

Telstra implementation timeframe for the Structural Separation Undertaking

25 January 2012

The interim Equivalence and Transparency framework (**IET**) in the revised Structural Separation Undertaking (**SSU**) is a complex new regulatory framework which Telstra is required to implement at the same time as it also implements the Migration Plan and its commercial obligations with NBN Co under the Definitive Agreements. The implementation task is therefore substantial and is occurring at the same time as other substantial demands are being placed on Telstra's resources.

Despite the challenges, Telstra is committed to putting IET in place in a timely way and the proposed implementation timeframe in clause 21 provides for most provisions to commence on the Commencement Date. This is the case for the primary 'service quality and operational equivalence' commitments (clause 11) and a number of other obligations where Telstra will continue existing 'business as usual' activities, including information equivalence notifications for wholesale customers (clause 14 and Schedule 4), information security arrangements (clause 10) and most elements of its organisational ring fencing (clause 8).

There are a number of specific provisions where implementation has been delayed slightly to allow Telstra time to put in place new systems or compliance processes, or to undertake other tasks such as due diligence checks. For the most part, any such implementation period has been limited at this stage to 2 months. This short period contrasts favourably with the previous Operational Separation regime, under which Telstra was permitted up to 3 months (i.e. 90 days) to develop and submit its Operational Separation Plan to the Minister after the legislative regime was introduced and then further periods ranging from 1 to 5 months after the Plan was approved to implement the set of supporting Strategy documents.

The short post-Commencement implementation period is also needed because a number of important elements of IET framework have remained subject to development or were introduced into the SSU late in the process. For example, the 'overarching equivalence commitment' was introduced only late in 2011.

For those provisions where implementation has been delayed for a period post-Commencement, the table below provides an overview of the reasons for the delay, including specific implementation tasks that are required to be undertaken to implement the requirement:

| | Provision | Implementati on Period post- Commencem ent | Comments |
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| 1. | Organisational Structure (clause 8.6 only) | 2 months | <ul style="list-style-type: none">• Incentive restrictions are a new requirement (that did not form part of OpSep) and Telstra requires a short period to ensure that any incentive arrangements are reviewed and transitioned, if necessary. |
| 2. | Overarching Equivalence (clause 9 and Schedule 11) | 2 month | <ul style="list-style-type: none">• This requirement was introduced late in the SSU development process and represents a significant new regulatory requirement.• |

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| 3. | TEBA requirements (clause 12.6 and Schedule 12 only) | 2 months ¹ | <ul style="list-style-type: none"> • Clause 12.6 and Schedule 12 relate to the new right for Wholesale Customers to lodge 'reservations' of TEBA space. • This is a new process that will require modifications to existing TEBA ordering processes. • Other existing TEBA processes (such as the auditing and governance arrangements) commence immediately on the Commencement Date. |
| 4. | Wholesale Customer Facing Systems | 2 months | <ul style="list-style-type: none"> • The specific requirements (and metrics) around system availability of wholesale systems are new and, in the case of SQ equivalent systems, were introduced relatively late in the SSU development process. • |
| 5. | Equivalence Metrics (clause 16 and Schedule 3) | Start of first Quarter following Commencement | <ul style="list-style-type: none"> • This is the earliest point at which the provisions could commence given that the metrics require a full Quarter of data for reporting. • This also allows time for Telstra to put in place the new and varied metrics (e.g. new ULL Individual Cutover timeframe, TEBA metric and wholesale systems availability). |
| 6. | Service Level Rebates (clause 17 and Schedule 7) | Start of first Quarter following Commencement | <ul style="list-style-type: none"> • Follows metrics reporting – so linked to timeframe under 5. • Also requires implementation of rebate arrangements as part of wholesale billing processes. |
| 7. | Price Equivalence and Transparency (clause 18, Schedules 8, 9 and 10) | 2 months ² | <ul style="list-style-type: none"> • The Price Equivalence commitments involve a substantial new set of financial reports, which include reports drawn from the Telstra Economic Model (TEM) – which has not previously been used for regulatory purposes. • Telstra also requires time to update its contractual arrangements to provide for the Reference Price mechanism in Schedule 8. |
| 8. | Telstra Accelerated Investigation Process (AIP) (clause 19) | 2 months | <ul style="list-style-type: none"> • The AIP is a new process which requires new roles and responsibilities to be identified and allocated internally. • It is also sensible for the AIP process to commence |

¹ Although under clause 12.1(b), Telstra has 3 months post Commencement to develop and file its report to the ACCC of reserved floor space and block positions in Capped Exchanges, Potentially Capped Exchanges and each of the NBN Points of Interconnect. This report is new for Telstra, which has not previously under its Record Keeping Rule requirements been required to report on floor space for exchanges that are not Capped or Potentially Capped (i.e. the NBN PoIs) or provide information in relation to MDF block positions for any exchanges.

² Some elements of the price provisions have their own separate timeframes. For example, the deadline for submission of the TEM Guidelines to the ACCC is 31 March 2012. In most cases, these reflect timeframes associated with Telstra's usual preparation of its public and regulatory financial reports.

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| | | | at the same time as the ITA process (see 9. below), given that the two operate jointly (i.e. disputes that are not resolved satisfactorily under AIP can be referred to the ITA). |
| 9. | ITA Process (clause 20, Schedules 5 and 6) | 2 months | <ul style="list-style-type: none"> • The establishment of any new industry adjudication or dispute body is a significant task. Following Commencement, this will involve Telstra establishing the ITA as a new company, including submitting the draft ITA Constitution and Charter to the ACCC for approval. • Telstra must also work with the ACCC in relation to the appointment of the Adjudicator. • The establishment of the ITA Process also interacts with Telstra's other internal dispute and complaint processes – which need to be modified to provide for this. |