Australian
Competition &
Consumer
Commission

IMPUTATION TESTING AND NON-PRICE TERMS AND CONDITIONS REPORT RELATING TO THE ACCOUNTING SEPARATION OF TELSTRA FOR THE JUNE QUARTER 2007

September 2007

Table of contents

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 sixteenth 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.

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 June quarter 2007, Telstra passed the imputation tests for:

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

KPIs for non-price terms and conditions

The KPIs on non-price terms and conditions measure the difference between the percentage of Telstra Wholesale's customers and Telstra Retail's customers (for business and residential customer groups separately) for which performance standards are met. Performance standards are defined according to the customer service guarantee or similar measures. KPIs cover the supply of the basic access service and ADSL services, including:

- ordering and provisioning

- faults and maintenance

- appointments.

The June quarter's results do not indicate that Telstra has materially discriminated against its wholesale customers during the quarter.

Accuracy

The underlying Telstra data used in the June quarter 2007 report has not yet been independently audited. As a result, the ACCC cannot guarantee the accuracy data contained in this report.

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* (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.

Telstra's CCA reports are submitted separately from this report.[1]

Purpose of the reports

The government's 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.[2]

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

1 The direction also requires the ACCC to provide a six-monthly report on competition in the corporate customer segment of the telecommunications market. This report is also produced separately.

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

rules) of the Act. This would include conduct such as predatory pricing, margin squeezing, cross-subsidisation and vertical cost shifting.[3] In such investigations, it is important to be able to carefully distinguish between wholesale and retail costs.

The ACCC remains concerned about Telstra's market power and its degree of horizontal and vertical integration. Consequently, the ACCC supports measures such as the enhanced accounting separation regime.

However, the ACCC believes that the enhanced accounting separation regime has improved transparency only to a limited extent. 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 equal treatment of its wholesale and retail customers in the normal course of business. The ACCC considers that the enhanced accounting separation regime should be kept under review to ensure that the intended benefits of enhances accounting separation are being realised.

---

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

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 service (PSTN-O), domestic PSTN terminating 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.[4]

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.[5] However, a “fail’ result for an imputation test does not exclusively determine that Telstra has contravened the competition provisions of the Act. In addition to June 2007 quarter results, imputation analyses from previous quarters have been included in this report to enable comparison.

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’ (specifically, 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 to detect possible price squeezes in a retail market.

---

[4] 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.

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

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

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
- outgoing international calls, which use the PSTN-O
- fixed-to-mobile calls, which use the PSTN-O
- 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 specified the allocation of direct and common costs across the retail services provided by Telstra.

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.[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 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 June quarter 2007 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] 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.

Table 2.1: Fixed telephony report for June 07 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	237,784,209	547,201,300	47,946,731	146,398,473	8,940,005	35,632,745	96,036,207	197,342,326	390,707,151	926,574,844	1,317,281,995
other	0	0	0	0	0	0	0	0	0	0	0
total	237,784,209	547,201,300	47,946,731	146,398,473	8,940,005	35,632,745	96,036,207	197,342,326	390,707,151	926,574,844	1,317,281,995
Retail Costs											
organisation	18,821,469	48,387,963	1,820,351	8,238,070	369,625	1,741,192	2,957,354	5,341,083	23,968,798	63,708,308	87,677,106
product and consumer	18,522,762	47,134,402	3,202,217	14,491,757	1,533,285	7,222,843	39,944,150	72,140,510	63,202,414	140,989,513	204,191,927
total	37,344,231	95,522,365	5,022,567	22,729,827	1,902,910	8,964,035	42,901,504	77,481,593	87,171,212	204,697,820	291,869,033
Other Costs											
organisation	0	0	177,710	804,233	107,418	506,015	306,158	552,932	591,286	1,863,180	2,454,467
product and consumer	0	0	23,440	106,079	8,798	41,446	37,392	67,531	69,630	215,056	284,686
network expenses	0	0	944,656	4,275,076	744,587	3,507,525	1,199,318	2,166,009	2,888,560	9,948,610	12,837,170
total	0	0	1,145,806	5,185,389	860,803	4,054,986	1,542,867	2,786,471	3,549,476	12,026,847	15,576,323
Ancilliary*	N/A	N/A	274,520	1,242,353	9,723	45,802	127,543	230,348	411,787	1,518,502	1,930,288
Cost of Capital	10,188,957	26,199,164	1,979,707	8,959,240	793,044	3,735,793	3,645,800	6,584,440	16,607,508	45,478,639	62,086,146
Retail Volume*	2,153,125	5,617,992	311,243,022	1,408,542,560	22,047,011	103,856,840	289,209,466	522,322,249			
Retail price	$110.437	$97.402	$0.154	$0.104	$0.4055	$0.3431	$0.3321	$0.3778	$181.4605	$164.9299	$169.5100
Access price	$111.230	$97.437	$0.021	$0.017	$0.0099	$0.0086	$0.0118	$0.0108	$115.9677	$102.9492	$106.5562
Unit cost	$22.076	$21.666	$0.027	$0.027	$0.1618	$0.1618	$0.1667	$0.1667	$50.0389	$46.9424	$47.8003
Imputed margin	-$22.869	-$21.702	$0.106	$0.060	$0.2338	$0.1727	$0.1535	$0.2003	$15.4539	$15.0383	$15.1535
Imputed margin %	-20.71%	-22.28%	68.75%	57.27%	57.6643%	50.3488%	46.2286%	53.0148%	8.5164%	9.1180%	8.9396%

