Australian
Competition &
Consumer
Commission

ACCOUNTING SEPARATION OF TELSTRA:

IMPUTATION TESTING AND NON-PRICE TERMS AND CONDITIONS REPORT FOR THE JUNE QUARTER 2011

October 2011

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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 indicator
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 *Competition and Consumer Act 2010* (formerly the *Trade Practices Act 1974*) 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

The imputation and non-price terms and conditions reports are 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 assist the ACCC to monitor whether Telstra is unfairly discriminating between access seekers using its network and its own retail operations.

Imputation testing

Telstra is required under the *Imputation Testing Record Keeping Rule* (Imputation RKR) to undertake quarterly imputation testing. Imputation testing adds up the costs of buying a wholesale service and transforming it into a retail service, and compares that figure with the retail price charged by Telstra. Telstra is determined to have passed the imputation test if the retail price is sufficiently high so as to provide a margin between it and the combined wholesale and transformation costs.

The primary objective of imputation testing is to examine whether an equally efficient access seeker can compete with Telstra in retail telecommunications markets. This provides preliminary indications of whether Telstra is engaging in systemic price-squeeze behaviour in relation to its core telecommunications services.

A negative imputation margin could indicate Telstra is engaging in anti-competitive behaviour (e.g. 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).

Key results for the June 2011 quarter are:

- Telstra failed the imputation tests for:
  - local call and line rental for business and residential customers. However, the margins for these services have improved since the December 2010 quarter for business customers and the September 2010 quarter for residential customers.
  - ADSL services for business and residential customers.
  - the bundle of ADSL and fixed voice services for residential customers.
- Telstra passed ten out of fifteen imputation tests for the June 2011 quarter
- Margins improved for eleven out of fifteen imputation tests since the March 2011 quarter
- For all fixed voice services, except local calls, Telstra passed the imputation tests very comfortably.

Non-price terms and conditions key performance indicators

The non-price terms and conditions section of this 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 June 2011 quarter results show that for its business customers, Telstra exceeded its target for its wholesale customers when compared with its retail customers for seven out of eleven performance metrics.

During that time, for its residential customers, Telstra exceeded its target for its wholesale customers when compared with its retail customers for eight out of eleven performance metrics.

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 (RAF) 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 and 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. 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.

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

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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.

requires only 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 analysis of the imputation results of Telstra for the following residential and business services: local call and line rental; domestic and international long distance; fixed-to-mobile; the total bundle of fixed voice services; ADSL; and the total bundle of fixed voice and ADSL services. The imputation tests are conducted in accordance with an ACCC record keeping rule that was issued in September 2004.[3]

Imputation results based upon both historical and current cost are presented in the report, however, the analysis in the report focuses on the historical cost results. There is generally little difference between the imputation results based on historical cost and current cost measures.

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]

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 to end-users and 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 additional services to transform the core input into the retail service (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, 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 equally efficient as Telstra in the supply of the retail services may not be able to remain in the market, as their profit margins would be negative. Imputation can therefore be used as a first step in detecting possible price squeezes in the retail market.

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, and
- 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.

[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 negative imputed margin results, which may indicate potential anti-competitive behaviour by Telstra.

2.2.3 Limitations of imputation test results

The objective of imputation testing is to indicate whether Telstra is engaging in systemic price squeeze behaviour in relation to core telecommunications services.[5] However, a 'fail' result for an imputation test does not exclusively determine that Telstra has engaged in such behaviour.

There are a number of limitations of the imputation testing results including:

- the imputation tests require allocations of common costs across wholesale and retail operations and across services. These can be arbitrary in nature.
- the costs of transformation reported under imputation testing are those of Telstra. A more efficient access seeker may be able to make a profit in providing a service even where the imputation margin is negative.
- for all services except local call services, the costs of transformation are at least twice as large as the access costs. Whether an access seeker can successfully compete with Telstra in the supply of these services is more likely dependent on its own efficiency as well as service quality and differentiation rather than the access price charged by Telstra.
- the data is highly aggregated and may not identify particular examples of price squeeze behaviour. The aggregated data may also hide that some access seekers may only target certain high value customers or may operate in lower cost areas.
- the imputation RKR uses average total cost in calculating the retail price as well as the cost of transforming Telstra's core service into a retail service. A retailer targeting niche services or customers may be able to make a profit in providing a service even where the imputation margin is negative.
- the bundles of fixed voice and fixed voice and ADSL services are notional bundles which are derived from the fixed-voice and ADSL data. These bundles may not accurately represent the bundles bought by consumers
- there are certain data limitations. For example, imputation testing is conducted using cost data from the last available half-year Regulatory Accounting Framework report. This means that in the results for this June quarter 2011 imputation report, the unit cost data was obtained from the RAF data for the period July to December 2010. Further limitations of the data are examined in sections 2.6 and 2.7.

