

Appendix B: Questions and Answers

1. What are the undertakings?

The undertakings are the binding commitments negotiated between Telecom and the Crown that will determine how Telecom does business in the future. In Britain BT is governed by a parallel set of undertakings.

2. Who enforces them?

Once negotiated, the undertakings will be published. Telecom will publish them on its website, for instance. The Independent Oversight Group would then use the undertakings as a standard against which to measure Telecom's performance. The IOG (with a majority of non-Telecom members) would publish its findings on a regular basis, so if Telecom fails to meet any of the undertakings this will be publicly reported.

3. The non-discrimination undertaking – what does that mean?

The aim of non-discrimination is to remove discrimination or appearance of discrimination against other service providers. There are two measures of this; equivalence of inputs and equivalence of outputs.

4. What is the difference?

Equivalence of inputs means that Telecom will provide the same product or service to all communications providers on the same time scale, terms and conditions, and service levels.

It also means Telecom Wholesale will provide all communications providers with the same commercial information about products, services, systems and processes.

It will ensure everyone gets exactly the same deal for these products. It guarantees that Telecom Retail will be at no advantage.

Equivalence of outcomes means that Telecom's wholesale customers will get the same or substantially similar wholesale outcomes as Telecom Retail. There may be different IT systems used to access the services, for example, but the actual end result will be substantially similar.

It is Telecom's intention to deliver equivalence of inputs (EOI) for targeted access services on the NGN and to get as close as possible to EOI for new targeted services introduced between now and then. Telecom will deliver equivalence of outcomes (EOO) for current regulated designated access services.

5. What are targeted access services?

Targeted access services include services like LLU, UBS (broadband internet access) and the NGN (next generation network), to be rolled out from 2008. The Glossary to Telecom's submission identifies these services more precisely. These services are the services wholesale customers need to compete.

6. Why treat these two kinds of services differently in the undertakings?

In Britain BT has undertaken to re-engineer its systems to deliver current (or "legacy") access services at EOI standards, but Telecom does not plan to adopt this aspect of the BT model.

The BT experience is that the process is proving to be costly and time consuming. It has involved unpicking a significant proportion of BT's internal systems and rebuilding them. Consequently, it is taking BT more than five years to deliver on its undertakings. Telecom wants to deliver more quickly than that.

There are also significant logistics and strategic issues to consider.

If Telecom were to refit current systems to deliver equivalence of inputs for current regulated access services the company would need to redesign and rebuild most of its current systems. To put this into context, Telecom is a vertically integrated company with 900 applications that are tightly linked. In the process of providing a customer with a basic residential line over 100 different applications are engaged. Rebuilding those systems in order to separate them would be extremely complex, time consuming and expensive. However the far greater strategic concern is that it would tie up our specialised people and resources and compromise the company's ability to roll out NGN services (see below).

One of the principal drivers of the decision to unbundle was the need to speed up New Zealanders' access to world class broadband. Telecom does not want to see the money and skills required to introduce the newer technologies diverted into rebuilding the current systems, when the services they support will rapidly become obsolete.

7. Is this a means whereby for the majority of its services Telecom can avoid or defer change?

Offering equivalence of outcomes on current regulated access services is not a 'do nothing' option. It will require intensive upgrading of processes, investigation, reporting and analysis in order to prove to the Independent Oversight Group that we have met our binding undertakings. To satisfy the Independent Oversight Group Telecom will have to show that Telecom's retail competitors are not being discriminated against or disadvantaged.

8. Does this mean Telecom has watered down the BT model for NZ?

Telecom has adopted almost all of the BT undertakings. Where there are differences Telecom has taken a different approach because we believe the desired outcomes can be achieved in a less costly and less complex way and also more quickly.

New Zealand's market conditions are different to the UK's. We have a smaller population, a smaller economy, lower buying power, a different mix of competitors. The two companies reflect the markets they serve.

Telecom is seeking a pragmatic solution.

For example,

Fastest to implement: this is why we have adopted a forward looking approach to EOI. We do not want to spend time and resources re-engineering current systems which deliver services that are becoming obsolete, when that money and skill could be spent rolling out newer technology to support new services.

Lowest cost to the industry overall: we have opted to achieve non-discrimination through a single wholesale unit. BT has created three separate wholesale units – OpenReach, BT Wholesale and Exact. In the NZ context that would be an unnecessary duplication. The more expensive the system is to run, the greater the cost to be passed on to the rest of the industry and ultimately to consumers.

Simplest to access: Telecom’s model with the one wholesale unit makes it clear to access seekers who they’re dealing with and on what terms.

9. What is NGN?

NGN is shorthand for Next Generation Network. Moving to the NGN network is the number one priority for Telecom. It is a very exciting platform, which New Zealand needs if we are to keep up.

