Australian
Competition &
Consumer
Commission

INITIAL REPORTS RELATING TO ACCOUNTING SEPARATION OF TELSTRA

December 2003

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Executive Summary

This document contains the first round of public reports in relation to the accounting separation of Telstra in accordance with a Direction issued by the Minister for Communications, Information Technology and the Arts on 19 June 2003.

The reports are intended to provide greater transparency of Telstra's operations to ensure that it does not unfairly discriminate between access seekers using its network services and its own retail operations.

The three reports comprise:

- Current cost financial reports for 'core' telecommunications access services;
- Imputation analysis comparing Telstra's retail prices with the prices of the 'core' telecommunications services supplied to access seekers; and
- Key performance indicators on non-price terms and conditions that compare service performance between Telstra's retail and wholesale supplied basic access services.

Current costs

This report provides present day valuations of Telstra's assets that are compared with the historical or original cost of these assets. The report is limited to fixed asset statements at this stage and does not include valuations of all of Telstra's assets.

The report indicates that on a current costs basis, the aggregate values of assets for the core access services are substantially higher than the historical asset valuations. In proportionate terms, this is particularly apparent for the unconditioned local loop and local carriage services. It is too early, however, to draw any specific conclusions from this report. More meaningful analysis will be undertaken once current cost profit and loss and capital employed statements are able to be provided in subsequent periods.

Imputation testing

The imputation report is designed to reveal whether there is a sufficient margin between Telstra's retail prices and the prices it charges access seekers to use its network (plus related costs) to enable them to compete in retail telecommunications markets.

Imputation testing has been undertaken for the following retail services for all residential and business customers:

- local calls and line rental;
- domestic long-distance calls;
- international long-distance calls; and
- fixed-to-mobile calls.

Tests are performed on the basis of historical and current costs. The results, both on a historical and current costs basis, indicate that Telstra passes the imputation tests for domestic and international long-distance calls and fixed-to-mobile calls, but fails for local call services (line rental and local calls combined). The Commission will consider what, if any, competition issues this raises in subsequent reports.

Telstra has also provided an imputation test on a bundle of all the above fixed-voice services. Telstra passes the test over the bundle for both residential and business customers. This reflects the large margins that can be observed for the non-local call services.

KPIs for non-price terms and conditions

The key performance indicators (KPIs) on non-price terms and conditions measure the difference between the percentage of Telstra Wholesale's business and residential customers and Telstra Retail's business and residential customers which met the performance standards (defined in terms of the Customer Service Guarantee measures). The KPIs cover the supply of the basic access service, including:

- ordering and provisioning;
- faults and maintenance; and
- appointments.

Telstra's first report indicates while there are some variances that require further investigation, there is no evidence to suggest that there is any systematic discrimination against Telstra Wholesale's customers.

In releasing the three reports, the Minister's Direction also requires the Commission to comment on their accuracy and the extent to which they comply with related regulatory requirements, such as the Regulatory Accounting Framework.

1 Introduction

In December 2002, the Government made provision for an enhanced accounting separation of Telstra's wholesale and retail operations with the passage of the *Telecommunications Competition Act 2002*. In accordance with this Act, the Minister for Communications, Information Technology and the Arts issued a Direction on 19 June 2003, instructing the Commission to issue Record Keeping Rules (RKRs) under its powers under the Trade Practices Act, requiring Telstra to provide the Commission with reports on:

- Current costs in addition to historical costs under the Telecommunications Industry Accounting Framework (record-keeping rules on current costs);
- Imputation analysis comparing Telstra's retail prices with the prices of core telecommunications services supplied to access seekers (record-keeping rules on imputation); and
- Key performance indicators on non-price terms and conditions that compare service performance between retail and wholesale supplied services (record-keeping rules non-price terms and conditions).

The Direction also requires the Commission to provide the Minister with a six-monthly report on competition in the corporate customer segment of the telecommunications market. This is for the period ending on 31 December 2003 and will be provided to the Minister in the first half of 2004.

The Minister's Direction has made provision for initial reports and subsequent reports. This recognised that the initial reports were likely to rely on more limited data availability than subsequent reports.

The Commission issued the RKRs on Telstra with respect to the initial reports at the end of June 2003. Some slight modification of the imputation and non-price terms and conditions RKRs were required after this date to aid their implementation.

Telstra's initial reports for current costs cover the two half years and full year of 2002-03. Those for the KPI measures and imputation testing apply for the first quarter of 2003-04. All the initial reports were to be supplied to the Commission no later than 30 November 2003. The Commission is required to release to the public certain information contained in Telstra's reports by the end of December 2003.

This report contains the information from Telstra's initial reports that the Commission is required to make available to the public under the terms of the Ministerial Direction with respect to current costs, imputation testing and non-price terms and conditions.

In addition to the specific information that must be published in relation to each report, the Commission is required to make statements accompanying this information, commenting on:

- the accuracy of the reports;
- the extent to which the reports comply with:

- the Regulatory Accounting Framework (for the current costs and imputation reports only);
- any other relevant record-keeping rules made by the Commission (whether for the purposes of the Minister's Direction or otherwise);
- any Direction given by the Commission for Telstra to make public information contained in the reports.

These are to include any qualifications, if any, that the Commission considers necessary.

For the imputation report the Commission is additionally required to provide a summary of the results of the imputation or margin analysis.

On the matter of a Direction by the Commission for Telstra to make information provided in the reports to the public, the Commission has issued a Direction to Telstra requiring Telstra to publish on its website concurrently with the Commission, the same information that Commission is required to make public. In so doing, the Commission's Direction does not prevent Telstra from making any qualifications and statements that it chooses.

The remaining statements accompany the information from each report contained below.

2 Current cost report

Current cost refers to the present day cost of acquiring an asset which is identical or substantially similar in capacity or functionality to the existing asset in use (which may have been purchased a number of years ago). Historical cost refers to the original purchase price of the existing asset.

Under the Ministerial Direction the Commission must make rules requiring Telstra to keep and retain records that enable the preparation of separate financial statements:

(i) in relation to each of the services of Telstra to which the RAF applies; and

(ii) that are prepared on both an historic cost and a current cost basis in accordance with a methodology (if any) determined by the Commission in writing.

In addition, the Direction requires that the Commission make available to the public copies of the initial reports in respect of the core services as soon as practicable but in any event by 31 December 2003.

For the purposes of the Direction, core services are the:

- Domestic PSTN Originating Access Service;
- Domestic PSTN Terminating Access Service;
- Unconditioned Local Loop Service (ULLS); and
- Local Carriage Service (LCS).

As part of releasing the reports publicly the Commission must also include a statement as to:

(a) the accuracy of the reports;

(b) the extent to which the reports comply with the RAF[1] and any other relevant record-keeping rules made by the Commission; and

(c) any direction given by the Commission under clause 8 of the Direction which deals with Telstra making the reports publicly available.

The Ministerial Direction required Telstra to provide the Commission with an "initial" current cost report by November 2003. The initial report covers the six months ending 31 December 2002, the six months ending 30 June 2003, and the year ended 30 June 2003. The reports in relation to the core services are provided in Table 2.1 and Table 2.2 below.

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[1] The RAF specifies that reporting carriers and carriage service providers must supply to the Commission a set of core reports. The core reports are the Capital Adjusted Profit and Loss Statements, Capital Employed Statements and the Fixed Asset Statements.

The Commission sought information from Telstra in relation to its current systems and procedures which can be used for the preparation of the initial current cost reports. As a result of information provided by Telstra the Commission determined that Telstra's current reporting systems are, in some respects, not suitable for the preparation of full current costs reports as specified in the Direction. More specifically, the Commission concluded that currently Telstra's asset register does not identify assets in such a manner as to allow meaningful current cost derivation and analysis.