However, despite these limitations, the ACCC considers that the principles on which these imputation test are based are sound. Although some assumptions have been made to overcome data limitations (described in section 2.7). Telstra and the ACCC have worked together to ensure those issues are treated appropriately.

The ACCC believes that this imputation testing provides a useful indicator of whether Telstra is engaging in this price squeeze behaviour but it should not be solely relied upon.

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:

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

- local calls and line rental, which use the local carriage service (LCS)
- domestic long-distance calls, which use the public switched telephone network originating/terminating access (PSTN-O/T) services
- outgoing international calls, which use the public switched telephone network originating access (PSTN-O) services
- fixed-to-mobile calls, which use the PSTN-O services
- ADSL services, which use the unbundled local loop service (ULLS).

There are three main variables in an imputation test:

- the 'retail price' - the average retail price of each retail service, calculated by using the total revenue and volume data provided by Telstra
- the 'access price' - the volume-weighted average of the prices Telstra charges its access seekers for the core service, and
- the 'unit cost' - 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 are the 'retail costs' used for the imputation tests. However, there are further costs incurred in transforming a core service to a retail service, such as the transmission cost. These are included under '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 '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.[6]

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 retail markets, who are equally efficient as Telstra, if they supply the retail service to their customers using Telstra's core service.[7]
- The 'imputed margin' is further expressed as a percentage of the retail price.

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[6] 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.

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

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 June 2011 quarter 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.

Table 2.1: Fixed Telephony Report for June 2011 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	199,879,979	461,460,076	28,441,934	94,207,160	3,837,378	21,766,464	69,769,721	159,532,859	301,929,013	736,966,560	1,038,895,573
other	0	0	0	0	0	0	0	0	0	0	0
total	199,879,979	461,460,076	28,441,934	94,207,160	3,837,378	21,766,464	69,769,721	159,532,859	301,929,013	736,966,560	1,038,895,573
Retail Costs											
organisation	20,666,185	50,543,683	1,565,365	7,328,257	287,713	2,872,045	3,890,090	8,081,802	26,409,354	68,825,787	95,235,141
product and consumer	21,245,474	51,644,836	2,726,792	12,765,476	1,160,752	11,586,988	26,873,696	55,831,074	52,006,714	131,828,373	183,835,087
total	41,911,660	102,188,518	4,292,157	20,093,733	1,448,465	14,459,033	30,763,786	63,912,876	78,416,068	200,654,160	279,070,228
Other Costs											
organisation	0	0	446,736	2,091,392	20,771	207,346	180,682	375,373	648,189	2,674,112	3,322,301
product and consumer	0	0	39,618	185,474	3,836	38,292	34,865	72,434	78,320	296,200	374,520
network expenses	0	0	1,623,373	7,599,823	64,735	646,203	593,183	1,232,359	2,281,291	9,478,384	11,759,676
total	0	0	2,109,727	9,876,689	89,342	891,841	808,730	1,680,166	3,007,800	12,448,697	15,456,496
Ancillary*	N/A	N/A	617,979	2,893,068	15,318	152,914	327,099	679,559	960,396	3,725,541	4,685,937
Cost of Capital	9,217,262	22,642,039	1,356,705	6,351,416	217,746	2,173,612	2,838,580	5,897,253	13,630,294	37,064,320	50,694,614
Retail Volume*	2,080,056	5,185,813	207,376,320	970,832,322	10,280,913	102,627,276	219,530,305	456,082,126			
Retail price	$96.09	$88.99	$0.14	$0.10	$0.37	$0.21	$0.32	$0.35	$145.15	$142.11	$142.98
Access price	$92.68	$80.47	$0.02	$0.02	$0.01	$0.01	$0.01	$0.01	$96.62	$85.08	$88.39
Unit cost	$24.58	$24.07	$0.04	$0.04	$0.17	$0.17	$0.16	$0.16	$46.16	$48.96	$48.16
Imputed margin	-$21.17	-$15.56	$0.07	$0.04	$0.19	$0.03	$0.15	$0.18	$2.37	$8.07	$6.44
Imputed margin	-22.03%	-17.48%	53.25%	39.83%	51.16%	14.57%	45.66%	51.28%	1.63%	5.68%	4.50%

