Australian
Competition &
Consumer
Commission

RECORD KEEPING RULES ON INITIAL REPORTS RELATING TO ACCOUNTING SEPARATION

OVERVIEW

Accounting Separation of Telstra Record Keeping Rules

On 24 September 2002 the Minister for Communications, Information Technology and the Arts (the Minister), detailed a range of measures aimed at increasing the level of competition and investment in the telecommunications market to benefit consumers and business.[1]

One of the key measures announced was the encouragement of a more transparent regulatory market by requiring an augmented system of Accounting Separation (AS) of Telstra's wholesale and retail operations. AS was seen as a means of addressing competition concerns arising from the level of vertical integration between Telstra's wholesale and retail services and improving the provision of costing and price information to the Australian Competition and Consumer Commission (the Commission), access seekers and the public.

On 19 December 2002 the Telecommunications Competition Act 2002 came into force. Section 151BUAAA of the Telecommunications Competition Act allows the Minister to give a Ministerial Direction to the Commission about Telstra's wholesale and retail operations.

On 19 June 2003, the Minister released a Ministerial Direction instructing the Commission to use its existing powers under Part XIB of the *Trade Practices Act 1974* (the Act) to ensure that:

- Telstra prepares current cost accounts, as well as existing historical cost accounts, to provide more transparency to the Commission about Telstra's cost as an ongoing sustainable business;
- Telstra prepares reports for the Commission on current cost and historic cost key financial statements in respect of "core" interconnect services;
- Telstra's reports be disclosed by the Commission with an accompanying assessment statement by the Commission;
- The Commission publishes an "imputation" analysis (based on information provided by Telstra, which assumes that Telstra purchases the "core" interconnect services at the price that it charges external access seekers);
- Telstra prepares reports for the Commission on information comparing its actual performance in supplying "core" services to itself and to external access seekers in terms of key non-price terms and conditions;
- The Commission prepares and publishes a six-monthly report on competition in the corporate segment of the market.

The Ministerial Direction requires that Telstra's initial reports under the CCA regime cover the two half years and full year of 2002-03. Those for the KPI measures and

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[1] Media Release, *Government Boost to Telecommunications Competition*, DCITA, 24 September 2002.

imputation testing are required for the first quarter of 2003-04. All the initial reports must be supplied to the Commission no later than 30 November 2003. The Commission is then required to publicly disclose much of the data provided in Telstra's reports with statements assessing the content of these reports by 31 December 2003.

Given the tight timeframes involved, the Commission considers there is a need to release the RKRs for the initial reports as soon as possible to Telstra to give it sufficient time to develop its data systems and methodologies to ensure it can provide the initial reports to the Commission within the required timeframe.

Attached to this paper are the RKRs in final form for the initial reports from Telstra for Telstra's CCA; KPI; and imputation regimes. The three RKRs and their accompanying explanatory statements will give Telstra a strong indication of the Commission's position and requirements for the initial and subsequent reports. The release of the RKRs will also give enough time for Telstra to develop the methodologies and data/information systems necessary to fulfil the Directions requirements.

The initial reports will, by necessity, be transitional reports under all three RKRs. The Commission considers that due to inadequacies in Telstra's systems and the need to properly consult industry on several key issues in developing a comprehensive, credible accounting separation for Telstra, a phased approach is required for the reporting regime. The initial reports will have limitations and are dependent on Telstra's present data capabilities. The Commission therefore considers that the initial reports are of limited utility and should not be regarded as the basis for accounting separation going forward. The Commission expects that subsequent reports will require of Telstra markedly improved, more comprehensive, robust and soundly based reports than the initial reports.

EXPLANATORY STATEMENT

Current Cost Accounting Record Keeping Rule

The RKR for Telstra's initial current cost accounting (CCA) report was determined by the Commission after undertaking a thorough investigation of the systems used by Telstra for the identification and valuation of its assets. In particular, the Commission sought information from Telstra in relation to its current systems and procedures which can be used for the preparation of CCA reports. As a result of these investigations, the Commission has determined that Telstra's reporting systems and asset registers, in many respects, do not currently identify assets in such a manner as to allow meaningful CCA analysis.

Given the tight time-frames associated with the production of Telstra's initial CCA reports (30 November 2003) the Commission considered that a separate RKR for the initial report should be issued to Telstra as soon as practicable, to allow Telstra sufficient time to meet the requirements of the Ministerial Direction in relation to the initial CCA reports.

The initial CCA report, will be limited to Telstra's fixed assets along the lines contained in the Regulatory Accounting Framework's (RAF) fixed asset statements. The initial report will be generated through the use of a Modified Current Replacement Cost (MRC) process to adjust the value of Telstra's assets to current replacement cost, primarily via either indexation or absolute valuation. The Commission notes that the proposed use of indexation for a significant portion of the existing asset base is the least preferred measurement approach in all price change accounting systems. In order for indexation to work effectively, two key factors need to be known with a high degree of accuracy and confidence, namely:

- what the asset is that is being indexed; and
- an accurate index must either be available or capable of being constructed.

To improve the robustness of the initial CCA report, in the RKR the Commission has included a requirement that the indexes developed by Telstra be as disaggregated as possible to ensure that each index used reflects the assets that are being valued.

Additionally, given the tight timeframes for the initial CCA report and the need for further consultation on a number of conceptual issues in relation to CCA reporting, the initial report will not include various elements contained within the RAF Capital Adjusted Profit and Loss Statement and Capital Employed Statement. The Commission expects that by the time the second CCA report is due, Telstra should have identified and re-valued all of its assets contained in the Fixed Asset Statement, including CAN assets, and will also be in a position to prepare a Capital Adjusted Profit and Loss Statement and a Capital Employed Statement on a CCA basis.

The Commission believes that the approach used for the preparation of the initial CCA report will be pragmatic in relation to the methodology, measurement and reporting to be adopted.