Table 2.2: Fixed Telephony Report for June 07 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	237,784,209	547,201,300	47,946,731	146,398,473	8,940,005	35,632,745	96,036,207	197,342,326	390,707,151	926,574,844	1,317,281,995
other	0	0	0	0	0	0	0	0	0	0	0
total	237,784,209	547,201,300	47,946,731	146,398,473	8,940,005	35,632,745	96,036,207	197,342,326	390,707,151	926,574,844	1,317,281,995
Retail Costs											
organisation	19,809,343	50,933,061	1,908,145	8,635,384	391,234	1,842,985	3,103,946	5,605,834	25,212,668	67,017,264	92,229,933
product and consumer	18,539,140	47,176,599	3,203,669	14,498,330	1,533,643	7,224,533	39,946,582	72,144,902	63,223,035	141,044,364	204,267,399
total	38,348,484	98,109,660	5,111,814	23,133,714	1,924,877	9,067,518	43,050,528	77,750,736	88,435,703	208,061,628	296,497,332
Other Costs											
organisation	0	0	178,229	806,580	116,773	550,083	304,623	550,160	599,625	1,906,823	2,506,448
product and consumer	0	0	23,452	106,133	8,951	42,168	37,373	67,496	69,776	215,797	285,573
network expenses	0	0	944,863	4,276,015	744,645	3,507,800	1,199,623	2,166,561	2,889,132	9,950,375	12,839,507
total	0	0	1,146,544	5,188,728	870,370	4,100,050	1,541,619	2,784,217	3,558,532	12,072,995	15,631,528
Ancilliary*	N/A	N/A	274,520	1,242,353	9,723	45,802	127,543	230,348	411,787	1,518,502	1,930,288
Cost of Capital	10,372,933	26,673,151	2,238,331	10,129,653	841,706	3,965,025	3,830,930	6,918,792	17,283,901	47,686,620	64,970,521
Retail Volume*	2,153,125	5,617,992	311,243,022	1,408,542,560	22,047,011	103,856,840	289,209,466	522,322,249			
Retail price	$110.437	$97.402	$0.154	$0.104	$0.4055	$0.3431	$0.3321	$0.3778	$181.4605	$164.9299	$169.5100
Access price	$111.230	$97.437	$0.021	$0.017	$0.0099	$0.0086	$0.0118	$0.0108	$115.9677	$102.9492	$106.5562
Unit cost	$22.628	$22.211	$0.028	$0.028	$0.1654	$0.1654	$0.1679	$0.1679	$50.9445	$47.9424	$48.7742
Imputed margin	-$23.421	-$22.247	$0.105	$0.058	$0.2302	$0.1691	$0.1524	$0.1991	$14.5482	$14.0383	$14.1796
Imputed margin %	-21.2078%	-22.8405%	68.0227%	56.1950%	56.7673%	49.2886%	45.8819%	52.7101%	8.0173%	8.5117%	8.3651%