Table 2.2: Fixed Telephony Report for June 2011 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	199,879,979	461,460,076	28,441,934	94,207,160	3,837,378	21,766,464	69,769,721	159,532,859	301,929,013	736,966,560	1,038,895,573
other	0	0	0	0	0	0	0	0	0	0	0
total	199,879,979	461,460,076	28,441,934	94,207,160	3,837,378	21,766,464	69,769,721	159,532,859	301,929,013	736,966,560	1,038,895,573
Retail Costs											
organisation	20,819,680	50,918,823	1,580,301	7,398,180	289,876	2,893,629	3,926,282	8,156,993	26,616,139	69,367,625	95,983,764
product and consumer	21,256,792	51,672,496	2,727,893	12,770,632	1,160,911	11,588,580	26,876,365	55,836,618	52,021,962	131,868,325	183,890,287
total	42,076,472	102,591,319	4,308,194	20,168,812	1,450,787	14,482,208	30,802,648	63,993,611	78,638,100	201,235,950	279,874,051
Other Costs											
organisation	0	0	445,230	2,084,345	20,790	207,528	181,218	376,486	647,237	2,668,359	3,315,596
product and consumer	0	0	39,507	184,954	3,837	38,306	34,905	72,516	78,250	295,776	374,025
network expenses	0	0	1,623,373	7,599,823	64,735	646,203	593,183	1,232,359	2,281,291	9,478,384	11,759,676
total	0	0	2,108,111	9,869,122	89,362	892,036	809,305	1,681,361	3,006,778	12,442,519	15,449,297
Ancillary*	N/A	N/A	617,979	2,893,068	15,318	152,914	327,099	679,559	960,396	3,725,541	4,685,937
Cost of Capital	9,265,287	22,759,412	1,382,088	6,470,244	219,112	2,187,240	2,855,465	5,932,331	13,721,951	37,349,227	51,071,178
Retail Volume*	2,080,056	5,185,813	207,376,320	970,832,322	10,280,913	102,627,276	219,530,305	456,082,126			
Retail price	$96.09	$88.99	$0.14	$0.10	$0.37	$0.21	$0.32	$0.35	$145.15	$142.1121	$142.98
Access price	$92.68	$80.47	$0.02	0.02	$0.01	$0.01	$0.01	$0.01	$96.62	$85.08	$88.39
Unit cost	$24.68	$24.17	$0.04	$0.04	$0.17	$0.17	$0.16	$0.16	$46.31	$49.13	$48.32
Imputed margin	-$21.27	-$15.66	$0.07	$0.04	$0.19	$0.03	$0.14	$0.18	$2.22	$7.90	$6.28
Imputed margin	-22.14%	-17.59%	53.11%	39.64%	51.06%	14.40%	45.58%	51.21%	1.53%	5.56%	4.39%

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 June 2011 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	67,659,818	238,165,463	233,797,951	464,584,520
other	0	0	0	0
total	67,659,818	238,165,463	233,797,951	464,584,520
Retail Costs				
organisation	5,328,534	29,669,496	19,860,429	50,814,919
product and consumer	7,916,935	44,081,817	36,533,921	84,583,595
total	13,245,468	73,751,313	56,394,350	135,398,514
Other Costs				
organisation	8,703,463	48,461,241	9,720,798	51,556,933
product and consumer	608,603	3,388,729	4,957,701	9,201,616
network expenses	21,721,211	120,944,596	49,281,027	162,079,145
total	31,033,278	172,794,567	63,959,525	222,837,694
Ancillary Charges (TEBA)	1,882,047	10,479,318	2,014,163	11,623,920
Cost of Capital	10,626,140	59,166,786	44,012,809	108,074,907
Retail Volume	286,141	1,593,243	286,141	1,593,243
Retail price	$236.46	$149.48	$817.07	$291.60
Access price	$49.96	$49.96	$71.54	$56.67
Unit cost	$198.46	$198.46	$581.47	$299.98
Imputed margin	-$11.96	-$98.94	$164.07	-$65.053
Imputed margin	-5.06%	-66.18%	20.08%	-22.31%

