Australian Competition & Consumer Commission

MediaRelease

Attention: Telecommunications, business writers

A.C.C.C. ISSUES FIRST TELSTRA ACCOUNTING SEPARATION REPORTS

The Australian Competition and Consumer Commission today issued its first round of reports in relation to the accounting separation of Telstra.

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 being issued are:

- 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.

The reports constitute the information that the ACCC is required to make public under the Ministerial Direction on accounting separation issued by the Minister for Communications, Information Technology and the Arts in June 2003.

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 ACCC 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.

While the information in the three reports does not tend to reveal any specific concerns with the way Telstra is providing services to access seekers to enable them to compete in retail markets, it should be noted the reports are highly aggregated in terms of customer and service categories. This means that specific or individual cases may arise which could give the ACCC grounds for concern. Such cases would continue to be looked at on their merits.

Further, these are only the first set of reports which reflect a number of limitations in the level of information that Telstra has been able to provide to the ACCC at this early stage. Ongoing reports based on improved data over time could well present a different picture.

The reports are available in a single document on the ACCC's website www.accc.gov.au. In the interests of transparency, the ACCC has also required Telstra to publish the reports on its website.

Further information
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* The core access services comprise the local carriage service, PSTN originating and terminating access and the unconditioned local loop service.

BACKGROUND

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 ACCC to issue Record Keeping Rules (RKRs) under its powers under the Trade Practices Act, requiring Telstra to provide the ACCC 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).

It is a requirement of the Direction that certain information contained within the reports be made available to the public.

The 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 ACCC 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 imputation testing and non-price terms and conditions apply for the first quarter of 2003-04. All the initial reports were to be supplied to the ACCC at the end of November 2003. The ACCC is required to release to the public certain information contained in Telstra's reports by the end of December 2003.

The ACCC intends to issue RKRs to Telstra for the subsequent reports in the first half of 2004.