitors. However, a negative margin, on its own, is not sufficient to determine whether anti-competitive behaviour is occurring. There may be other reasons why Telstra fails an imputation test that are not related to anti-competitive behaviour (for example, an increase in competition that drives down retail prices could cause a negative result for an imputation margin). There may also be reasonable explanations for increases in costs that could contribute to a negative result.

Imputation testing has been undertaken for the following retail services: local calls and line rental, domestic and international long-distance calls, fixed-to-mobile calls and ADSL services (both stand-alone and bundled).

For the September quarter 2010, Telstra passed the imputation tests for:

- domestic and international long-distance calls for both business and residential
- fixed-to-mobile calls for both business and residential
- the bundle of fixed-line voice telephony services for residential customers
- bundled ADSL and fixed telephony services for business customers.

However, Telstra failed the imputation tests for:

- local call services (line rental and local calls combined) for both residential and business customers
- the bundle of fixed-line voice telephony services for business customers and the total bundle of fixed-line voice telephony services
- stand-alone ADSL services for business and residential customers, and
- bundled ADSL and fixed telephony services for residential customers.

The margins for local call services (line rental and local calls combined) for residential customers declined sharply during the September 2010 quarter while the margins for business customers improved but remained negative. The margin for business and residential customers for the bundle of ADSL and fixed telephony services remained largely stable.

For the first time since the ACCC commenced imputation testing, the imputed margin for the bundle of fixed voice services (total) has become negative. This negative margin has resulted from the drop in the imputed margin for residential customers of nearly five per cent. This drop in the residential imputed margin has been driven by a fall in revenues of three per cent and an increase in retail costs of three per cent and an increase in other costs of 34 per cent for this service.

Non-price terms and conditions key performance indicators

The non-price terms and conditions report measures Telstra's relative performance in provisioning services, fixing faults, and keeping appointments for retail and wholesale basic access and ADSL customers. Performance is assessed against the customer service guarantee standards or similar measures.

The September quarter results indicate that the service level supplied to wholesale business customers during the quarter were generally as good as or slightly better than the service level supplied to retail customers over the quarter. For residential customers, the results indicate a mixed performance in Telstra achieving a similar level of service supplied to wholesale and retail residential customers.

With the exception of Metric 3 (business), Metric 5 (business and residential), and Metric 9 (residential) all of the reported measures were within the tolerance thresholds or were positive. Where results are positive, it indicates that wholesale customers are receiving a better service than retail customers and as such are less of a concern to the ACCC.

For Metric 3 (new basic access service which requires additional cable of network capacity), Telstra advised that the variances for business customers are due to the low number of wholesale orders. For Metric 5 (basic access faults that are rectified in the quarter, on or by the performance standard), Telstra advised that for business and residential customers, the result is due to a combination of process and system related issues that are causing the initial Telstra commitment date to be greater than the target. While for Metric 9 (ADSL service activation – held orders), Telstra advised that the variance is due to the small number of orders held and that this is a statistically insignificant result.

It is also noted that while the quarterly result for metric 5 (business and residential) is outside of the threshold, the average result over four quarters is within the tolerance threshold.

The ACCC will continue to monitor Telstra's performance against the relevant threshold tests ensuing quarters to ensure that results return to appropriate levels.

1 Introduction

On 19 June 2003, the Minister for Communications, Information Technology and the Arts directed the ACCC to use its record keeping rule (RKR) making powers under the *Trade Practices Act 1974*, (now the *Competition and Consumer Act 2010* (the Act)) to introduce enhanced accounting separation of Telstra.

In accordance with this direction, the ACCC issued RKRs requiring Telstra to provide the ACCC with reports on:

- regulatory accounting statements that have been prepared on a current cost basis, in addition to reports prepared on a historical cost basis, under the telecommunications Industry Regulatory Accounting Framework for core services (CCA reports)
- imputation analysis comparing Telstra's retail prices and the costs faced by access seekers in purchasing core services from Telstra to supply competing retail services (imputation reports)
- key performance indicators on non-price terms and conditions that compare Telstra's customer service performance between specified retail and wholesale supplied services (NPTC reports).

The direction also requires that the ACCC publish the reports and a commentary which discusses the accuracy of the reports the extent to which the reports comply with:

- the regulatory accounting framework (for the imputation report only)
- any other relevant record-keeping rules made by the ACCC
- any direction given by the ACCC for Telstra to make public information contained in the reports.

The comments are to include any qualifications that the ACCC considers necessary.

For the imputation report, the ACCC must also summarise the results of the imputation analysis.

1.1 Purpose of the reports

The purpose in establishing the enhanced accounting separation framework for Telstra is to provide the ACCC, access seekers and the public with greater transparency with respect to Telstra's wholesale and retail costs.[1]

This is intended to assist the ACCC in investigating conduct that may breach Part IV (restrictive trade practices) or Part XIB (the telecommunications industry: anti-competitive conduct and record-keeping rules) of the Act. This would include conduct such as predatory pricing, margin squeezing, cross-subsidisation and vertical cost shifting.[2] In such investigations, it is important to be able to carefully distinguish between wholesale and retail costs.

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[1]Department of Communications, Information Technology and the Arts, *Draft Direction on Telstra's accounting separation issued for public comment*, media release, 19 March 2003.

[2]See ACCC, *Current cost methodology for Telstra's subsequent reports under the accounting separation regime, framework document*, January 2004, pp. 8–9.

1.2 Limitations of the Reports

It should be noted that there are limitations associated with the information published in this report. In particular, the information captured under these arrangements is highly aggregated and can hide specific instances of anti-competitive behaviour. Further, accounting separation only requires a notional allocation of costs across wholesale and retail operations, and therefore does not contribute greatly to detecting and remedying specific occurrences of anti-competitive conduct. As a result, it does not completely remove incentives for Telstra to favour the company's retail operations. It does not compel Telstra to ensure that it consistently applies equivalent treatment of its wholesale and retail customers in the normal course of business.

2 Imputation report

2.1 Introduction to the imputation RKR

This section presents the imputation analysis of core telecommunications services supplied to access seekers. ‘Core services’ refer to wholesale services—the local carriage service (LCS), domestic PSTN originating access service (PSTN-O), domestic PSTN terminating access service (PSTN-T), and unconditioned local loop service (ULLS). These are the underlying services in the provision of certain retail services.

The imputation tests are conducted in accordance with an ACCC record keeping rule that was issued in September 2004.[3]

The primary objective of the reports provided under the imputation RKR is to indicate whether Telstra is engaging in systemic price squeeze behaviour in relation to core telecommunications services.[4] However, a ‘fail’ result for an imputation test does not exclusively determine that Telstra has contravened the competition provisions of the Act.

2.2 Background

2.2.1 Vertical price squeezing

Telstra is a vertically integrated carrier that owns the delivery platform from which its services are supplied. Telstra supplies retail telecommunications services, such as local calls, to end-users, and also supplies wholesale access services to competing retail suppliers. For many telephony services, Telstra’s retail competitors rely on wholesale supply from Telstra, such as access to the ‘local loop’ (such as origination and termination on the PSTN). The competitors then add network services (e.g., long-distance transmission for long-distance calls) and retail services (e.g., billing or call centre support).

A ‘vertical price squeeze’ may occur if Telstra reduces the margin between its price for a retail service, and the wholesale access price it charges for an essential input to that retail service. Telstra could reduce the margin by lowering the retail price for the service, or raising the wholesale access price for the essential input, or doing both.

If the difference between the retail price and the wholesale access price is not sufficient to cover Telstra’s network transformation and retail costs of supply, competitors, who are as equally efficient as Telstra in the supply of the retail service, might not be able to remain in the market, as they would be achieving negative profit margins. Imputation testing can therefore be used as a first step in detecting possible price squeezes in a retail market. Given the aggregated nature of the data available under this report imputation testing results alone should not solely be relied upon to determine that a price squeeze is occurring.

2.2.2 What are the elements of an imputation test?

An imputation test compares:

- the retail price charged by Telstra for a particular service
- the wholesale price charged by Telstra for access to its network, plus the additional costs incurred, in transforming the essential input into the retail service.

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[3] An earlier made RKR was revoked at this time as the data that was available to Telstra did not allow it to be fully implemented.

[4] Senator Richard Alston, *Government boost to telecommunications competition*, media release, 24 September 2002.

Where the retail price is less than the sum of the wholesale access price and additional costs, a price squeeze is said to occur.

2.3 The imputation tests in this RKR

In this report, imputation testing is conducted on the following retail services that use Telstra's core telecommunications services as inputs:

- local calls and line rental, which use the LCS
- domestic long-distance calls, which use the PSTN-O/T services
- outgoing international calls, which use the PSTN-O services
- fixed-to-mobile calls, which use the PSTN-O services
- ADSL services, which use the ULLS.

There are three main variables in an imputation test: the price of the retail service, the access price for the core service, and the additional costs of transforming the core service into the retail service. These variables are defined as follows:

- the 'retail price' is the average retail price of each retail service. This is calculated by using the total revenue and volume data provided by Telstra
- the 'access price' is the volume-weighted average of the prices Telstra charges its access seekers for the core service
- the 'unit cost' is the average total cost of transforming the core input into the relevant retail service.

The imputation RKR details how each variable is calculated. The results are presented in tables 2.1 to 2.4 of this report.

Costs are derived from Telstra's reports under the RAF, which requires the allocation of direct and common costs across Telstra's services.

The costs attributed to 'retail services' in the RAF provide the 'retail costs' for the imputation tests. However, there are further costs incurred in transforming a core service to a retail service, such as the cost of transmission. These are listed as 'other costs' in the imputation results. The tests also separate out the cost of capital (i.e., the cost of holding the capital assets necessary to transform the core services) and ancillary charges (e.g., charges for access to Telstra's exchange).