Table: 2.4 - ULLS Report for June 2011 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	67,659,818	238,165,463	233,797,951	464,584,520
other	0	0	0	0
total	67,659,818	238,165,463	233,797,951	464,584,520
Retail Costs				
organisation	5,376,754	29,937,988	20,022,434	51,249,881
product and consumer	7,920,484	44,101,579	36,545,860	84,615,631
total	13,297,238	74,039,567	56,568,294	135,865,512
Other Costs				
organisation	8,892,519	49,513,914	9,142,182	51,621,261
product and consumer	622,543	3,466,347	4,915,037	9,206,359
network expenses	21,721,211	120,944,596	49,281,027	162,079,145
total	31,236,274	173,924,857	63,338,246	222,906,765
Ancillary Charges (TEBA)	1,882,047	10,479,318	2,014,163	11,623,920
Cost of Capital	5,324,570	29,647,423	59,754,373	108,938,243
Retail Volume	286,141	1,593,243	286,141	1,593,243
Retail price	$236.46	$149.48	$817.07	$291.60
Access price	$49.96	$49.96	$71.54	$56.67
Unit cost	$180.82	$180.82	$634.92	$300.85
Imputed margin	$5.67	-$81.30	$110.62	-$65.93
Imputed margin	2.40%	-54.39%	13.54%	-22.61%

Notes to Tables 2.3 and 2.4

* As per instructions from the ACCC, ancillary charges are calculated as Telstra exchange building access (TEBA) revenues per ULL service that are reasonably expected in a mature market. This is calculated as the TEBA revenue for the December 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 service in operations (SIOs).

2.5 Summary of results

2.5.1 Overview

Results for the Quarter

Table 2.5 provides a summary of the imputation test results for Telstra for the June 2011 quarter. A discussion of results in relation to the specific retail services is provided in sections 2.5.2 to 2.5.8.

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

Retail service	Core service(s)		Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	
Local calls and line rental	**LCS**	Business	-35%	-33%	-33%	-28%	-22%	Fail
		Residential	-28%	-35%	-32%	-24%	-17%	Fail
Domestic long-distance	**PSTN–O/T**	Business	64%	63%	62%	53%	53%	Pass
		Residential	53%	53%	52%	41%	40%	Pass
International long-distance	**PSTN–O**	Business	62%	55%	55%	46%	51%	Pass
		Residential	48%	42%	36%	19%	15%	Pass
Fixed-to-mobile	**PSTN–O**	Business	48%	45%	46%	44%	46%	Pass
		Residential	59%	56%	53%	52%	51%	Pass
Bundle of fixed voice services #	**LCS and PSTN–O/T**	Business	-2%	-3%	-4%	-2%	2%	Pass
		Residential	5%	0%	0%	3%	6%	Pass
		Total	3%	-1%	-1%	1%	5%	Pass
ADSL	**ULLS**	Business	1%	-3%	-5%	-13%	-5%	Fail
		Residential	-53%	-52%	-57%	-73%	-66%	Fail
Bundle of ADSL and fixed voice services *	**ULLS and PSTN–T**	Business	19%	19%	18%	18%	20%	Pass
		Residential	-16%	-16%	-18%	-24%	-22%	Fail

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.

Key findings are:

- Telstra passed ten out of fifteen imputation tests for the June 2011 quarter
- Margins improved for eleven out of fifteen imputation tests since the March 2011 quarter
- For all fixed voice services, except local calls, Telstra passed the imputation tests very comfortably
- Margins for local calls and line rental remain negative but have improved since the December 2010 quarter for business customers and the September 2010 quarter for residential customers
- Telstra failed the imputation test for ADSL services.
- Telstra also failed the test for a bundle of ADSL and fixed voice services for residential customers but passed for business customers.