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 07 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	41,921,602	159,820,069	212,662,113	370,788,003
other	0	0	0	0
total	41,921,602	159,820,069	212,662,113	370,788,003
Retail Costs				
organisation	6,393,677	34,767,481	16,868,133	49,272,958
product and consumer	10,218,428	55,565,678	37,838,124	87,666,988
total	16,612,106	90,333,159	54,706,257	136,939,946
Other Costs				
organisation	2,742,209	14,911,557	12,607,309	29,156,085
product and consumer	311,228	1,692,392	2,279,586	4,284,241
network expenses	7,114,305	38,686,102	36,976,120	82,976,635
total	10,167,741	55,290,051	51,863,015	116,416,962
Ancillary Charges (TEBA)	1,671,387	9,088,653	1,716,375	9,434,394
Cost of Capital	6,568,217	35,716,593	39,890,671	83,079,320
Retail Volume	235,231	1,279,137	235,231	1,279,137
Retail price	$178.2146	$124.9437	$904.0565	$289.8736
Access price	$61.8698	$61.8698	$95.9096	$78.6076
Unit cost	$148.8726	$148.8726	$629.9183	$270.3937
Imputed margin	-$32.5278	-$85.7987	$178.2286	-$59.1278
Imputed margin %	-18.2520%	-68.6699%	19.7143%	-20.3978%

Table 2.4: ULLS Report for June 07 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	41,921,602	159,820,069	212,662,113	370,788,003
other	0	0	0	0
total	41,921,602	159,820,069	212,662,113	370,788,003
Retail Costs				
organisation	6,726,904	36,579,497	17,744,936	51,838,376
product and consumer	10,223,329	55,592,324	37,852,035	87,706,123
total	16,950,233	92,171,821	55,596,971	139,544,499
Other Costs				
organisation	2,546,302	13,846,259	10,318,122	25,569,507
product and consumer	307,997	1,674,824	2,241,674	4,224,867
network expenses	7,114,563	38,687,506	36,971,574	82,972,115
total	9,968,862	54,208,589	49,531,369	112,766,490
Ancillary Charges (TEBA)	1,671,387	9,088,653	1,716,375	9,434,394
Cost of Capital	3,683,239	20,028,682	60,290,155	99,219,401
Retail Volume	235,231	1,279,137	235,231	1,279,137
Retail price	$178.2146	$124.9437	$904.0565	$289.8736
Access price	$61.8698	$61.8698	$95.9096	$78.6076
Unit cost	$137.2001	$137.2001	$710.5138	$282.1940
Imputed margin	-$20.8553	-$74.1262	$97.6331	-$70.9280
Imputed margin %	-11.7023%	-59.3277%	10.7994%	-24.4686%

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 June 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 price 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.[8]

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 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.

---

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

Results for the Quarter

Table 2.5 provides a summary of the imputation test results for Telstra.

A discussion of results in relation to the specific retail services is provided in sections 2.5.2 to 2.5.6.

For the June quarter 2007, the imputation test results indicate that Telstra passes the imputation tests for domestic and international long-distance calls, fixed-to-mobile calls, and the bundle of fixed-line voice telephony services, for both residential and business customer groups. It also passes the imputation test for the bundle of ADSL and fixed-line voice telephony services for business customers.

However, Telstra fails the imputation test for local call services (line rental and local calls combined) for both residential and business customers. It also fails the test for stand-alone ADSL for both residential and business customers, and bundled ADSL and fixed line telephony for residential customers.