The approach adopted for the initial report, therefore, should in no way be construed as an endorsement by the Commission that the initial report framework will be used as a basis for the preparation of subsequent CCA reports. Indeed, the Commission is of the view that the pragmatic nature of the initial CCA report framework in respect to the methodology and measurement make it unsuitable as a longer term approach to the development of an effective CCA regime for Telstra.

In terms of subsequent CCA reports (to be dealt with in a new RKR), the Commission considers that there are a number of issues which need to be resolved concerning the appropriate CCA methodology which will best meet the objectives of the Ministerial Direction and of Parts XIB and XIC of the Act. Essentially, these issues centre on:

- How should assets be measured under CCA; and
- What form of capital maintenance should be used as the basis for determination of profit?

To this end, the Commission intends to release a discussion paper seeking public comment on these issues.

Current Cost Accounts (Initial Reports)

Record Keeping and Reporting Rules

Section 151BU

Part XIB Trade Practices Act 1974

Australian Competition and Consumer Commission

June 2003

TITLE

1. These Rules made by the Commission pursuant to section 151BU of the Trade Practices Act 1974, may be referred to as the Current Cost Accounts (Initial Reports) Record-Keeping and Reporting Rules ("the Rules"). These Rules are made as a result of a Ministerial direction under section 151BUAA of the Trade Practices Act 1974 issued on 19 June 2003.

COMMENCEMENT

2. These Rules shall take effect on 1 July 2003.

INTERPRETATION

3. Each of the following terms have the following meaning for the purposes of these Rules:

"Commission" means the Australian Competition and Consumer Commission;

"external wholesale service" has the meaning given in the RAF;

"internal wholesale service" has the meaning given in the RAF;

"MRC-AV method" means the Modified Current Replacement Cost – Absolute Value method described in paragraph 13 below;

"MRC-I method" means the Modified Current Replacement Cost – Indexation method described in paragraph 9 below;

"RAF" means the Telecommunications Industry Regulatory Accounting Framework (Record-Keeping Rules) as in force or existing from time to time;

"retail service" has the meaning given in the RAF;

"Telstra" means Telstra Corporation Limited (ACN 051 775 556).

APPLICATION

4. These Rules apply to Telstra. These Rules also apply to any carrier or carriage service provider that is a subsidiary of Telstra, unless the Commission notifies otherwise.

RECORD KEEPING RULES

Historic Cost

5. Telstra will, in accordance with the methodology in paragraph 6 below, establish and maintain a written and electronic record consisting of financial statements that record, on a historical/revalued basis, the value of the assets listed in Schedules 1(b) to 1(d) of the RAF with respect to each of the services listed in Schedule 4 of the RAF.
6. The historical/revalued value of an asset is the cost of bringing the asset to its current position and usage and/or the revalued amount thereof.

Current Cost

7. Telstra will, in accordance with the methodology in paragraphs 8 to 14 below, establish and maintain a written and electronic record consisting of financial

statements that record, on a current cost basis, the value of the assets listed in Schedules 1(b) to 1(d) of the RAF with respect to each of the services listed in Schedule 4 of the RAF.

8. *Modified Current Replacement Cost - Indexation method:* The current cost of the assets described in Schedule 1 of these Rules will be determined using a Modified Current Replacement Cost – Indexation method ("MRC-I method").

9. The MRC-I method will require Telstra to index the historical or revalued value of the assets described in Schedule 1 of these Rules, from their commissioning date or most recent revaluation date to the relevant reporting date, using an index approved by the Commission in accordance with paragraph 10 below. The index employed will relate as much as possible to the relevant assets. The use of an external index sourced, for example, from the Australian Bureau of Statistics must be considered first over the use of an index developed by Telstra. Where an index developed by Telstra is employed, it must be capable of external review and verification, including by reference to supplier invoices or discussions with relevant equipment or component suppliers.

10. As soon as practicable and, in any event, no later than 31 August 2003, Telstra will inform the Commission of the index it proposes to use for the purposes of paragraph 9, the method by which the index is constructed and the manner in which it will be applied to determine the current cost of the assets described in Schedule 1 of these Rules. The Commission may require Telstra to amend the proposed index or to use a different index to the one proposed.

11. Once the Commission has approved the index to be used for the purposes of paragraph 9, Telstra will amend its Regulatory Accounts Procedures Manual to describe the index, the method by which it is constructed and the manner in which it will be applied to determine the current cost of the assets described in Schedule 1 of these Rules.

12. *Modified Current Replacement Cost – Absolute Value method:* The current cost of the assets listed in Schedule 1(b) of the RAF, other than those described in Schedule 1 of these Rules, will be determined using a Modified Current Replacement Cost – Absolute Value method ("MRC-AV method").

13. The MRC-AV method will require Telstra to determine the current unit price for each of the assets to be valued using the MRC-AV method and to multiply this by the number of such assets currently in service. Unit price data will incorporate any volume discounts and escalation for on-costs such as design, procurement, installation and commissioning.

14. *Deemed Current Replacement Cost:* The current cost of the assets described in Schedules 1(c) to 1(d) of the RAF will be deemed to be the historical/revalued value of the assets recorded pursuant to paragraph 5 above.

REPORTING REQUIREMENTS

15. Telstra will, no later than 30 November 2003, prepare and give to the Commission reports containing the information required to be kept by Telstra in accordance with these Rules for the following periods:

    (a) 1 July 2002 to 31 December 2002;

    (b) 1 January 2003 to 30 June 2003; and

(c) 1 July 2002 to 30 June 2003.

Manner and form for preparation of reports

16. Telstra will provide to the Commission statements separately recording the historical/revalued value and the current cost of the assets covered by these Rules in relation to:

    (a) retail services (in accordance with the format set out in Schedule 7(a) of the RAF);

    (b) wholesale internal services (in accordance with the format set out in Schedule 7(b) of the RAF); and

    (c) wholesale external services (in accordance with the format set out in Schedule 7(c) of the RAF).

17. *Reconciliation of historical/revalued value and current cost*: Telstra will identify and explain the methodology used to determine the current cost of each class of assets.