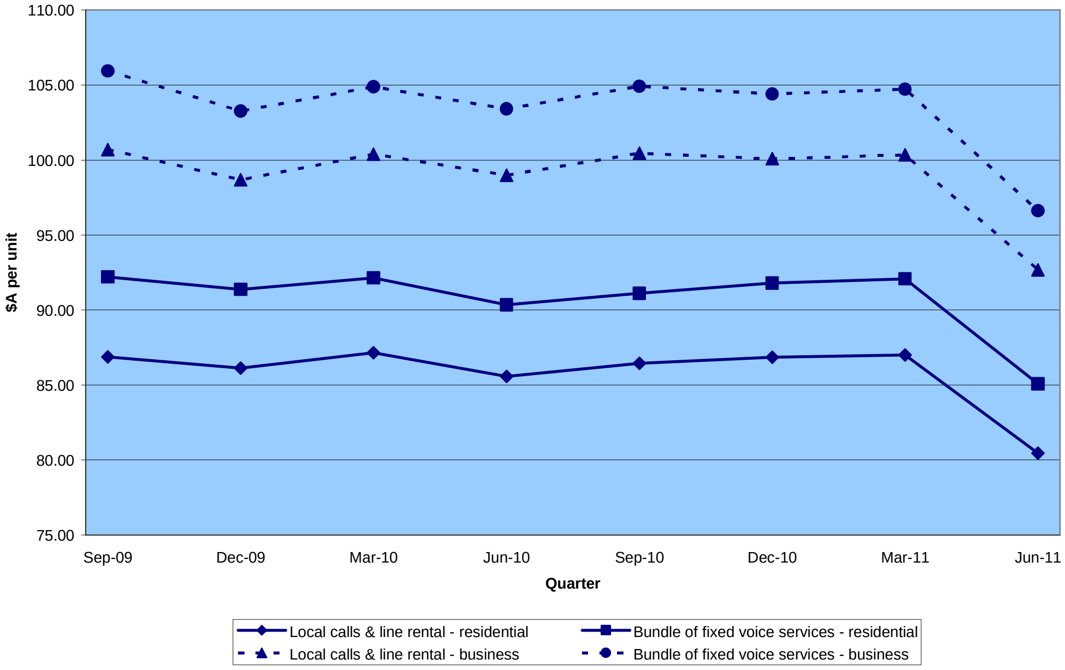
Access prices over four quarters

Retail, access prices, and the costs of transformation (unit costs) 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 and/or volumes (e.g., the number of local calls per service in operation); the access price or the costs of transformation.

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.

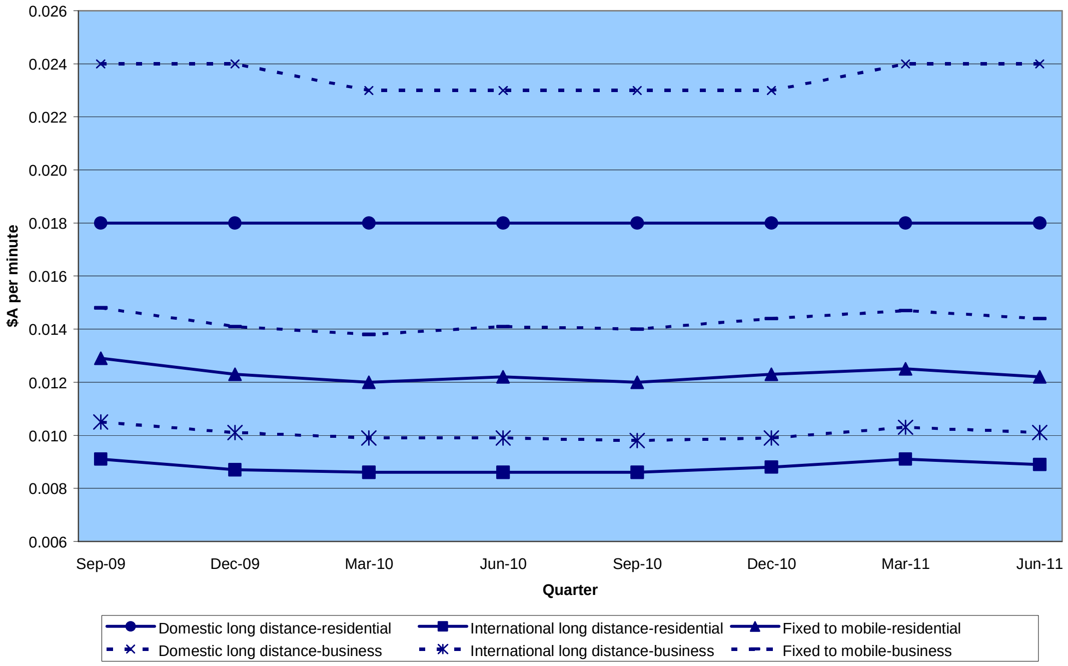
Figure 2.1 shows that the access price for local calls and line rentals has declined sharply in the June 2011 quarter. This decline is explained in section 2.5.2.

Figure 2.1: Average access prices for core services used in supplying local call/ line rental services, and the fixed voice services bundle, September 2009 quarter to June 2011 quarter



As shown in Figure 2.2, the average access price for the core services used in supplying domestic long-distance, international long-distance and fixed-to-mobile call services have remained relatively steady in the June 2011 quarter.

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 2009 quarter to June 2011 quarter



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

Telstra has reported a negative imputed margin for the supply of local calls and line rental for the June 2011 quarter. Telstra has failed the imputation test for the local call and line rental services since reporting commenced.

