



Australian  
Competition &  
Consumer  
Commission

# ACCOUNTING SEPARATION OF TELSTRA:

IMPUTATION TESTING AND NON-PRICE TERMS AND CONDITIONS REPORT FOR THE  
MARCH QUARTER 2013

July 2013



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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.
FTM	Fixed to mobile
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 <i>Competition and Consumer Act 2010</i> (formerly the <i>Trade Practices Act 1974</i> ) 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, and Record Keeping Rules (RKR) issued by the ACCC.

The reports are intended to provide greater transparency of Telstra's operations and to assist the ACCC to monitor whether Telstra is unfairly discriminating between access seekers using its network and its own retail operations.

In March 2012, the ACCC accepted Telstra's Structural Separation Undertaking (SSU).

Under clause 16.2 of the SSU, it is a requirement for Telstra to report upon a number of Equivalency and Transparency (E&T) metrics related to the operational quality and standard of delivery of Regulated Services and the comparable retail services. Under clause 18.4 of the SSU, Telstra provides a report to the ACCC which sets out, for each quarter, the fully allocated costs, revenues and economic return associated with Reportable Wholesale Products and Reportable Retail Products. This report is derived from Telstra's internal financial reporting management system called the Telstra Economic Model (TEM). The TEM is used to calculate an External Wholesale Price (EWP) and Internal Wholesale Price (IWP) for each of the Reportable Wholesale Products and Reportable Product Bundles.

Telstra's reporting under the SSU (through the TEM and E&T metrics) is broadly comparable to the Accounting Separation regime. Accordingly, since the commencement of reporting under the SSU, the Accounting Separation regime has become less important. The Minister has consulted parties concerning the future of the enhanced accounting separation regime and a decision is pending.

It is a requirement for the ACCC to publish this imputation and non-price terms and condition report pursuant to the Ministerial Direction (*Australian Competition and Consumer Commission (Accounting Separation – Telstra Corporation Limited) Direction (No. 1) 2003*).

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### 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 may provide a preliminary indication of whether Telstra is engaging in systematic 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). Imputation testing concerns the retail services supplied using certain regulated access services: unconditioned local loop services (ULLS), public switched telephone network originating and terminating access services (PSTN OTA) and local carriage services (LCS).

Key results for the March 2013 quarter are:

- Telstra failed 5 out of 15 imputation tests
- Telstra failed the imputation tests for:
  - local call and line rental for business and residential customers. However, the variance percentages have become less negative for both groups since the December 2012 quarter.
  - International long distance for residential services.
  - ADSL services for residential customers.
  - the bundle of ADSL and fixed voice services for residential customers.
- Margins increased for ten out of fifteen imputation tests since the previous Quarter.

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#### 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, fault rectification, 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 overall results do not provide any evidence of systemic discrimination by Telstra against access seekers in respect of performance.

For metric 5, which is the percentage of basic access faults that are rectified in the quarter, there has been a notable improvement for both business and residential services. There could be a variety of factors that explain this improvement. However, one factor that will have contributed to the improved result is that Telstra is currently monitoring its performance against Metric 5 on the basis of "jeopardy management" under which work ticket priorities are reassessed where necessary to promote more equivalent results.

Telstra exceeded the performance standard in a greater percentage of cases for its wholesale customers than its retail customers in relation to Metrics 1, 2, 3, 4, 8, 9 and 10.

## 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.<sup>1</sup>

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.<sup>2</sup> In such investigations, it is important to be able to carefully distinguish between wholesale costs 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

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

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

instances of anti-competitive behaviour. Further, accounting separation 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 cannot remove incentives for Telstra to favour its 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 issued in September 2004.<sup>3</sup>

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 provide some indication of whether Telstra is engaging in systematic price squeeze behaviour in relation to core telecommunications services.<sup>4</sup>

### 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, because their profit margins would be negative. Imputation can therefore be used as a first step in detecting possible price squeezes in the retail market.

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<sup>3</sup>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.

<sup>4</sup>Senator Richard Alston, *Government boost to telecommunications competition*, media release, 24 September 2002.

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## 2.2.2 WHAT ARE THE ELEMENTS OF AN IMPUTATION TEST?

An imputation test compares:

- the price charged by Telstra for a particular retail service it supplies, and by other retail service providers who wish to supply the same retail service using Telstra's network.
- the wholesale price charged by Telstra for access to its network, plus the additional costs incurred by Telstra, 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, the imputed margin is negative, which may indicate potential anti-competitive behaviour by Telstra.

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## 2.2.3 LIMITATIONS OF IMPUTATION TEST RESULTS

The imputation testing requirement was introduced to provide some indication of whether there was conduct by Telstra that might suggest it was engaging in systemic price squeeze behaviour in relation to core telecommunications services. However, the limitations of imputation testing are such that a 'fail' result for the imputation test does not of itself indicate that Telstra has engaged in such behaviour.

There are a number of limitations of the imputation testing 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 and are on an average basis. Access seekers targeting niche segments of the market may have lower costs of transformation.
- In addition to the level of access price charged by Telstra, the likelihood of an access seeker successfully competing with Telstra is influenced by its own efficiency as well as service quality and differentiation.
- 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 March quarter 2013 imputation report, the unit cost data was obtained from the RAF data for the period July to December 2012. Further limitations of the data are examined in sections 2.6 and 2.7.

Accepting these limitations, the ACCC considers that the principles on which these imputation tests are based are sound, and whilst imputation testing may provide an indicator of possible price squeezing behaviour, they cannot be solely relied upon.

## 2.3 THE IMPUTATION TESTS IN THIS REPORT

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 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 underlying core service in relation to the retail service, and
- the 'unit cost' - the average total cost of transforming the core service into the relevant retail service.

The imputation RKR details how each variable is calculated. The results are presented in Tables 2.1 to 2.6 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 costs. 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.<sup>5</sup>

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

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<sup>5</sup>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.

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.<sup>6</sup>

- The 'imputed 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 RKR, Telstra has submitted imputation reports in relation to the March 2013 quarter for both fixed-line voice telephony services and ADSL services. These reports are shown in the following Tables 2.1 to 2.6. Separate reports are presented based on historical accounting costs and current accounting costs.