The sum of the 'retail costs', 'other costs', ancillary charges and retail cost of capital, per unit of retail service, is the 'unit cost'.

The imputation RKR requires Telstra to provide data calculated on both a historical cost accounting basis and a current cost accounting basis.[5]

The ACCC and Telstra have agreed to certain procedures for addressing methodological issues about costs, as outlined in section 2.7.

The imputed margin for each retail service can then be calculated as follows:

- The 'imputed margin' is calculated by subtracting the 'access price' and 'unit cost' from the 'retail price' for each retail service. This 'imputed margin' (in dollar terms) represents the profit margin that could be available to Telstra's competitors in the

[5]Under current cost accounting reporting, assets and liabilities are valued based on replacement costs, which are the present-day costs of acquiring an identical or substantially similar asset that could provide equivalent services and capacity as the existing asset. Replacement costs are based on current market values and current technology.

retail markets, who are equally efficient as Telstra, if they supply the retail service to their customers using Telstra's core service.[6]

- The imputation margin is further expressed as a percentage of the retail price.

2.4 Results submitted by Telstra

2.4.1 Current quarter results

In accordance with the ACCC's imputation testing RKRs, Telstra has submitted imputation reports in relation to the September quarter 2010 for both fixed-line voice telephony services and ADSL services. These reports are shown in the following Tables 2.1 to 2.4.

Separate reports are presented based on historical accounting costs and current accounting costs.

[6] As noted above, this margin is calculated after a contribution is made to 'common costs', that is, costs that are shared among multiple services.

Table 2.1: Fixed Telephony Report for September 2010 Quarter on Historic Cost basis

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
Revenues											
retail	208,757,026	465,873,149	33,385,704	103,639,479	3,999,895	29,326,903	80,030,250	172,295,688	326,172,875	771,135,219	1,097,308,094
other	0	0	0	0	0	0	0	0	0	0	0
total	208,757,026	465,873,149	33,385,704	103,639,479	3,999,895	29,326,903	80,030,250	172,295,688	326,172,875	771,135,219	1,097,308,094
Retail Costs											
organisation	22,248,428	55,084,611	1,742,596	7,611,167	221,852	2,144,023	3,990,857	6,970,761	28,203,732	71,810,562	100,014,294
product and consumer	32,392,149	79,755,448	3,246,529	14,179,924	1,183,364	11,436,297	30,440,730	53,170,303	67,262,773	158,541,972	225,804,745
total	54,640,577	134,840,058	4,989,125	21,791,091	1,405,216	13,580,320	34,431,587	60,141,064	95,466,505	230,352,534	325,819,039
Other Costs											
organisation	0	0	44,280	193,404	23,058	222,839	361,803	631,954	429,141	1,048,197	1,477,338
product and consumer	0	0	5,770	25,200	3,856	37,270	62,326	108,864	71,952	171,333	243,285
network expenses	0	0	118,264	516,543	37,271	360,194	957,824	1,673,016	1,113,359	2,549,753	3,663,112
total	0	0	168,314	735,147	64,185	620,303	1,381,953	2,413,834	1,614,452	3,769,283	5,383,736
Ancilliary*	N/A	N/A	377,472	1,648,689	8,497	82,117	200,166	349,626	586,134	2,080,432	2,666,567
Cost of Capital	12,472,228	31,124,384	1,242,124	5,425,249	200,619	1,938,830	4,130,107	7,213,988	18,045,079	45,702,451	63,747,529
Retail Volume*	2,096,604	5,361,276	243,481,670	1,063,459,216	10,961,651	105,935,836	258,227,379	451,041,351			
Retail price	$99.57	$86.90	$0.14	$0.10	$0.36	$0.28	$0.31	$0.38	$155.57	$143.83	$147.13
Access price	$100.45	$86.44	$0.02	$0.02	$0.01	$0.01	$0.01	$0.01	$104.91	$91.10	$94.98
Unit cost	$32.01	$30.96	$0.03	$0.03	$0.15	$0.15	$0.16	$0.16	$55.19	$52.58	$53.32
Imputed margin	-$32.89	-$30.50	$0.09	$0.05	$0.20	$0.12	$0.14	$0.21	-$4.53	$0.15	-$1.16
Imputed margin	-33.03%	-35.10%	62.82%	53.44%	55.35%	41.58%	45.33%	56.15%	-2.91%	0.11%	-0.79%

Table 2.2: Fixed Telephony Report for September 2010 Quarter on Current Cost basis

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
Revenues											
retail	208,757,026	465,873,149	33,385,704	103,639,479	3,999,895	29,326,903	80,030,250	172,295,688	326,172,875	771,135,219	1,097,308,094
other	0	0	0	0	0	0	0	0	0	0	0
total	208,757,026	465,873,149	33,385,704	103,639,479	3,999,895	29,326,903	80,030,250	172,295,688	326,172,875	771,135,219	1,097,308,094
Retail Costs											
organisation	21.590,968	53,458,203	1,683,718	7,354,003	214,427	2,072,268	3,855,613	6,734,533	27,344,726	69,619,007	96,963,733
product and consumer	32,343,501	79,635,103	3,242,174	14,160,899	1,182,815	11,430,988	30,430,724	53,152,826	67,199,214	158,379,816	225,579,030
total	53,934,469	133,093,306	4,925,892	21,514,902	1,397,242	13,503,256	34,286,337	59,887,359	94,543,940	227,998,823	322,542,763
Other Costs											
organisation	0	0	45,084	196,913	22,956	221,851	358,658	626,461	426,697	1,045,225	1,471,922
product and consumer	0	0	5,829	25,459	3,849	37,197	62,093	108,457	71,771	171,113	242,884
network expenses	0	0	118,264	516,543	37,271	360,194	957,824	1,673,016	1,113,359	2,549,753	3,663,112
total	0	0	169,177	738,915	64,076	619,242	1,378,575	2,407,934	1,611,827	3,766,091	5,377,918
Ancilliary*	N/A	N/A	377,472	1,648,689	8,497	82,117	200,166	349,626	586,134	2,080,432	2,666,567
Cost of Capital	12,198,453	30,447,131	1,242,099	5,425,140	198,721	1,920,485	4,054,597	7,082,096	17,693,871	44,874,852	62,568,723
Retail Volume*	2,096,604	5,361,276	243,481,670	1,063,459,216	10,961,651	105,935,836	258,227,379	451,041,351			
Retail price	$99.57	$86.90	$0.14	$0.10	$0.36	$0.28	$0.31	$0.38	$155.57	$143.83	$147.13
Access price	$100.45	$86.44	$0.02	$0.02	$0.01	$0.01	$0.01	$0.01	$104.91	$91.10	$94.98
Unit cost	$31.54	$30.50	$0.03	$0.03	$0.15	$0.15	$0.15	$0.15	$54.58	$51.99	$52.72
Imputed margin	-$32.42	-$30.05	$0.09	$0.05	$0.20	$0.12	$0.14	$0.22	-$3.92	$0.75	-$0.57
Imputed margin	-32.57%	-34.58%	63.01%	53.70%	55.60%	41.91%	45.61%	56.38%	-2.52%	0.5%	-0.39%

Notes to Tables 2.1 and 2.2: All retail volumes are reported in minutes with the exception of the local carriage service where volumes are in SIOs.

Table: 2.3 - ULLS Report for September 2010 Quarter on Historic Cost basis

	Unconditioned Local Loop Service		Unconditioned Local Loop Service	
	ADSL Service		ADSL, local calls, line rental, domestic long distance, international and fixed to mobile	
	Business	Residential	Business 1 x ADSL Service + 4 x Voice Lines	Residential 1 x ADSL Service + 1 x Voice Lines
Revenues				
retail	79,815,648	212,765,547	309,554,248	421,029,371
other	0	0	0	0
total	79,815,648	212,765,547	309,554,248	421,029,371
Retail Costs				
organisation	5,412,963	21,229,709	25,278,153	40,623,898
product and consumer	9,972,395	39,111,860	57,348,669	81,929,976
total	15,385,358	60,341,569	82,626,821	122,553,875
Other Costs				
organisation	8,103,921	31,783,679	8,478,385	33,578,024
product and consumer	813,791	3,191,699	6,642,149	8,589,293
network expenses	23,944,115	93,909,120	61,027,793	131,415,645
total	32,861,826	128,884,498	76,148,326	173,582,963
Ancillary Charges (TEBA)	2,176,013	8,534,349	2,279,223	9,096,221
Cost of Capital	12,891,009	50,558,700	61,333,561	99,013,652
Retail Volume	369,184	1,447,943	369,184	1,447,943
Retail price	$216.20	$146.94	$838.48	$290.78
Access price	$51.36	$51.36	$76.05	$58.99
Unit cost	$171.50	$171.50	$602.38	$279.19
Imputed margin	-$6.67	-$75.92	$160.06	-$47.40
Imputed margin	-3.08%	-51.67%	19.09%	-16.30%

Table: 2.4 - ULLS Report for September 2010 Quarter on Current Cost basis

	Unconditioned Local Loop Service		Unconditioned Local Loop Service	
	ADSL Service		ADSL, local calls, line rental, domestic long distance, international and fixed to mobile	
	Business	Residential	Business 1 x ADSL Service + 4 x Voice Lines	Residential 1 x ADSL Service + 1 x Voice Lines
Revenues				
retail	79,815,648	212,765,547	309,554,248	421,029,371
other	0	0	0	0
total	79,815,648	212,765,547	309,554,248	421,029,371
Retail Costs				
organisation	5,222,604	20,483,120	24,482,756	39,285,426
product and consumer	9,958,338	39,056,728	57,289,844	81,831,050
total	15,180,942	59,539,848	81,772,600	121,116,476
Other Costs				
organisation	8,500,829	33,340,360	10,823,417	36,945,748
product and consumer	843,159	3,306,879	6,815,659	8,838,473
network expenses	23,944,114	93,909,118	61,027,795	131,415,646
total	33,288,102	130,556,357	78,666,871	177,199,867
Ancillary Charges (TEBA)	2,176,013	8,534,349	2,279,223	9,096,221
Cost of Capital	6,752,478	26,483,302	83,402,752	102,932,989
Retail Volume	369,184	1,447,943	369,184	1,447,943
Retail price	$216.20	$146.94	$838.48	$290.78
Access price	$51.36	$51.36	$76.05	$58.99
Unit cost	$155.47	$155.47	$666.66	$283.40
Imputed margin	$9.36	-$59.89	$95.77	-$51.62
Imputed margin	4.33%	-40.76%	11.42%	-17.75%

Notes to Tables 2.3 and 2.4

* As per instructions from the ACCC, ancillary charges are calculated as TEBA revenues per ULL service that are reasonably expected in a mature market. This is calculated as the TEBA revenue for the September quarter divided by the adjusted number of installed tie cable pairs. The adjustment factor set by the ACCC is 66%.

