

Comms Day Melbourne Congress

Keynote address: Telstra Wholesale GMD, Paul Geason

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Title: "The future of wholesaling – it's all about the customer."

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Thanks Grahame and Good Morning.

It's a pleasure to be addressing this forum.

Telstra Wholesale is a long-standing supporter of Comms Day's industry events – which promote open, constructive and robust debate.

For those of you who I haven't met, my name is Paul Geason, I am the head of Telstra Wholesale and today marks 100 days in my new role.

It's fair to say that it has been an eventful 100 days.

The focus of the industry in that time has been on the NBN and regulatory reform.

The Federal Government's NBN vision gained momentum with the appointment of Mike Quigley and the NBN Co Board.

On 15 September, the Government introduced its regulatory reform legislation into Parliament, which includes steps to further separate Telstra.

On Friday last week Telstra provided its submission to the Senate Standing Committee Inquiry into the Bill and re-affirmed our strong support for the Government's vision of a national broadband network. However, Telstra has made it clear that the Bill is unnecessary and will make it harder for the Government to

achieve the objectives of bringing high-speed broadband to Australian consumers and changing the structure of the Australian telecommunications market¹.

Telstra has no choice but to oppose the passage of the Bill in its current form. As Telstra's submission said, the Bill impedes the achievement of the NBN vision. It will also:

- reduce competition, especially in the mobile and media markets
- harm consumers, particularly those in rural and remote Australia
- not necessarily result in industry reform, and
- potentially destroy value for approximately 1.4 million Australian shareholders.

The submission says that if the Government chooses to proceed we believe that it is only sensible that the Senate defer debate until after the conclusion of the current constructive discussions between Telstra and the Government over the NBN, and the completion of the Government's NBN Implementation Study.

We have also urged that, if the Bill is to proceed, then significant amendments should be made to it. You can read the details of that submission which was released on Friday.

I know that in this forum you would like more details about what this Bill and the regulatory reforms it outlines means for Telstra - and also how Telstra's leadership might be thinking through our options.

There are still so many 'what ifs' that it is impossible to go down that path with any certainty today.

¹ Telstra Corporate Submission to the Senate Standing Committee on the Environment, Communications and the Arts Inquiry into the Telecommunications Legislations Amendment (Competition and Consumer Safeguards) Bill 2009, Executive Summary, pg 1.

Separate from the Government's proposed regulatory reform is the NBN. Telstra is strongly committed to working with the Government to find an NBN solution that is in the best interests of shareholders, the industry, the nation, Telstra and our customers and staff.

The next two days are about the NBN – the challenges and opportunities – so, given that, let me put the issue of regulatory reform and potential further 'separation' of Telstra to one side and contemplate the other public announcement on 15 September, and its impact on our industry and Telstra Wholesale.

I am referring to the presentation by NBN Co CEO, Mike Quigley, provided to the Communications Alliance NBN Forum in Brisbane last month, where he outlined what the new NBN Co will deliver to the industry.

Quigley's NBN Co and what it means for wholesaling

In his presentation Mike Quigley said that NBN Co will provide a wholesale service that enables competition and innovation by service providers². It will be:

- A layer 2 bit-stream transport and connectivity service – that's not end-user ready voice, internet or video; and
- NBN Co will not participate in retail markets.

The NBN Co vision is to build a simple layer 2 bit-stream fibre link from the exchange to the home.

So what are the implications for Telstra Wholesale in this NBN Co world?

Many have been thinking that there will be only one wholesaler and it will be NBN Co and all retail service providers will be buying the same service from them directly.

² NBN Co – Initial Steps, Michael Quigley, 23 September, 2009, slide 3

That may be OK if you are a full Service Provider and your business model is to combine the NBN Co layer 2 bit-stream service with your infrastructure, systems and resources to manage all other aspects of delivering an end-to-end working service.

But that's not what every retail service provider wants, or needs.

In reality, their needs vary as widely as the Melbourne weather.

Some Service Providers want a network provider to deliver an end-to-end retail service – not just the last mile. They want to purchase backhaul, traffic management, aggregation, authentication, voice interconnection, IP capacity and maybe even applications and content - while they focus on customer service and marketing.

Others want to manage parts of their network – say content, points of presence, IP capacity and intercapital transmission – but want a partner to assist with voice switching and interconnect.

End-users and consumers don't really care about these network infrastructure details. They care about the applications and services carried over those networks and whether they work seamlessly and on-demand all of the time.