18. *Regulatory Accounts Procedures Manual:* Telstra will amend its Regulatory Accounts Procedures Manual established and maintained in accordance with the RAF to incorporate the matters set out in paragraph 17 of the RAF that are applicable to these Rules.

19. *Audit requirements:* The report for the period 1 July 2002 to 30 June 2003 will be audited. The audit report will contain the information required in, and be prepared in accordance with the requirements for, an audit report under Part 5 of the RAF. The auditor must reconcile the current cost information contained in this report to the corresponding historical/revalued value information. The auditor must provide a report to the Commission detailing and explaining this reconciliation at the same time as Telstra provides the initial report to the Commission.

20. The Commission may, after consulting with Telstra, require Telstra to undertake at it own cost an audit or re-audit of a report with terms of reference specified by the Commission.

21. *Declaration:* Each report will be accompanied by a record-keeping declaration, being a statement by the Chief Executive Officer of Telstra, or a delegated authority, that the reports are accurate in the same terms as required under the RAF from time to time.

22. The report will be provided to the Commission by email to: telstrarkr@accc.gov.au.

SCHEDULE 1 – ASSETS TO BE VALUED UNDER MRC-I METHOD

Assets recorded under the following Account Codes and Line Items described in Columns 1 and 2 of Schedule 1(b) of the RAF:

Column 1: Account Code	**Column 2: Line Item**
2-1-01-y	CAN Ducts & Pipes - Primary Asset
2-1-02-y	CAN Ducts & Pipes - Other Assets
2-1-05-y	CAN Copper Cables - Primary Asset
2-1-06-y	CAN Copper Cables - Other Assets
2-1-10-y	CAN Other Cables - Primary Asset
2-1-11-y	CAN Other Cables - Other Assets
2-1-15-y	CAN Pair Gain Systems - Primary Asset
2-1-16-y	CAN Pair Gain Systems - Other Assets
2-1-20-y	CAN Radio Bearer Equipment - Primary Asset
2-1-21-y	CAN Radio Bearer Equipment - Other Assets
2-1-25-y	Other CAN - Primary Asset
2-1-26-y	Other CAN - Other Assets

EXPLANATORY STATEMENT

Imputation Testing Record Keeping Rule

The RKR for imputation testing is focused Telstra's core services—the local carriage service, the domestic PSTN origination and terminating access service and the unconditioned local loop service.

An imputation test can be used to assist in detecting an anti-competitive price squeeze in a retail market. A price squeeze could occur where Telstra reduces the margin between retail and wholesale prices to a level that inhibits competition.

In the context of this RKR, the imputation tests will involve comparisons of:

- the retail price charged by Telstra for a particular service; and
- the (wholesale) access price charged by Telstra for an essential input to that service plus the additional costs incurred in transforming the essential input to the retail service (the 'retail costs').

Where the retail price is less than the sum of the wholesale access price and additional costs, a price squeeze may exist.

The imputation tests are to be carried out on retail services that use Telstra's core services. The Commission has proposed for the initial report that the imputation testing be applied to line rental and local calls, national long-distance and international long-distance calls, fixed to mobile calls and on ADSL services. For each of these retail services, the Commission will also undertake imputation testing on the residential and business groups.

In terms of calculating the inputs to the imputation test, the Ministerial Direction requires that wholesale (access) price for core services be calculated using a volume weighted average price approach. This RKR requires that Telstra calculate the average retail price for each retail service, and the average total cost of transforming the core services into the retail services, which are generically referred to as the 'retail costs'.

The approach to imputation testing in the RKR has been informed by the Commission's draft information paper entitled *Bundling in telecommunications markets* and the submissions received in response to that paper.

One concern that has been raised with using average total costs in the imputation test is that it will restrict Telstra from meeting some price competition. However, failure of an imputation test based on average total costs is not necessarily indicative of anti-competitive pricing behaviour. Rather, imputation testing should be seen only as a signal to the Commission that it should further investigate Telstra's pricing conduct.

This RKR will apply for at least the initial quarter 1 July 2003 to 30 September 2003. The Commission intends to seek industry comment on its approach to the imputation testing in this RKR in the near future with a discussion paper, and the feedback from that process may result in a change in the approach for subsequent reports, which will be made operational in a new RKR.

Imputation testing (Initial Reports)

Record Keeping and Reporting Rules

Section 151BU

Part XIB Trade Practices Act 1974

Australian Competition and Consumer Commission

June 2003

TITLE

1. These rules made by the Commission pursuant to section 151BU of the *Trade Practices Act 1974*, may be referred to as the Imputation Testing Record-Keeping and Reporting Rules ('the Rules'). These Rules are made as a result of a Ministerial direction under section 151BUAA of the *Trade Practices Act 1974* issued on 19 June 2003.

COMMENCEMENT

2. These Rules shall take effect on 1 July 2003.

INTERPRETATION

3. Each of the following terms have the following meaning for the purposes of the Rules:

   "access seeker" means a customer who purchases a 'core service' from Telstra but, for the avoidance of doubt, does not include Telstra or a subsidiary of Telstra.

   "asymmetric DSL" means a service provided to a customer via an asymmetric digital subscriber line.

   "business customer group" means a group comprising all customers that are business, charity or not for profit organisation customers within the meaning of Telstra's standard form of agreement as it exists from time to time.

   "carrier" and "carriage service provider" have the meanings given to these terms in the *Telecommunications Act 1997*.

   "core service" has the same meaning as in paragraphs 152AQB(1)(a) to (d) of the *Trade Practices Act 1974*.

   "Commission" means that Australian Competition and Consumer Commission.

   "customer group" means the 'business customer group' or the 'residential customer group'.

   "fixed to mobile call" means a call involving the use by the calling party of a fixed carriage service and the use by the called party of a mobile carriage service.

   "international long distance call" means a call that is:

   - an operator-connected call between a place in Australia and a place outside of Australia; or
   - a direct-dialled call between a place in Australia and a place outside Australia.