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<sup>6</sup> 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 MARCH 2013 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
<b>Revenues</b>											
<b>Retail</b>	201,430,617	401,396,231	19,294,643	73,062,168	2,285,094	15,642,975	54,695,017	102,129,826	277,705,371	592,231,200	869,936,571
<b>Other</b>	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	201,430,617	401,396,231	19,294,643	73,062,168	2,285,094	15,642,975	54,695,017	102,129,826	277,705,371	592,231,200	869,936,571
<b>Retail Costs</b>											
<b>Organisation product and consumer</b>	17,285,594	40,798,119	1,155,709	4,572,558	444,188	4,966,548	2,796,910	4,728,959	21,682,402	55,066,185	76,748,587
<b>network expenses</b>	22,056,061	51,839,015	1,910,331	7,558,215	672,796	7,522,653	16,377,636	27,690,977	41,016,824	94,610,860	135,627,684
<b>Total</b>	39,341,655	92,637,134	3,066,041	12,130,773	1,116,984	12,489,201	19,174,547	32,419,936	62,699,226	149,677,045	212,376,271
<b>Other Costs</b>											
<b>Organisation product and consumer</b>	0	0	329,051	1,301,887	17,585	196,626	-29,466	-49,820	317,170	1,448,692	1,765,863
<b>network expenses</b>	0	0	39,414	155,941	5,002	55,926	-7,412	-12,532	37,004	199,336	236,339
<b>Total</b>	0	0	800,702	3,167,972	50,019	559,277	-78,651	-132,981	772,070	3,594,268	4,366,338
<b>Ancillary*</b>	0	0	1,169,166	4,625,800	72,607	811,829	-115,528	-195,333	1,126,245	5,242,296	6,368,540
<b>Cost of Capital</b>	7,083,878	16,762,118	730,169	2,888,909	161,125	1,801,571	1,601,715	2,708,148	9,576,887	24,160,746	33,737,633
<b>Retail Volume*</b>	1,982,321	4,755,538	178,480,292	706,156,320	8,773,966	98,103,342	217,159,415	367,168,757			
<b>Retail price</b>	\$101.614	\$84.406	\$0.108	\$0.103	\$0.2604	\$0.1595	\$0.2519	\$0.2782	\$140.0910	\$124.5351	\$129.1117
<b>Access price</b>	\$80.982	\$70.007	\$0.018	\$0.018	\$0.0089	\$0.0087	\$0.0096	\$0.0092	\$83.7191	\$73.5081	\$76.5123
<b>Unit cost</b>	\$23.420	\$23.005	\$0.029	\$0.029	\$0.1545	\$0.1545	\$0.0957	\$0.0957	\$37.2034	\$37.8920	\$37.6894
<b>Imputed margin</b>	-\$2.788	-\$8.606	\$0.061	\$0.057	\$0.0970	-\$0.0038	\$0.1465	\$0.1732	\$19.1685	\$13.1349	\$14.9101
<b>Imputed margin %</b>	-2.74%	-10.20%	56.24%	54.98%	37.26%	-2.40%	58.18%	62.27%	13.68%	10.55%	11.55%

TABLE 2.2: FIXED TELEPHONY REPORT FOR MARCH 2013 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
<b>Revenues</b>											
retail	201,430,617	401,396,231	19,294,643	73,062,168	2,285,094	15,642,975	54,695,017	102,129,826	277,705,371	592,231,200	869,936,571
other	0	0	0	0	0	0	0	0	0	0	0
<b>total</b>	<b>201,430,617</b>	<b>401,396,231</b>	<b>19,294,643</b>	<b>73,062,168</b>	<b>2,285,094</b>	<b>15,642,975</b>	<b>54,695,017</b>	<b>102,129,826</b>	<b>277,705,371</b>	<b>592,231,200</b>	<b>869,936,571</b>
<b>Retail Costs</b>											
organisation	17,822,963	42,066,578	1,193,251	4,721,089	452,786	5,062,680	2,881,896	4,872,652	22,350,895	56,722,999	79,073,894
product and consumer	22,104,231	51,952,720	1,913,696	7,571,529	673,566	7,531,270	16,385,255	27,703,858	41,076,748	94,759,377	135,836,124
<b>total</b>	<b>39,927,194</b>	<b>94,019,297</b>	<b>3,106,947</b>	<b>12,292,619</b>	<b>1,126,352</b>	<b>12,593,950</b>	<b>19,267,151</b>	<b>32,576,509</b>	<b>63,427,643</b>	<b>151,482,375</b>	<b>214,910,019</b>
<b>Other Costs</b>											
organisation	0	0	321,771	1,273,086	17,565	196,394	-29,876	-50,514	309,459	1,418,966	1,728,425
product and consumer	0	0	38,761	153,360	5,000	55,906	-7,449	-12,594	36,313	196,671	232,984
network expenses	0	0	800,702	3,167,972	50,019	559,277	-78,651	-132,981	772,070	3,594,268	4,366,339
<b>total</b>	<b>0</b>	<b>0</b>	<b>1,161,234</b>	<b>4,594,417</b>	<b>72,584</b>	<b>811,577</b>	<b>-115,976</b>	<b>-196,090</b>	<b>1,117,843</b>	<b>5,209,905</b>	<b>6,327,747</b>
<b>Ancillary*</b>	<b>N/A</b>	<b>N/A</b>	<b>212,303</b>	<b>839,976</b>	<b>5,218</b>	<b>58,347</b>	<b>129,156</b>	<b>218,374</b>	<b>346,677</b>	<b>1,116,697</b>	<b>1,463,374</b>
<b>Cost of Capital</b>	<b>7,221,588</b>	<b>17,087,182</b>	<b>718,246</b>	<b>2,841,735</b>	<b>162,797</b>	<b>1,820,262</b>	<b>1,660,912</b>	<b>2,808,236</b>	<b>9,763,543</b>	<b>24,557,416</b>	<b>34,320,958</b>
<b>Retail Volume*</b>	<b>1,982,321</b>	<b>4,755,538</b>	<b>178,480,292</b>	<b>706,156,320</b>	<b>8,773,966</b>	<b>98,103,342</b>	<b>217,159,415</b>	<b>367,168,757</b>			
<b>Retail price</b>	<b>\$101.614</b>	<b>\$84.406</b>	<b>\$0.108</b>	<b>\$0.103</b>	<b>\$0.2604</b>	<b>\$0.1595</b>	<b>\$0.2519</b>	<b>\$0.2782</b>	<b>\$140.0910</b>	<b>\$124.5351</b>	<b>\$129.1117</b>
<b>Access price</b>	<b>\$80.982</b>	<b>\$70.007</b>	<b>\$0.018</b>	<b>\$0.018</b>	<b>\$0.0089</b>	<b>\$0.0087</b>	<b>\$0.0096</b>	<b>\$0.0092</b>	<b>\$83.7191</b>	<b>\$73.5081</b>	<b>\$76.5123</b>
<b>Unit cost</b>	<b>\$23.785</b>	<b>\$23.364</b>	<b>\$0.029</b>	<b>\$0.029</b>	<b>\$0.1558</b>	<b>\$0.1558</b>	<b>\$0.0964</b>	<b>\$0.0964</b>	<b>\$37.6608</b>	<b>\$38.3482</b>	<b>\$38.1460</b>
<b>Imputed margin</b>	<b>-\$3.153</b>	<b>-\$8.965</b>	<b>\$0.061</b>	<b>\$0.057</b>	<b>\$0.0958</b>	<b>-\$0.0051</b>	<b>\$0.1458</b>	<b>\$0.1725</b>	<b>\$18.7111</b>	<b>\$12.6787</b>	<b>\$14.4535</b>
<b>Imputed margin %</b>	<b>-3.10%</b>	<b>-10.62%</b>	<b>56.13%</b>	<b>54.87%</b>	<b>36.78%</b>	<b>-3.19%</b>	<b>57.91%</b>	<b>62.02%</b>	<b>13.36%</b>	<b>10.18%</b>	<b>11.19%</b>