** Retail volumes are reported in terms of SIOs.

2.5 Summary of results

2.5.1 Overview

Background

While imputation results based upon both historical and current cost have been presented, the following analysis focuses on the historical cost results.

There is generally little difference between the imputation results that are reported based on historical cost and those based on current cost measures. While the use of current costs will generally be expected to increase the cost base and reduce imputed margins, this purported effect is limited by the use, in imputation tests, of access prices instead of Telstra's actual cost (based on current or historical cost accounts) of supplying the core service using its fixed assets.

The imputation RKR uses average total cost in calculating the cost of transforming Telstra's core service into a retail service. The ACCC believes that this measure provides an important indicator of the long-run impacts of particular pricing.[7]

The imputation tests are conducted on a fully allocated cost basis, that is, all direct and common costs incurred in providing the retail service are taken into consideration in estimating the imputed profit margin for each retail service.

Further, the imputation tests are conducted on the premise that an access seeker is at least as efficient as Telstra. This implies that, where the imputed margin for a service is positive, a competitor's inability to compete or to remain in the retail market is likely to be due to factors (such as its inefficiency) other than any alleged price squeeze behaviour by the integrated access provider.

The aggregated nature of the imputation tests (that is, the use of high-level, averaged data) means that the imputation tests do not necessarily provide accurate reflections of commercial situations faced by each access seeker. Some access seekers will be competing for higher value customers or operating in lower cost areas, whereas the tests are conducted on a fully averaged basis. However, the results do allow certain conclusions to be made that are relevant for access seekers. For instance, the results indicate that in the absence of market developments, the use of the ULLS to supply competitive services will likely be limited to areas in which costs of supply are lower, and/or services are able to be directed to customers who yield higher revenues per service supplied, as compared with the average revenue and cost estimates used in these tests.

The ACCC considers that the principles on which the imputation tests are based are sound. Although some assumptions have been made to overcome data limitations—these are described in section 2.7 of this report—Telstra and the ACCC have worked together to ensure that these issues are treated appropriately.

As noted earlier, the results of imputation testing are a possible indicator of potentially anti-competitive behaviour but should not be solely relied upon.

Results for the Quarter

Table 2.5 provides a summary of the imputation test results for Telstra for the September 2010 quarter. A discussion of results in relation to the specific retail services is provided in sections 2.5.2 to 2.5.8.

For the September quarter 2010, the imputation test results indicate that Telstra passes the imputation tests for:

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[7] The ACCC has discussed this issue in its report, ACCC, *Bundling in telecommunications markets–an information paper,* August 2003.

- domestic and international long-distance calls for both business and residential customers
- fixed-to-mobile calls for both business and residential customers
- the bundle of fixed-line voice telephony services for residential customers
- bundled ADSL and fixed telephony services for business customers.

Compared to the last quarter, imputation margins for most services have fallen, in some cases substantially. The imputed margin for international long distance and fixed-to-mobile calls have fallen yet still remains highly positive. This means that there is still the opportunity for access seekers, which are equally as efficient as Telstra, to compete for customers in these markets.

However, Telstra failed the imputation tests for:

- local call services (line rental and local calls combined) for both residential and business customers
- the bundle of fixed-line voice telephony services for business and total customers
- stand-alone ADSL services for business and residential customers, and
- bundled ADSL and fixed telephony services for residential customers.

For ADSL services, the imputed margin for both business and residential customers is now negative. Previously, only the imputed margin for residential customers was negative. The imputed margin for local calls and line rental for residential customers has fallen from negative 28 per cent to negative 35 per cent in the September 2010 quarter.

Table 2.5: Telstra imputation testing results (on a historical cost basis)

			Sep 2009	Dec 2009	Mar 2010	Jun 2010	Sep 2010	
Retail service	**Core service(s)**							
Local calls and line rental	**LCS**	Business	–27%	–25%	-35%	-35%	-33%	Fail
		Residential	–19%	–18%	-28%	-28%	-35%	Fail
Domestic long-distance	**PSTN–O/T**	Business	67%	67%	63%	64%	63%	Pass
		Residential	59%	60%	54%	53%	53%	Pass
International long-distance	**PSTN–O**	Business	51%	44%	59%	62%	55%	Pass
		Residential	37%	33%	48%	48%	42%	Pass
Fixed-to-mobile	**PSTN–O**	Business	51%	52%	46%	48%	45%	Pass
		Residential	61%	62%	59%	59%	56%	Pass
Bundle of fixed voice services #	**LCS and PSTN–O/T**	Business	4%	5%	-3%	-2%	-3%	Fail
		Residential	11%	13%	6%	5%	0%	Pass
		Total	9%	11%	3%	3%	-1%	Fail
ADSL	**ULLS**	Business	5%	8%	-2%	1%	-3%	Fail
		Residential	–43%	–38%	-55%	-53%	-52%	Fail
Bundle of ADSL and fixed voice services *	**ULLS and PSTN–T**	Business	22%	23%	18%	19%	19%	Pass
		Residential	–9%	–6%	-16%	-16%	-16%	Fail

Source: Telstra imputation testing quarter reports for, September quarter 2009, December quarter 2009, March quarter 2010, June quarter 2010 and September quarter 2010 on a historical cost basis.

The bundle of fixed voice services comprises local calls and line rental, domestic and international long-distance and fixed-to-mobile calls.

* The bundle for business customers is assumed to contain one ADSL service and four fixed-voice services, while the bundle for residential customers is assumed to consist of one ADSL service and one fixed-voice service.

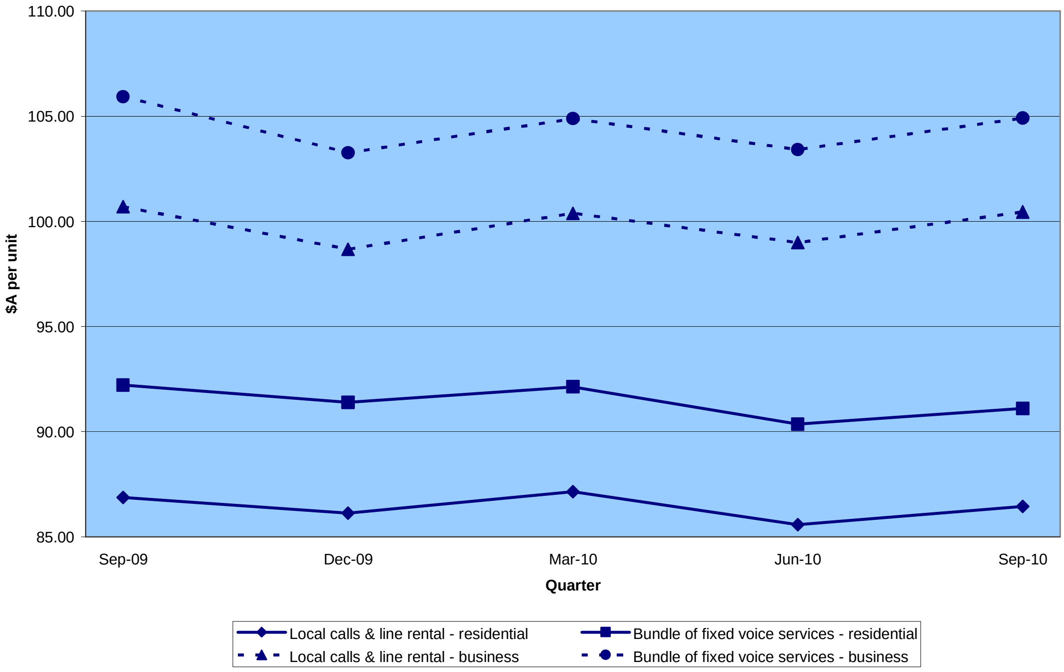
Comparison of current quarter results with the previous period

In the September 2010 quarter, the imputed margins for every service, except the bundle of ADSL and fixed voice services has declined. The imputed margins for some services, such as local calls and line rental for business customers and international long distance have declined more than five percentage points. The imputed margin for the bundle of ADSL and fixed voice services has remained steady.