2.1 The extent to which the initial report complies with the RAF

The approach used in the preparation of the initial current cost reports has required compromises to be made in relation to the methodology, measurement and reporting to be adopted. This means that the initial current cost reports do not conform to the RAF to the same level of detail as Telstra's historical reports. As will be discussed in more detail below, the current cost adjustments have been confined to fixed assets, and hence no profit and loss and capital employed statements are provided on a current cost basis. In addition, compromises have been accepted in relation to the methodology for revaluing assets for the initial current cost reports.

The approach adopted for the initial report, therefore, should in no way be construed as the Commission endorsing the initial report framework as a basis for the preparation of subsequent current cost reports. Indeed, the Commission is of the view that the limitations in respect to the methodology, measurement and reporting of the initial current cost report framework make it unsuitable as a longer term approach to the development of an effective current cost regime for Telstra.

As only the fixed asset statements are provided, the financial statements provided for the six month ending 30 June 2003 and 12 months ending 30 June 2003 are the same. Consequently only a single statement is provided for these two periods (see Table 2.2).

Approach to asset valuation

Assets are valued using a Modified Current Replacement Cost (MRC) process to adjust the historical cost base of its assets to current replacement cost, primarily via one of the two following methods:

- absolute value; or
- indexation.

The absolute value methodology involves obtaining current unit price data for specific assets and multiplying this by the physical number of units currently in service. This price data incorporates volume discounts and escalations for on costs such as installation and commissioning.

As a result of Telstra's reporting system limitations, only approximately 60 per cent (by written down value) of the communications asset classes could be valued using its MRC "absolute value" measurement approach. It was also not possible to identify the assets in the customer access network (CAN) Copper Cables and CAN Ducts & Pipes assets classes with sufficient accuracy to enable their measurement on an absolute value basis. These assets have, therefore, been valued based on indexing the written down value ("WDV") of the CAN Copper Cables and CAN Ducts & Pipes. WDVs are available from the asset accounting system. Composite indexes of labour material and other costs have been used to index these assets over their service lives to the end of the relevant periods.

The Commission notes that under the asset revaluation approach adopted for the initial report, approximately 40 per cent (by WDV) of the assets in Telstra's asset register have been valued using an indexation method, and that several classes of assets (including motor vehicles, land and buildings etc) have not been valued at all.

In respect to the use of indexation as the primary basis for valuation for a significant portion of Telstra's existing asset base, the Commission notes that this is the least preferred measurement approach in all price change accounting systems because of a number of limitations including:

- when the entity's historical cost data on fixed assets is incomplete, inaccurate or old, the use of indexation will compound such inherent problems to produce misleading results;

- if the process in which the assets are used is obsolete and could be replaced with a more efficient modern process at a lower cost, the use of indexation would result in overvaluation of the assets involved (and, consequently, overstatement of the related depreciation charges); and

- if improvements in technology, design standards and economies of scale have resulted in cost reductions in real terms of the assets themselves, again the use of indexation would result in overvaluation of the assets and overstatement of the depreciation charges.

Notwithstanding the difficulties with developing appropriate indexes for current cost reporting, the Commission decided that given the timeframes available for the preparation of the initial report, it will accept the use of indexation as a means of revaluing assets for the initial current cost report. The Commission notes that indexation is not a method of asset valuation deployed in the RAF and, as such, there are differences in the methodology used to value similar assets under the RAF and under the initial current cost reports.

Absence of Profit and Loss and Capital Employed statements

Under the approach adopted for the initial current cost report, current cost revaluations have not been undertaken for the various elements contained within the RAF Capital Adjusted Profit and Loss Statement and Capital Employed Statement.

In relation to these reports, the Commission considers that given the timeframes set out in the Direction for the preparation of the initial current cost report and the fact that there are a number of issues which require industry consultation relating to the methodology for the preparation of the Capital Adjusted Profit and Loss Statement and the Capital Employed Statement (such as whether financial capital maintenance or operating capital maintenance is the most appropriate basis for the recognition of profits within the current cost framework), a phased-in approach for the preparation of these reports is appropriate.

2.2 Accuracy of the initial current cost reports

As part of the framework to apply to the initial current cost reports, the Commission developed detailed requirements for the auditing of the reports.

The audit objectives, together with the operational implications of each for the auditor, were as follows:

- *To determine whether Telstra has implemented the requirements of the RKRs appropriately and effectively*

  The auditor should form an opinion as to the adequacy and completeness of the adoption of the RKR requirements as reflected in the carrier's Regulatory Accounting Procedures Manual or equivalent ("RAPM").

- *To determine whether Telstra has met the Commission's procedural requirements as specified within the RKRs*

  The auditor should form an opinion as to whether Telstra has complied with the accounting policies and procedures set out in its RAPM.

- *To determine whether the information produced and supplied by Telstra in compliance with the RKRs' provisions can be relied upon by the Commission in undertaking its regulatory obligations*

  The auditor should form an opinion as to the accuracy and completeness of information produced by Telstra in complying with the requirements of the RKRs.

- *To determine whether the historical RKR reports produced by Telstra reconcile with the current cost RKR reports produced by Telstra*

  The auditor will need to develop a process of reconciling the historical RKR reports to the current cost RKR reports and comment on areas where the reports do not reconcile.

- *To determine whether Telstra exercises consistency in applying the RKR specifications to their accounting systems*

  The auditor should form an opinion as to whether Telstra has followed a structured approach in its application of the RAPM. The auditor should also be satisfied that the approach taken has been consistent and appropriate, and that adequate audit trails exist.

- *To ascertain the adequacy of Telstra's monitoring, review and implementation arrangements with respect to changes which impact upon the RKRs and/or the RAPM*

  The RKRs, or their application may be subject to change from time to time. These changes may include, but are not limited to changes in internal accounting practices, the introduction of new services and technologies and amendments to established functions. The auditor should form an opinion as to whether Telstra has adopted and complied with any such changes affecting the RKRs and/or the RAPM, pertaining to the period under audit.

As part of the audit process, the Commission has also required the auditor to ascertain that assets have been re-valued on an appropriate basis using either the absolute valuation methodology or indexing.

The auditors of Telstra's current costs, Ernst & Young, confirm that the current cost reports provided to the Commission comply with the requirements of the current cost RKR and the Audit Terms of Reference.

Table 2.1: Telstra's current and historical fixed asset statement for the core services December 2002

FIXED ASSET STATEMENT – EXTERNAL WHOLESALE BUSINESS									
CCA (Initial Reports) December 2002 (HCA v CCA)	**Unconditional Local Loop (Declared)**			**Domestic PSTN Origin/Term (Declared)**			**Local Carriage Services (Declared)**		
values in $m's	**Dec-02-HCA**	**Dec-02-CCA**	**Change**	**Dec-02-HCA**	**Dec-02-CCA**	**Change**	**Dec-02-HCA**	**Dec-02-CCA**	**Change**
Wholesale Fixed Assets									
2-1 Communications Plant & Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-01 CAN Ducts & Pipes - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-01-1 Historical/Revalued Value	4.6	12.4	7.8	38.8	204.9	166.0	469.8	1,386.6	916.8
2-1-01-2 Accumulated Depreciation	(1.6)	(4.6)	(3.0)	(15.7)	(83.4)	(67.7)	(163.2)	(520.8)	(357.6)
2-1-02 CAN Ducts & Pipes - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-02-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-02-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-05 CAN Copper Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-05-1 Historical/Revalued Value	5.8	8.6	2.7	0.0	0.0	0.0	545.5	799.7	254.2
2-1-05-2 Accumulated Depreciation	(2.6)	(3.9)	(1.3)	0.0	0.0	0.0	(241.1)	(367.1)	(126.0)
2-1-06 CAN Copper Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-06-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-06-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-10 CAN Other Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-10-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-10-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-11 CAN Other Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-11-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-11-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-15 CAN Pair Gain Systems - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-15-1 Historical/Revalued Value	1.9	2.2	0.2	5.3	6.0	0.7	187.8	210.6	22.9