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 MARCH 2013 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
<b>Revenues</b>				
Retail	64,632,508	270,879,204	208,222,467	492,927,759
Other	0	0	0	0
<b>Total</b>	<b>64,632,508</b>	<b>270,879,204</b>	<b>208,222,467</b>	<b>492,927,759</b>
<b>Retail Costs</b>				
Organisation	4,082,830	28,409,520	15,293,903	49,055,792
product and consumer	5,466,822	38,039,737	26,674,925	73,512,716
<b>Total</b>	<b>9,549,652</b>	<b>66,449,257</b>	<b>41,968,828</b>	<b>122,568,508</b>
<b>Other Costs</b>				
Organisation	8,933,804	62,164,006	12,735,793	70,801,142
product and consumer	1,106,493	7,699,302	6,693,221	16,999,252
network expenses	15,902,015	110,650,846	41,022,898	156,110,677
<b>Total</b>	<b>25,942,311</b>	<b>180,514,153</b>	<b>60,451,911</b>	<b>243,911,070</b>
<b>Ancillary Charges (TEBA)</b>	<b>1,254,869</b>	<b>8,731,741</b>	<b>1,299,682</b>	<b>9,150,430</b>
<b>Cost of Capital</b>	<b>8,638,513</b>	<b>60,109,286</b>	<b>34,653,774</b>	<b>106,430,243</b>
<b>Retail Volume</b>	<b>256,244</b>	<b>1,783,020</b>	<b>256,244</b>	<b>1,783,020</b>
<b>Retail price</b>	<b>\$252.2303</b>	<b>\$151.9215</b>	<b>\$812.5945</b>	<b>\$276.4566</b>
<b>Access price</b>	<b>\$54.7644</b>	<b>\$54.7644</b>	<b>\$68.8102</b>	<b>\$59.5793</b>
<b>Unit cost</b>	<b>\$177.1177</b>	<b>\$177.1177</b>	<b>\$540.0095</b>	<b>\$270.3616</b>
<b>Imputed margin</b>	<b>\$20.3482</b>	<b>-\$79.9606</b>	<b>\$203.7748</b>	<b>-\$53.4843</b>
<b>Imputed margin %</b>	<b>8.07%</b>	<b>-52.63%</b>	<b>25.08%</b>	<b>-19.35%</b>

TABLE 2.4 ULLS REPORT FOR MARCH 2013 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
<b>Revenues</b>				
retail	64,632,508	270,879,204	208,222,467	492,927,759
other	0	0	0	0
<b>total</b>	64,632,508	270,879,204	208,222,467	492,927,759
<b>Retail Costs</b>				
organisation	4,201,059	29,232,195	15,757,783	50,499,666
product and consumer	5,476,698	38,108,455	26,715,784	73,637,118
<b>total</b>	9,677,757	67,340,650	42,473,567	124,136,784
<b>Other Costs</b>				
organisation	8,731,088	60,753,454	10,602,231	66,225,104
product and consumer	1,088,321	7,572,857	6,501,970	16,589,056
network expenses	15,902,015	110,650,852	41,022,897	156,110,680
<b>total</b>	25,721,425	178,977,163	58,127,098	238,924,840
<b>Ancillary Charges (TEBA)</b>	1,254,869	8,731,741	1,299,682	9,150,430
<b>Cost of Capital</b>	4,735,708	32,952,438	50,218,383	114,375,299
<b>Retail Volume</b>	256,244	1,783,020	256,244	1,783,020
<b>Retail price</b>	\$252.2303	\$151.9215	\$812.5945	\$276.4566
<b>Access price</b>	\$54.7644	\$54.7644	\$68.8102	\$59.5793
<b>Unit cost</b>	\$161.5248	\$161.5248	\$593.6480	\$272.9006
<b>Imputed margin</b>	\$35.9411	-\$64.3677	\$150.1363	-\$56.0233
<b>Imputed margin %</b>	14.25%	-42.37%	18.48%	-20.26%

Notes to Tables 2.3 and 2.4

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

\*\*Retail volumes are reported in terms of SIOs.

TABLE 2.5 ADJUSTED ULLS REPORT FOR MARCH 2013 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
<b>Revenues</b>				
retail	64,632,508	270,879,204	208,222,467	492,927,759
other	0	0	0	0
total	64,632,508	270,879,204	208,222,467	492,927,759
<b>Retail Costs</b>				
organisation	4,082,830	28,409,520	15,293,903	49,055,792
product and consumer	5,466,822	38,039,737	26,674,925	73,512,716
total	9,549,652	66,449,257	41,968,828	122,568,508
<b>Other Costs</b>				
organisation	8,933,804	62,164,006	12,735,793	70,801,142
product and consumer	1,106,493	7,699,302	6,693,221	16,999,252
network expenses	15,902,015	110,650,846	41,022,898	156,110,677
total	25,942,311	180,514,153	60,451,911	243,911,070
<b>Ancillary Charges (TEBA)</b>	1,254,869	8,731,741	1,299,682	9,150,430
<b>Cost of Capital</b>	8,638,513	60,109,286	34,653,774	106,430,243
<b>Retail Volume</b>	256,244	1,783,020	256,244	1,783,020
<b>Retail price</b>	\$252.2303	\$151.9215	\$812.5945	\$276.4566
<b>Access price</b>	\$54.7644	\$54.7644	\$66.5198	\$58.6757
<b>Unit cost</b>	\$177.1177	\$177.1177	\$540.0095	\$270.3616
<b>Imputed margin</b>	\$20.3482	-\$79.9606	\$206.0652	-\$52.5807
<b>Imputed margin %</b>	8.07%	-52.63%	25.36%	-19.02%