In the June 2011 quarter, the imputed margin for both residential and business customers improved. For residential customers this is due to a fall in the access price of nearly 8 per cent from $87 to $80.47. The fall for business customers is due to fall in the access price of the service by 8 per cent from $100.34 to $92.68.

This fall in the price for business and residential customers access price resulted from the access price cuts for wholesale line rental and the local carriage service announced by the ACCC in its Interim Access Determination for Fixed-line Services (March 2011). These access prices were backdated to commence on 1 January 2011 and therefore applied for the entire June 2011 quarter.

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

For domestic long-distance calls, international long-distance calls and fixed-to-mobile calls, Telstra has passed the imputation test in the June 2011 quarter.

In this quarter, imputed margins for residential and business customers for domestic long-distance services remained relatively steady at 53 per cent and 40 per cent respectively.

The imputed margin for international long-distance services for business customers increased from 46 per cent in the March 2011 quarter to 51 per cent in the June 2011 quarter. The imputed margin for residential customers fell from 19 per cent to 15 per cent during that period. The margin for residential customers has fallen consistently since the March 2010 quarter when the margin for this service was 48 per cent.

For fixed-to-mobile services the imputed margin for the business sector increased from 44 per cent to 46 per cent, while for the residential sector, the imputed margin declined from 52 per cent to 51 per cent. The imputed margin for fixed-to-mobile calls in the residential sector has declined from 62 per cent to 51 per cent since the December 2009 quarter.

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 own mobile network. 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. To the extent that access seekers can terminate calls on their own networks, the margins available to access seekers may be understated. 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 notional bundle of fixed-line voice services, consisting of line rental and local, domestic and international long-distance and fixed-to-mobile calls.

Telstra passed the imputation test for the business sector for this service for the first time since the December 2009 quarter. The imputed margins for business customers improved by around four percentage points compared to the previous quarter. The improvement was a result of a fall in the access price from $105 to $97 and a decrease in the unit cost from $48 to $46, despite a fall in the retail price of this service from $149 to $145.

For residential customers, the imputed margin was six per cent, an increase of three per cent from the previous quarter.

The improvement in margins for residential and business customers has resulted in the imputation margin for total customers increasing from one per cent to five per cent over the June 2011 quarter.

2.5.5 ADSL

Telstra failed the imputation tests conducted on services that use the ULLS as a core service input in the June 2011 quarter. The margin for supplying a stand-alone ADSL service to residential customers showed an improvement from negative 73 per cent in the March 2011 quarter to negative 66 per cent in the June quarter 2011. For business customers, the imputed margin increased by eight percentage points from negative 13 per cent to negative 5 per cent.

The increase in the margin for business and residential customers over the June 2011 quarter results from a higher retail price and a lower access price.

In assessing the reported cost for the June 2011 quarter, it should be noted that the test excludes costs associated with the installation, removal or connection of equipment to/from customer premises.

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]

[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.

- 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 factors outlined in 2.2.3 should be considered as well as:

- that the test focuses on the use of ULLS to supply ADSL, but other retail services can be supplied in conjunction with ULLS (e.g. local and long-distance calls) 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, their actual margins would be less (i.e. more negative) than those reported.

Despite the qualifications above 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 two types of notional bundles of ADSL and fixed voice services (comprising local calls, line rental, domestic and international long-distance calls and fixed-to-mobile calls).

The first bundle is the bundle of ADSL and fixed voice services for residential customers, which comprises one ADSL service and one voice service. Telstra failed the imputation test for this bundle, with a negative 22 per cent margin. This indicates that a service provider as efficient as Telstra would incur a loss in supplying these services.

The second bundle is the bundle of ADSL and fixed voice services for business customers, which comprises one ADSL service and four voice services. Telstra passed the imputation test for this bundle with the imputed margin increasing from 18 per cent to 20 per cent in the June 2011 quarter.

Given the bundle of ADSL and fixed voice services is made up of the ADSL service and voice services, the reasons outlined for failing the stand-alone ADSL imputation test (as discussed in 2.2.3 and 2.5.5) are also relevant for Telstra failing the bundle of ADSL and fixed voice service for residential customers. Likewise the assumption that in the calculation of imputation margins, all fixed-to-mobile calls are terminated off-net, as outlined in section 2.5.3, is not the case, meaning that the profit available to access seekers for this service is likely to be understated.

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 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, Internet Protocol 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.