Table 2.1: Telstra's current and historical fixed asset statement for the core services December 2002

2-1-15-2 Accumulated Depreciation	(0.8)	(1.0)	(0.1)	(2.8)	(3.3)	(0.6)	(80.7)	(93.0)	(12.3)
2-1-16 CAN Pair Gain Systems - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-16-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-16-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-20 CAN Radio Bearer Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-20-1 Historical/Revalued Value	0.8	1.4	0.6	0.0	0.0	0.0	75.7	127.7	52.0
2-1-20-2 Accumulated Depreciation	(0.4)	(0.7)	(0.3)	0.0	0.0	0.0	(35.1)	(66.3)	(31.2)
2-1-21 CAN Radio Bearer Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-21-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-21-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-25 Other CAN - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-25-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-25-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-26 Other CAN - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-26-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-26-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-30 Switching Equipment - Local - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-30-1 Historical/Revalued Value	0.0	0.0	0.0	537.3	469.9	(67.5)	762.4	677.7	(84.7)
2-1-30-2 Accumulated Depreciation	0.0	0.0	0.0	(289.8)	(254.5)	35.3	(428.2)	(384.0)	44.2
2-1-31 Switching Equipment - Local - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-31-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-31-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-35 Switching Equipment - Trunk - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-35-1 Historical/Revalued Value	0.0	0.0	0.0	13.7	13.7	0.0	5.0	5.0	0.0
2-1-35-2 Accumulated Depreciation	0.0	0.0	0.0	(7.7)	(7.7)	0.0	(2.4)	(2.4)	0.0
2-1-36 Switching Equipment - Trunk - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-36-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-36-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-40 Switching Equipment - Other - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-40-1 Historical/Revalued Value	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
2-1-40-2 Accumulated Depreciation	0.0	0.0	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0
2-1-41 Switching Equipment - Other - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-41-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2.1: Telstra's current and historical fixed asset statement for the core services December 2002

2-1-41-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-45 Inter-exchange Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-45-1 Historical/Revalued Value	1.0	0.9	(0.1)	97.1	85.7	(11.4)	171.9	151.8	(20.1)
2-1-45-2 Accumulated Depreciation	(0.3)	(0.3)	0.0	(31.1)	(27.4)	3.6	(55.0)	(48.6)	6.5
2-1-46 Inter-exchange Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-46-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-46-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-50 Transmission Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-50-1 Historical/Revalued Value	0.1	0.1	(0.0)	171.2	151.3	(19.9)	198.6	175.5	(23.1)
2-1-50-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(73.4)	(63.2)	10.3	(85.2)	(73.3)	11.9
2-1-51 Transmission Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-51-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-51-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-55 Radio Bearer Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-55-1 Historical/Revalued Value	0.1	0.1	0.0	21.0	21.0	0.0	35.3	35.3	0.0
2-1-55-2 Accumulated Depreciation	(0.1)	(0.1)	0.0	(8.5)	(8.5)	0.0	(14.3)	(14.3)	0.0
2-1-56 Radio Bearer Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-56-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-56-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-60 Data Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-60-1 Historical/Revalued Value	(0.0)	(0.0)	0.0	0.7	0.7	0.0	0.8	0.8	0.0
2-1-60-2 Accumulated Depreciation	0.0	0.0	0.0	(0.2)	(0.2)	0.0	(0.2)	(0.2)	0.0
2-1-61 Data Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-61-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-61-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-65 Mobile Network and Terminal Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-65-1 Historical/Revalued Value	0.1	0.1	0.0	6.0	6.0	0.0	15.6	15.6	0.0
2-1-65-2 Accumulated Depreciation	(0.1)	(0.1)	0.0	(6.0)	(6.0)	0.0	(15.6)	(15.6)	0.0
2-1-66 Mobile Network and Terminal Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-66-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-66-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-70 Customer Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2.1: Telstra's current and historical fixed asset statement for the core services December 2002

2-1-70-1 Historical/Revalued Value	0.0	0.0	0.0	1.4	1.4	0.0	3.7	3.7	0.0
2-1-70-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(1.2)	(1.2)	0.0	(3.0)	(3.0)	0.0
2-1-71 Customer Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-71-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-71-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-75 Satellite Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-75-1 Historical/Revalued Value	0.0	0.0	0.0	1.0	1.0	0.0	2.5	2.5	0.0
2-1-75-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(0.7)	(0.7)	0.0	(1.8)	(1.8)	0.0
2-1-76 Satellite Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-76-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-76-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-80 International Network Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-80-1 Historical/Revalued Value	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0
2-1-80-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-81 International Network Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-81-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-81-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-85 International Network - Other Systems - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-85-1 Historical/Revalued Value	0.0	0.0	0.0	0.8	0.8	0.0	2.2	2.2	0.0
2-1-85-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(0.8)	(0.8)	0.0	(2.0)	(2.0)	0.0
2-1-86 International Network - Other Systems - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-86-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-86-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-90 Other Communications Plant & Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-90-1 Historical/Revalued Value	(0.0)	(0.0)	0.0	3.4	3.4	0.0	1.5	1.5	0.0
2-1-90-2 Accumulated Depreciation	0.0	0.0	0.0	0.1	0.1	0.0	1.5	1.5	0.0
2-1-91 Other Communications Plant & Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-91-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-91-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Communications Plant & Equipment	**8.6**	**15.0**	**6.4**	**460.2**	**509.0**	**48.8**	**1,351.9**	**2,005.4**	**653.5**
2-2 Non-Communications Plant & Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2.1: Telstra's current and historical fixed asset statement for the core services December 2002

2-2-01-4 Information Technology	0.0	0.0	(0.0)	1.3	1.7	0.4	3.0	2.9	(0.1)
2-2-03-4 Buildings and Improvements	0.1	0.1	0.0	8.9	9.1	0.1	17.4	17.4	0.0
2-2-05-4 Other	0.0	0.0	0.0	1.3	2.0	0.7	2.4	2.6	0.2
Total Non-Communications Plant & Equipement	**0.2**	**0.2**	**(0.0)**	**11.6**	**12.8**	**1.3**	**22.8**	**22.9**	**0.1**
2-3 Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-3-01-4 Long term receivables	0.1	0.1	(0.0)	7.5	11.5	4.0	9.9	7.9	(2.0)
2-3-05-4 Long term investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-3-10-4 Intangibles	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0
2-3-20-4 Land	0.0	0.0	0.0	3.0	3.5	0.5	5.8	5.9	0.1
2-3-25-4 Other	0.6	0.6	0.0	21.9	32.6	10.7	40.4	42.8	2.3
Total Other Non-Current Assets	**0.8**	**0.8**	**(0.0)**	**32.4**	**47.6**	**15.2**	**56.1**	**56.5**	**0.5**
			0.0			0.0			0.0
Total Fixed Assets	**9.6**	**16.0**	**6.4**	**504.1**	**569.4**	**65.3**	**1,430.8**	**2,084.9**	**654.0**

Table 2.2: Telstra's current and historical fixed asset statement for the core services June 2003