NGN is an all-IP digital network, built on the same technology that underpins the internet. It is the basis for new development and innovation worldwide, both in terms of how the technology works and how it can be used and applied by consumers.

We are currently in the design stage for our NGN and expect services to be launched over this new technology within the next two years.

10. Why not separate Telecom’s assets into Wholesale and Retail in a true separation?

Telecom doesn’t believe a separation of assets is required to meet the objectives of the Bill.

Splitting assets up and managing them in isolation is artificial, costly, complex and ultimately puts end services at risk because no-one is accountable for service performance.

In BT’s experience asset splitting means that wholesale groups have to trade amongst themselves creating extra steps. New Zealand is too small for that kind of duplication.

Telecom’s proposed operational separation comes with binding undertakings about transparency and a prescribed system of governance to ensure the Wholesale Unit remains separate from the rest of the business.

The unit’s independence will be supported by a number of mechanisms:

- strictly controlled information flows between Wholesale and Retail
- physically separated operations with controlled access
- independent incentives for Wholesale management team

The principal outcome, and the standard by which the Wholesale Unit will be judged, is non-discrimination by all access seekers.

11. How will a system of Chinese walls be established to ensure the independence of the Wholesale Unit?

As mentioned, the Wholesale Unit will be established in a different physical location to the rest of the company, with restricted staff access.

Wholesale will serve and bill its customers and will be responsible for its own marketing, PR, strategy, business development, account management and technical operations.

In accordance with BT undertakings, there will be strict management of information, with detailed customer confidentiality requirements. There will be no passing of restricted information between Wholesale and Retail. Retail employees will not be in a position to influence the commercial policy of Wholesale, unless other access seekers also have that opportunity.

Strict protocols will be put in place so commercial information received by Wholesale will not be shared with other retail providers, including Telecom Retail.

Customer information received by Wholesale will not be disclosed to anyone else except with consent or when it is necessary to deliver a service, and then to the minimum amount possible.

When Wholesale releases information on issues like network capacity or timeframes for the release of new technology Telecom Retail will only receive that information at the same time as other retailers.

These mechanisms will be monitored by the Independent Oversight Group.

12. How independent will the Independent Oversight Group be?

Telecom is modeling its proposed Independent Oversight Group on BT's Equity of Access Board (EAB). Like the EAB, the IOB will have five members. Three members will be drawn from outside the company. All five members will be appointed in consultation with the industry.

The IOG will measure Telecom's performance against a public scorecard and against the binding undertakings negotiated with the Crown.

The IOG will report directly to Telecom's board. Its reports will be public documents. It is intended the Board be both an active and effective watchdog.

13. How does Telecom regard the role of the regulator?

The changes to the Telecommunications Act will mean the regulator will have an expanded role. All key wholesale services are regulated. Regulation covers the technical specification and pricing of those services. If Telecom's Wholesale Unit does not deliver the type of services customers want or at the price they want them, the regulator can step in. The regulator can also proactively step in and require industry wide offers to be provided by Telecom.

Service quality, information flows, service definition and pricing will be managed either by regulation or by binding undertakings. This combination will level the playing field.

14. Why not just legislate to give the Commerce Commission to powers it need to force through the new terms and conditions?

Voluntary separation has two very strong advantages. It means the industry has buy in, which generally speeds up the process of change. It is also makes it easier to adapt and modify the change process if required.

The BT experience has seen a stream of small changes as the company and the industry have worked through the details and complications of developing the new environment. There is no reason to expect the New Zealand experience will be any different.

Regulation moves more slowly than that and therefore the expected gains from unbundling will be slower to materialize.

Telecom is advocating a combination of voluntary operational separation and some regulation to achieve the Bill's objectives. An entirely enforced solution will not achieve the Bill's objectives.

A drawn out and uncertain process around the future structure of the company will create major issues for investors. It will deflect money and skills away from the transformation we have already begun and it will distract us from the technology challenges we face.

15. Why not separate the ownership of Telecom?

Structural separation is a radical remedy. It involves turning Telecom into two separate companies with two CEOs and two boards.

In other network industries (eg. electricity) where separation has occurred incentives for investment have reduced and the increased cost of administration has seen consumer prices rise.

Overseas experience suggests a structural separation of Telecom would strike the same complications and the cost of the separation would be much greater than any expected benefits.

The communications sector is different to other infrastructure sectors. It requires rapid technological change and high risk investment. Any money spent on replicating offices and roles would be money no longer available for investment in innovation and upgrades. Given the scale of investment required (billions, not millions), a network company separated from its retail business would find it harder to justify large scale investment in new technology because it would be less certain of developing consumer demand. It is more likely to skew its investments to low cost, high return products and high density population areas. This could affect both the sophistication of future services and the geographical access to those services.