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.[9]

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, June quarter 2011

	ULLS Test	Business – 1 ADSL + 4 voice lines	Residential – 1 ADSL + 1 voice line
Historic Cost Basis	Unadjusted	20.08%	-22.31%
	Adjusted	20.35%	-22.11%
Current Cost Basis	Unadjusted	13.54%	-22.61%
	Adjusted	13.81%	-22.41%

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.

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.

[9] 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 2011 around 4 per cent of ULLS were supplied in band 1, and 94 per cent in band 2. Source: Telstra CAN RKR Data June 2011.

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 June quarter 2011 imputation report, the unit cost data was obtained from the RAF data for the period July to December 2010.

Reconciliation reports are prepared every six months to check whether the accuracy of the imputed margins disclosed in past quarterly reports are 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.

In relation to this June quarter 2011 report, RAF data for the period January to June 2011 will be available when the next imputation report (for September quarter 2010) is prepared. A reconciliation report will be provided at that time.

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.[10]

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.

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-line voice products when services are provided over the ULLS
- ancillary costs.

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[10] 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).

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

Mobile termination methodology for fixed-to-mobile services

As the imputation tests have been 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 deducts 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.

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. A report provided by an independent auditor, examining Telstra's compliance with the Imputation RKR for the financial year ending 30 June 2011 must be lodged with the ACCC by 30 November 2011.

2.8.2 Accuracy of report

Given that the underlying Telstra data used in the June 2011 quarter results has 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. Given that the independent audit is due on 30 November 2011, the ACCC will comment on Telstra's compliance Imputation RKR in the December 2011 imputation and non-price terms and conditions report.

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 services 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 (see Table 3.1). The KPIs measure Telstra's basic access service levels against the standard specified in the customer service guarantee (CSG)[11] and Telstra's ADSL service levels against similar standards. Separate KPIs are presented for residential and business services.

Table 3.1: Metrics for which performance is assessed

Metric 1	Basic access - Ordering and Provisioning - The percentage of basic access customer installation orders provisioned in the quarter on or by the performance standard – previous service available for automatic connection
Metric 2	Basic access - Ordering and Provisioning - 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
Metric 3	Basic access - Ordering and Provisioning - 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
Metric 4	Basic access - Ordering and Provisioning - The percentage of basic access order appointments that are met in the quarter
Metric 5	Basic access - Faults and Maintenance - The percentage of basic access faults that are rectified in the quarter, on or by the performance standard (Includes dial-up faults)
Metric 6	Basic access - Faults and Maintenance - The percentage of basic access fault appointments that are met in the quarter (includes dial-up faults)
Metric 7	Basic access - Faults and Maintenance - The percentage difference in recurring fault ratio
Metric 8	ADSL service activation - The percentage of services provisioned within performance standards the performance standard – where the customer or end-user has an existing and functioning basis access service capable of supporting ADSL services
Metric 9	ADSL service activation - The percentage of services provisioned within performance standard – held orders

[11]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.

Metric 10	ADSL - Faults and Maintenance - The percentage of faults rectified within performance standards
Metric 11	ADSL - Faults and Maintenance - The percentage of appointments kept

The reporting of KPIs is intended to provide an initial indicator of whether or not Telstra is providing equivalent service levels, on average, to Telstra wholesale and Telstra retail customers.

The report is not intended to identify whether particular instances of anti-competitive behaviour by Telstra may have occurred. Rather, the results in this report serve as possible indicators. The ACCC will, therefore, continue to monitor any trends in Telstra's performance and respond to complaints of discrimination on their merits.

3.2 Summary of KPIs for the four quarters ending 30 June 2011

Table 3.2 presents Telstra's non-price KPI report for the four quarters up to 30 June 2011 as well as calculating an average for that period. By examining Telstra's performance over four quarters, the possibility of drawing conclusions regarding Telstra's performance based on a quarter affected by transient or seasonal factors is minimised.

For any performance metric, if the difference between the percentage of wholesale customers and retail customers for which Telstra has met the performance standard is positive, then Telstra has performed better in meeting the performance standard for its wholesale customers than its retail customers. Therefore, a 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, if the difference between the percentage of wholesale customers and retail customers for which Telstra has met the performance standard is negative, then Telstra has performed worse in meeting the performance standard for its wholesale customers than its retail customers. Where a performance metric is highly negative, it may provide an initial indicator that Telstra is systematically discriminating in its own interests and against the interests of competitors in that area but is not decisive on this point.