TABLE 2.6: ADJUSTED ULLS REPORT FOR MARCH 2013 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
<b>Revenues</b>				
retail	64,632,508	270,879,204	208,222,467	492,927,759
other	0	0	0	0
total	64,632,508	270,879,204	208,222,467	492,927,759
<b>Retail Costs</b>				
organisation	4,201,059	29,232,195	15,757,783	50,499,666
product and consumer	5,476,698	38,108,455	26,715,784	73,637,118
total	9,677,757	67,340,650	42,473,567	124,136,784
<b>Other Costs</b>				
organisation	8,731,088	60,753,454	10,602,231	66,225,104
product and consumer	1,088,321	7,572,857	6,501,970	16,589,056
network expenses	15,902,015	110,650,852	41,022,897	156,110,680
total	25,721,425	178,977,163	58,127,098	238,924,840
<b>Ancillary Charges (TEBA)</b>	1,254,869	8,731,741	1,299,682	9,150,430
<b>Cost of Capital</b>	4,735,708	32,952,438	50,218,383	114,375,299
<b>Retail Volume</b>	256,244	1,783,020	256,244	1,783,020
<b>Retail price</b>	\$252.2303	\$151.9215	\$812.5945	\$276.4566
<b>Access price</b>	\$54.7644	\$54.7644	\$66.5198	\$58.6757
<b>Unit cost</b>	\$161.5248	\$161.5248	\$593.6480	\$272.9006
<b>Imputed margin</b>	\$35.9411	-\$64.3677	\$152.4268	-\$55.1197
<b>Imputed margin %</b>	14.25%	-42.37%	18.76%	-19.94%

Notes to Tables 2.5 and 2.6

\* 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 March 2013 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

#### RESULTS FOR THE QUARTER

Table 2.7 provides a summary of the imputation test results (on a historic cost basis) for Telstra for the March 2013 quarter. A discussion of results in relation to the specific retail services is provided in sections 2.5.2 to 2.5.6.

TABLE 2.7: TELSTRA IMPUTATION TESTING RESULTS (ON A HISTORICAL COST BASIS)

Retail service	Core service(s)		Mar 12	Jun 12	Sep-12	Dec-12	Mar-13	
Local calls and line rental	LCS	Business	-9%	-8%	-8%	-5%	-3%	Fail
		Residential	-20%	-20%	-20%	-15%	-10%	Fail
Domestic long-distance	PSTN-O/T	Business	55%	52%	52%	52%	56%	Pass
		Residential	53%	50%	48%	49%	55%	Pass
International long-distance	PSTN-O	Business	54%	54%	50%	44%	37%	Pass
		Residential	37%	35%	26%	17%	-2%	Fail
Fixed-to-mobile	PSTN-O	Business	42%	46%	55%	56%	58%	Pass
		Residential	53%	57%	62%	60%	62%	Pass
Bundle of fixed voice services #	LCS and PSTN-O/T	Business	8%	8%	10%	12%	14%	Pass
		Residential	7%	6%	6%	8%	11%	Pass
		Total	7%	7%	7%	9%	12%	Pass
ADSL	ULLS	Business	11%	12%	19%	20%	8%	Pass
		Residential	-44%	-41%	-32%	-32%	-53%	Fail
Bundle of ADSL and fixed voice services *	ULLS and PSTN-T	Business	20%	21%	25%	26%	25%	Pass
		Residential	-17%	-17%	-11%	-11%	-19%	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 for the March 2013 quarter are:

- Overall, the results are largely consistent with the previous Quarter's results.
- Telstra failed 5 of the 15 imputation test results,
- Margins increased for ten out of fifteen imputation tests since the previous Quarter
- Margins for local calls and line rental services for both residential and business customers remain negative.
- The margin for residential international long distance services was negative for the first time since reporting commenced (-2.4%). Telstra advises that this negative margin is due to the introduction of an International Calling Pack of \$10 per month to eligible HomeLine services, which allows unlimited calls to fixed and mobile phones in a number of countries.
- Margins for both standalone ADSL services and the bundle of ADSL and fixed voice services for residential customers have decreased significantly. Telstra has advised that the decrease of the imputation margins is due to a rebalancing of cost allocations by Telstra during the period between June 2012 and December 2012 half-year Regulatory Accounting Framework (RAF) reports. Accordingly, Telstra has stated that due to revisions that it has made in how it allocates shared network costs between different services, there is an increased value allocated to the cost in converting ULLS access into ADSL. This has impacted the notional imputation margins for different services by producing a greater negative imputed margin percentage.

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## ACCESS PRICES OVER FOUR QUARTERS

Retail prices, 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 slightly in the March 2013 Quarter. The overall negative trend in the period followed the access price cuts for wholesale line rental (WLR) and the local carriage service (LCS) announced by the ACCC in its interim access determination in March 2011. The ACCC then issued its final access determination for these services in July 2011.