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

			Imputed margin (by quarter)					
Retail service	**Core service(s)**		**Jun 2006**	**Sep 2006**	**Dec 2006**	**Mar 2007**	**Jun 2007**	
Local calls and line rental	LCS	Business	–16%	–17%	–18%	–17%	–21%	Fail
		Residential	–24%	–21%	–21%	–19%	–22%	Fail
Domestic long-distance	PSTN–O/T	Business	69%	70%	71%	67%	69%	Pass
		Residential	68%	60%	60%	59%	57%	Pass
International long-distance	PSTN–O	Business	56%	52%	49%	62%	58%	Pass
		Residential	57%	34%	32%	50%	50%	Pass
Fixed-to-mobile	PSTN–O	Business	21%	33%	35%	41%	46%	Pass
		Residential	43%	45%	46%	50%	53%	Pass
Bundle of fixed voice services #	LCS and PSTN–O/T	Business	4%	7%	7%	9%	9%	Pass
		Residential	10%	8%	8%	11%	9%	Pass
		Total	8%	8%	8%	11%	9%	Pass
ADSL	ULLS	Business	–47%	–26%	–34%	–13%	–18%	Fail
		Residential	–126%	–97%	–106%	–75%	–69%	Fail
Bundle of ADSL and fixed voice services *	ULLS and PSTN–T	Business	7%	15%	13%	20%	20%	Pass
		Residential	–45%	–33%	–36%	–22%	–20%	Fail

Source: Telstra imputation testing quarter reports for the June quarter 2006, September quarter 2006 and December quarter 2006, March quarter 2007 and June quarter 2007 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

For fixed-line telephony services, in the June quarter 2007 the imputed margin on the bundle of residential services declined to 9 per cent. The imputed margin for the bundle of business fixed voice services remained at 9 per cent.

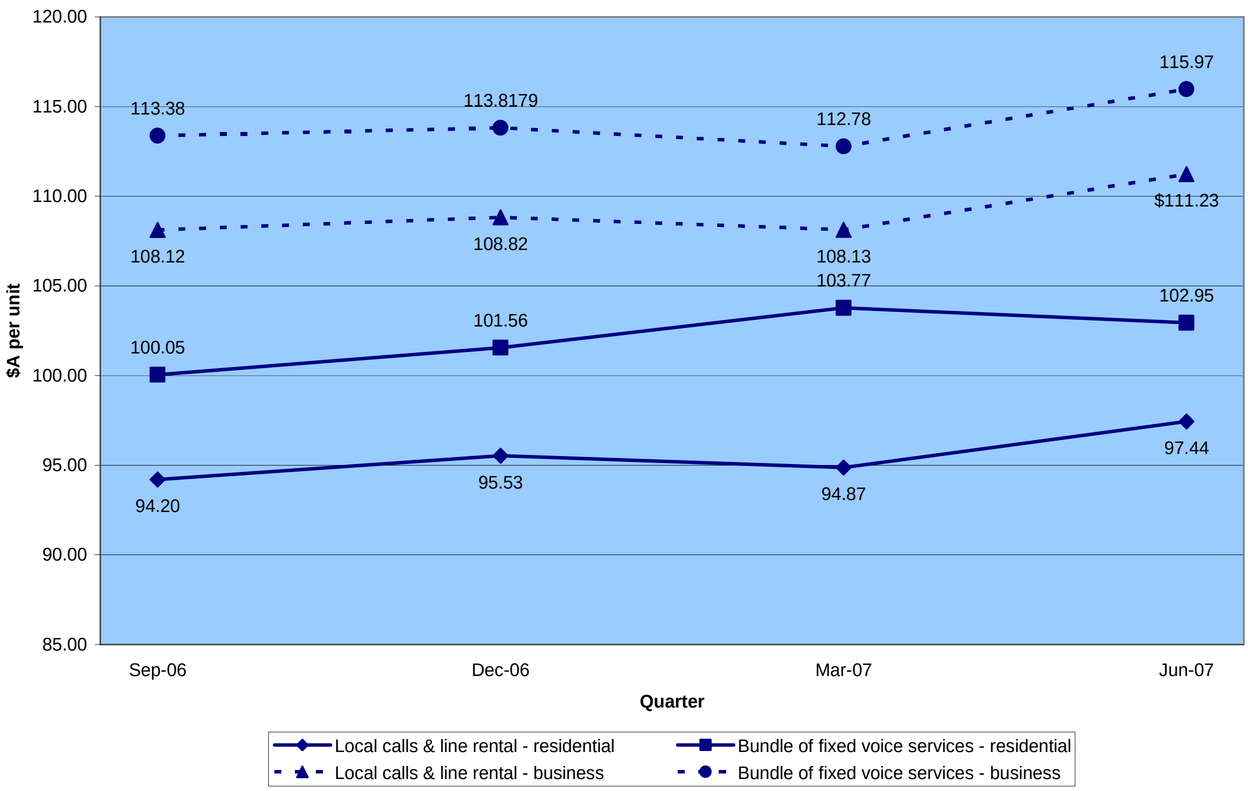
For local services, the results for the June quarter 2007, indicate a deterioration in margins for both customer groups. For business local services, the imputed margin declined to negative 21 per cent. For residential local services, the imputed margin declined to negative 22 per cent.