After all, end-users don't see any difference between a router and a server, they just want their PC to work when they turn it on.

To enable this seamless and reliable service, software and networks must mesh together.

Fundamentally the NBN is a next generation access network – one link in the supply chain, and there's quite a few of us in this room today, who will face the challenges and opportunities of:

- engineering aggregation and provision of core networks,

- content distribution platforms, and
- customer management systems.

These drivers provide Telstra Wholesale with a fantastic opportunity to transform itself from a traditional high-volume product wholesaler to a next generation communications product wholesaler and managed solutions provider, leveraging our experience, and knowledge of networks and management systems.

There is little doubt – in the new NBN Co world – wholesaling will be a critical part of the market structure.

Of course, I'm not going to be the only wholesaler going after opportunities in this market. Presumably other players like Optus, AAPT and our next speaker Bevan Slattery's Pipe Networks will be competing in the wholesale space as well, just as they are today.

And there will be new wholesalers that don't even exist today.

I am sure there are potential new entrants, watching from the sidelines: System Integrators, Media companies and Content Providers for example, eyeing off the opportunities that a layer 2 bit-stream service to the home represents and not just at the network level, but at the top of the food chain, at the software and application layer.

The world under NBN Co sets the stage for a whole new world of innovation however the key differentiator in this space will be Customer Service, which I will discuss in more detail in a moment, but there are a couple of other items I want to flag as critical to ensuring that a world with a NBN is as future-proof as possible.

The industry needs to work together

Since the Telco Act was introduced into the Australian Parliament in 1989, we have seen competition expand.

According to the latest ACMA data there are about 678³ ISPs and 372 fixed voice providers operating in Australia

There are about 172 fully licensed carriers⁴ and there are 3 mobile carriers.

And at this time of tremendous change it is important that the industry participates in well defined processes to ensure that the market with an NBN works as effectively as possible.

a) Simple architecture – interoperability

Now is our opportunity to learn from those overseas who have already progressed down the path towards next generation networks. We should be looking to international forums like the Broadband Forum, the Fibre to The Home Council and the Metro Ethernet Forum to ensure that our next generation networks adopt international standards for interoperability and interworking.

I am very supportive of the fact that this key principle is clearly on the radar of NBN Co and the Communications Alliance led industry NBN work.

b) Pricing

The pricing constructs offered by NBN Co must support a rational 'user-pays' model.

The Government's NBN vision promises to offer to high-speed fibre to the premises broadband internet access to 90% of Australians. When this commitment is

³ ACMA Communications Report 07/08, pg 20.

⁴ ACMA Communications Report 07/08, pg 14.

delivered we will be operating in an environment where end-users are consuming content and applications at a rate vastly greater than today.

In order for a healthy and profitable industry to develop around NBN Co it is important that all the participants in the value-chain have the opportunity to innovate and differentiate. The Government and Mike Quigley have made clear that NBN will operate commercially. The pricing decisions will be critical both to NBN Co's viability and the viability of the wider industry.

Last month Mike Quigley urged the industry to participate in the Communications Alliance working groups⁵ and I agree with him 100%.

As supporters of the NBN vision, Telstra thinks it is important to provide our input via the prescribed process, which is supported by the Government, and actively contribute to the development of our industry as it evolves through the implementation of the NBN.

There is no doubt the NBN will impact on how everyone in the industry goes about their business.

The current regulatory regime commenced in July 1997 and perhaps naively, it encouraged companies to negotiate access to Telstra's network and, if they could not agree, to lodge disputes for arbitration by the ACCC.

It is not widely known, but access seekers do regularly agree terms with Telstra on a commercial basis. However, the ACCC has readily asserted jurisdiction to arbitrate 'disputes' even when access seekers have agreed and signed contracts with Telstra.

Having worked many years in the Telstra Enterprise and Government part of the business, serving large business and government customers, when parties make

⁵ NBN Co – Initial Steps, Mike Quigley, 23 September 2009. slide 17.

commitments to volume, prices and Service Level Agreements, they are locked in: this phenomenon came as a complete surprise to me.

Combined with the lack of clear price-setting directions in the Act or any agreed valuation of Telstra's network, this has been a recipe for dispute and litigation.⁶

This isn't the type of behaviour any of us want to see in the NEW world. When contracts are signed and commitments are made on fair commercial terms then the contracts must stick. So while Telstra has its concerns about the draft legislation, one welcome proposed amendment to the access regime is the primacy of access agreements over regulatory determinations.