FIGURE 2.1: AVERAGE ACCESS PRICES FOR CORE SERVICES USED IN LOCAL CALLS/LINE RENTAL AND FIXED VOICE BUNDLED SERVICES

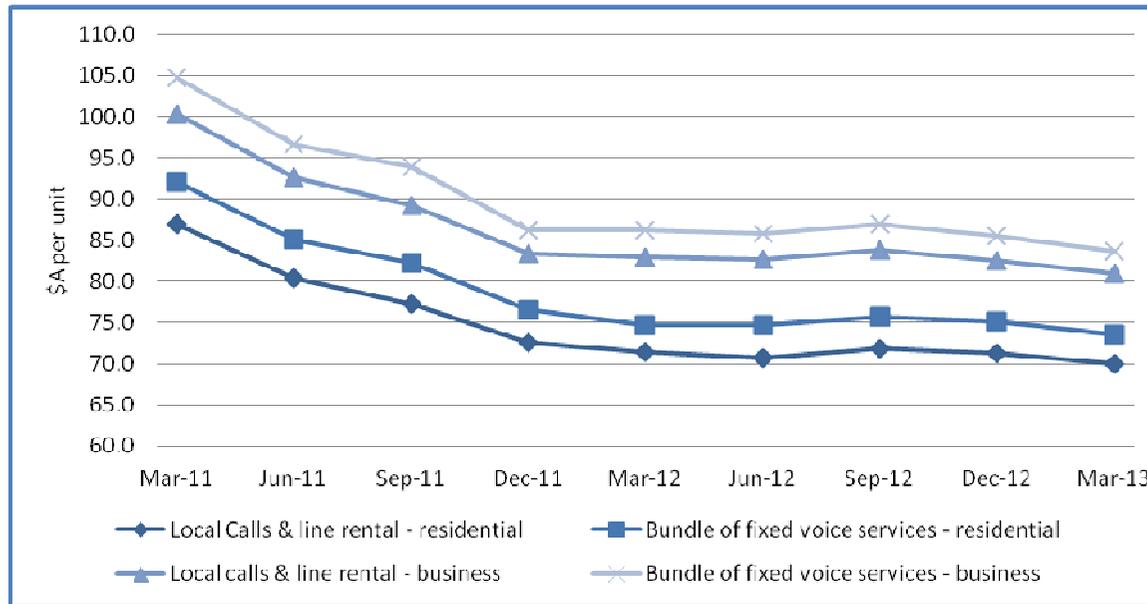
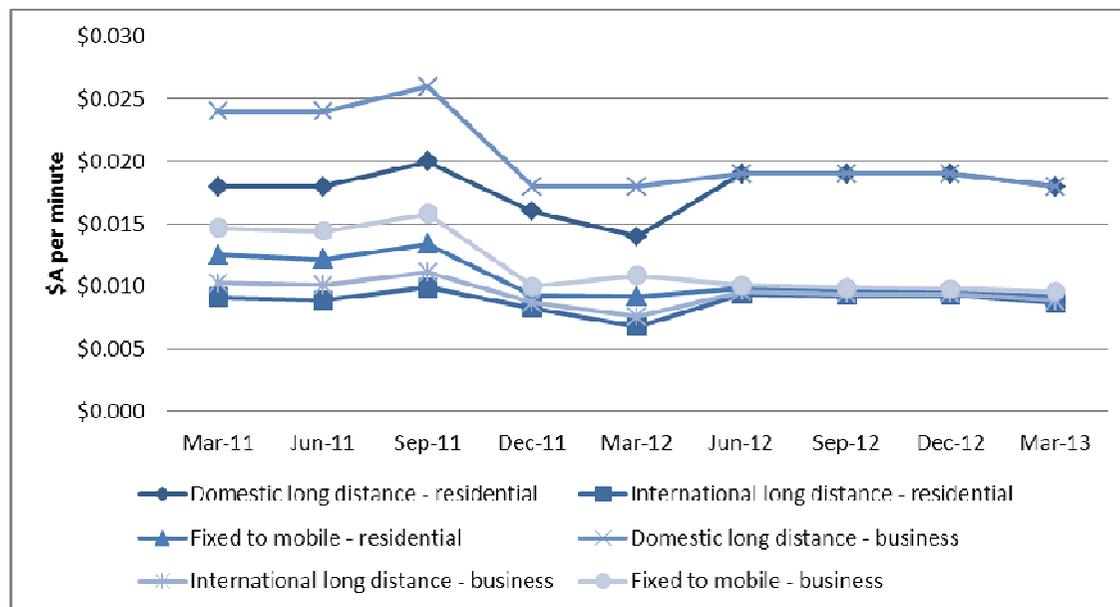


Figure 2.2 shows movements in average access prices for long distance call and fixed-to-mobile call services. Average access prices remained stable in the March 2013 Quarter.

FIGURE 2.2: AVERAGE ACCESS PRICES FOR CORE SERVICES USED IN SUPPLYING DOMESTIC & INTERNATIONAL LONG-DISTANCE AND FTM CALL SERVICES



The PSTN originating/terminating services are the underlying core services for the services shown in Figure 2.2. 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 negative imputed margins for the supply of local calls and line rental for both residential and business customer groups in the March 2013 Quarter. Telstra has failed the imputation test for the local call and line rental services since reporting commenced.

In the March 2013 quarter, the imputed margin for both business and residential customer groups increased by two percentage points and five percentage points respectively.

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### 2.5.3 DOMESTIC AND INTERNATIONAL LONG-DISTANCE AND FIXED-TO-MOBILE CALLS

For domestic long-distance calls and fixed-to-mobile calls, Telstra again passed the imputation test for the March 2013 Quarter with positive margins.

In relation to margins for fixed-to-mobile services, 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.

The imputation margin for residential International long distance calls was negative for the first time since reporting commenced. Telstra reports this result was due to the introduction of a new retail product with unlimited calls to fixed and mobile phones in a number of countries.

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### 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 both business and residential customers in the March 2013 Quarter. Margins for each customer group increased by two and three percentage points respectively.

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### 2.5.5 ADSL

The margin for residential customers decreased to a significantly negative value of -53 per cent. The margin for business customers was 8 per cent, down by twelve percentage point from the previous quarter. Margins for residential customers had increased significantly over the last year due to the reduction in unit cost before deteriorating again in the March 2013 Quarter.

Telstra has indicated that the decrease of the imputation margin for residential services is due to a rebalancing of cost allocations by Telstra during the period between June 2012 and December 2012 half-year RAF reports. Given that the RAF reports are not available for three months after the half-year has ended, the Limb 2 tests of the December 2012 Quarter and the March 2013 Quarter made use of the costs set out in the June 2012 and the December 2012 RAF half-year reports, respectively.

Telstra has advised that due to the revisions that it has made in how it allocates the shared network costs between different services, there is an increased value allocated to the cost in converting ULLS access into ADSL. This has impacted the notional imputation margins for different services by producing a greater negative imputed margin percentage.

In assessing the reported cost, 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.<sup>7</sup>
- 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.

Telstra claims that the results of the Limb 2 imputation tests do not reflect the margins available to access seekers because of fundamental issues with the methodology. Telstra also claims that the TEM reporting under the SSU is a more accurate reflection of the costs underlying Telstra's business, because the cost allocation is derived directly from Telstra's internal financial management reporting system.

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<sup>7</sup> 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.

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## 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 reported a negative margin (i.e. -19 per cent).

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 reported a positive margin (i.e. 25 per cent) in the March 2013 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, 2.5.1 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 necessarily the case. This means 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.

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.<sup>8</sup>

The transformation costs that have been substituted concern the costs of termination of local calls that originate on an access seeker's ULLS. Table 2.8 sets out the unadjusted and adjusted results.

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<sup>8</sup>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 31 December 2012 around four per cent of ULLS were supplied in band 1, and 94 per cent in band 2. Source: Telstra CAN RKR Data December 2012.