In the June quarter 2007, there were mixed movements within the imputed margins for ADSL services. Margins for stand-alone ADSL services remained negative for both customer groups. Imputed margins for business bundled ADSL and fixed telephony services remained the same as March quarter 2007, while the margin for residential bundled ADSL and fixed telephony services improved to negative 20 per cent.

Access prices over five quarters

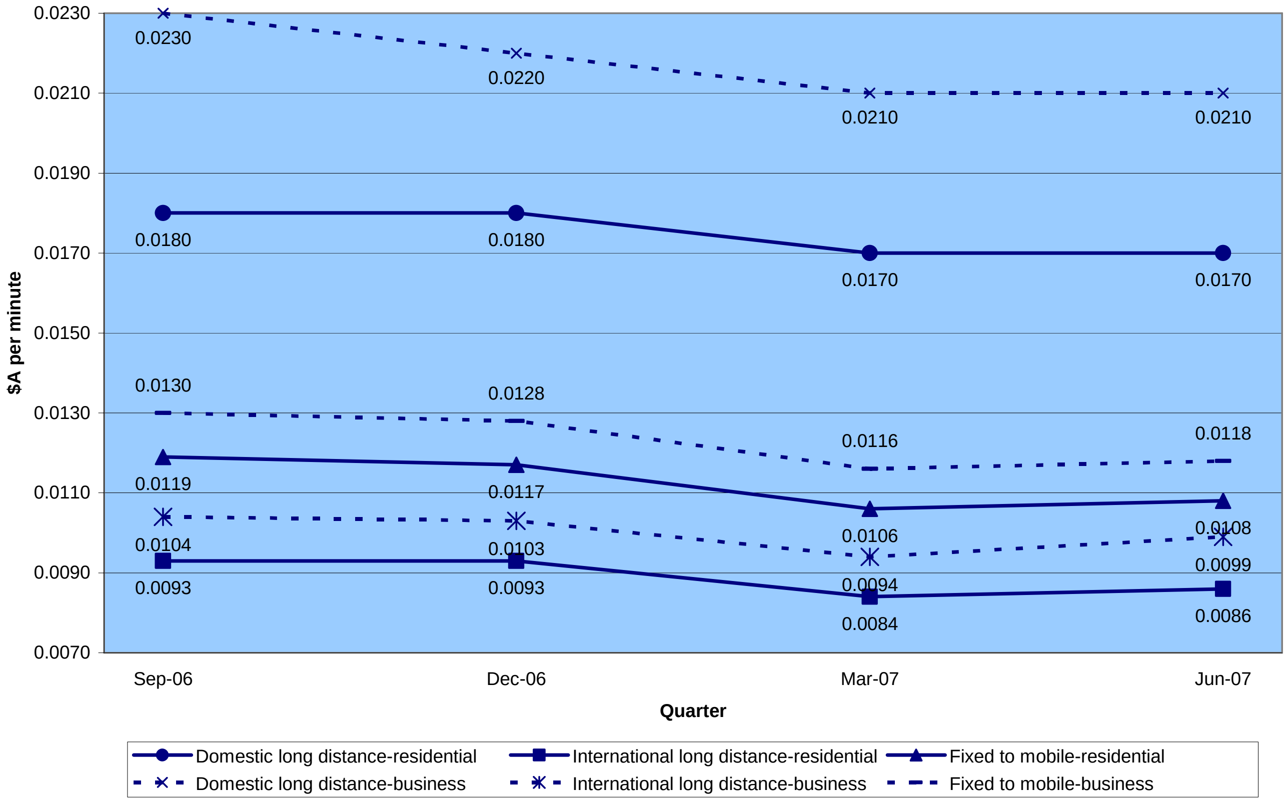
Telstra's estimates of the average access prices for the core services in relation to imputation testing are represented in figures 2.6 and 2.7 below.