FIXED ASSET STATEMENT - EXTERNAL WHOLESALE BUSINESS									
CCA (Initial Reports) June 2003 (HCA v CCA)	Unconditional Local Loop (Declared)			Domestic PSTN Origin/Term (Declared)			Local Carriage Services (Declared)		
			Change			Change			Change
values in $m's	Jun-03-HCA	Jun-03-CCA		Jun-03-HCA	Jun-03-CCA		Jun-03-HCA	Jun-03-CCA	
Wholesale Fixed Assets									
2-1 Communications Plant & Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-01 CAN Ducts & Pipes - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-01-1 Historical/Revalued Value	5.2	13.9	8.7	37.4	194.7	157.3	550.9	1,593.3	1,042.4
2-1-01-2 Accumulated Depreciation	(1.8)	(5.1)	(3.4)	(15.2)	(79.1)	(64.0)	(190.8)	(600.0)	(409.2)
2-1-02 CAN Ducts & Pipes - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-02-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-02-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-05 CAN Copper Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-05-1 Historical/Revalued Value	6.6	9.6	3.0	0.0	0.0	0.0	634.5	929.2	294.6
2-1-05-2 Accumulated Depreciation	(2.9)	(4.5)	(1.6)	0.0	0.0	0.0	(285.1)	(439.8)	(154.7)
2-1-06 CAN Copper Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-06-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-06-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-10 CAN Other Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-10-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-10-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-11 CAN Other Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-11-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-11-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-15 CAN Pair Gain Systems - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-15-1 Historical/Revalued Value	2.2	2.5	0.3	4.9	5.6	0.7	220.9	249.1	28.2
2-1-15-2 Accumulated Depreciation	(1.0)	(1.1)	(0.2)	(2.7)	(3.3)	(0.6)	(96.8)	(114.0)	(17.2)
2-1-16 CAN Pair Gain Systems - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-16-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-16-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2.2: Telstra's current and historical fixed asset statement for the core services June 2003

2-1-20 CAN Radio Bearer Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-20-1 Historical/Revalued Value	1.0	1.6	0.6	0.0	0.0	0.0	92.5	154.7	62.2
2-1-20-2 Accumulated Depreciation	(0.4)	(0.9)	(0.4)	0.0	0.0	0.0	(42.5)	(83.2)	(40.8)
2-1-21 CAN Radio Bearer Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-21-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-21-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-25 Other CAN - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-25-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-25-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-26 Other CAN - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-26-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-26-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-30 Switching Equipment - Local - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-30-1 Historical/Revalued Value	0.0	0.0	0.0	535.4	463.4	(72.1)	880.9	775.4	(105.5)
2-1-30-2 Accumulated Depreciation	0.0	0.0	0.0	(301.3)	(262.1)	39.2	(520.0)	(462.7)	57.3
2-1-31 Switching Equipment - Local - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-31-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-31-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-35 Switching Equipment - Trunk - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-35-1 Historical/Revalued Value	0.0	0.0	0.0	13.7	13.7	0.0	5.2	5.2	0.0
2-1-35-2 Accumulated Depreciation	0.0	0.0	0.0	(8.4)	(8.4)	0.0	(2.8)	(2.8)	0.0
2-1-36 Switching Equipment - Trunk - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-36-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-36-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-40 Switching Equipment - Other - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-40-1 Historical/Revalued Value	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
2-1-40-2 Accumulated Depreciation	0.0	0.0	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0
2-1-41 Switching Equipment - Other - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-41-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-41-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-45 Inter-exchange Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-45-1 Historical/Revalued Value	1.0	0.8	(0.1)	114.2	98.7	(15.4)	200.2	173.1	(27.1)
2-1-45-2 Accumulated Depreciation	(0.3)	(0.3)	0.0	(37.2)	(32.0)	5.2	(65.2)	(56.1)	9.1
2-1-46 Inter-exchange Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-46-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-46-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2.2: Telstra's current and historical fixed asset statement for the core services June 2003

2-1-50 Transmission Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-50-1 Historical/Revalued Value	0.1	0.1	(0.0)	166.6	141.6	(25.1)	222.6	189.1	(33.5)
2-1-50-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(75.9)	(63.5)	12.4	(101.3)	(84.8)	16.6
2-1-51 Transmission Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-51-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-51-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-55 Radio Bearer Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-55-1 Historical/Revalued Value	0.2	0.2	0.0	25.9	25.9	0.0	50.1	50.1	0.0
2-1-55-2 Accumulated Depreciation	(0.1)	(0.1)	0.0	(13.9)	(13.9)	0.0	(26.9)	(26.9)	0.0
2-1-56 Radio Bearer Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-56-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-56-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-60 Data Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-60-1 Historical/Revalued Value	(0.0)	(0.0)	0.0	0.2	0.2	0.0	0.3	0.3	0.0
2-1-60-2 Accumulated Depreciation	0.0	0.0	0.0	(0.1)	(0.1)	0.0	(0.1)	(0.1)	0.0
2-1-61 Data Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-61-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-61-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-65 Mobile Network and Terminal Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-65-1 Historical/Revalued Value	0.1	0.1	0.0	5.9	5.9	0.0	17.8	17.8	0.0
2-1-65-2 Accumulated Depreciation	(0.1)	(0.1)	0.0	(5.9)	(5.9)	0.0	(17.8)	(17.8)	0.0
2-1-66 Mobile Network and Terminal Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-66-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-66-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-70 Customer Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-70-1 Historical/Revalued Value	0.0	0.0	0.0	1.3	1.3	0.0	3.8	3.8	0.0
2-1-70-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(1.2)	(1.2)	0.0	(3.5)	(3.5)	0.0
2-1-71 Customer Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-71-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-71-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-75 Satellite Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-75-1 Historical/Revalued Value	0.0	0.0	0.0	0.9	0.9	0.0	2.7	2.7	0.0
2-1-75-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(0.7)	(0.7)	0.0	(2.1)	(2.1)	0.0
2-1-76 Satellite Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-76-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2.2: Telstra's current and historical fixed asset statement for the core services June 2003

2-1-76-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-80 International Network Cables - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-80-1 Historical/Revalued Value	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0
2-1-80-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-81 International Network Cables - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-81-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-81-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-85 International Network - Other Systems - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-85-1 Historical/Revalued Value	0.0	0.0	0.0	0.7	0.7	0.0	2.1	2.1	0.0
2-1-85-2 Accumulated Depreciation	(0.0)	(0.0)	0.0	(0.6)	(0.6)	0.0	(1.9)	(1.9)	0.0
2-1-86 International Network - Other Systems - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-86-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-86-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-90 Other Communications Plant & Equipment - Primary Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-90-1 Historical/Revalued Value	0.1	0.1	0.0	3.0	3.0	0.0	9.1	9.1	0.0
2-1-90-2 Accumulated Depreciation	0.0	0.0	0.0	0.5	0.5	0.0	1.4	1.4	0.0
2-1-91 Other Communications Plant & Equipment - Other Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-91-1 Historical/Revalued Value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-1-91-2 Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Communications Plant & Equipment	**9.6**	**16.6**	**7.0**	**447.6**	**485.3**	**37.6**	**1,538.3**	**2,260.8**	**722.5**
2-2 Non-Communications Plant & Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-2-01-4 Information Technology	0.0	0.0	(0.0)	1.3	1.6	0.2	3.6	3.5	(0.1)
2-2-03-4 Buildings and Improvements	0.1	0.1	0.0	8.8	8.8	0.0	17.1	17.1	0.0
2-2-05-4 Other	0.0	0.0	(0.0)	0.7	1.0	0.2	2.3	2.3	(0.0)
Total Non-Communications Plant & Equipement	**0.2**	**0.2**	**(0.0)**	**10.8**	**11.3**	**0.5**	**23.0**	**22.8**	**(0.1)**
2-3 Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-3-01-4 Long term receivables	0.3	0.2	(0.0)	6.9	10.1	3.2	21.2	19.5	(1.7)
2-3-05-4 Long term investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2-3-10-4 Intangibles	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
2-3-20-4 Land	0.0	0.0	(0.0)	1.9	2.1	0.2	4.7	4.7	(0.0)
2-3-25-4 Other	0.7	0.6	(0.0)	22.4	28.2	5.8	63.3	62.8	(0.5)
Total Other Non-Current Assets	**0.9**	**0.9**	**(0.1)**	**31.3**	**40.5**	**9.2**	**89.2**	**87.0**	**(2.3)**
			0.0			0.0			0.0
Total Fixed Assets	**10.8**	**17.7**	**6.9**	**489.7**	**537.0**	**47.3**	**1,650.5**	**2,370.6**	**720.1**

3 Imputation report

3.1 Introduction to imputation RKR

This section covers the second requirement of the Ministerial Direction — the imputation analysis of core telecommunications services supplied to access seekers.

