**IN THE MATTER OF UNDERTAKING DATED 22 MARCH 2006 LODGED BY TELSTRA CORPORATION LIMITED WITH THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION IN RESPECT OF PSTN ORIGINATING AND TERMINATING ACCESS AND LOCAL CARRIAGE SERVICE ("LCS")**
**("the Access Undertaking")**

# STATEMENT OF [C-I-C]

On 29 September 2006, I, **[c-i-c]** of [c-i-c], state as follows:

1 The information in this statement is confidential to Telstra Corporation Limited ("**Telstra**"). I have prepared this statement on the basis that the information in it will remain confidential and that the information will only be disclosed to a person:

(a) who has executed a confidentiality undertaking in terms that are satisfactory to Telstra; and

(b) who may only use the information for the following purposes:

(i) making submissions to the Australian Competition and Consumer Commission ("**ACCC**") in respect of the Access Undertaking; or

(ii) any application made to the Australian Competition Tribunal under s 152E of the Trade Practices Act for review of a decision made by the ACCC in respect of the Access Undertaking; or

(iii) any other purpose approved by Telstra in writing.

## Background

2 I have been employed by Telstra since 1982. [c-i-c]

3

(a) [c-i-c]

4 [c-i-c]

**Forecasting OTA**

5 [c-i-c].

6 I explain in subsequent sections of this Statement the process by which I forecast OTA volumes and revenues. [c-i-c]

7 After discussion of the forecasts with the Wholesale team, the finalised forecasts are loaded into the Telstra Forecasting System (**"TELFOR"**). The key output from TELFOR is the Physical Target Packages (**"PTP"**).

**The process by which I forecast OTA volumes**

***Step one: Base forecast***

8 The starting point for my forecasting is to extract data from Telstra's "Message Access Rating System", known as **"MARS"**. This system records the actual number of calls and minutes of OTA being carried on the Telstra network I collect historical data from the MARS database on a monthly basis.

9 I prepare OTA forecasts quarterly. Each forecast is for a period of 3 years (on a monthly basis within that 3 year period).

10 The first step to preparing the forecast is that I take the historic actual call data from the previous 18 months to 2 years and load that data into an Excel spreadsheet. I then use the Microsoft Excel computer software program's "Trend Line Function" to extrapolate the data over the forecast period. The trend line function is a Microsoft Word Excel feature which mathematically analyses the trend of the call data loaded into the spreadsheet and then repeats that trend out over the forecast period. So, by way of example, if total minutes of calls made over a month were a million minutes of calls, and that was up 100,000 minutes from the previous month, this upwards trend would be extrapolated out by the excel program into the forecast period. This process will give me a "base trend". I then compare the base trend against the preceding quarter's forecast. If the differences between the base trend and the previous quarter's forecast are not significant, the previous forecast

becomes the new base forecast. If the differences are not insignificant, I amend the previous forecast based on my judgment from analysing the base trend produced through the Excel program described above For example, if it appeared from recent actual data not available at the time of preparing the previous forecast that I had perhaps slightly over-estimated the forecast reduction in OTA minutes for a particular period, I would reduce by some amount (between the previous quarter's forecast and the trend produced through the Excel program discussed above) the reduction on OTA minutes in that period.

11 The quarter 4, 2004/05 forecast for OTA was as follows:

(a) 2006/07: [c-i-c];

(b) 2007/08 [c-i-c]

(millions of end-use minutes).

***Step 2: Take into account additional factors***

12 The next stage involves "superimposing" over the base forecast the effects of any particular initiatives or events which are known to be taking place or likely to take place during the forecast period in question, and which I consider will change the base forecast produced by the process set out at paragraphs 8-10 above. Changes in the base forecast could also be caused by other "non-specific" phenomena (ie not a particular initiative or event) that may affect the forecast, an example of this being the known general reduction in PSTN telephony traffic.

13 The changes to the underlying base forecast are largely driven by the building or marketing activities of the various carriers - which may either increase or reduce the expected volume of minutes of use shown by the base forecast. Up until approximately four to five years ago, forecasts were provided by each of the interconnected carriers for each quarter, and this data was used to establish whether changes needed to be made to the base forecast. However, the carriers' forecast data was generally rather bullish and inaccurate, and often not provided on a regular basis, if at all. This data has neither been collected or requested for some years now and so no longer plays a role in my OTA forecasting.

14 What I superimpose on the base forecast of volumes is additional forecast minutes, or reduced forecast minutes, as the case may be, based on information known by me

or others within Telstra of building activities of Telstra's competitors, Telstra marketing campaigns (though Telstra retail campaigns have a reasonably low effect on OTA levels) or similar activities being undertaken by other carriers. For example, if it is known that a carrier is going to undertake an Unconditional Local Loop Service ("**ULLS**") migration, this will impact on OTA, by reducing the amount of OTA traffic. Similarly, if a carrier informs Telstra that it will no longer be taking OTA, I would alter my base forecast for this carrier to zero. Only matters which are significant enough, in my view, to alter the base forecast are taken into account at this stage of my forecasting. I therefore do not make such "step two" adjustments in every forecast.

15 The source of the information for the superimposing of changes to the base forecast is my own knowledge and also information passed to me by other personnel in my group. Members of my group will each have a responsibility for a particular carrier and through that role, hold regular discussions with their counterparts at the other carriers. They are therefore very familiar with the nature of the competitors' activities in other areas that might affect OTA. We have a regular weekly team meeting at which we discuss and share information on activities being undertaken by the carriers. In addition, I also source carrier information from the respective carrier account teams within Telstra Wholesale. I would generally speak with the account teams quarterly about the carriers' activities and how this might impact on OTA volumes. I also use other information in the public domain, for example, information on mergers.

16 I have reviewed the Q4, 2004/05 PTP OTA forecasts. In reviewing the 2004/05 Q4 forecast against the previous forecast (ie 2004/05, Q3, carried out as part of step 1 as described at paragraph 10 above), the Q4 forecast was similar to the Q3 forecast. However I reduced volumes slightly in the Q4 2004/05 forecasts for 2006/07 and 2007/08 Q4 as compared to those in the Q3 forecasts. I made these minor reductions based on my judgment, having reviewed the trend analysis which showed that a slight reduction was prudent. In the Q4 2005/06 forecasts, I did not make any adjustments at the "stage 2" process set out above.

**OTA traffic in central business district ("CBD") and metropolitan areas**

17 The ACCC, in its draft decision on the Access Undertaking, has stated that it considers that "higher PSTN OTA charges in CBD and metropolitan areas, above

efficient costs, would negatively impact on the business case for access seekers who require PSTN OTA in these areas as an input to downstream retail services." In this context, I note that CBD and metropolitan areas are more likely to have competitive infrastructure so, to the extent OTA prices are above the deaveraged cost, carriers can more efficiently directly connect to customers in these areas and partially avoid Telstra OTA charges where they choose to do so. Where there is no competitive infrastructure (mainly in rural areas), the partially averaged prices are likely to be lower than the deaveraged prices.

18 The ACCC also observes that "access seekers will, on average, have proportionally more traffic in metropolitan areas than Telstra". I do not agree that all competitors are likely to have OTA traffic volumes which are proportionally more in the CBD and metropolitan areas. In fact, some large competitors actually have the opposite, with proportionally more OTA calls in the provincial and rural areas, as opposed to in CBD and metropolitan areas, than Telstra. There is a minority of carriers whose traffic profile is skewed towards the CBD/metro.

**DATED**: 29 September 2006

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[C-I-C]