Figure 2.6 Average access prices for core services used in supplying local call/ line rental services, and the fixed-line voice services bundle, September quarter 2006 to June quarter 2007



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.

Figure 2.7 Average access prices for core services used in supplying domestic long-distance, international long-distance and fixed-to-mobile call services, September quarter 2006 to June quarter 2007



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 indicate that Telstra would receive a negative margin 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 June 2007 quarter, the imputed margin for residential line rental and local calls deteriorated decreasing three percentage points from negative 19 per cent to negative 22 per cent. For businesses, the imputed margin for local call and line rental services decreased by four percentage points from negative 17 per cent in the March quarter 2007 to negative 21 per cent in the June quarter 2007.

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

In the retail supply of long-distance and fixed-to-mobile calls, 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. In the current quarter, improvements have occurred in Telstra's margins for fixed-to-mobile services, business domestic long distance. The greatest improvement occurred in the imputed margin for business fixed-to-mobile, with an increase of five percentage points from 41 per cent in March quarter 2007 to 46 per cent in June quarter 2007. The imputed margin for residential international long–distance remained the same as the March quarter 2007, whilst the residential domestic long-distance and business international long-distance margins deteriorated.

The ACCC also notes that all Telstra fixed-to-mobile calls are assumed to be 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. In all quarters, Telstra has passed the imputation test for the bundle of fixed voice services. For the June quarter 2007, the tests show an imputed margin of 9 per cent for residential customers, and 11 per cent for business customers. These imputed margins represent no change in the business fixed line bundled services and a two percentage point decrease for residential fixed line bundled services from the March quarter 2007.

2.5.5 ADSL

Imputation tests have been conducted on services that use the ULLS as a core service input. The results indicate that in the retail supply of ADSL, Telstra would make a significantly negative margin if it purchased the essential input, the ULLS, at arms' length from itself. As per the March 2007 quarter, the imputed margins have improved, although not as significantly as occurred between December 2006 quarter and March 2007 quarter.

Table 2.5 above indicates that an imputed margin of negative 69 per cent would be incurred in supplying the stand-alone ADSL service to residential customers in the June quarter 2007. For business customers, an imputed margin of negative 18 per cent is indicated.

The main reason for the 'fail' results for stand alone ADSL (both residential and business segments) and ADSL and fixed line telephony services (residential segment only) in the June quarter 2007 appears to be the additional cost incurred in supplying ADSL over and above the purchase price of the ULLS core service.

In assessing the cost aspects of the reported results for the June quarter 2007, the following factors should be considered:

- the test excludes costs and revenues 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[9]
- the revenues for BigPond services are averaged across customer groups rather than identified directly to each group. 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 the other customer group
- 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. Telstra considers that access seekers would be unlikely to require ADSL services supplied over the ULLS to make a contribution to overheads and common costs given ADSL's level of market maturity. The maturity of the market is debatable, however, given that ADSL has been offered since August 2000 and that about 3.6 million customers now acquire broadband services (as at end September 2006), of which about 2.8 million are ADSL services[10]
- 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 appear to strongly indicate 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.

---

9 Previously, 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.

10 ACCC media release, *Trend of broadband growth continues,* 23 February 2007.

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 fails the test on the ADSL bundle for residential customers, which consists of one ADSL service and one voice service, with a margin of negative 20 per cent. However, Telstra passes the test on the bundle for business customer services, comprising one ADSL service and four voice services, with the imputed margin remaining at 20 per cent in the June 2007 quarter.

The factors outlined in section 2.5.5 and the qualification for 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 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. The ‘pass’ result in the business test suggests that it is likely that business customers would be a more suitable target customer group than residential customers.