Pursuant to the Ministerial Direction, on 26 June 2003 the Commission issued a RKR to Telstra in relation to imputation testing. On 1 September 2003, the Commission issued a revised RKR to Telstra entitled the *Imputation Testing (Initial Reports) Record Keeping and Reporting Rules* (referred herein as the 'imputation RKR'). The imputation RKR was revised primarily as a result of Telstra advising the Commission that it could not comply with certain aspects of the rule due to data constraints.[2]

Imputation testing relies on a number of data sources and on specific allocation methodologies. Further refinements to the imputation testing may therefore be required. The Commission has also issued a discussion paper on the future imputation RKR.[3] The paper seeks feedback on whether the approach and methodologies in the RKR are appropriate, and whether any changes or refinements should be made for subsequent reports. Several submissions have been received in response to the discussion paper, which the Commission is currently considering.

The imputation report is designed to reveal whether there is a sufficient margin between Telstra's retail prices and the prices it charges competitors to use its network (plus related costs) to enable them to compete in retail telecommunications markets. This can provide an indication of whether Telstra is engaging in systemic price squeeze behaviour in relation to core access services.[4] A price squeeze occurs if Telstra reduces the margin between retail and wholesale access prices to a level that inhibits competition.

It is important to note that whether or not Telstra fails (or passes) the imputation tests pursuant to the imputation RKR is not determinative of a contravention of the Act (or not). Further evidence of the purpose or effect of the specific conduct is required, in addition to the other requirements of the Act. For example, a contravention of the Act would additionally require consideration of the appropriate market definition, which may not be the same as the service descriptions being used in the imputation RKR.[5]

The Ministerial Direction requires imputation tests be made public to improve transparency about potential price squeezes for core telecommunications services.

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2 In particular, the imputation RKR initially required that the asymmetric digital subscriber line (ADSL) retail service be tested. However, the cost data reported in the Telecommunications Industry Regulatory Accounting Framework did not provide sufficient disaggregation to allow this test. The Commission has amended the RAF to require the ADSL retail service be included for subsequent reports.

3 Australian Competition and Consumer Commission, *Accounting separation regime*, July 2003. The paper is available from the Commission's website at <www.accc.gov.au>.

4 Senator Alston, *Government boost to telecommunications competition*, media release, 24 September 2002.

5 For further discussion on imputation testing, refer: Australian Competition and Consumer Commission, *Bundling in telecommunications markets — an ACCC information paper*, August 2003.

This section is structured as follows:

- background explaining the purpose and structure of an imputation test;
- explanation of the specific imputation tests required under the imputation RKR;
- the results of Telstra's imputation tests;
- summary and discussion of Telstra's results;
- a statement on the extent to which the reports comply with the RAF; and
- a statement on the accuracy of the reports.

3.2 Background to price squeezing and imputation testing

Telstra supplies wholesale access services required for the supply of retail telecommunications services, such as local calls, which are used by itself and other competing retail suppliers. That is, for many telephony services, Telstra's retail competitors rely on telecommunications network supply from Telstra, in particular access to the 'local loop' (or more specifically, PSTN origination and termination). The retail competitors then add other network services (for example, long-distance transmission for long-distance calls) and retail services (such as billing or call centre support).

A price squeeze would occur if Telstra reduces the margin between the retail price it charges and the wholesale access price it charges its retail competitors for an essential input to that retail service, i.e. the core telecommunications service. This margin could be reduced by lowering its retail price for the service and/or raising its wholesale access price for the core service.

If the difference between wholesale access and retail prices is not sufficient to cover Telstra's network and retail costs of supply, it may be that retail suppliers equally or more efficient than Telstra for the supply of the retail service can no longer remain in the market.

An imputation test can be used as a diagnostic tool to detect whether Telstra is engaging in a price squeeze. In the present context, an imputation test involves a comparison of:

- the retail price charged by Telstra for a particular service; and
- the (wholesale) access price charged by Telstra for its core service plus the additional costs incurred in transforming the core service to the retail service.

3.3 The imputation tests in this RKR

As required by the Ministerial Direction, imputation testing is being conducted on retail services that use Telstra's core telecommunications services as inputs. In this first report, imputation testing has been undertaken on the following retail services:

- local calls and line rental;
- domestic long-distance calls;

- international long-distance calls; and
- fixed-to-mobile calls.

For subsequent reports, the Commission is likely to include the asymmetric digital subscriber line (ADSL) retail service which uses the unconditioned local loop core service as an input.

As noted above, there are three main variables in each imputation test: the retail price of the retail service; the access price for the core service and the additional or retail costs, that is, the cost of transforming the core service into the retail service. The imputation RKR details how each variable is calculated. This is briefly discussed below, with reference to Telstra's imputation test in tables 3.1 and 3.2 below.

- The 'retail price' is the average retail price of each retail service. This is calculated by using the total revenue and volume data provided by Telstra. This is shown in the imputation table in the row labelled 'retail price'.
- The 'access price' is the volume weighted average of the prices that Telstra charges its access seekers for the service. This is shown in the imputation tables in the row labelled 'access price'.
- The 'retail costs' in the imputation RKR are the average total costs of transforming the core input into the retail service in question. The costs of transforming the essential input are reported in two categories in the imputation tables: 'retail costs' and 'other costs'.
  - Costs are derived from the Telecommunications Industry Regulatory Accounting Framework (RAF). The RAF allocates common costs as well as direct costs. The costs attributed to 'retail services' in the RAF are appropriate for calculating 'retail costs' for the imputation tests. However, these costs do not include all costs in the transformation of a core service to a retail service (such as transmission), which are listed as 'other costs' in Telstra's reports.
  - The Commission and Telstra have agreed to certain procedures for addressing methodological issues associated with the costs included in the imputation tests for various retail services. These agreed procedures are outlined in section 3.6.
  - The Commission has required Telstra to provide costs calculated on a historical cost basis and current cost accounting basis.
  - The sum of the 'retail costs' and 'other costs', per unit of retail service, is shown in the row labelled 'unit cost' in Telstra's reports.

Using the above variables, the imputed margin for each retail service is calculated.

- The 'imputed margin' is calculated by subtracting the values in the rows for 'access price' and 'unit cost' from the 'retail price' for each retail service. This represents the margin that would be available to competitors, who are equally efficient as Telstra, if supplying the retail service using Telstra's core service.
- The imputation margin, as a percentage of retail price, has also been included in the imputation tables supplied by Telstra.

Telstra's reported results from the imputation RKR are shown on the next two pages.

3.4 Results submitted by Telstra

Pursuant to the imputation RKR, Telstra submitted Tables 3.1 and 3.2 to the Commission on 1 December 2003. These are shown below.