We all need certainty to run our businesses efficiently.

On Friday of last week we lodged our submission with the ACCC on its draft indicative prices for LCS, Wholesale Line Rental, PSTN OTA, ULL and LSS.

It will not be a surprise to anyone to know that we do not agree with the draft indicative prices. We argue that the industry needs regulatory certainty going forward. We need to settle once and for all on the regulated value of Telstra's copper access network.

The ACCC should not move forward with its proposed indicative prices while it still needs to address the errors in its Analysis Model.

⁶ Telstra Corporate Submission to the Senate Standing Committee on the Environment, Communications and the Arts Inquiry into the Telecommunications Legislations Amendment (Competition and Consumer Safeguards) Bill 2009, pg 18.

It also needs to be recognised that Telstra, the ACCC and Optus have all advocated in submissions to the Government's regulatory review that a movement to a new Regulated Asset Base for access pricing in telecommunications is consistent with other industries.

So why - with a Bill for regulatory reform introduced to the Parliament, and the ACCC having signalled a move to a new pricing approach, would the ACCC impose new indicative prices on the industry using a cost model that is wrong?

At this time of transition to the new NBN world the industry needs certainty. We all have businesses to run and customers and shareholders to serve. So we are hopeful that common sense prevails.

Customers are at the centre of everything – preparing for the new world ahead

As I mentioned earlier, customer service will be a major source of differentiation in a world with NBN and so to the most important part of this changing industry – the customer. At Telstra Wholesale we are no different to any other part of Telstra.

Customers of Telstra Wholesale are customers of Telstra:

- We value that relationship
- We consider it a privilege to serve in contestable markets, and
- We are acutely focused and driven in Telstra Wholesale to enhancing the experience our customers have when purchasing our services.

Not just because we are competing in contestable wholesale markets but because we take account of the impact of customer service on the end-users of our service provider customers.

In Telstra we have established a Customer Satisfaction Council chaired by David Thodey, and I am on that council, representing the interface between Telstra Wholesale and the rest of the industry.

The Council oversees, drives and governs improvements in customer service and satisfaction.

I have also established a Customer Satisfaction Council in Wholesale – I chair it and all my management team- not just the leaders of the line operations but also Human Resources, Legal, Regulatory and Corporate Affairs – every part of the business plays a role in ensuring we continually improve the service experience for our customers.

We are putting the customer first and at the centre of everything that we do and we are creating intensity around customer service like never before.

We want all our employees to eat, breathe and sleep customers 24/7.

So what tangible differences have we started to see coming through?

Complaints Management:

- Introduced new measures – acknowledge complaints in 1 day- and we are now achieving close to 100% compliance with this target.
- We have also set a target of resolving disputes in 20 days
- When we started (six weeks ago) there were 1700 complaints outstanding – we have reduced the number of open complaints to less than 750.

We are working hard with our Network and Services team to reduce closure times on outstanding network-related complaints.

Other Customer Satisfaction Initiatives:

- Simplify the entry point into TW
- Reduce hand-offs
- Improve commercial deal completion times
- Deliver the new Telstra Wholesale e-Communities web functionality and,
- Continue to develop and provide our wholesale customers with innovative products.

I have set aggressive targets for improvement across the wholesale division. Every part of the wholesale business has customer satisfaction targets which are tied to the overall business plan. Customer Satisfaction has been weaved into the fabric of this wholesale business.

At Telstra Wholesale we support the Government's vision of a NBN.

While the NBN is worked out I will continue to serve my wholesale customers' needs. I will continue to focus on providing solutions that are valued by the wholesale marketplace.

No matter what eventuates in the current process with the Federal Government, as I look ahead, I see the existence of the NBN as an opportunity for Telstra Wholesale to provide a suite of next generation wholesale products and managed network solutions for Service Providers.

And as other participants in this industry look forward to a world with the NBN, I offer every encouragement to them to participate in the Communications Alliance working groups:

- Ensuring industry wide standards for interoperability;
- Ensuring commercial models that enable downstream operators to differentiate their offerings to create maximum value;
- Ensuring pricing constructs support an equitable "user pays" model; and

- Most importantly that we recognise we are in this for our customers and for building wealth for our shareholders - now and into the future.

Thanks for your attention this morning.