   "line rental" means the ongoing supply of a standard telephone service at a location required by the person requesting the supply of the service, but does not include:

   - in respect of a business requesting the service – the supply of material or services to support the supply of a standard telephone service from a main distribution frame to the location requested by the business; or
   - the supply and connection of a telephone handset or other customer equipment.

"local call" means an eligible local call as defined by section 106 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999*.

"national long-distance call" means a call dialled directly by a caller and made from a charging zone in the domestic public switched telecommunications network to a telephone service in another charging zone that is not immediately adjacent to the first-mentioned charging zone.

"quarter" means a period of 3 months ending on 30 September, 31 December, 31 March or 30 June.

"RAF" means the Telecommunications Industry Regulatory Accounting Framework (Record-keeping rules) made by the ACCC under section 151BU of the *Trade Practices Act 1974* as existing from time to time;

"residential customer group" means a group comprising all residential customers within the meaning of Telstra's standard form of agreement as it exists from time to time.

"retail service" means a service that is supplied to an end user that is not an access seeker, and includes the following services:

- line rental;
- local calls;
- national long-distance calls;
- international long-distance calls;
- fixed-to-mobile calls; and
- asymmetric DSL.

"subsidiary" means:

- Reach Services Australia Pty Ltd, Reach Networks Hong Kong Pty Ltd or any entity that is related to those companies; and
- any entity that is a subsidiary of Telstra for the purposes of the RAF as it exists from time to time.

"Telstra" means Telstra Corporation Limited (ACN 051 775 556).

APPLICATION

4. These rules apply to Telstra and, unless the Commission notifies otherwise, require it to keep records and report in respect of core services or retail services that it supplies itself or which are supplied by a carrier or carriage service provider that is a subsidiary of Telstra.

RECORD KEEPING RULES

Rules in respect of core services:

5. Telstra will establish and maintain a written and electronic record containing the following information in respect of its supply of each core service:

   (1) *Revenues:* Telstra will record in the general ledger the revenues derived from the core service for each quarter net of discounts and rebates but gross of provisions or charges in respect of bad or doubtful debts.

(2) *Volumes of sales:* Telstra will record the volume of sales that is supplied in respect of the service for each quarter. Telstra will make a separate record of the volume of sales for each price or price component at which the service is supplied in the quarter.

(3) Volume of sales will be measured in the same unit(s) as that used in determining price for the core service, eg, call minutes, calls, or lines or services in operation. The measure of the volume of sales will be as recorded in Telstra's management information systems.

(4) *Volume weighted average price:* Telstra will record the volume weighted average price charged for the core service for the quarter. Average price will be calculated by dividing revenue by volume of sales for the service.

(5) Telstra will prepare and retain a work paper that shows the method by which each volume weighted average price was calculated and the calculations made in applying that method.

(6) *Register of price terms for core services:* Telstra will retain a copy of each agreement (however described) that records the price for a core service.

(7) Telstra will establish and maintain a register that records the following particulars of those agreements:

(a) the name of the access seeker;

(b) the date of the agreement;

(c) the period for which the agreement is to have effect; and,

(d) the core services to which the agreement relates.

Rules in respect of retail services:

6. Telstra will establish and maintain a written and electronic record containing the following information in respect of the revenues it derives from each retail service.

(1) *Measure of revenue:* The measure of revenues will be those recorded in the general ledger for each quarter in respect of each product or class of product that is an instance of the service net of discounts and rebates but gross of provisions or charges in respect of bad or doubtful debts.

(2) *Revenue elements:* The revenues will be aggregated into the line items specified for retail revenues as specified in the list of line items for revenues – schedule 2 to the RAF – as they exist from time to time.

(3) *Revenue Allocation:* Revenue will be allocated to services in accordance with the allocation method specified in the list of line items for revenues – schedule 2 to the RAF – as it exists from time to time.

(4) Revenues from bundled products will be disaggregated and directly attributed to each component product.

(5) *Customer aggregation:* The revenues will be aggregated on the basis of the customer group from which the revenues are derived.

(6) For the purposes of making this classification, revenues are derived from the residential customer group if the line rental payable on the standard

telephone service from which the revenue is derived is billed at a price that is available to a residential customer in accordance with Telstra's standard form of agreement as it exists from time to time. Revenues are derived from the business customer group if the line rental payable on the standard telephone service from which the revenue is derived is billed at a price that is available to a business, charity or not for profit organisation customer in accordance with Telstra's standard form of agreement as it exists from time to time.

(7) To avoid doubt, this classification will not depend upon the person or entity with which Telstra has the relevant marketing relationship in respect of that standard telephone service.

(8) If there are any revenues that cannot be classified directly to a customer group under clause 6(6), those revenues will be allocated between the customer groups on the basis of usage as estimated in accordance with Telstra's regulatory accounting procedures manual maintained pursuant to the RAF.

(9) Telstra will prepare and retain work papers showing the method on which this allocation was made and the calculations that were made in applying that method.

7. Telstra will establish and maintain a written and electronic record containing the following information in respect of the volume of sales that it supplies in respect of each retail service.

(1) *Measure of volume of sales:* The measure of volume of sales will be those recorded in Telstra's management information systems for each quarter in respect of each product or class of product that is an instance of the service.

(2) The unit of demand that is recorded for each service will be as per the following table:

Retail service	*Unit of demand*
Line rental	Services in operation
Local calls	Number of calls
National long-distance calls	Call minutes
International long-distance calls	Call minutes
Fixed-to-mobile calls	Call minutes
Asymmetric DSL	ADSL Services in operation

(3) *Customer aggregation:* The volume of sales will be aggregated on the basis of the customer group to which the volume of sales is supplied.

(4) For the purposes of making this classification, volumes of sales are supplied to the residential customer group if the line rental payable on the standard telephone service from which is charged for the sale is billed at a price that is available to a residential customer in accordance with Telstra's standard form of agreement as it exists from time to time.

All other volumes of sales are supplied to the business customer group. To avoid doubt, this classification will not depend upon the person or entity with which Telstra has the relevant marketing relationship in respect of that standard telephone service.