Table 3.1 Report for July to September 2003 quarter on historical cost basis

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
Revenues											
retail	359,611,167	606,674,510	85,582,858	203,686,835	13,404,619	56,250,383	193,328,103	204,072,496	651,926,747	1,070,684,224	1,722,610,971
other	0	0	0	0	0	0	0	0	0	0	0
total	359,611,167	606,674,510	85,582,858	203,686,835	13,404,619	56,250,383	193,328,103	204,072,496	651,926,747	1,070,684,224	1,722,610,971
Retail Costs											
organisation	21,898,549	49,822,665	3,370,145	10,257,196	872,402	4,609,375	6,626,362	5,621,567	32,767,458	70,310,804	103,078,262
product and consumer	21,874,693	47,652,250	6,417,786	19,532,835	6,143,570	32,459,823	130,390,048	110,618,224	164,826,096	210,263,132	375,089,228
total	43,773,241	97,474,915	9,787,931	29,790,032	7,015,972	37,069,197	137,016,410	116,239,791	197,593,554	280,573,936	478,167,490
Other Costs											
organisation	0	0	730,892	2,224,505	113,048	597,296	1,405,786	1,192,618	2,249,726	4,014,419	6,264,146
product and consumer	0	0	18,799	57,215	3,124	16,508	165,403	140,322	187,326	214,045	401,371
network expenses	0	0	4,456,166	13,562,553	615,161	3,250,231	6,300,285	5,344,935	11,371,612	22,157,719	33,529,331
total	0	0	5,205,857	15,844,272	731,334	3,864,036	7,871,474	6,677,875	13,808,665	26,386,183	40,194,848
Retail price	139.58	99.42	0.16	0.12	0.52	0.41	0.35	0.43	253	175	198
Access price	129.87	90.62	0.03	0.02	0.01	0.01	0.02	0.02	139	99	111
Unit cost	16.99	15.97	0.03	0.03	0.30	0.30	0.26	0.26	82	50	60
Imputed margin	-7.28	-7.17	0.10	0.07	0.21	0.10	0.07	0.16	32	27	28
Imputed margin %	-5%	-7%	64%	58%	40%	24%	21%	36%	12%	15%	14%

Table 3.2 Report for July to September 2003 quarter on current cost basis

	Local carriage service		Domestic PSTN originating and terminating access services		Domestic PSTN originating access service				Total Bundle of Fixed Voice Products		
	Local calls and Line rental		Domestic long distance		International long distance		Fixed to mobile		Bundle		
	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Business	Residential	Total
Revenues											
retail	359,611,167	606,674,510	85,582,858	203,686,835	13,404,619	56,250,383	193,328,103	204,072,496	651,926,747	1,070,684,224	1,722,610,971
other	0	0	0	0	0	0	0	0	0	0	0
total	359,611,167	606,674,510	85,582,858	203,686,835	13,404,619	56,250,383	193,328,103	204,072,496	651,926,747	1,070,684,224	1,722,610,971
Retail Costs											
organisation	21,196,666	48,210,763	3,274,901	9,967,315	854,916	4,516,985	6,459,839	5,480,295	31,786,321	68,175,358	99,961,680
product and consumer	21,733,880	47,332,637	6,393,670	19,459,439	6,139,057	32,435,977	130,341,514	110,577,050	164,608,120	209,805,102	374,413,223
total	42,930,546	95,543,400	9,668,571	29,426,754	6,993,972	36,952,962	136,801,353	116,057,345	196,394,442	277,980,460	474,374,902
Other Costs											
organisation	0	0	914,763	2,784,125	122,494	647,205	1,529,482	1,297,558	2,566,740	4,728,887	7,295,627
product and consumer	0	0	21,927	66,736	3,314	17,509	161,390	136,917	186,631	221,162	407,793
network expenses	0	0	5,296,294	16,119,521	725,964	3,835,664	7,642,694	6,483,787	13,664,952	26,438,971	40,103,923
total	0	0	6,232,984	18,970,382	851,772	4,500,378	9,333,566	7,918,261	16,418,322	31,389,021	47,807,343
Retail price	139.58	99.42	0.16	0.12	0.52	0.41	0.35	0.43	253	175	198
Access price	129.87	90.62	0.03	0.02	0.01	0.01	0.02	0.02	139	99	111
Unit cost	16.66	15.66	0.03	0.03	0.30	0.30	0.26	0.26	83	51	60
Imputed margin	-6.95	-6.86	0.10	0.07	0.20	0.10	0.07	0.15	31	26	28
Imputed margin %	-5%	-7%	63%	57%	39%	23%	20%	36%	12%	15%	14%

3.5 Summary of results

Section 3.4 showed the imputation test results lodged by Telstra using two cost bases: historical cost and current cost accounting.

The imputation test results on historical cost and current cost basis are very similar. As noted previously in this report, current cost accounting adjusts the historical cost data to update Telstra's fixed asset values to reflect current market values. However, as imputation tests use the access price instead of the actual cost to Telstra of supplying the core service using its fixed assets, the current cost accounting imputed margin is unlikely to significantly differ from the imputed margin using historical cost data.

Further, the process of current cost accounting is ongoing, and the current cost accounting imputation test results reflect this transition.

The imputation RKR uses an average total cost basis in calculating the cost of transforming Telstra's core service into a retail service. The Commission believes that this measure provides an important indicator of the long-run impacts of particular pricing.[6]

An overview of the results that Telstra submitted under the imputation RKR are shown below for testing undertaken using a historical cost basis. The ensuing discussion also focuses on the results using the historical cost basis.

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6 The Commission has discussed this issue in its recent *Bundling in telecommunications markets* report.

Table 3.3 Imputation testing undertaking on a historical cost basis

Retail service	Core service(s)		Imputed margin	Result
Local calls and line rental	Local Carriage Service	Business	-5%	Fail
		Residential	-7%	Fail
Domestic long-distance	PSTN Originating and Terminating Access Services	Business	64%	Pass
		Residential	58%	Pass
International long-distance	PSTN Originating Access Service	Business	40%	Pass
		Residential	24%	Pass
Fixed-to-mobile	PSTN Originating Access Service	Business	21%	Pass
		Residential	36%	Pass
A bundle comprising all of the above services	Local Carriage Service and PSTN Originating and Terminating Access Services	Business	12%	Pass
		Residential	15%	Pass
		Total	14%	Pass

Overall, the results indicate that Telstra passes the imputation tests for domestic and international long-distance calls and fixed-to-mobile calls, but fails for line rental and local calls.

Line rental and local calls

The results indicate that Telstra would receive a negative margin if it supplied the local calls and line rental retail services by purchasing the local carriage service input to those services at arms' length from itself. While this would appear to suggest that Telstra may be engaging in a price squeeze, the Commission has noted previously that failing an imputation test is not necessarily determinative of a contravention of the Act. That is, the Commission would need to consider other factors.

The 'fails' in relation to the grouped line rental and local call services are consistent with the Commission's previous imputation testing. This is because the Commission uses 'unbundled' local call prices to determine the local call service access price, which is greater than the average retail price used for the imputation tests. In determining the appropriate pricing principles for the local carriage service, the Commission noted that any losses made by Telstra on line rental and local calls would need to be recovered from long distance and fixed-to-mobile. The Commission's recent *Final determination for model price terms and conditions for the PSTN, ULLS and LCS services* stated:

> The Commission's imputation analysis indicated that there is cross-subsidisation of Telstra's local call services [consisting of line rental, local and neighbourhood calls] from its long distance services. However, the existence of positive margins on the long distance services which more than offset the negative margins on local call services means that Telstra's retail

> local call prices are not considered predatory because access seekers should be able to emulate this cross-subsidisation.[7]

Secondly, Telstra has argued that it is common practice in the telecommunications market to discount access and local calls services to pick up the long-distance business. In that same report, the Commission stated:

> From a competition perspective if the relevant market was seen strictly in terms of a local call market, this may indicate a concern, however, access seekers do not compete in the local call market alone, i.e. only for local call services. The Commission understands, and has received no information to the contrary, that access seekers would aim to supply STD, IDD and FTM services to customers as well local calls, consistent with current preselection arrangements. This means that while the issue of the appropriate market definition would figure in any competition analysis, the market definition used would also need to have regard to the market characteristics and regulatory factors discussed above.
>
> In view of the above analysis, the Commission considers that there is no need for it to change the basis on which the retail starting price is determined in relation to the LCS pricing approach. It will continue to monitor the market, using its new monitoring powers under the augmented accounting separation provisions, to ensure that Telstra continues to pass the imputation test for all services as constructed above and that the margins between bundled and unbundled approaches are not unduly eroded.[8]

However, as stated earlier, the result of the imputation analysis is not in itself likely to be sufficient to determine Commission action. Other evidence of the purpose or effect of conduct in individual cases and further consideration of the scope of particular markets will also be required. The Commission will consider what, if any, competition issues failure of the test raises in subsequent reports.