Access prices over four quarters

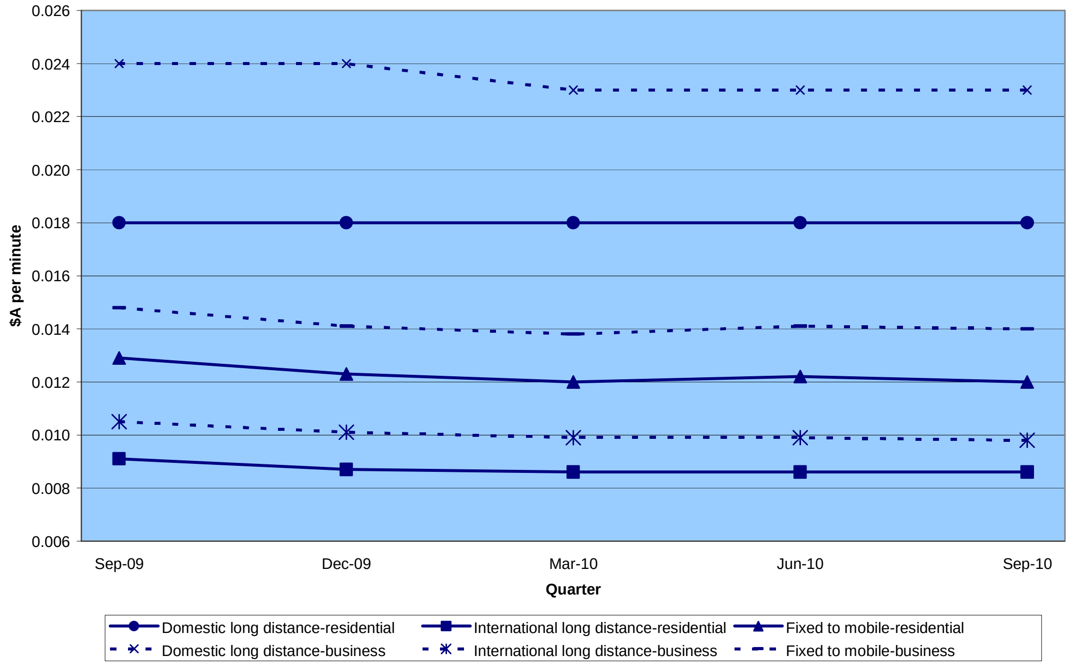
Telstra's estimates of the average access prices for the core services in relation to imputation testing are represented in figures 2.1 and 2.2 below.

Figure 2.1: Average access prices for core services used in supplying local call/ line rental services, and the fixed-line voice services bundle, September quarter 2009 to September quarter 2010



Retail and access prices are reported in the imputation tests on an average per unit basis. As such, changes in these prices can be due to changes in underlying revenues or volumes (e.g., the number of local calls per service in operation).

Figure 2.2: Average access prices for core services used in supplying domestic long-distance, international long-distance and fixed-to-mobile call services, September quarter 2009 to September quarter 2010



Average PSTN originating and terminating prices are dependent upon call hold times and the geographic area in which calls are supplied. Changes in reported PSTN-O/T prices can therefore be caused by changes in traffic characteristics as well as changes in the underlying rates/prices for PSTN-O/T services.

2.5.2 Line rental and local calls

The results for the September quarter 2010 indicate that Telstra would receive a negative margin for both residential and business customers if it supplied the bundled local call and line rental retail services by purchasing the LCS input at arms' length from itself. Telstra has failed the imputation test for the local call and line rental services in all quarters since reporting commenced.

In the September 2010 quarter, the imputed margin for residential line rental and local calls declined from negative 28 per cent to negative 35 per cent. The imputed margin for this service appears to be worsening over time. For businesses, the imputed margin for local call and line rental services improved from negative 35 per cent in the June 2010 quarter to negative 33 per cent.

For the residential sector, the data indicates that the reduced margin since the September 2009 quarter results from a combination of a sharp decline in revenues of more than eleven per cent since that time, from $525 million to $466 million, as well as an increase in retail costs of more than fourteen percentage points, from $118 million to $135million. The retail price for this service sold by Telstra declined from $91.03 in the June 2010 quarter to $86.90 for the September quarter 2010. This has been driven by decline in revenues from the service and an increase in the volume of the service used.

For the business sector, the data indicates a reduced margin since the September 2009 quarter. This has been driven by an increase in retail costs of nearly 15 per cent, from $48 million to $54 million as well as an increase in the cost of capital of more than 5 per cent from $12 million to $12.5 million since that time.

2.5.3 Domestic and international long-distance and fixed-to-mobile calls

In the retail supply of domestic and international long-distance and fixed-to-mobile calls, to residential and business customers, Telstra would make a positive margin if it purchased the essential inputs, the PSTN-O/T, at arm’s length from itself.

Telstra’s margins vary among the three retail services and between the residential and business customer segments. All three services passed the imputation test in the September 2010 quarter.

In this quarter, imputed margins for residential and business customers for domestic long-distance services remained nearly steady. For business customers, the imputed margin for this service declined slightly from 64 to 63 per cent while for residential customers, the imputed margin remained at 53per cent.

The imputed margin for international long-distance services for business customers decreased by 7 percentage points, while that of residential customers reduced by 6 percentage points since the June 2010 quarter. The decline in the imputed margin for business customers was caused by a decline of revenue of nearly 9 per cent, from nearly $4.4 million to $4 million since the June 2010 quarter as well as increases in costs across all categories of between 8-20 per cent. The decline in the imputed margin for residential customers is the result of an increase in all cost categories for Telstra of more than 10 per cent.

For fixed-to-mobile services the imputed margin for the business sector decreased from 48 to 45 percentage points, while for the residential sector, the imputed margin declined from 59 to 56 percentage points.

In calculating these margins, it is assumed that Telstra’s fixed-to-mobile calls are terminated off-net, that is, on a mobile network other than Telstra’s. The ACCC estimates that the cost Telstra incurs to terminate a fixed-to-mobile call on its own network is less than that currently charged by other mobile network operators for the mobile terminating access service. Therefore, the imputed margins for fixed-to-mobile calls may be understated in this respect. The margins available to access seekers may also be higher to the extent that an access seeker can supply on-net fixed-to-mobile calls. This qualification is also relevant to the bundles that include fixed-to-mobile calls.

2.5.4 Bundle of fixed voice services

Imputation testing has also been undertaken for a bundle of fixed voice services, consisting of line rental and local, domestic and international long-distance and fixed-to-mobile calls. For the third time, the business sector reports a negative margin and fails the imputation test. For the September quarter 2010, the tests show the imputed margin for residential customers was zero. The imputed margins decreased by half-of-one percentage point for business and decreased by five percentage point for residential customers. The decline in the imputed margin for residential services was driven by a fall in revenues gained by Telstra for delivering this service of nearly three per cent, from $793 million to $771 million and an increase in retail costs of three per cent from $223 million to $230 million. Other costs increased more than 24 per cent from $3 million to $3.8 million. It is the decline in the imputed margin for residential customers that has lead to the imputed margin for all customers becoming negative for the first time since the ACCC commenced imputation testing. This fall resulted from a fall in revenues of nearly three per cent from $793 million to $771 million, a rise in retail costs of more than three per cent from $223 million to $230 million and an increase in other costs of around 24 per cent from $3 million to $3.8 million.

2.5.5 ADSL

Telstra failed the imputation tests conducted on services that use the ULLS as a core service input in the September 2010 quarter.

The imputation tests indicate that Telstra would continue to make a negative margin if it purchased the essential input, the ULLS, at arms' length from itself, to supply only ADSL services for its customers. The margin for supplying a stand-alone ADSL service to residential customers improved marginally from negative 53 per cent in the June 2010 quarter to negative 52 per cent in the September quarter 2010. For business customers, the imputed margin decreased by four percentage points, resulting in a failure to pass this imputation test. The imputed margin for business customers was positive from September 2008 to December 2009, however, since that time, it has been either negative or barely positive. This has been caused by both a decrease in the retail price of the service and an increase in the unit costs of Telstra providing the service. The decrease in the retail price of the service has been caused by the growth in the volume of the service (thirty-five per cent) provided outstripping the growth in the revenue Telstra gains for providing the service (twenty-three per cent). The costs of Telstra providing this service has increased in every category, with 'other costs' increasing by nearly 61 per cent since the September 2009 quarter, from $20 million to nearly $33 million..

In assessing the reported cost for the September quarter 2010, it should be noted that the test excludes costs associated with the installation, removal or connection of customer premise equipment.

In considering the difference in results between customer groups, the following factors should also be considered:

- The customer groups are now being determined based on the basic-access product code for the line on which the ADSL service is supplied.[8]
- The revenues for BigPond services are averaged across customer groups. Consequently costs and revenues are not allocated to each group. For example, if one class of customers generally subscribes to higher-priced BigPond plans, the reported results would understate the revenues earned from that customer group and overstate the revenues received from other customer groups.
- As the RAF does not disaggregate costs between customer groups, the costs are averaged over each customer group's demand for the service.

In considering whether the reported imputation results for the ULLS provide an accurate indication of market conditions faced by ULLS access seekers, the following factors should be considered:

- The imputation test uses the average total cost of transforming the ULLS into ADSL, which includes a pre-determined contribution to common costs. When ADSL services were relatively new, Telstra had expressed its view that access seekers would be unlikely to require ADSL services supplied over the ULLS to make a contribution to

[8] Initially, these groups were populated on the basis of unaudited survey data collected by Telstra when the customer first connects the ADSL service. The ACCC considers the current method to be more robust than that previously used. For the June quarter 2006 report and future reports, Telstra made further corrections to its procedure in allocating retail revenues to its business and residential customers to fully align the procedure with Telstra's Regulatory Procedure Manual for imputation testing.

overheads and common costs. Demand for ADSL services has since experienced strong growth.[9]

- Telstra's product and overhead costs may not give an accurate representation of those costs faced by access seekers; in particular, those who are targeting niche areas and customers, particularly in the business/corporate segment.
- The test focuses on the use of ULLS to supply ADSL, but other retail services can be supplied in conjunction with ULLS (e.g., symmetric high-bitrate DSL) that may yield significantly higher retail revenues.
- On the other hand, the reported imputation tests exclude connection costs and revenues—should access seekers subsidise connections to acquire customers, the actual imputed margins would be less (i.e., more negative) than those reported.