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 negative 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.[11]

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 2007

	ULLS Test	Business – 1 ADSL + 4 voice lines	Residential – 1 ADSL + 1 voice line
Historic Cost Basis	Unadjusted	19.7%	–20.4%
	Adjusted	20.3%	–19.4%
Current Cost Basis	Unadjusted	10.8%	–24.5%
	Adjusted	11.4%	–23.4%

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.

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 2007 imputation report, the unit cost data was obtained from the RAF data for the period June 2006 to December 2006.

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

[11] 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 2005 around 27 per cent of ULLS were supplied in band 1, and 72 per cent in band 2. The ACCC understands the majority of ULLS that have been connected since then have been in band 2.

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 2007 report, RAF data for the period January to June 2007 will be available when the next imputation report (for September quarter 2007) 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 ; and
- 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.[12]

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

---

[12] 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).

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 voice products when services are provided over the ULLS; and
- 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 terminates 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 June quarter 2007 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)[13] 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 discrimination may have occurred. 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

Business services

The current report does not indicate that Telstra has materially discriminated against wholesale business customers during the quarter. The service level supplied to wholesale business customers during the quarter was better than the service level supplied to retail business customers. This conclusion holds when considering Telstra's performance over the last four quarters.

Residential services

The current report does not indicate that Telstra has materially discriminated against wholesale residential customers during the quarter. There were, however, two metrics (new basic access connections with available cable and capacity and new basic access connections requiring additional cable and capacity) where Telstra's performance was materially worse for wholesale residential customers than for retail residential customers. Otherwise, the service level supplied to wholesale residential customers during the quarter met the performance standard either practically as often as, or more often than, the service level supplied to retail residential customers. However, when considering Telstra's service performance over the last four quarters, Telstra's performance to wholesale residential customers was practically as good as the service level supplied to retail residential customers.

---

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

3.2 KPIs for the quarter ending 30 June 2007

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

A positive difference for all metrics, except metric 7, means that Telstra performed better in meeting the performance standard for its wholesale customers than for its retail customers. A negative difference for these metrics means that Telstra performed worse in meeting the performance standard for its wholesale customers than for its retail customers.

A positive difference for metric 7 means that wholesale customers experienced a higher recurring fault ratio than did retail customers and would indicate an inferior level of service for wholesale customers.

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	1.72	–0.74
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	6.44	–2.11
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	2.69	–3.17
4	The percentage of basic access order appointments that are met in the quarter	0.27	1.01

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)	0.97	–0.79
6	The percentage of basic access fault appointments that are met in the quarter (includes dial-up faults)	1.21	0.51
7	The percentage difference in recurring fault ratio	0.31	–1.12

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 basis access service capable of supporting ADSL services	0.24	0.08
9	The percentage of services provisioned within performance standard – held orders	–0.72	0.57

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	2.09	2.50
11	The percentage of appointments kept	2.21	–0.43

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 June 2007

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 June 2007

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)				
	2006		**2007**		**Av.**	**2006**		**2007**		**Av.**
	Sep	**Dec**	**Mar**	**Jun**		**Sep**	**Dec**	**Mar**	**Jun**	
1	0.75	0.09	0.67	1.72	**0.81**	–0.68	–0.60	–0.41	–0.74	**–0.61**
2	0.24	1.24	4.56	6.44	**3.12**	–0.57	–0.09	–1.41	–2.11	**–1.05**
3	11.22	13.75	–4.57	2.69	**5.77**	3.83	6.62	–2.55	–3.17	**1.18**
4	1.52	1.26	1.24	0.27	**1.07**	0.74	1.11	0.95	1.01	**0.95**
5	1.29	1.70	0.82	0.97	**1.20**	0.00	–0.75	–0.26	–0.79	**–0.45**
6	–0.30	1.55	0.36	1.21	**0.71**	0.61	1.38	0.26	0.51	**0.69**
7	1.05	0.71	0.28	0.31	**0.59**	0.02	–0.04	–1.13	–1.12	**–0.57**
8	0.52	1.04	0.79	0.24	**0.65**	0.42	0.90	0.54	0.08	**0.49**
9	1.46	2.63	–2.17	–0.72	**0.30**	0.25	1.91	0.96	0.57	**0.92**
10	1.50	–5.50	2.70	2.09	**0.20**	2.00	–2.60	0.80	2.50	**0.68**
11	–2.00	–1.60	0.40	2.21	**–0.25**	–0.20	–0.10	0.10	–0.43	**–0.16**

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

New basic access connections with available cable and capacity

Wholesale business customers received better service levels for connections with available cable or network capacity during the quarter.