TABLE 2.8: SUMMARY OF IMPUTED MARGINS WHEN LOCAL CALL TERMINATION CHARGES ARE ESTIMATED ON A GEOGRAPHIC-SPECIFIC BASIS, MARCH QUARTER 2013

	ULLS Test	Business: 1 ADSL + 4 voice lines	Residential: 1 ADSL + 1 voice line
<b>Historic Cost Basis</b>	Unadjusted	25.08%	-19.35%
	Adjusted	25.36%	-19.02%
<b>Current Cost Basis</b>	Unadjusted	18.48%	-20.26%
	Adjusted	18.76%	-19.94%

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.

In relation to this March 2013 Quarter report, the unit cost data was obtained from the RAF data for the period July to December 2012.

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

Telstra has provided the ACCC with a reconciliation report for July to December 2012 period.

## 2.6.1 SUMMARY OF RECONCILIATION RESULTS

Telstra's latest reconciliation report shows that imputed margins for individual fixed voice services vary slightly when using matching RAF data compared to using the lagged RAF data. However, the use of the June half 2012 shows that the previously reported total margin for fixed voice services was understated by 2.9 percent (Table 2.11). This suggests that although the use of lagged data appears to under or overestimates the imputation margins of individual fixed voice service, when an overall imputation margin is calculated for fixed voice services these overestimation and underestimations nearly cancel each other out.

The most significant difference occurred with the International Long Distance service. When the imputation margins for this service were calculated using December 2011 RAF data, the residential sector margin was 9.59 percentage points higher compared with the margins calculated using the June 2012 RAF data.

TABLE 2.9: TELSTRA'S IMPUTED HISTORIC COST HALF YEAR MARGINS (BUSINESS ) APPLYING THE DECEMBER 2011 AND JUNE 2012 RAF

	Access Rental & Local Calls	Domestic Long-Distance	International Long-Distance	Fixed to Mobile	Bundle of Access Rental and all call services
<b>Business (December 2011 RAF)</b>	-8.74%	53.17%	54.08%	44.03%	7.93%
<b>Business (June 2012 RAF)</b>	-6.49%	51.65%	47.21%	52.65%	11.15%
<b>Difference</b>	<b>-2.25%</b>	<b>1.52%</b>	<b>6.87%</b>	<b>-8.62%</b>	<b>-3.22%</b>

TABLE 2.10: TELSTRA'S IMPUTED HISTORIC COST HALF YEAR MARGINS (RESIDENTIAL) APPLYING THE DECEMBER 2011 AND JUNE 2012 RAF

	Access Rental & Local Calls	Domestic Long-Distance	International Long-Distance	Fixed to Mobile	Bundle of Access Rental and all call services
Residential (December 2011 RAF)	-20.23%	51.70%	36.20%	54.99%	6.17%
Residential (June 2011 RAF)	-17.48%	50.05%	26.61%	61.96%	8.85%
Difference	-2.75%	1.65%	9.59%	-6.97%	-2.68%

TABLE 2.11: TELSTRA'S IMPUTED HISTORIC COST HALF YEAR MARGINS (TOTAL) APPLYING THE DECEMBER 2011 AND JUNE 2012 RAF

	Total Imputation Margins
Total Imputation Margin (December 2011 RAF)	6.73%
Total Imputation Margin (June 2012 RAF)	9.58%
Difference	-2.85%

TABLE 2.12: TELSTRA'S IMPUTED HISTORIC COST HALF YEAR MARGINS APPLYING THE DECEMBER 2011 AND JUNE 2012 RAF – ADSL AND BUNDLE OF ADSL AND VOICE SERVICES

	Standalone ADSL (Business)	Standalone ADSL (Residential)	Bundle of ADSL and voice services (Business)	Bundle of ADSL and voice services (Residential)
<b>Total Imputation Margin (December 2011 RAF)</b>	11.46%	-42.14%	20.61%	-16.64
<b>Total Imputation Margin (June 2012 RAF)</b>	16.80%	-33.58%	24.51%	-10.78%
<b>Difference</b>	<b>-5.34%</b>	<b>-8.56%</b>	<b>-3.90%</b>	<b>-5.86%</b>

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

TABLE 2.13: FIXED TELEPHONY RECONCILIATION REPORT FOR JULY TO DECEMBER 2012 ON HISTORIC COST BASIS (APPLYING DECEMBER 2012 RAF)

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
<b>Revenues</b>											
Retail	408,382,392	793,716,189	42,236,319	151,069,094	5,352,481	34,981,567	117,112,266	222,905,022	573,083,459	1,202,671,872	1,775,755,331
Other	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	408,382,392	793,716,189	42,236,319	151,069,094	5,352,481	34,981,567	117,112,266	222,905,022	573,083,459	1,202,671,872	1,775,755,331
<b>Retail Costs</b>											
Organisation product and consumer	35,511,316	83,631,802	2,496,956	9,696,082	930,298	9,040,080	5,942,605	9,852,113	44,881,175	112,220,077	157,101,252
<b>Total</b>	45,434,767	106,399,698	4,127,346	16,027,148	1,409,089	13,692,685	36,123,114	59,892,469	87,094,314	196,012,001	283,106,315
<b>Total</b>	80,946,083	190,031,501	6,624,301	25,723,229	2,339,386	22,732,766	42,065,719	69,744,582	131,975,489	308,232,077	440,207,567
<b>Other Costs</b>											
Organisation product and consumer	0	0	710,927	2,760,643	36,830	357,897	-62,606	-103,793	685,151	3,014,747	3,699,898
network expenses	0	0	85,156	330,673	10,476	101,797	-15,748	-26,109	79,883	406,361	486,244
<b>Total</b>	0	0	1,729,948	6,717,665	104,760	1,017,993	-167,110	-277,047	1,667,598	7,458,611	9,126,208
<b>Total</b>	0	0	2,526,030	9,808,980	152,066	1,477,686	-245,464	-406,949	2,432,632	10,879,718	13,312,350
<b>Ancillary*</b>	N/A	N/A	499,940	1,945,301	11,951	116,240	299,258	496,981	811,148	2,558,523	3,369,671
<b>Cost of Capital</b>	14,529,114	34,334,271	1,577,558	6,125,914	337,457	3,279,208	3,403,171	5,642,041	19,847,300	49,381,434	69,228,735
<b>Retail Volume*</b>	2,014,608	4,850,414	385,613,691	1,497,400,103	18,376,003	178,567,086	461,399,407	764,943,782			
<b>Retail price</b>	\$202.711	\$163.639	\$0.110	\$0.101	\$0.2913	\$0.1959	\$0.2538	\$0.2914	\$284.4640	\$247.9524	\$258.6671
<b>Access price</b>	\$166.402	\$143.143	\$0.019	\$0.019	\$0.0094	\$0.0093	\$0.0099	\$0.0096	\$172.4010	\$150.7938	\$157.1346
<b>Unit cost</b>	\$47.391	\$46.257	\$0.029	\$0.029	\$0.1546	\$0.1546	\$0.0987	\$0.0987	\$76.9711	\$76.4990	\$76.6375
<b>Imputed margin</b>	-\$11.083	-\$25.761	\$0.061	\$0.053	\$0.1273	\$0.0320	\$0.1453	\$0.1831	\$35.0919	\$20.6597	\$24.8949
<b>Imputed margin %</b>	-5.47%	-15.74%	56.01%	52.55%	43.69%	16.33%	57.24%	62.83%	12.34%	8.33%	9.62%