Notwithstanding the qualifications above (which could mean that actual margins differ from those reported under the current imputation test), the results suggest that any business model involving the use of ULLS to supply only ADSL to customers is unlikely to be sustainable. The tests that combine ADSL and voice services may therefore more accurately reflect current market conditions.

It should also be remembered that other wholesale inputs in addition to the ULLS, including wholesale ADSL services, would be available to service providers that wish to supply retail ADSL. That said, the attributes of these other wholesale inputs will differ.

2.5.6 Bundle of ADSL and fixed voice services

Imputation tests have been undertaken on bundles of ADSL and fixed voice services (comprising local calls, line rental, domestic and international long-distance calls and fixed-to-mobile calls).

Telstra reports a negative 16 per cent margin for the bundle of ADSL and fixed voice services for residential customers (comprising one ADSL service and one voice service). This indicates that a service provider as efficient as Telstra would incur a loss in supplying these services.

Telstra passes the imputation test on the bundle for business customers (comprising one ADSL service and four voice services) with the imputed margin of 19 per cent in the September 2010 quarter.

Given the bundle of ADSL and fixed voice services is made up of the ADSL service and voice services, the reasons outlined by Telstra for failing the stand-alone ADSL imputation test (as discussed in 2.5.5) are also relevant for Telstra failing the bundle of ADSL and fixed voice service for residential customers. Likewise the qualification for termination of fixed-to-mobile calls in section 2.5.3 is also relevant for these tests.

Also, the imputation test assumes that the costs of supply of the voice services in this bundle would be in line with costs of supply of voice services over the PSTN. Service providers wishing to supply voice services and broadband services over the PSTN could choose to do so by using voice over broadband, data or Internet protocol (IP) alternatives. This may result in significantly lower costs than those reported in the current tests.

The ACCC again notes that these tests focus on the use of ULLS to supply ADSL and voice services, but that other wholesale inputs may be used. Additionally, use of the ULLS core

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[9] For instance, the ABS internet data activity report for June quarter 2010 shows that non-dial up subscribers, which are dominated by digital subscriber line (DSL) access technology, represented 92 per cent of all internet connections at the end of December 2009 with 4.5 per cent increase since June 2009. See http://www.abs.gov.au/ausstats/abs@.nsf/mf/8153.0/.

service enables a wide range of retail services, not limited to just ADSL and the aforementioned voice services, to be supplied.

However, the results indicate that, in the absence of market developments, the use of the ULLS to supply competitive services will likely be limited to areas in which costs of supply are lower and/or services are able to be directed to customers who yield higher revenues per service supplied, as compared with the average revenue and cost estimates used in these tests.

Market developments that could expand the scope of services that could reasonably be expected to be supplied would include the supply of other services over the ULLS (e.g., pay TV, higher speed/quality DSL services, other multi-media services) or reductions in access prices or other cost inputs.

The results of these imputation tests indicate that it is not simply the access price of the ULLS that is likely to be driving the imputation test results. This is because the costs incurred in transforming the ULLS into ADSL are much higher than the access price.

Finally, the ACCC notes that Telstra has been critical of the ability of the tests using the ULLS to accurately depict market conditions faced by ULLS access seekers. For example, Telstra has argued that the ACCC should model access seekers' costs rather than basing the test on Telstra's costs. However, imputation testing is based on Telstra's costs in order to present the margins available on the ULLS for an access seeker at least as efficient as Telstra. The ACCC regards this as being the fundamental concept behind the imputation testing procedure and will retain the use of Telstra's costs in the test.

Telstra has provided additional imputation results for the ULLS/ADSL and voice services bundle that are prepared on the basis that certain geographically averaged transformation costs are replaced by costs specific to the geographic areas where ULLS is currently being supplied.[10]

The transformation costs that have been substituted concern the costs of termination of local calls that originate on an access seeker's ULLS. The geographically-specific termination costs are estimated from overall PSTN–O/T yields and the rate table specified in Telstra's 2004–05 PSTN-O/T access undertakings. Table 2.6 sets out the unadjusted and adjusted results.

Table 2.6: Summary of imputed margins when local call termination charges are estimated on a geographic-specific basis, September quarter 2010

	ULLS Test	Business – 1 ADSL + 4 voice lines	Residential – 1 ADSL + 1 voice line
Historic Cost Basis	Unadjusted	19.09%	-16.30%
	Adjusted	19.42%	-16.05%
Current Cost Basis	Unadjusted	11.42%	-17.75%
	Adjusted	11.75%	-17.50%

While some of the assumptions on which these additional results have been derived could bear closer scrutiny, it is likely that the reported results are broadly indicative of the effect of using geographically specific local call termination costs instead of fully distributed average termination costs in these imputation tests.

[10]The ULLS is predominantly supplied in urban areas (bands 1 and 2) with few services supplied outside those areas (bands 3 and 4). Telstra advised that as at 30 June 2010 around 4 per cent of ULLS were supplied in band 1, and 94 per cent in band 2. Source: Telstra CAN RKR Data June 2010.

2.6 Reconciling imputation RKR data with the RAF

Telstra prepares its imputation reports each quarter. In doing so, for each of the retail services subject to imputation testing, Telstra uses revenue and volume data for the quarter to obtain the average retail price and average access price, and uses RAF data to obtain average unit costs.

Ideally, the imputation test results would be based on retail price, access price and unit cost figures appropriate to the quarter. Telstra is able to obtain retail price and access price data from its management systems on a quarterly basis. However, the RAF report is published twice a year only (i.e. for the January–June and July–December reporting periods) and is not available until after the imputation testing results must be submitted to the ACCC. Imputation testing is therefore conducted using cost data from the last available half-year RAF report. For example, in the results for this September quarter 2010 imputation report, the unit cost data was obtained from the RAF data for the period January to June 2010.

Reconciliation reports are prepared every six months to check whether the accuracy of the imputed margins disclosed in the quarterly reports is affected by the use of lagged RAF cost data and current-quarter revenue and volume data. These reconciliation reports compare the results shown in the quarterly reports (which use management system and lagged RAF data) to results obtained using revenue, volume and cost data from the RAF appropriate to the test period.

Telstra has provided the ACCC with a reconciliation report for the January-June 2010 period.

2.6.1 Summary of Reconciliation Results

Telstra has provided the ACCC with its latest reconciliation reports which show that except for the imputed margins for international long distance calls, overall imputed margins remain broadly consistent when using either the matching RAF data or the lagged RAF data. The June RAF data suggests that previously reported total margin was overstated by 0.7 percentage points. This was caused by an overstated historic cost for all categories of service in the previous period except access rental and local calls for residential customers.

The most significant difference occurred in the International Long Distance service where the business sector was under overestimated by 5.0 percentage points and the residential sector was overstated by 6.6 percentage points in the previous report.

Table 2.7: Telstra's imputed historic cost half year margins applying the June 2010 RAF

	Access Rental & Local Calls	Domestic Long-Distance	International Long-Distance	Fixed to Mobile	Bundle of Access Rental and all call services
Business	-35.4%	63.1%	56.0%	46.3%	-3.5%
Residential	-20.2%	52.9%	41.4%	58.1%	4.5%
Total Margin					2.2%

Table 2.8: Telstra's imputed historic cost half year margins applying the December 2009 RAF

	Access Rental & Local Calls	Domestic Long-Distance	International Long-Distance	Fixed to Mobile	Bundle of Access Rental and all call services
Business	-34.9%	63.9%	61.0%	47.1%	-2.9%
Residential	-20.3%	54.0%	48.0%	58.7%	5.3%
Total Margin					2.9%

Table 2.9: Telstra's imputed historic cost half year margins applying the June 2010 RAF

	Standalone ADSL	Bundle of ADSL and voice services
Business	4.4%	20.1%
Residential	-45.8%	-12.0%

* Residential bundle is 1 ADSL service and 1 PSTN line, the Business bundle is 1 ADSL service and 4 PSTN lines

Table 2.10: Telstra's imputed historic cost half year margins applying the December 2009 RAF

	Standalone ADSL	Bundle of ADSL and voice services*
Business	-0.9%	18.4%
Residential	-53.8%	-16.2%

* Residential bundle is 1 ADSL service and 1 PSTN line, the Business bundle is 1 ADSL service and 4 PSTN lines

Table 2.11: Fixed telephony reconciliation report for January to June 2010 on historic cost basis (applying June 2010 RAF)