8 Telstra will establish and maintain a written and electronic record containing the following information in respect of the costs that it incurs in respect of each retail service.

(1) *Costs to be recorded:* Telstra will record the retail costs of the service, eg billing and marketing, and any other costs that are incurred in transforming the relevant core service into the retail service, eg transmission.

(2) The relevant core service for each retail service is as follows:

Retail service(s)	*Relevant core service(s)*
Line rental and local calls	Local carriage service
National long-distance calls	PSTN origination service and PSTN termination service
International long-distance calls	PSTN origination service
Fixed-to-mobile calls	PSTN origination service
Asymmetric DSL	Unconditioned local loop service

(3) *Basis of measuring costs:* Costs will be measured on an historic cost basis and, where Telstra is required by a record-keeping rule to measure the relevant cost on a current cost basis, on a current cost basis also.

(4) *Measure of costs:* The measure of costs will be the unit costs of the service derived from the relevant capital adjusted profit and loss statements – schedule 5 under the RAF – and from the capital adjusted profit and loss statement prepared on a current cost basis, as appropriate, and the service usage reports – schedule 8 to the RAF. The unit costs will be multiplied by the volumes of sales for the service in the quarter.

(5) The relevant capital adjusted profit and loss reports for the quarters ending in September and December will be reports prepared for the six months ending in the previous June; and, for the quarters ending in March and June, the six months ending in the previous December.

(6) *Cost elements:* Costs will be aggregated into retail costs and other costs that are incurred in transforming the relevant core service into the retail service. For each, costs will be aggregated into the following cost elements as specified in the list of line items for cost – schedule 3 to the RAF – as they exist from time to time:

(a) organisation costs;

(b) product and customer costs; and

(c) network expenses.

(7) *Cost allocation:* Costs will be allocated to services in accordance with the allocation method specified in the list of line items for cost – schedule 3 to the RAF – as it exists from time to time.

(8) *Customer aggregation:* The costs will be aggregated on the basis of the customer group in respect of which the costs were incurred.

(9) For the purposes of making this classification, costs are incurred in respect of the residential customer group if the cost is directly attributable to a standard telephone service which is billed at a price that is available to a residential customer in accordance with Telstra's standard form of agreement as it exists from time to time. Costs are incurred in respect of the business customer group if the cost is directly attributable to a standard telephone service which is billed at a price that is available to a business, charity or not for profit organisation customer in accordance with Telstra's standard form of agreement as it exists from time to time.

(10) To avoid doubt, this classification will not depend upon the person or entity with which Telstra has the relevant marketing relationship in respect of that standard telephone service.

(11) If there are any costs that cannot be classified directly to a customer group under clause 8(9), those costs will be allocated between the customer groups on the basis of usage as estimated in accordance with Telstra's regulatory accounting procedures manual maintained pursuant to the RAF.

(12) Telstra will prepare and retain work papers showing the method on which this allocation was made and the calculations that were made in applying that method.

REPORTING REQUIREMENTS

9. *Quarterly reports:* Telstra will provide the Commission with reports, prepared in respect of each quarter containing information required to be kept by Telstra in accordance with these Rules.

(1) *Information and format:* A quarterly report will contain the information, and be in the format, specified in Schedule A to these rules from time to time. The first table in Schedule A reports cost information that is measured on a historical basis. The second table in Schedule A reports cost information that is measured on a current costs basis.

(2) The 'access price' that is reported for each core service will be the volume weighted average of the prices at which Telstra supplied access seekers during the quarter.

(3) The revenues reported for each retail service for each customer group will for each revenue element specified at clause 6(2) and as a total of all revenue elements.

(4) Costs will be reported for each retail service for each customer group for each cost element specified at clause 8(6) and as a total of all retail cost

elements and as a total of all other costs that are incurred in transforming the core service into the retail service.

(5) Costs will not be adjusted in respect of any economies of scale and scope, however Telstra may separately report the quantum of any such adjustment that it would contend as appropriate and the basis upon which this adjustment has been quantified.

(6) The 'retail price' that is reported for each retail service for each customer group will be calculated by dividing the revenue derived from that service and customer group divided by the corresponding volume of sales.

(7) The 'total unit costs' that are reported for each retail service for each customer group will be calculated by dividing firstly the total retail costs, and secondly the total other costs incurred in transforming the core service into the retail service, allocated to the service and customer group by the corresponding volume of sales.

(8) The 'retail margin' that is reported for each retail service for each customer group will be calculated by deducting from the retail price the access price and the total unit costs.

(9) *Work papers:* A copy of the work papers that Telstra keeps under clauses 5(5), 6(8) and 8(11) for the quarter will be provided to the Commission at the time that the quarterly report is provided.

10. *Reconciliation reports:* Telstra will provide the Commission with reports that reconcile quarterly reports with RAF reports that relate to the same period in accordance with these Rules

(1) *Information and format:* A reconciliation report will be in the format specified in Tables 1 and 2 of Schedule A of these rules from time to time.

(2) A reconciliation report will, for each line item that concerns total revenues or total costs, record:

(a) the aggregate of the data for that line item that is recorded in the two quarterly reports prepared in respect of the period; and

(b) the data recorded in the RAF report prepared in respect of the period.

(3) A reconciliation report will, for each line item that concerns price, unit costs or retail margins, record:

(a) the data that is derived from the aggregate of the data used to prepare the two quarterly reports prepared in respect of the period; and

(b) the data that is derived from the RAF report prepared in respect of the period.

11. *Declaration:* Each report will be accompanied by a record-keeping declaration, being a statement by the Chief Executive Officer of Telstra, or a delegated authority, that the reports are accurate in the same terms as required under the RAF from time to time.

12. *Provision of reports:* A quarterly report will be provided to the Commission as soon as practicable but no later than 2 months after the end of the quarter to

which it relates, and a reconciliation report will be provided to the Commission at the same time as the RAF report to which the reconciliation report relates, by email to: telstrarkr@accc.gov.au

13 *Audit requirements:* The quarterly and reconciliation reports that are submitted in the course of a financial year will be audited in accordance with these Rules.