TABLE 2.14: FIXED TELEPHONY RECONCILIATION REPORT FOR JULY TO DECEMBER 2012 ON CURRENT COST BASIS (APPLYING DECEMBER 2012 RAF)

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
<b>Revenues</b>											
retail	408,382,392	793,716,189	42,236,319	151,069,094	5,352,481	34,981,567	117,112,266	222,905,022	573,083,459	1,202,671,872	1,775,755,331
other	0	0	0	0	0	0	0	0	0	0	0
total	408,382,392	793,716,189	42,236,319	151,069,094	5,352,481	34,981,567	117,112,266	222,905,022	573,083,459	1,202,671,872	1,775,755,331
<b>Retail Costs</b>											
organisation	36,615,202	86,231,921	2,578,065	10,011,041	948,304	9,215,059	6,123,175	10,151,475	46,264,747	115,609,496	161,874,242
product and consumer	45,533,719	106,632,773	4,134,616	16,055,381	1,410,703	13,708,370	36,139,300	59,919,304	87,218,338	196,315,828	283,534,166
total	82,148,922	192,864,694	6,712,681	26,066,422	2,359,007	22,923,429	42,262,475	70,070,779	133,483,084	311,925,324	445,408,408
<b>Other Costs</b>											
organisation	0	0	695,199	2,699,570	36,787	357,476	-63,478	-105,240	668,508	2,951,807	3,620,315
product and consumer	0	0	83,746	325,198	10,472	101,759	-15,827	-26,239	78,391	400,719	479,110
network expenses	0	0	1,729,948	6,717,665	104,760	1,017,993	-167,109	-277,047	1,667,598	7,458,611	9,126,209
total	0	0	2,508,892	9,742,434	152,019	1,477,228	-246,415	-408,525	2,414,497	10,811,136	13,225,633
Ancillary*	N/A	N/A	499,940	1,945,301	11,951	116,240	299,258	496,981	811,148	2,558,523	3,369,671
Cost of Capital	14,812,004	35,000,597	1,551,798	6,025,883	340,958	3,313,230	3,528,945	5,850,560	20,233,706	50,190,269	70,423,975
Retail Volume*	2,014,608	4,850,414	385,613,691	1,497,400,103	18,376,003	178,567,086	461,399,407	764,943,782			
Retail price	\$202.711	\$163.639	\$0.110	\$0.101	\$0.2913	\$0.1959	\$0.2538	\$0.2914	\$284.4640	\$247.9524	\$258.6671
Access price	\$166.402	\$143.143	\$0.019	\$0.019	\$0.0094	\$0.0093	\$0.0099	\$0.0096	\$172.4010	\$150.7938	\$157.1346
Unit cost	\$48.129	\$46.979	\$0.029	\$0.029	\$0.1559	\$0.1559	\$0.0994	\$0.0994	\$77.9022	\$77.4130	\$77.5566
Imputed margin	-\$11.820	-\$26.483	\$0.061	\$0.053	\$0.1260	\$0.0307	\$0.1446	\$0.1824	\$34.1607	\$19.7456	\$23.9759
Imputed margin %	-5.83%	-16.18%	55.90%	52.44%	43.26%	15.68%	56.96%	62.59%	12.01%	7.9635%	9.27%

Notes to Tables 2.13 and 2.14

\* All retail volumes are reported in minutes with the exception of the local carriage service where volumes are in SIOs.

TABLE 2.15: ULLS RECONCILIATION REPORT FOR JULY TO DECEMBER 2012 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
<b>Revenues</b>				
Retail	131,892,749	530,388,945	431,785,117	963,002,961
Other	0	0	0	0
<b>Total</b>	<b>131,892,749</b>	<b>530,388,945</b>	<b>431,785,117</b>	<b>963,002,961</b>
<b>Retail Costs</b>				
Organisation	8,398,702	55,590,725	31,886,066	95,953,293
product and consumer	11,245,681	74,434,788	56,826,246	144,936,425
<b>Total</b>	<b>19,644,383</b>	<b>130,025,514</b>	<b>88,712,312</b>	<b>240,889,718</b>
<b>Other Costs</b>				
Organisation	18,377,535	121,640,289	26,356,919	138,727,031
product and consumer	2,276,143	15,065,717	13,789,061	33,280,826
network expenses	32,711,691	216,517,592	84,767,756	305,900,878
<b>Total</b>	<b>53,365,369</b>	<b>353,223,597</b>	<b>124,913,736</b>	<b>477,908,734</b>
<b>Ancillary Charges (TEBA)</b>	<b>2,597,629</b>	<b>17,143,021</b>	<b>2,703,729</b>	<b>18,063,955</b>
<b>Cost of Capital</b>	<b>17,770,098</b>	<b>117,619,687</b>	<b>71,623,339</b>	<b>208,453,726</b>
<b>Retail Volume</b>	<b>263,557</b>	<b>1,744,475</b>	<b>263,557</b>	<b>1,744,475</b>
<b>Retail price</b>	<b>500.4335</b>	<b>304.0393</b>	<b>1638.2988</b>	<b>552.0302</b>
<b>Access price</b>	<b>106.0624</b>	<b>106.1279</b>	<b>137.7105</b>	<b>116.8505</b>
<b>Unit cost</b>	<b>354.2971</b>	<b>354.2681</b>	<b>1092.5649</b>	<b>541.8915</b>
<b>Imputed margin</b>	<b>40.0740</b>	<b>-156.3567</b>	<b>408.0235</b>	<b>-106.7117</b>
<b>Imputed margin %</b>	<b>8.01%</b>	<b>-51.43%</b>	<b>24.91%</b>	<b>-19.33%</b>

