

File No: P/002/PR005/002

18 July 2008

Neville Lord  
Commerce Commission  
Level 6, Vector House  
44-52 The Terrace  
WELLINGTON

Dear Neville

**SUBMISSION ON THE DRAFT PRINCIPLES AND REGULATORY REPORTING REQUIREMENTS FOR THE ACCOUNTING SEPARATION OF TELECOM**

MED appreciates the opportunity to comment on the draft principles and regulatory reporting requirements for the accounting separation of Telecom.

**General Comment**

It is vital that information reporting requirements on the industry are consistent across the various regulatory frameworks (i.e. TSO, operational separation, accounting separation). The requirements should be mutually supportive and avoid unnecessary duplication of reporting.

MED is concerned to ensure the reporting requirements for accounting separation support the TSO framework. This can be achieved through the delineation of Telecom's TSO Local Service business for monitoring purposes, and the implementation of specific reporting requirements which will support transparency of TSO costs and revenues.

**Purpose of Information Disclosure**

It is important that the principles and regulatory reporting requirements focus on the purpose of the information disclosure. The availability of comprehensive, consistent, comparable data of relevance to interested parties is paramount. MED in particular relies on such data for effective policy analysis and monitoring of the sector.

## **Confidentiality**

Claims of confidentiality should not be allowed to unreasonably frustrate achieving the transparency goals of accounting separation. TSO Local Service supplied to commercially non-viable customers is, by its nature, essentially not the subject of effective market competition. Hence it is reasonable there be comprehensive disclosure of information for this area of Telecom's business.

## **Principles for Reporting Requirements**

MED supports the Commission's desire to ensure that the reporting requirements are cost-effective and efficient, while still providing useful information and fulfilling the purpose of the disclosure.

### Qualitative Characteristics

MED supports the Commission's view that Telecom's information disclosure should adhere to the qualitative characteristics of understandability, relevance, reliability and comparability – particularly where these characteristics ensure consistency of reporting between business units.

As costs and revenues relevant for monitoring TSO Local Service flow between Telecom's network, wholesale and retail units, it is vital that the reporting for all the business units utilises a common set of classifications to enable reconciliation across the business units.

It is also important that the information from TSO cost modelling and the information for accounting separation are reconcilable in classification terms.

### Audited Accounts

TSO Local Service reporting should be fully audited at least on an annual basis to verify the accuracy of information reported by Telecom. Such auditing and reporting could potentially supersede that required in the TSO Deed.

## **Regulatory Reporting Requirements**

MED appreciates that a transitional step for the reporting will be needed. TSO Local Service information could initially be aggregated at a national and regional level, with increasing levels of detail introduced over time. MED desires reporting for TSO Local Service at a Local Calling Area level for 2009/10 and beyond.

### Product Statements

TSO Local Service needs to be treated as an identifiable individual product, with all relevant costs and revenues attributed.

Service statistics are also required for TSO Local Service monitoring. Service statistics such as the number of TSO Local Service subscriptions, their geographic distribution, and the growth of connections in TSO Local Service areas are required for TSO performance monitoring.

TSO Local Service information disclosure should be provided for service supplied at the wholesale and retail level. To ensure consistency and minimise compliance costs, TSO Local Service should be product costed and otherwise treated in the same manner as other products that are both retailed and wholesaled.

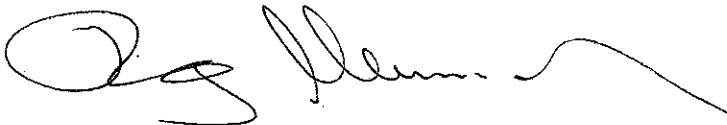
TSO Local Service revenues include revenues from both customer charges (wholesale and retail) and TSO charges levied on service providers. Customer charges attributed for TSO Local Service should include all line rental charges, all upfront line connection charges and any other charges applied for elements of TSO Local Service.

#### Statement of Assets & Capital Investment

Capital expenditure primarily for the purpose of TSO Local Service should be clearly identifiable to enable an assessment to be made of investment for TSO Local Service.

MED would like to work with the Commission to define the most appropriate report formatting to support TSO Local Service monitoring, and ensure the sequencing of information disclosure aligns with TSO determination processes. Please contact Kester Gordon (phone: 04 474 2655, email: [kester.gordon@med.govt.nz](mailto:kester.gordon@med.govt.nz)) if you wish to discuss this submission further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Reg Hammond', with a long, sweeping horizontal line extending to the right.

Reg Hammond  
Manager, ICT Regulatory Group  
Energy and Communications Branch