(1) An audit will be undertaken in respect of all the reports that are prepared in respect of a financial year following the end of the financial year to which they relate.

(2) An audit report in respect of the reports will be given to the Commission by no later than the end of October.

(3) The audit report will contain the information required of an audit report for the RAF from time to time.

(4) The Commission may after consulting Telstra specify terms of reference for the audit of the reports.

(5) The Commission may after consulting with Telstra require Telstra to undertake at its own cost an audit or re-audit of a report with terms of reference specified by the Commission.

(6) The Commission may in consultation with Telstra specify the auditor to conduct an audit, or a pool of auditors from which the auditor is to be selected.

SCHEDULE A

Table 1 - Report for {Quarter} prepared on historic cost basis

		Local carriage service		PSTN (originating and terminating)						Unconditioned local loop service	
		Local calls and line rental		Domestic long distance		International long distance		Fixed to mobile		xDSL	
		Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential
Revenues											
retail											
wholesale											
other											
total											
Retail Costs											
organisation											
product and consumer											
network expenses											
total											
Other Costs											
organisation											
product and consumer											
network expenses											
total											
Access price											
Retail price											
Unit cost											
Retail margin											

Table 2 - Report for {Quarter} prepared on current cost basis

		Local carriage service		PSTN (originating and terminating)						Unconditioned local loop service	
		Local calls and line rental		Domestic long distance		International long distance		Fixed to mobile		xDSL	
		Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential
Revenues											
retail											
wholesale											
other											
total											
Retail Costs											
organisation											
product and consumer											
network expenses											
total											
Other Costs											
organisation											
product and consumer											
network expenses											
total											
Access price											
Retail price											
Unit cost											
Retail margin											

Attachments to report:
1. Audit report (if for June Quarter, or if audit required by Commission)
2. Work papers kept under clauses 5(5), 6 (8) and 8(11) for the quarter
3. Any adjustments that Telstra contends to be appropriate to reflect economies of scale and scope
4. CEO or delegated authority declaration.

EXPLANATORY STATEMENT

Key Performance Indicators (non-price terms and conditions) Record Keeping Rule

The KPI measures outlined in the RKR were determined by the Commission after undertaking a thorough investigation of the systems used by Telstra for the supply of services to its wholesale and retail customers. In particular, the Commission examined in some detail Telstra's ordering and provisioning systems and its fault rectification systems with respect to wholesale and retail services.

A number of meetings were also conducted with industry representatives to canvass the possible key performance measures that could be used to identify possible discriminatory behaviour by Telstra in dealings with its retail customers compared to its wholesale customers.

The Commission issued a discussion paper in April 2003 setting out the Telstra proposed KPIs that could be used to meet the Government's initial reporting requirement (that is, an initial report for the quarter ending on 30 September 2003 must be supplied to the Commission by no later than 30 November 2003).

Given the tight time-frames associated with reporting on the KPIs for non-price terms and conditions, the Commission considered that a RKR should be issued to Telstra as soon as practicable to inform it of the required form of the information that for the initial RKR and enable it to start collecting the necessary information for the initial report.

In terms of future reports, the Commission believes that the KPIs will require further modification, enhancement and/or additions for two main reasons. First, to address those industry concerns that have not been incorporated into the initial RKR and secondly, to ensure that the KPIs develop into the effective regulatory regime as envisaged by Government in its accounting separation legislation.

To this end, the Commission intends to adopt a phased approach to the development of KPIs. The Commission, therefore, will continue to discuss with Telstra, and industry more generally, a number of possible options to improve the KPIs in order to effectively meet the Government's stated policy objectives. The principal objective being to compare Telstra's performance in providing services to its retail customers as compared to the supply of services to its wholesale customers. In other words, the KPIs should be capable of assessing Telstra's relative performance in the relevant non-price areas. They however should also serve to ensure maximum transparency is available to the public, industry and the Government in respect to the treatment by Telstra of its wholesale and retail customers and the standard of Telstra's services to these customers. In this context, the Commission considers that for future KPI reports (to be addressed in a new RKR), Telstra should be required to provide a further disaggregation of business customers to enable further transparency in relation to its provision of core services to its retail and wholesale customers.

It should be noted that, as the Ministerial Direction requires the Commission to publish the KPI information provided by Telstra, the Commission intends to issue a further RKR requiring Telstra to provide the underlying data used to produce its KPI report at the same time that this report is provided to the Commission. This requirement will be additional to both the annual audit requirements (as part of the regulatory accounting framework) and the accompanying record-keeping declaration about the accuracy of quarterly KPI information provided to the Commission for publication.

Telstra believes that disclosing the underlying data would provide substantial scope for misunderstanding and misleading interpretation of the data. The Commission considers that for the initial report only the variance data will be disclosed, while Telstra's concerns are further investigated in considerations for future reports.

Non Price Terms and Conditions

Key Performance Indicator (Initial Reports)

Record-Keeping and Reporting Rules

Section 151BU
Part XIB Trade Practices Act 1974

Australian Competition and Consumer Commission

June 2003

TITLE

1. These rules made by the Commission pursuant to section 151BU of the *Trade Practices Act 1974*, may be referred to as the Non Price Terms and Conditions Key Performance Indicator Record-Keeping and Reporting Rules ('the 'Rules'). These Rules are made as a result of a Ministerial direction under section 151BUAA of the Trade Practices Act 1974 issued on 19 June 2003.

COMMENCEMENT

2. These Rules shall take effect on 1 July 2003.

INTERPRETATION

3. *Definitions:*

"access seeker" has the same meaning as in section 152AG of the *Trade Practices Act 1974.*

"basic access" means provision of access to the public switched telephone network from the network boundary at the end-user customer premises.

"business customer group" means the group comprising only business, charity or not for profit organisation customers.

"carriage service provider" has the same meaning as in the *Telecommunications Act 1997.*

"carrier" has the same meaning as in the *Telecommunications Act 1997.*

"Commission" means that Australian Competition and Consumer Commission.