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
Revenues											
Retail	414,616,987	979,934,322	68,937,332	214,084,950	8,484,526	61,138,018	162,738,170	363,338,731	654,777,015	1,618,496,021	2,273,273,035
Other	0	0	0	0	0	0	0	0	0	0	0
Total	414,616,987	979,934,322	68,937,332	214,084,950	8,484,526	61,138,018	162,738,170	363,338,731	654,777,015	1,618,496,021	2,273,273,035
Retail Costs											
Organisation	45,200,921	110,663,689	3,592,154	15,988,557	463,558	4,486,295	7,998,829	14,082,823	57,255,462	145,221,364	202,476,826
product and consumer	65,800,672	160,433,563	6,692,334	29,787,353	2,472,634	23,930,065	60,875,468	107,177,501	135,841,107	321,328,482	457,169,589
Total	111,001,593	191,716,713	10,284,488	45,775,910	2,936,192	28,416,360	68,874,297	121,260,324	193,096,569	466,549,846	659,646,415
Other Costs											
Organisation	0	0	91,279	406,278	48,180	466,283	725,157	1,276,719	864,615	2,149,280	3,013,895
product and consumer	0	0	11,893	52,936	8,058	77,986	124,919	219,934	144,871	350,856	495,727
network expenses	0	0	243,787	1,085,087	77,877	753,694	1,919,757	3,379,944	2,241,421	5,218,725	7,460,146
Total	0	0	346,959	1,544,301	134,115	1,297,963	2,769,833	4,876,597	3,250,907	7,718,861	10,969,768
Ancilliary*	N/A	N/A	642,760	2,861,054	14,664	141,941	331,392	583,497	988,816	3,586,492	4,575,308
Cost of Capital	25,343,937	62,414,255	2,560,492	11,396,662	419,193	4,056,936	8,277,927	14,574,206	36,601,549	92,442,060	129,043,609
Retail Volume*	2,131,446	5,345,674	501,908,483	2,233,977,736	22,904,315	221,667,163	517,562,212	911,225,516			
Retail price	$194.52	$183.31	$0.137	$0.10	$0.37	$0.28	$0.31	$0.40	$307.20	$302.77	$304.03
Access price	$199.38	$172.73	$0.02	$0.02	$0.01	$0.01	$0.01	$0.01	$208.30	$182.50	$189.85
Unit cost	$63.97	$47.54	$0.03	$0.03	$0.15	$0.15	$0.16	$0.16	$109.76	$106.68	$107.56
Imputed margin	-$68.82	-$36.96	$0.09	$0.05	$0.21	$0.11	$0.15	$0.23	-$10.86	$13.59	$6.62
Imputed margin	-35.38%	-20.16%	63.12%	52.89%	56.03%	41.40%	46.26%	58.08%	-3.53%	4.49%	2.18%

Table 2.12: Fixed telephony reconciliation report for January to June 2010 on current cost basis (applying June 2010 RAF)

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
Revenues											
retail	414,616,987	979,934,322	68,937,332	214,084,950	8,484,526	61,138,018	162,738,170	363,338,731	654,777,015	1,618,496,021	2,273,273,035
other	0	0	0	0	0	0	0	0	0	0	0
total	414,616,987	979,934,322	68,937,332	214,084,950	8,484,526	61,138,018	162,738,170	363,338,731	654,777,015	1,618,496,021	2,273,273,035
Retail Costs											
organisation	43,865,223	107,395,627	3,470,784	15,448,340	448,044	4,336,151	7,727,761	13,605,578	55,511,811	140,785,697	196,297,508
product and consumer	65,701,838	160,191,746	6,683,355	29,747,388	2,471,486	23,918,958	60,855,413	107,142,192	135,712,092	321,000,283	456,712,376
total	109,567,061	188,326,550	10,154,139	45,195,729	2,919,530	28,255,109	68,583,174	120,747,770	191,223,904	461,785,980	653,009,884
Other Costs											
organisation	0	0	92,935	413,649	47,966	464,215	718,853	1,265,621	859,754	2,143,485	3,003,239
product and consumer	0	0	12,016	53,481	8,042	77,833	124,453	219,113	144,511	350,427	494,938
network	0	0	243,787	1,085,087	77,877	753,694	1,919,757	3,379,944	2,241,421	5,218,725	7,460,146
total	0	0	348,737	1,552,218	133,886	1,295,742	2,763,063	4,864,678	3,245,686	7,712,638	10,958,324
Ancilliary*	N/A	N/A	642,760	2,861,054	14,664	141,941	331,392	583,497	988,816	3,586,492	4,575,308
Cost of	24,787,736	61,053,398	2,560,440	11,396,433	415,227	4,018,551	8,126,584	14,307,749	35,889,986	90,776,131	126,666,118
Retail	2,131,446	5,345,674	501,908,483	2,233,977,736	22,904,315	221,667,163	517,562,212	911,225,516			
Retail price	$194.52	$183.31	$0.14	$0.10	$0.37	$0.28	$0.31	$0.40	$307.20	$302.77	$304.03
Access price	$199.38	$172.73	$0.02	$0.02	$0.01	$0.01	$0.01	$0.01	$208.30	$182.50	$189.85
Unit cost	$63.04	$46.65	$0.03	$0.03	$0.15	$0.15	$0.15	$0.15	$108.54	$105.48	$106.35
Imputed	-$67.89	-$36.07	$0.09	$0.05	$0.21	$0.12	$0.15	$0.23	-$9.64	$14.79	$7.83
Imputed margin	-34.90%	-19.68%	63.31%	53.16%	56.28%	41.73%	46.54%	58.30%	-3.14%	4.89%	2.57%

Table 2.13 ULLS Reconciliation Report for January to June 2010 on historic cost basis

	Unconditioned Local Loop Service		Unconditioned Local Loop Service	
	ADSL Service		ADSL, local calls, line rental, domestic long distance, international and fixed to mobile	
	Business	Residential	Business 1 x ADSL Service + 4 x Voice Lines	Residential 1 x ADSL Service + 1 x Voice Lines
Revenues				
retail	128,097,634	462,322,897	465,470,985	919,813,407
other	0	0	0	0
total	128,097,634	462,322,897	465,470,985	919,813,407
Retail Costs				
organisation	8,051,112	44,313,504	37,551,831	85,363,884
product and consumer	14,832,703	81,639,534	84,824,073	172,467,781
total	22,883,816	125,953,038	122,375,903	257,831,666
Other Costs				
organisation	12,053,579	66,343,168	12,580,284	70,505,426
product and consumer	1,210,414	6,662,144	9,876,123	17,969,829
network expenses	35,613,906	196,019,743	90,681, 610	275,492,334
total	48,877,898	269,025,055	113,138,018	363,967,589
Ancillary Charges (TEBA)	3,514,978	19,345,933	3,642,345	20,359,599
Cost of Capital	19,173,780	105,532,918	91,109,611	208,060,661
Retail Volume	274,558	1,511,171	274,558	1,511,171
Retail price	466.56	305.94	1695.35	608.68
Access price	102.18	102.17	151.03	119.22
Unit cost	344.01	344.00	1202.90	562.62
Imputed margin $	20.37	-140.25	341.42	-73.17
Imputed margin	4.37%	-45.84%	20.14%	-12.02%

Table 2.14 ULLS Reconciliation Report for January to June 2010 on historic cost basis

	Unconditioned Local Loop Service		Unconditioned Local Loop Service	
	ADSL Service		ADSL, local calls, line rental, domestic long distance, international and fixed to mobile	
	Business	Residential	Business 1 x ADSL Service + 4 x Voice Lines	Residential 1 x ADSL Service + 1 x Voice Lines
Revenues				
retail	128,097,634	462,322,897	465,470,985	919,813,407
other	0	0	0	0
total	128,097,634	462,322,897	465,470,985	919,813,407
Retail Costs				
organisation	7,767,977	42,755,122	36,370,285	82,551,657
product and consumer	14,811,795	81,524,454	84,736,690	172,259,929
total	22,579,772	124,279,576	121,106,975	254,811,586
Other Costs				
organisation	12,643,931	69,592,482	16,067,834	77,543,889
product and consumer	1,254,094	6,902,562	10,134,169	18,490,608
network expenses	35,613,906	196,019,740	90,681,613	275,492,337
total	49,511,931	272,514,784	116,883,616	371,526,833
Ancillary Charges (TEBA)	3,514,978	19,345,933	3,642,345	20,359,599
Cost of Capital	10,043,474	55,279,510	123,940,094	216,181,024
Retail Volume	274,558	1,511,171	274,558	1,511,171
Retail price	466.56	305.94	1695.35	608.68
Access price	102.18	102.17	151.03	119.22
Unit cost	311.96	311.96	1331.50	571.00
Imputed margin $	52.43	-108.19	212.82	-81.55
Imputed margin	11.24%	-35.36%	12.55%	13.40%

Notes to Tables 2.13 and 2.14

* As per instructions from the ACCC, ancillary charges are calculated as TEBA revenues per ULL service that are reasonably expected in a mature market. This is calculated as the TEBA revenue for the September quarter divided by the adjusted number of installed tie cable pairs. The adjustment factor set by the ACCC is 66%.

** Retail volumes are reported in terms of SIOs.

2.7 Extent to which the reports comply with the RAF and other RKRs

The Ministerial Direction requires the ACCC to comment on the extent to which the reports comply with:

- the RAF;
- any other relevant record-keeping rules made by the ACCC (whether for the purposes of the Minister's Direction or otherwise); and
- any Direction given by the ACCC for Telstra to make public information contained in the reports.

This section discusses the extent to which the reports comply with the RAF.

2.7.1 Relationship between the RAF and the imputation RKR

Telstra provides financial information to the ACCC in the RAF. Under the RAF, Telstra must provide capital-adjusted profit and loss statements for its retail services, internal wholesale services and external wholesale services. Telstra must also provide statements in relation to capital employed and fixed assets for those three service classifications.

The Ministerial Direction requires that Telstra provide the imputation RKR information to the ACCC each quarter. Telstra currently provides RAF information to the ACCC every six months. To address this time disparity, the ACCC requires Telstra to:

- obtain revenue information for core and retail services for the relevant quarter from Telstra's general ledger accounts
- obtain volume information for core and retail services for the relevant quarter from Telstra's management information systems
- obtain cost information for retail services each quarter by multiplying the volume data for the relevant quarter with the unit costs of the service derived from the RAF accounts for the six-month reporting period preceding that quarter.

The RAF records volume information for retail and core services. The imputation RKR requires Telstra to use volume data for retail services from the RAF for the previous six months to unitise cost information. It also requires that volume data for the relevant quarter be used, which can later be compared to the volume data that appears in the RAF.[11]

The RAF does not disaggregate data between business and residential customer groups.