TABLE 2.16: ULLS RECONCILIATION REPORT FOR JULY TO DECEMBER 2012 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
<b>Revenues</b>				
Retail	131,892,749	530,388,945	431,785,117	963,002,961
Other	0	0	0	0
<b>Total</b>	131,892,749	530,388,945	431,785,117	963,002,961
<b>Retail Costs</b>				
Organisation	8,641,909	57,200,506	32,853,329	98,782,138
product and consumer	11,265,996	74,569,253	56,911,466	145,180,167
<b>Total</b>	19,907,905	131,769,760	89,764,795	243,962,305
<b>Other Costs</b>				
Organisation	17,960,533	118,880,172	21,964,710	129,767,751
product and consumer	2,238,762	14,818,294	13,395,348	32,477,717
network expenses	32,711,693	216,517,603	84,767,754	305,900,884
<b>Total</b>	52,910,988	350,216,069	120,127,812	468,146,352
<b>Ancillary Charges (TEBA)</b>	2,597,629	17,143,021	2,703,729	18,063,955
<b>Cost of Capital</b>	9,741,724	64,480,144	103,632,706	223,986,484
<b>Retail Volume</b>	263,557	1,744,475	263,557	1,744,475
<b>Retail price</b>	500.4335	304.0393	1638.2988	552.0302
<b>Access price</b>	106.0624	106.1279	137.7105	116.8505
<b>Unit cost</b>	323.1113	323.0823	1199.8507	546.9606
<b>Imputed margin</b>	71.2598	-125.1709	300.7377	-111.7809
<b>Imputed margin %</b>	14.24%	-41.17%	18.36%	-20.25%

Notes to Tables 2.13 and 2.14

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

\*\* Retail volumes are reported in terms of SIOs

## 2.7 EXTENT TO WHICH THE REPORTS COMPLY WITH THE RAF AND OTHER RKRS

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

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

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

### 2.7.1 RELATIONSHIP BETWEEN THE RAF AND THE IMPUTATION RKR

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

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

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

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

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.

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### 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.

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

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#### 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.

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#### 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.

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## 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.

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## 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.

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### 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.

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### 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.

In July 2013, the ACCC granted Telstra an exemption from the auditing requirement of imputation report for 2012-2013. This is because the ACCC considered the cost of auditing the reports would outweigh any potential benefits given the introduction of interim equivalence and transparency measures under Telstra's structural separation undertaking. The ACCC further considered that Telstra would have been operating on the basis that its reports would need to be audited and would have prepared as such.

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### 2.8.2 ACCURACY OF REPORT

Given that the Telstra March 2013 quarter reports have not been audited, the ACCC cannot conclusively state whether these reports comply in all respects with the Imputation RKR.

### 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)<sup>9</sup> 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 – where the customer or end-user has an existing and functioning basic access service capable of supporting ADSL services
Metric 9	ADSL service activation - The percentage of services provisioned within performance standard – held orders
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.

<sup>9</sup>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.

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 31 MARCH 2013

Table 3.2 presents Telstra's non-price KPI report for the four quarters up to 31 March 2013 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 favouring its own retail unit over its wholesale business unit.

TABLE 3.2: AVERAGE VARIANCES IN KPI METRICS - 12 MONTHS ENDING 31 MARCH 2013<sup>10</sup>

Metric	Business services					Residential services				
	Difference in performance between wholesale and retail business customers (%)					Difference in performance between wholesale and retail business customers (%)				
	Jun-12	Sep-12	Dec-12	Mar-13	Ave.	Jun-12	Sep-12	Dec-12	Mar-13	Ave.
1	6.27	12.33	0.38	1.11	5.02	4.73	3.91	4.29	4.23	4.29
2	10.6	17.93	11.63	7.05	11.80	8.96	8.05	6.88	6.16	7.51
3	14.09	16.79	2.07	17.69	12.66	16.03	19.55	15.23	17.22	17.01
4	0.86	0.63	0.6	0.95	0.76	1.69	2.28	1.96	2.07	2.00
5	-6.49	-4.61	-3.16	1.71	-3.14	-4.00	-4.49	-3.45	-0.42	-3.09
6	-0.37	-0.13	-0.26	-0.38	-0.29	0.12	-0.14	-0.05	0.24	0.04
7	0.03	-0.12	-0.22	0.39	0.02	1.06	0.43	0.3	0.26	0.51
8	1.08	0.97	0.45	0.91	0.85	0.92	0.49	0.67	0.97	0.76
9	-6.45	-1.54	-3.48	3.45	-2.01	-1.06	0.43	0.67	3.22	0.82
10	3.36	1.1	3.41	5.7	3.39	-0.05	0.42	0.20	4.00	1.14
11	-0.52	-0.32	0.29	-0.19	-0.19	-0.01	-0.14	-0.70	-0.43	-0.32

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

<sup>10</sup> The performance standard used for all metrics is the same as that used for the Customer Service Guarantee, unless otherwise stated.

### 3.3 DISCUSSION OF PERFORMANCE

The overall results do not provide any evidence of systemic discrimination by Telstra against access seekers in respect of performance.

For Metric 5, which relates to the percentage of basic access (standard telephone service) faults that were rectified in the Quarter on or by the performance standard, there has been a notable improvement for both business and residential services. In this regard, the ACCC understands that in light of a possible breach of its equivalence obligations in the SSU, Telstra is currently monitoring its performance against Metric 5 on the basis of “jeopardy management”. This means that Telstra will intervene in relation to the allocation of tickets of work between retail and wholesale services to ensure that any variance in its fault rectification performance between retail and wholesale is within the permitted limits.

Telstra exceeded the performance standard in a greater percentage of cases for its wholesale customers than its retail customers in relation to Metrics 1, 2, 3, 4, 8, 9 and 10.

### 3.4 EXTENT TO WHICH TELSTRA’S REPORTS CONFORM WITH THE RKR REQUIREMENTS

The ACCC considers that the March 2013 Quarter report conforms to the requirements of the RKR.

### 3.5 ACCURACY

Given that the underlying Telstra data used in the March 2013 Quarter results has not 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*. In July 2013, the ACCC granted Telstra an exemption from the auditing requirement of non-price terms and conditions report for 2012-13. This is because the ACCC considered the cost of auditing the reports would outweigh any potential benefits given the introduction of Equivalence and Transparency metrics and TEM reporting under Telstra’s Structural Separation Undertaking. The ACCC further considered that Telstra would have been operating on the basis that its reports would need to be audited and would have been prepared as such.