"core service" has the same meaning as in paragraphs 152AQB(1)(a) to (d) of the *Trade Practices Act 1974*.

"customer group" means the 'business customer group' or the 'residential customer group'.

"customer service guarantee" means the *Telecommunications (Customer Service Guarantee) Standard* made pursuant to sections 115, 117, 120 and 125 (3) (a) of the *Telecommunications (Customer Protection and Service Standards) Act 1999.*

"fault" means a fault that arises on the network operated by Telstra in connection with a basic access service that is supplied to an end-user customer.

"line rental" means the ongoing supply of a standard telephone service at a location required by the person requesting the supply of the service, but does not include:

- in respect of a business requesting the service – the supply of material or services to support the supply of a standard telephone service from a main distribution frame to the location requested by the business; or
- the supply and connection of a telephone handset or other customer equipment.

"local call" means an eligible local call as defined by section 106 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999*.

"national long distance call" means a call dialled directly by a caller and made from a charging zone in the domestic public switched telecommunications network to a telephone service in another charging zone that is not immediately adjacent to the first-mentioned charging zone.

"quarter" means a period of 3 months ending on 30 September, 31 December, 31 March or 30 June.

"RAF" means the Telecommunications Industry Regulatory Accounting Framework;

"residential customer group" means the group comprising only residential customers.

"subsidiary" means any entity that is a subsidiary of Telstra for the purposes of the RAF as it exists from time to time.

"Telstra" means Telstra Corporation Limited (ACN 051 775 556).

APPLICATION

4. These rules apply to Telstra and, unless the Commission notifies otherwise, require it to keep records and report in respect of services that it supplies itself or which are supplied by a carrier or carriage service provider that is a subsidiary of Telstra.

RECORD KEEPING RULES

5 Telstra will establish and maintain written and electronic records containing information that compares the outcomes of Telstra's performance for supply of specified retail services and specified wholesale services.

(1) *Services to be reported on:* Telstra will record this information in connection with its supply of basic access to an end user customer and in connection with its supply of the core services. Telstra will record information in connection with each core service that it supplies even if it is exempted from the standard access obligations in connection with the supply of that service.

(2) *Customer aggregation:* Telstra will record this information in accordance with the customer group of the end-user customer to whom the service is supplied. To avoid doubt, the end-user customer is the person for whom the service is made available and may not be the person with whom the carrier supplying the end-user has the marketing relationship in respect of the service.

(3) An end-user customer for a service will belong to the residential customer group if the line rental payable on the service is billed at rates available to a residential customer under the standard form of agreement of the carrier or carriage service provider that supplies the service as it exists from to time. The end-user customer for all other services will belong to the business customer group.

(4) *Terms of supply about which to keep records:* Telstra will keep records in respect of the terms of supply set out below. The records that are to be kept in respect of each of these terms are specified in clauses 6 to 9.

(a) faults and maintenance including appointments met;

(b) ordering and provisioning including appointments met; and

(c) billing notifications.

6. *Faults and maintenance:* Telstra will establish and maintain written and electronic records in respect of faults and maintenance.

(1) *Records to be kept:* Telstra will record information in respect of each fault that is reported in respect of the services. The information will comprise:

(a) the service to which the fault relates;

(b) the customer group to which the end-user customer for that service belongs;

(c) the carrier or carriage service provider who supplies the service to the end-user customer;

(d) the date and time on which the fault was first reported to Telstra's help desk;

(e) the date and time on which the information supplied to Telstra's help desk was sufficient to allow the fault to be actioned;

(f) the date and time on which the fault was rectified;

(g) each appointment that is made in respect of attendance at the end-user customer premises and whether the appointment was cancelled; and,

(h) whether or not the fault was rectified within the period allowed by the performance standard specified below.

(2) A single record will be created in respect of a fault on a service notwithstanding that there may be a number of causes for the fault on the service that require rectification. If a fault is reported within five days of a rectification being recorded on a previous fault on that service, the fault will be taken to be a continuation of the previous fault and a new fault record will not be created.

(3) A separate record will be created for each service that is affected by a fault, notwithstanding that the same cause has given rise to a fault on a series of services.

(4) A cancellation will be recorded in respect of an appointment regardless of which party initiates the cancellation.

(5) The carrier or carriage service provider that supplies a service will be taken to be the carrier or carriage service provider that supplies basic access in respect of that service.

(6) *Performance standard:* Telstra will compare the time taken to repair faults against the time period that is allowed for fault rectification under the customer service guarantee as it exists from time to time.

(7) In calculating the period taken to correct the fault, the period will commence at the time on which sufficient information was supplied to the Telstra help desk to allow the fault to be actioned, and end at the time that the fault rectification was advised:

(a) in connection with a service that is supplied to an end-user customer by Telstra, to the end-user customer; or,

(b) in connection with a service that is supplied to an end-user customer by a carrier or carriage service provider other than Telstra, to the carrier or carriage service provider.

(8) If a fault recurs on a service within five business days of the time at which a fault rectification was recorded, it will be taken to be a continuation of the previous fault, and time will not be recommenced.

7. *Ordering and provisioning:* Telstra will establish and maintain written and electronic records in respect of ordering and provisioning of a service.

(1) *Records to be kept:* Telstra will record information in respect of each service that is ordered. The information will comprise:

(a) the service to which the order relates;

(b) the customer group to which the end-user customer for that service belongs;

(c) whether or not the ordered service can be provisioned by reconnecting a previous service has been supplied to the end-user customer;

(d) whether or not additional cabling or capacity must be deployed so as to provision the ordered service;

(e) the carrier or carriage service provider that placed the order;

(f) the date and time on which the order was first placed with Telstra;

(g) the date and time on which the information supplied to Telstra was sufficient to allow the order to be actioned;

(h) the date and time by which the order is required to be provisioned under the agreement that exists between Telstra and the access seeker which has requested the provisioning;

(i) the date and time which the end-user customer specified as the target time by when the service was to be provisioned;

(j) the date and time on which notification that the service has been provisioned was given to, in respect of orders Telstra made, the end-user customer, and, in respect of orders that a carrier or carriage service provider other than Telstra made, the carrier or carriage service provider;

(k) each appointment that is made in respect of attendance at the end-user customer premises in order to install the service and whether the appointment was cancelled;

(l) whether or not the service was provisioned within the period specified below in respect of the performance standard.