2.7.2 Revenue differences between the imputation RKR and the RAF

The RAF allocates revenues across various retail services. The imputation RKR requires Telstra to allocate its retail revenues in a manner consistent with the RAF. This allows for the reports provided by Telstra to be reconciled with the RAF data in future periods.

That said, there are two material differences in the service descriptions that are used in the RAF and in the imputation test:

- The domestic long-distance service in the imputation RKR excludes revenues from operator-assisted calls, which are included in the corresponding RAF category. Therefore, the domestic long-distance revenues in the RKR will be lower than the RAF revenue for the national long-distance retail service.
- The RAF fixed-to-mobile service includes ISDN-originated calls.

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[11]The ACCC has released some volume information pursuant to section 151BUA of the Act. See, for example, ACCC, Telecommunications market indicators report 2004-05 (published in July 2006).

As noted in section 2.6, differences between the imputation RKR and the RAF revenues also occur due to the effect of different accounting treatments. Differences also occur due to the inclusion of ADSL installation discounts and ULLS connection charges.

The revenues in the imputation RKR are otherwise consistent with the revenue items for these services in the RAF.

2.7.3 Cost differences between the imputation RKR and the RAF

The RAF allocates common costs as well as direct costs to wholesale and retail services. The costs attributed to retail services in the RAF are appropriate for calculating 'retail costs' for the imputation test, but do not include all costs in the transformation of a core service to a retail service (such as transmission costs). Therefore, additional costs (listed separately as 'other costs') are included in Telstra's imputation testing results.

Telstra uses unitised cost information from the RAF reports from the preceding six-monthly reporting period, which is multiplied by the volume for the relevant quarter. This cost information is later reconciled with the RAF. In constructing the imputation test, Telstra raised implementation issues relating to the calculation of appropriate retail and other costs using the RAF data. Telstra and the ACCC agreed on ways to resolve these issues. This has resulted in some adjustments to the RAF figures in the imputation test. The adjustments relate to:

- the removal of installation costs from the cost of line rental and ADSL – as required by the imputation RKR
- the removal of modem costs from the cost of ADSL – implied from the definition of ADSL in the imputation RKR
- the use of a mobile termination methodology for costing fixed-to-mobile services
- avoiding the double-counting of ULLS and PSTN originating and terminating access service costs
- adjustment to call costs used in the bundle of ADSL and fixed voice products when services are provided over the ULLS
- ancillary costs.

The last four dot points are described in more detail below.

Mobile termination methodology for fixed-to-mobile services

As the imputation tests are designed to show whether an efficient access seeker is able to compete with Telstra, the imputation test needed adjustment to account for Telstra's on-net fixed-to-mobile calls (i.e. voice calls that originate from Telstra fixed lines and terminate on Telstra's mobile network). The ACCC and Telstra agreed that Telstra impute the weighted average mobile termination charge that would apply to an access seeker which terminates fixed-to-mobile traffic on Telstra's mobile network.

Double-counting ULLS and PSTN originating and terminating costs

To calculate the costs of transforming the PSTN and ULLS core services into the retail services specified in the imputation RKR, Telstra uses its Retail and Internal Wholesale accounts in the RAF. However, the Internal Wholesale accounts include costs of network elements and functions that are already captured in the access prices for the PSTN O/T and ULLS. For example, the Internal Wholesale costs recorded in the RAF allocate local switching and transmission costs to the domestic long-distance service, which are already factored into the PSTN access price.

To overcome this issue, Telstra deducted the common elements located in the External Wholesale accounts (which are used to calculate the access price) from the costs located in the Internal Wholesale accounts in the RAF. This adjustment is done at a relatively high level, and

Telstra and ACCC are considering whether more precise adjustments could be made in future imputation tests.

Non-ULLS call costs

For the bundled tests involving ADSL and fixed voice products, the costs for origination and termination for fixed telephony calls change when the underlying service is ULLS.

The ACCC and Telstra have agreed to a methodology that involves several steps. For local and domestic long-distance calls, the PSTN terminating access (TA) network costs are removed from the RAF and PSTN TA charges are added, using a similar method to that used to remove double-counted costs. For international long-distance calls, the international settlement payments are used for termination of such calls. For fixed-to-mobile calls, the methodology explained above for mobile termination is used.

Ancillary charges

The imputation RKR requires Telstra to calculate ancillary charges for the PSTN (consisting of switchport charges) and ULLS (Telstra Exchange Building Access or TEBA charges). The imputation reports may double count some of the ancillary charges.

2.7.4 Conclusion on the extent to which the reports comply with the RAF

Subject to the exceptions noted in sections 2.7.2 and 2.7.3 above, the revenue data for retail services and the cost data for retail services are likely to comply with the RAF. Other data involved in the imputation testing is not required to comply with the RAF.

2.8 Accuracy of the imputation RKR reports

The Ministerial Direction requires the ACCC to comment on the accuracy of the reports lodged by Telstra.

2.8.1 Audit process

Clause 13 of the imputation RKR addresses the audit requirements for the reports. The clause requires that a single audit be undertaken each year in respect of the reports that are prepared under the imputation RKR and an audit report be provided to the ACCC.

2.8.2 Accuracy of report

Given that the underlying Telstra data used in the September quarter 2010 results have not yet been audited, the ACCC cannot conclusively state whether the reports provided by Telstra for the period comply in all respects with the imputation RKR.

The ACCC also notes that it has identified throughout this report particular factors which should be considered in assessing whether imputation test results prepared under the imputation RKR give an accurate indication of the margins actually available to access seekers competing with Telstra in the retail markets.

3 Non-price terms and conditions report

3.1 Overview

3.1.1 What does this report do?

This report presents various key performance indicators (KPIs) for the service levels that Telstra supplies to retail customers and wholesale customers. The data for these reports is compiled by Telstra and submitted to the ACCC.

The KPIs are on the ordering and provisioning (i.e., the connection of new services) and handling of faults for the basic access service and the ADSL service. The KPIs measure Telstra's basic access service levels against the standard that is specified in the customer service guarantee (CSG)[12] and Telstra's ADSL service levels against similar standards. Separate KPIs are presented for residential and business services.

The reporting of KPIs is intended to reveal to the public, industry and the government whether or not Telstra's systems or processes are impeding Telstra in providing equivalent service levels, on average, to Telstra wholesale and Telstra retail customers, for example, by causing wholesale customers to receive a lesser or better quality of service than it provides to its retail customers.

The report is not intended to identify whether particular instances of anti-competitive behaviour may have occurred. These results are only possible indicators. The ACCC will, therefore, continue to monitor any trends in performance and respond to complaints of discrimination on their merits.

3.1.2 Overview of reported KPIs[13]

Business services

The current report indicates that for all but two metrics, the service level supplied to wholesale business customers during the quarter, and over the last four quarters, was practically as good as or better than the service level supplied to retail business customers.

The current report raises two areas of concern. The first is in Metric 3, which represents the percentage of Basic Access customer installation orders provisioned in the quarter, on or by the performance standard for new service which requires additional cable or network capacity. For the September 2010 quarter, Telstra has exceeded its target for this metric for its retail orders relative to its wholesale orders by seven per cent. This is well outside the tolerance threshold of two percentage points and has remained outside this tolerance level for five consecutive quarters.

Telstra claims that this result is due to the low number of wholesale orders relative to retail orders. They explained that the variation was the result of missing target for two network upgrade projects which impacted twenty tickets of work.

The second area of concern is Metric 5, which represents the percentage of basic access faults that are rectified in the quarter on or by the performance standard. For this metric, the wholesale business customers received inferior levels of service than retail business customers during the quarter. Telstra claims this is due to a combination of process and system related

[12] The KPIs are not, however, directly comparable to those reported by the Australian Communications and Media Authority (ACMA) in the context of CSG reporting. This is because CSG reporting concerns only those customers with five lines or less.

[13] Only services that had a KPI index less than negative two this quarter or on average over the last four quarters are considered.

issues are causing the initial Telstra commitment date to be greater than the target. Telstra state that work is currently under way to put in place measures to address this problem.

Residential services

The performance metrics in the September quarter and over the last four quarters, indicate a mixed performance for Telstra in achieving a similar level of service supplied to wholesale and retail residential customers.

Of particular concern is the performance of Telstra with regard to the percentage of basic access faults that are rectified in the quarter, on or by the performance standard (Metric 5), along with ADSL services provisioned within the performance standard for held orders (Metric 9).

Metric 5 had a variance of negative 2.87 per cent for residential customers in the September quarter and negative 1.55 per cent on average over the last four quarters. Telstra claims this is due to a combination of process and system related issues that are causing the initial Telstra commitment date to be greater than the target. Telstra state that work is currently under way to put in place measures to address this problem.

Metric 9 had a variance of negative 9.52 per cent for residential customers in the September quarter and negative 3.02 per cent on average over the last four quarters. Telstra advised that this resulted from a small number of held orders and consider the result statistically insignificant. The ACCC notes that Telstra has advised that a movement of only a small number of orders may cause this metric to be negative.

For Metrics 3, 10 and 11, Telstra met its performance target for its retail residential customers in a higher percentage of cases than it met its performance target for its wholesale customers. These differences, however, were within the two percentage point tolerance threshold.

3.2 KPIs for the quarter ending 30 September 2010

Table 3.1 presents Telstra's KPI report for the quarter.

For any performance metric, where the difference between the percentage of wholesale customers and retail customers is positive, this means that Telstra has performed better in meeting the performance standard for its wholesale customers than its retail customers. That is the positive performance metric indicates that Telstra is unlikely to be systematically discriminating in its own interests and against the interests of competitors in that area.

Conversely, for any performance metric, where the difference between the percentage of wholesale customers and retail customers is negative, this means that Telstra has performed worse in meeting the performance standard for its wholesale customers than its retail customers. That is a negative performance metric could indicate that Telstra is systematically discriminating in its own interests and against the interests of competitors in that area.