Telstra reports a difference of positive 6.44 percentage points for business connections with available cable or network capacity. (A result of positive 3.12 percentage points is obtained when averaging over the past four quarters.)

Telstra advised that this result was due to differences in the order entry processes between the wholesale and retail business units and consequent resource demands on the retail businesses.

Retail customers received better service levels for connections with available capacity or network capacity during the quarter.

Telstra reports a difference of negative 2.11 percentage points for residential customers for connections with available capacity or network capacity. (A result of negative 1.05 percentage points is obtained when averaging over the past four quarters).

Telstra advised that this result was due to adverse weather conditions which affected the Illawarra exchange in the ACT in April 2007. During adverse weather, all CSG orders are flagged in Telstra's systems to ensure these orders are prioritised. However, due to a systems fault at this exchange, CSG wholesale orders were not flagged and hence did not receive prioritisation. This systems fault has subsequently been rectified.

New basic access connections requiring additional cable or network capacity

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

Telstra reports a variation of positive 2.69 percentage points for business connections requiring additional cable or network capacity. (A result of positive 5.77 percentage points is obtained when averaging over the past four quarters).

Telstra advised that this result was due to rural regions where weather effects caused mass service disruptions to cabling installations. The number of retail business services provisioned is far larger than wholesale businesses provisioned particularly in rural regions, so retail business services were more severely impacted by poor weather conditions than wholesale business services.

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

Telstra reports a difference of negative 3.17 percentage points for residential connections requiring additional cable or network capacity. (A result of positive 1.18 percentage points is obtained when averaging over the past four quarters.)

Telstra advised that this result was due to significant growth in two exchanges resulting in increased demand for exchange materials that could not be met by Telstra's supplier.

ADSL faults and maintenance

Wholesale business customers received better service levels for ADSL faults and maintenance during the quarter.

Telstra reports a positive difference of 2.09 percentage points for business ADSL faults and maintenance during the quarter. (A result of positive 0.20 percentage points is obtained when averaging over the past four quarters.)

Wholesale residential customers received better service levels for ADSL faults and maintenance during the quarter.

Telstra reports a positive difference of 2.50 percentage points for residential ADSL faults and maintenance during quarter. (A result of 0.68 percentage points is obtained when averaging over the past four quarters.)

Telstra advised that these results were due to:

1. Differences in the approach to fault diagnosis which isolate the root cause of the fault. This resulted in the wholesale business unit isolating the root cause of the fault more quickly.

2. The lower number of site visits required to address wholesale faults as the scope of Telstra's responsibilities on these faults can be tested remotely and, where the fault is in its network, can more often be repaired remotely taking less time.

ADSL faults and maintenance appointments met

Wholesale business customers received better service levels for ADSL faults and maintenance appointments met during the quarter.

Telstra reports a positive difference of 2.21 percentage points for business ADSL faults and maintenance appointments met during the quarter. (A result of negative 0.25 percentage points is obtained when averaging over the past four quarters.)

Telstra advised that this result was due to an issue of small sample bias for wholesale business customers. It would only take one wholesale business appointment to be missed rather than met, for the metric result to be within the 2 percentage point tolerance.

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

The ACCC is satisfied that the June quarter 2007 report conforms to the requirements of the RKR.

3.6 Accuracy

Telstra has certified that to the best of its knowledge the June quarter 2007 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.

That said, as the ACCC has not yet received an audit certificate in respect of the June quarter 2007 report, it is possible that issues may arise in the future to question the validity of these results. Should any material matters arise, the ACCC will include them in future reports.