Table 3.2: Average variances in KPI metrics - 12 months ending 30 June 2011[12]

Metric	Business Difference in performance between wholesale and retail business customers (%)					Residential Difference in performance between wholesale and retail business customers (%)				
	Sep 11	**Dec 11**	**Mar 11**	**Jun 11**	**Av.**	**Sep 11**	**Dec 11**	**Mar 11**	**Jun 11**	**Av.**
1	1.77	1.06	1.20	1.70	**1.43**	9.62	5.48	5.41	3.46	**5.99**
2	0.48	3.81	4.11	4.50	**3.23**	3.23	3.14	2.47	3.94	**3.20**
3	-7.11	-9.83	-2.98	10.34	**-2.40**	-0.74	-2.42	-4.20	9.04	**0.42**
4	0.43	0.94	0.92	0.65	**0.74**	3.21	2.60	2.46	1.65	**2.48**
5	-2.42	-3.15	-1.55	-1.27	**-2.10**	-2.87	-3.16	-2.52	-2.17	**-2.68**
6	0.32	-0.03	0.16	-0.06	**0.10**	0.08	0.21	0.28	0.36	**0.23**
7	0.78	0.03	-0.23	-1.11	**-0.13**	0.68	0.55	0.63	1.09	**0.74**
8	0.58	0.63	0.50	0.11	**0.46**	0.45	0.37	0.44	0.20	**0.37**
9	0.00	-7.69	-3.33	-11.11	**-5.53**	-9.52	-0.61	-0.40	-2.84	**-3.34**
10	0.30	-1.07	2.64	1.53	**0.85**	-1.83	-1.68	-0.23	-0.60	**-1.09**
11	0.81	2.79	1.11	0.36	**1.27**	-0.18	0.51	0.47	0.25	**0.26**

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

3.3 Discussion of performance

In the June 2011 quarter:

- Telstra performed better for its wholesale business customers than its retail business customers for seven performance metrics.
- for its residential customers, Telstra performed better for its wholesale than its retail customers for eight out of eleven performance metrics.

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[12] 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 Metrics 1 to3 the performance standard equals target provisioning time.
- For Metric 5 the performance standard equals target date/time.

- for basic access orders provisioned by performance standard – new service – with available cabling/capacity) (Metric 3), Telstra's performance for both business and residential customers improved significantly
- for ADSL services provisioned within performance standard – held orders (Metric 9), Telstra reported a high negative result for business customers.

Analysis of metrics where there the ACCC considers there is a significant difference in Telstra providing equivalency of service to its wholesale and retail customers are listed below.

Basic access orders provisioned by performance standard – new service with cabling/capacity required (Metric 3)

During the June 2011 quarter, wholesale business customers received significantly better service levels than retail business customers for this metric. The positive result in favour of Telstra's wholesale business and residential customers for this metric represents the first time in ten quarters that this has occurred.

Telstra stated these results are due to delays with infrastructure development, developer caused delays and process related issues. Telstra also advised the volumes for wholesale are significantly lower than the volume for retail which makes the performance result volatile.

For this quarter, Telstra reported a variation of positive 10.34 percentage points in favour of its wholesale business customers for this metric. A result of negative 2.40 percentage points is obtained when averaging over the past four quarters.

For its wholesale residential customers, Telstra reported a variation of positive 9.04 percentage points when compared with retail residential customers. A result of positive 0.42 percentage points is obtained when averaging over the past four quarters.

ADSL services provisioned within performance standard – held orders (Business) (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 reported a material difference in meeting its performance target for its business wholesale and retail business customers for this metric in the June 2011 quarter. Telstra reported a negative variance of 11.11 per cent for business wholesale customers. The average variance over the past four quarters is negative 5.53 per cent. This means that Telstra's wholesale business customers have received materially worse service than Telstra's retail business customers for this metric. However, this metric has been volatile, fluctuating by at least four percentage points between quarters.

Telstra advised that the variances for business and residential customers are due to the small number of held orders and the result is insignificant. The ACCC reognises that the small volumes associate with this measure can lead to volatile performance.

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

The ACCC is satisfied that the June quarter 2011 report conforms to the requirements of the RKR.

3.5 Accuracy

Given that the underlying Telstra data used in the June 2011 quarter results has not yet been audited, the ACCC cannot conclusively state whether the reports provided by Telstra for the period comply in all respects with the *Non-price terms and conditions KPI RKR*. Given that the independent audit is due on 30 November 2011, the ACCC will comment on Telstra's compliance with the *Non-price terms and conditions KPI RKR* in the December 2011 imputation and non-price terms and conditions report.