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

In the retail supply of domestic and international long-distance and fixed-to-mobile call, Telstra would make a positive margin if it purchased the essential input, in this case the domestic PSTN originating and terminating access, at arms' length from itself.

The margins that Telstra would receive on the retail services vary greatly between services. As Table 3.3 indicates, Telstra's imputed margins vary from as high as 64 per cent for the supply of domestic long-distance services to business customers to as low as 21 per cent in the supply of fixed-to-mobile services to business customers.

Telstra's imputed margins also vary between business and residential segments. For example, in the supply of international long-distance services, Telstra's imputed margins are 40 per cent for business customers compared to 24 per cent for residential customers. As the unit costs are the same for both business and residential segments,[9]

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7 Australian Competition and Consumer Commission, *Final determination for model price terms and conditions for the PSTN, ULLS and LCS services*, October 2003, p. 95.

8 ibid, pp. 95-95.

9 This is because the RAF does not disaggregate costs on the basis of customer groups. Telstra's tables in section 3.4 allocate costs on the basis of volumes of sales.

the difference in margin between customer groups is primarily driven by the average retail price.

Bundle of services

Telstra has undertaken an imputation test on a bundle of fixed-voice services. This basket includes local calls and line rental, domestic and international long-distance calls and fixed-to-mobile calls. As shown in Table 3.3, Telstra passes the test over the bundle with a margin of 15 per cent for residential customers and 12 per cent for business customers.

3.6 Extent to which the reports comply with the RAF and other RKRs

In addition to summarising the results of the imputation tests, the Ministerial Direction requires the Commission to makes statements commenting on the extent to which the reports comply with:

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

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

3.6.1 Relationship between the RAF and the imputation RKR

Telstra provides financial information to the Commission in the RAF. Under the RAF, Telstra is required to provide capital adjusted profit and loss statements in relation to its Retail services, Internal Wholesale services and External Wholesale services. Telstra is also required to provide Capital Employed and Fixed Asset Statements in relation to those three services.

The Ministerial Direction requires that Telstra provide the specified information to the Commission on a quarterly basis. Telstra currently provides RAF information to the Commission on a six-monthly basis. In the first report, to address the time disparity, the Commission required Telstra to:

- obtain revenue information for core and retail services from Telstra's general ledger accounts where the data relates to the relevant quarter (in this case, July-September 2003);
- obtain volume information for core and retail services from Telstra's management information systems where the data relates to the relevant quarter; and
- obtain cost information for retail services each quarter by multiplying the volume data for the relevant quarter with the unit costs of the service derived from the RAF

accounts for the six-month reporting period preceding that quarter (in this case, January-June 2003).

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. Telstra has made two variations to the RAF allocations for the purposes of the imputation test data. These are explained below in section 3.6.2.

The RAF records volume information for retail and wholesale services, including 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 volume data for the relevant quarter be used, and this can later be compared to the volume data that appears in the RAF.[10]

As noted above, 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. However, Telstra has made several manipulations to the original RAF data for the purposes of the imputation test. These are explained below in section 3.6.3.

3.6.2 Revenue differences between the imputation RKR and the RAF

Some differences exist between the revenues that Telstra extracts from its general ledger, which are included in the imputation RKR, and those included in the RAF. This is described briefly below.

- Line rental revenues in the imputation RKR include revenues from the ‘PSTN Basic Access Line Rental’ and ‘Faxstream Access’ Telstra products. Faxstream was not included in the revenues for the RAF prepared for the 2002-2003 year. However, Faxstream revenue will be included in the RAF prepared for the 2003-2004 year.

- Domestic long-distance revenues in the imputation RKR include revenues from national long-distance and Faxstream long-distance calls. The definition for 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 revenues for local calls, international long-distance and fixed-to-mobile calls in the imputation RKR are consistent with the revenues items for these services in the RAF.

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10 The Commission has released some volume information pursuant to section 151BUA of the Act. See Australian Competition and Consumer Commission, *Telecommunications market indicator report 2001-02*, September 2003.

3.6.3 Cost differences between the imputation RKR and the RAF

When constructing the imputation test, Telstra raised implementation issues relating to the calculation of the appropriate retail and other costs using the RAF data. Telstra sought the Commission's agreement on the proposed methodologies to resolve these issues. The Commission agreed that the implementation issues existed and needed rectification, and that the proposed methodologies appeared reasonable for the initial imputation test report.

The issues identified by Telstra, and the agreed methodologies, have resulted in the 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 — as required by the imputation RKR;
- the use of a mobile termination methodology for costing fixed-to-mobile services; and
- the avoidance of double-counting PSTN originating and terminating access service costs.

The latter two dot points are described in more detail below.

The Commission also notes that Telstra has included the retail and wholesale costs of capital in the imputation tests. The WACC used in calculating the cost of capital is that set out in Telstra's RAF, which for the six months to June 2003 was the annual WACC figure of 14.06 per cent divided by two in order to reflect the half year period of the RAF. Should Telstra have used the Commission's WACC, then Telstra's calculated costs would have been lower and, as such, the imputed margins would have been higher.

Mobile termination methodology for fixed-to-mobile services

As the imputation tests are designed to show whether an efficient access seeker is able to compete with Telstra, adjustments were required to be made to the imputation test to account for fixed-to-mobile calls being terminated on all networks (rather than just using Telstra's termination rate). To do this, the Commission and Telstra agreed, at least for the first report, that Telstra impute the weighted average mobile termination charge that would apply to an access seeker who terminates fixed-to-mobile traffic on Telstra's mobile network.

Double-counting PSTN originating and terminating costs

To calculate the costs of transforming the PSTN core service 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 price for the PSTN originating and terminating access service. 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 access price.

To overcome this issue, Telstra deducted the common elements located in the External Wholesale PSTN accounts in the RAF (which are used to calculate the access price) from the costs located in the Internal Wholesale PSTN account in the RAF.

3.6.4 Conclusion of the extent to which the reports comply with the RAF

Subject to the exceptions noted above in sections 3.6.2 and 3.6.3, the revenue data for retail services and the cost data for retail services comply with the RAF. Other data involved in the imputation testing is not required to comply with the RAF.

3.7 Accuracy of the imputation RKR reports

The Ministerial Direction requires the Commission to make a statement which comments on the accuracy of the reports lodged by Telstra. This section comments on accuracy.

3.7.1 Audit process

Clause 13 of the imputation RKR addresses the audit requirements for the reports. Telstra and the Commission have agreed that the audit process in respect of the first report is to be conducted in accordance with Australian Auditing Standard AUS 904 'Engagements to Perform Agreed Upon Procedures'.

Telstra engaged Ernst & Young to perform the agreed-upon procedures. The procedures that Ernst & Young performed do not constitute an audit in accordance with Australian Auditing Standards applicable to review engagements and, consequently, no assurance has been expressed by Ernst & Young.

The Commission considered that the agreed-upon procedure was appropriate for the first report. That said, for subsequent reports the Commission will revisit the issue of whether a full audit or an agreed-upon procedure is appropriate.