Table 3.1: Telstra's KPI report for non-price terms and conditions

Ordering and Provisioning – Basic Access

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
1	The percentage of basic access customer installation orders provisioned in the quarter on or by the performance standard – previous service available for automatic connection	1.77%	9.62%
2	The percentage of basic access customer installation orders provisioned in the quarter, on or by the performance standard – new service with available cabling and capacity	0.48%	3.23%
3	The percentage of Basic Access orders provisioned in the quarter, on or by the performance standard - new service which requires additional cable or network capacity	-7.11%	-0.74%
4	The percentage of basic access order appointments that are met in the quarter	0.43%	3.21%

Faults and Maintenance – Basic Access

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
5	The percentage of basic access faults that are rectified in the quarter, on or by the performance standard (Includes dial-up faults)	-2.42%	-2.87%
6	The percentage of basic access fault appointments that are met in the quarter (includes dial-up faults)	0.32%	0.08%

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
7	The percentage difference in recurring fault ratio	0.78%	0.68%

Service Activation – ADSL

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
8	The percentage of services provisioned within performance standards the performance standard – where the customer or end-user has an existing and functioning basic access service capable of supporting ADSL services	0.58%	0.45%
9	The percentage of services provisioned within performance standard – held orders	0%	-9.52%

Faults and Maintenance – ADSL

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
10	The percentage of faults rectified within performance standards	0.30%	-1.83%

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
11	The percentage of appointments kept	0.81%	-0.18%

Notes:

- The performance standard used for all metrics is the same as that used for the Customer Service Guarantee, unless otherwise stated.
- A positive difference means that Telstra Wholesale met the performance standard in a greater percentage of cases than Telstra Retail, that is, Telstra's performance in relation to Telstra Wholesale customers was better than for Telstra Retail customers.
- For metric 1-3 the performance standard = target provisioning time.
- For metric 5 the performance standard = target date/time.

3.3 KPIs for the four quarters ending 30 September 2010

The KPIs that are reported for a particular quarter may be influenced by transient or seasonal factors. Care therefore needs to be taken when making inter-quarter comparisons, or drawing conclusions based on the results that are reported for a single quarter.

To minimise the effect of these factors, and to examine Telstra's KPI performance over a longer timeframe, the ACCC has calculated an average quarterly difference for all KPI metrics over the last four quarters. The results are shown in Table 3.2 below.

Table 3.2: Average variances in KPI metrics - 12 months ending 30 September 2010

Metric	The difference between percentage of Wholesale Business customers and Retail Business customers in target (i.e. that have met the performance standard)					The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (i.e. that have met the performance standard)				
	2009	**2010**			**Av.**	**2009**	**2010**			**Av.**
	Dec	**Mar**	**Jun**	**Sep**		**Dec**	**Mar**	**Jun**	**Sep**	
1	3.53	1.82	1.90	1.77	**2.26**	6.55	6.71	8.31	9.62	**7.80**
2	2.69	2.95	2.32	0.48	**2.11**	1.98	2.29	3.02	3.23	**2.63**
3	-5.11	-2.76	-4.09	-7.11	**-4.77**	-9.08	-2.07	-2.59	-0.74	**-3.62**
4	0.77	-1.04	0.41	0.43	**0.14**	2.22	2.23	3.02	3.21	**2.67**
5	-0.82	0.57	-0.73	-2.42	**-0.85**	-1.59	-0.82	-0.90	-2.87	**-1.55**

6	0.40	0.60	0.43	0.32	**0.44**	0.18	-0.02	0.15	0.08	**0.10**
7	-0.35	-0.06	0.02	0.78	**0.10**	0.53	-0.02	-0.65	0.68	**0.14**
8	0.49	0.34	1.18	0.58	**0.65**	0.66	0.63	2.17	0.45	**0.98**
9	0.00	8.89	0.00	0.00	**2.22**	-3.70	3.91	-2.77	-9.52	**-3.02**
10	-0.14	-0.22	1.62	0.30	**0.39**	-2.46	-1.92	-1.60	-1.83	**-1.95**
11	2.40	-0.98	1.93	0.81	**1.04**	-0.72	0.24	-0.08	-0.18	**-0.19**

Notes:
A positive difference means that Telstra Wholesale met the performance standard in a greater percentage of cases than Telstra Retail.

3.4 Discussion of reported KPIs

3.4.1 Introduction

In this section, the ACCC notes any qualifications that are necessary in interpreting the reported data, and discusses likely causes of any KPIs that disclose material differences in service levels. A difference in service level is considered material if it is greater than two percentage points.

While the closer that differences in service levels are to zero the better, it is recognised that the causes of relatively small differences in service levels are difficult to determine and that investigating and explaining small differences would be of only limited benefit, if any.

Discussion of materially different service levels—that is, those for which the reported difference in service levels for the quarter exceeds two percentage points

Basic access connections with previous service available for connection (Metric 1)

Wholesale residential and business customers received better service levels for connections with a previous service available for connection.

Telstra reports a difference of positive 9.62 percentage points for residential connections with a previous service available for connection. A result of positive 7.80 percentage points is obtained when averaging over the past four quarters.

Although wholesale business customers also received better service for this metric than retail business customers, Telstra reports the difference between the two is far less than for residential customers. The difference between the two measures for the September 2010 quarter is positive 1.77 percentage points in favour of wholesale business customers with a result of 2.26 percentage points in favour of wholesale business customers when averaged over the last four quarters.

Telstra advised that the positive result for wholesale was due to the differences in the order entry processes between the retail and wholesale business units and order entry delays for retail caused by legacy system download issues, system outages and process-related issues which continue to impact performance. Telstra stated that it had a work program in place which is expected to minimise the impact on its customers' experience.

New basic access connections with available cable and capacity (Metric 2)

Wholesale business customers received service levels for connections with available cable or network capacity during the quarter slightly better than service levels achieved for Telstra's business retail customers.

Telstra reports a difference of positive 0.48 percentage points for wholesale connections with available cable or network capacity. A result of positive 2.11 percentage points is obtained when averaging over the past four quarters.

Wholesale residential customers received better service. Telstra reports a difference of positive 3.23 percentage points for wholesale connections with available cable or network capacity. A result of positive 2.63 percentage points is obtained when averaging over the past four quarters.

Telstra advised that the variances for Residential customers are due to a number of systems outages which resulted in order entry delays and delays between the application and initiation date.

New basic access connections requiring additional cable or network capacity (Metric 3)

Retail business customers received better service levels for connections requiring additional cable or network capacity during the quarter.

Telstra reports a variation of negative 7.11 percentage points for business connections requiring additional cable or network capacity. A result of negative 4.77 percentage points is obtained when averaging over the past four quarters.

Retail residential customers also received slightly better service than wholesale customers. Telstra reports a variation of negative 0.74 percentage points for connections requiring additional cable or network capacity. A result of negative 3.62 percentage points is obtained when averaging over the past four quarters.

Telstra advised that the variance for Business customers is due to the significantly lower number of wholesale orders than retail orders. Telstra advises that the variation was the result of missing target for two network upgrade projects which impacted twenty tickets of work.

Basic access order appointments met in the quarter (Metric 4)

Wholesale business customers received service levels for appointments met in the quarter similar to service levels achieved for Telstra's business retail customers.

Wholesale residential customers received better service levels for Telstra reports a difference of positive 3.21 percentage points for the residential customers in Metric 4. A result of positive 2.67 percentage points is obtained when averaging over the past four quarters.

Telstra advised the reason for the variance for residential customers is due to a number of system outages which resulted in order entry delays and delays between the application and the initiation date.

ADSL service activation – where the customer has a functioning basic access service (Metric 5)

Metric 5 measures the percentage of basic access faults that are rectified in the quarter, on or by the performance standard (includes dial-up faults). Telstra reported a variance negative 2.42 percentage points for business customers for this metric. This indicates that the retail business unit received better service than the wholesale business unit for this metric.

For Residential customers, Telstra reported a variance negative 2.87 percentage points for this metric. This indicates that the retail business unit received better service than the wholesale business unit for this metric.

Telstra explained that the variance for Business and Residential customers is due to a combination of process and system related issues which are causing the initial Telstra commitment date to be greater than the target completion date. Telstra state that they are currently undertaking work to put in place measures to address this problem.

ADSL services provisioned within the performance standard for held orders (Metric 9)

Metric 9 measures the variance in KPI for ADSL service activation, where the customer's order was held from a previous period.

Telstra reports a variance of negative 9.52 percent for residential customers for this metric. This indicates that the retail residential customers received better service levels than their wholesale counterparts. A result of negative 3.02 percentage points is obtained when averaging over the past four quarters.

Telstra reports no difference in meeting its performance target for wholesale and retail business customers for this metric in the September 2010 quarter. However, a result of positive 2.22 percentage points in favour of business wholesale customers is obtained when averaging over the past four quarters. This four-quarter average results from the March 2010 quarter where Telstra reported a positive result of 8.89 percentage points in favour of its wholesale customers for this metric. For the other three quarters in the last twelve months, Telstra states there has been no difference in meeting its performance target for wholesale and retail business customers.

Telstra advised that the variances for residential and business customers are due to the small number of held orders and that the results are statistically insignificant.

3.5 Extent to which Telstra's reports conform with the RKR requirements

The ACCC is satisfied that the September quarter 2010 report conforms to the requirements of the RKR.

3.6 Accuracy

Telstra has certified that to the best of its knowledge the September quarter 2010 results are true and correct. The ACCC understands that Telstra staff has checked these results, and that Telstra's auditors have been engaged to progressively investigate the accuracy of the results that Telstra submits throughout a year. As such, the ACCC would expect that the reported KPIs are robust and reliable measures.