(2) One record will be created in respect of each basic access service that is ordered notwithstanding that a single order may relate to a series of basic access services.

(3) A cancellation will be recorded in respect of an appointment regardless of which party initiates the cancellation.

(4) *Performance standard:* Telstra will compare the time taken to provision services that are ordered against the later of: -

(a) the maximum time that is allowed for service provisioning under the agreement that exists from time to time between Telstra and a carrier or carriage service provider that orders the service, where applicable; and,

(b) the data and time which the end-user customer specified as the target time by when the service was to be provisioned.

(5) In calculating the period taken to provision an ordered service, the period will commence at the time on which sufficient information was supplied to Telstra to allow the order to be actioned, and end at the time that the carrier or carriage service provider that ordered the service is notified that the service has been provisioned.

8. *Billing and notifications:* Telstra will establish and maintain written and electronic records in respect of billing and notifications.

(1) *Record to be kept:* Telstra will tally, for each quarter, all calls that it bills to an end-user customer, and all errors that occur in respect of those bills, and all calls for which it bills a carrier or carrier service provider for the supply of a core service, and all errors that occur in respect of those bills.

(2) *Service provider aggregation:* Telstra will keep separate tallies on which to record (a) calls that it bills to an end-user customer, and (b) calls for which it bills each carrier or carriage service provider for the supply of a core service.

(3) *Customer aggregation:* The tallies will be disaggregated into the customer group of the end-user customer of the service to which the call or billing error relates.

(4) A billing error is any error in the information contained in a bill or billing data that Telstra supplies to an end-user customer or carrier or carriage service provider regardless of the cause of the error.

(5) A separate billing error will be tallied for each line item in the billing data that contains an error.

REPORTING REQUIREMENTS

9. Telstra will provide the Commission with reports, prepared in respect of each quarter containing information required to be kept by Telstra in accordance with these Rules.

(1) *Information and format:* A quarterly report will contain the information, and be in the format, specified in Schedule 1 to these rules from time to time.

(2) *Faults and maintenance:* The report will, in respect of faults and maintenance, contain, firstly for the business customer group and, secondly, for the residential customer group, the variance between:

(a) the percentage of faults on Telstra supplied services that are rectified in the quarter within the period allowed by the performance standard; and,

(b) the percentage of faults on services that are supplied by a carrier or carriage service provider other than Telstra that are rectified in the quarter within the period allowed by the performance standard.

(3) *Ordering and provisioning:* The report will, in respect of the provisioning of ordered services, contain, firstly for the business customer group and, secondly, for the residential customer group, the variance between:

(a) the percentage of orders that are placed by Telstra that are provisioned in the quarter within the period allowed by the performance standard; and,

(b) the percentage of orders that are placed by a carrier or carriage service provider other than Telstra that are provisioned in the quarter within the period allowed by the performance standard.

(4) The report will contain information in respect of the following classes of ordered services:

(a) services that involve the re-connection of a service previously supplied to the end-user customer;

(b) services that involve the connection of a new service but which do not require additional cabling or network capacity;

(c) services that involve the connection of a new service which requires additional cabling or network capacity.

(5) The report will, in respect of all ordered services, contain, firstly for the business customer group and, secondly, for the residential customer group, the variance between:

(a) the percentage of end-user customer appointments that are met in the quarter in respect of the provisioning of services that are to be supplied by Telstra; and,

(b) the percentage of end-user customer appointments that are met in the quarter in respect of the provisioning of services that are to be supplied by an access seeker.

(6) *Billing and notifications:* The report will, in respect of billing and notifications, contain, firstly for the business customer group and, secondly, for the residential customer group, the variance between:

(a) the number of billing errors as a percentage of calls billed in the quarter in relation to calls that Telstra bills direct to an end-user customer; and

(b) the number of billing errors as a percentage of calls billed in the quarter in relation to calls that Telstra bills carriers or carriage service providers for the provision of a core service.

10. *Declaration:* Each report will be accompanied by a record-keeping declaration, being a statement by the Chief Executive Officer of Telstra, or a delegated authority, that the reports are accurate in the same terms as required under the RAF from time to time.

11. *Provision of report:* The report will be provided to the Commission no later than 2 months after the end of the quarter to which it relates by email to: telstrarkr@accc.gov.au

12. *Audit requirements:* The quarterly reports that are submitted in the course of a financial year will be audited in accordance with these rules.

(1) An audit will be undertaken in respect of all the financial reports that are prepared in respect of a financial year following the end of the financial year to which they relate.

(2) An audit report in respect of the quarterly reports will be given to the Commission by no later than the end of October.

(3) The audit report will contain the information required of an audit report for the RAF from time to time.

(4) The Commission may after consulting Telstra specify terms of reference for the audit of the reports.

(5) The Commission may after consulting with Telstra require Telstra to undertake at it own cost a re-audit of a report with terms of reference specified by the Commission.

(6) The Commission may in consultation with Telstra specify the auditor to conduct an audit, or a pool of auditors from which the auditor is to be selected.

SCHEDULE 1

TELSTRA KEY PERFORMANCE INDICATOR REPORT FOR {QUARTER}

Term of supply	**Key performance indicator(s)**	
	Business	**Residential**
Faults and maintenance		
Variance in % of faults rectified within performance standard		
Variance in % of appointments met		
Ordering and provisioning		
Variance in % of services provisioned within performance standard – re-connections		
Variance in % of services provisioned within performance standard – new services with existing cabling and capacity		
Variance in % of services provisioned within performance standard – new services with existing cabling and capacity met		
Variance in % of appointments met		
Billing and Notifications		
Variance in number of billing errors as a % of calls billed		