3.7.2 Accuracy of report

Given the process carried out by Ernst & Young and its report (provided to the Commission), the Commission is satisfied that Telstra has complied with the imputation RKR procedures as specified in the Regulatory Accounting Procedures Manual agreed between the Commission and Telstra.

Additionally, the results of the imputation testing conducted on a historical basis are not unexpected as they are consistent with previous results the Commission has obtained when it has conducted imputation testing for its own purposes.

In commenting on accuracy, the Commission notes the following.

- Costs in this imputation tests use the unitised RAF costs from the RAF for previous six-month reporting period, with certain adjustments. This means that there is a slight lag with the cost information, and that the time periods for the revenues and costs do not correspond. That said, it is unlikely that Telstra's costs will vary greatly, on a per unit basis, between quarters.

- The RAF as it currently stands does not allocate costs on the basis of customer groups. The imputation RKR requires Telstra to allocate costs to the customer groups to which it is attributable, but where this is not possible, the costs are to be allocated on the basis of usage, which has occurred. Therefore, care must be taken in interpreting the results of imputation tests for each customer groups.

- The imputed margin for local calls and line rental for the residential customer segment may be understated as a result of the inclusion of Telstra's 'InContact' product. This product is a type of access service which can be used to receive calls and to make calls to a limited range of services including emergency numbers, service difficulties and faults. InContact is only available to a non-business customer at a private dwelling where no other access service is provided to the private dwelling or the customer. Eligible customers who apply for the service must also hold an eligible concession card. As such, the Commission understands that InContact product represents only a small proportion of Telstra's customers. Nonetheless, its inclusion may slightly reduce the margin in the imputation test for local calls and line rental services.

Subject to the above qualifications, the Commission is satisfied that the reports provided to it by Telstra are accurate.

4 Non-price terms and conditions report

The key performance indicators (KPIs) on non-price terms and conditions relate to Telstra's Basic Access service and measure the difference between the percentage of Telstra Wholesale Business customers and Telstra Retail customers (for residential and business customers separately) that met the performance standard (defined in terms of the Customer Service Guarantee measures). The KPIs relate to:

- ordering and provisioning;
- faults and maintenance; and
- appointments.

These KPI measures 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.

The principal objective of the KPIs is to compare Telstra's performance in providing services to its retail customers as compared to the supply of services to its wholesale customers that are supplied to their 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.

The Ministerial Direction requires the Commission to publish the KPI information provided by Telstra and it must disclose the performance of both business and residential customers separately.

Table 4.1 comprises Telstra's KPI report for the quarter ended 30 September 2003.

Table 4.1: Telstra's KPI report for non-price terms and conditions

Ordering and Provisioning – Basic Access

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
1	The percentage of basic access customer installation orders provisioned in the quarter on or by the performance standard – previous service available for automatic connection	1.05	-1.90
2	The percentage of basic access customer installation orders provisioned in the quarter, on or by the performance standard – new service with available cabling and capacity	-1.36	-3.72
3	The percentage of Basic Access orders provisioned in the quarter, on or by the performance standard - new service which requires additional cable or network capacity	17.93	-1.61
4	The percentage of basic access order appointments that are met in the quarter	0.04	-0.57

Faults and Maintenance – Basic Access

Metric	Measure	The difference between percentage of Wholesale Business customers and Retail Business customers in target (that is, that have met the performance standard)	The difference between percentage of Wholesale Residential customers and Retail Residential customers in target (that is, that have met the performance standard)
5	The percentage of basic access faults that are rectified in the quarter, on or by the performance standard	-0.89	-1.21
6	The percentage of basic access fault appointments that are met in the quarter	2.12	3.63

Notes:

- The performance standard used for all metrics is the same as that used for the Customer Service Guarantee, unless otherwise stated.

- A positive difference means that Wholesale met the performance standard in a greater percentage of cases than Retail. That is, Telstra's performance in relation to Wholesale customers was better than for retail customers.

- For metrics 1-3, the performance standard = target provisioning time (TPT)

- For metric 5, the performance standard = target date/time.

A positive difference means that Telstra Wholesale met the performance target in a greater percentage of cases than Telstra Retail. A negative difference means that Telstra Wholesale met the performance target in a lesser percentage of cases than Telstra Retail.

The results indicate that with the exception of Metric 2 (ie. the percentage of basic access customer installation orders provisioned in the quarter – new services with available cabling and capacity) and Metric 5 (the percentage of basic access faults that are rectified in the quarter, on or by the performance standard), Telstra's performance was better for its Wholesale Business customers than for its Retail Business customers. However, Telstra's performance was better for Retail residential customers compared with Wholesale residential customers, with the exception of appointments met (Metric 6).

Telstra has advised the Commission that the large variance in Metric 3 can in most part be explained by differences in measurement and recording processes between Telstra Wholesale and Telstra Retail and that these differences account for about 11 percentage points of the reported 17.93 variance. Telstra has explained that sometimes customers who have requested the service from Telstra want to change the time of their appointment - for example, when their plans change unexpectedly. When they call to change the appointment, the new appointment time will be recorded in Telstra's system. This is the same for retail and wholesale customers. The measurement difference occurs because while Retail registers this new appointment it uses the date of the original appointment to measure the time between when the customer order was received and when the service was delivered, so the time taken appears much longer than it really is. In wholesale, the measurement is made between the revised appointment time and when the service was delivered. In both cases, the service is delivered as the customer has requested it, but is being measured differently. Telstra attributes a further 3 percentage points of the variance to order entry delays caused by system and workforce management issues. Telstra advised that it will align the reporting processes by 1 January 2004. As such, these differences in performance measures should be aligned by the March 2004 reporting period. Telstra has advised that these changes will not alter the way Telstra serves its customers.

A further qualification that needs to be made is that these results are not directly comparable to those reported by the Australian Communications Authority in the context of CSG reporting, as the CSG only applies to customers with 5 lines or less.

Telstra has also advised that in analysing these results, it has identified a number of areas where it can improve both system and operational processes. The Commission expects that these improvements should become apparent in the results provided in subsequent periods.

While there are some variances that require further investigation, there is no evidence to suggest that there is any systematic discrimination against Telstra Wholesale customers.

4.1 Extent to which the report conforms with the RKR

The non-price terms and conditions RKR requires Telstra to aggregate end-user customers into the business customer group and the residential customer group on the basis of Telstra's product codes, and the creation and maintenance of records regarding all customer appointments in addition to the last appointment that may be made with a customer.

However, the Commission accepts that these requirements will require some time for Telstra to implement the necessary changes to its existing information systems, and that until such changes occur, it would be appropriate for Telstra to:

- aggregate its customers on the basis of the consumer codes it assigned to the customer; and
- create and maintain records regarding only the last customer appointment that is made in respect of a matter (where more than one appointment has been made in respect of the matter).

Telstra has provided advice to the Commission that indicates that it has commenced the necessary changes to its information systems to rectify these matters. However, these changes will unlikely to be fully reflected in reports until 30 June 2004.

4.2 Accuracy

The Commission has issued its audit terms of reference for the initial reporting period ending 30 September 2003. The audit is designed to determine whether or not the report provided by Telstra has been prepared in accordance with the methodologies outlined in the Regulatory Accounting Procedures Manual (RAPM) to meet the requirements of the non-price terms and conditions RKR.

The independent audit report provided by Ernst & Young states that the initial KPI report provided by Telstra presents fairly in accordance with non-price terms and conditions RKR and the reporting rules outlined in the audit terms of reference.

4.3 Subsequent reporting requirements

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.

As noted in the explanatory statement to the RKRs, 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. 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.

Notwithstanding the concerns raised by Telstra in relation to possible misinterpretation of the underlying data, the Commission will give further consideration to publishing this information in future reports.