

IOG Report to Telecom Board and Commerce Commission on
Telecom's Undertakings Compliance

31 March 2008 – 30 June 2008

Table of Contents

1. Executive Summary	2
2. Separation Milestones and Obligations	3
3. Equivalence Migration Milestones (Schedule 1)	6
4. Audit and Assurance Reviews	7
5. Whistleblowing	8
6. Complaints and Investigations	8
7. KPIs	8
8. Other documents considered by the IOG	9

1. Executive Summary

This paper provides the IOG's opinion on Telecom's compliance with its Separation Undertakings (the Undertakings) during the period 31 March 2008 to 30 June 2008. This opinion relates to matters considered and determined at the IOG meetings of 30/31 May 2008 and 10 July 2008. Progress post 30 June 2008 on the matters reported in this paper will be addressed in the next quarterly report.

The IOG has formed the views in this report on the basis of information available at the date of the meetings, having made reasonable steps to verify the accuracy of the information.

Separation day milestones are set out in clause 9.1 of Telecom's Undertakings, subject to clause 9.3 (g) which provides for certain milestones to be met within 30 working days of the date on which the Undertakings were approved¹.

The IOG has assessed Telecom's separation day compliance under six broad categories and considers that Telecom is compliant with the following Undertakings requirements:

Due 31 March 2008

1. Establishment of ANS (Chorus)
2. Establishment of the Wholesale business unit (Wholesale)
3. Establishment of an IP Interconnection consultation process by Wholesale
4. Establishment of a NGN consultation programme by Wholesale

Due 13 May 2008

5. Establishment of the IOG and its Support Office
6. Codes of conduct submitted to the IOG for consideration.

We also note Telecom's obligations from 13 May 2008, with regard to the management of Chorus and Wholesale commercial information. We note that Telecom has established training and communications activity to make people aware of these obligations.

We continue to monitor and assess Telecom's compliance with these and other obligations,

The IOG noted one breach of the Undertakings during the reporting period to 30 June 2008. Telecom was required by 30 June 2008 to provide to the Minister full details of the precise method for classifying all customer service addresses within Telecom zones 1, 2, 3a and 3b, following consultation with the Minister of Communications and the Commerce Commission. Telecom did not meet this obligation by 30 June 2008.

¹ 30 working days after the date which the Undertakings were approved (31 March 2008) is 13 May 2008

At 30 June 2008, the IOG Support Office was also investigating five incidents reported by Telecom which may be breaches of the Undertakings, and investigating a complaint made by Orcon regarding Telecom broadband promotions.

2. Separation Milestones and Obligations

Separation milestones (other than Schedule 1 milestones which are discussed in Section 3) considered within this reporting period include:

- separation day milestones as set out in clause 9.1 (a) – (m) of the Undertakings
- milestones to be met by 13 May 2008 as set out in clause 9.1 (n) – (q), and
- other separation milestones specifically required before or on 30 June 2008.

The IOG has reviewed milestone reporting and supporting information provided by Telecom to the IOG, and associated assurance work performed by the IOG Support Office, as summarised below.

Separation milestones and obligations due 31 March 2008:

1. Access Network Services (ANS) business unit established *clauses 9.1 (a) to 9.1 (g)*

The ANS business unit (Chorus) is required to be responsible for the access network and relevant network access services, and has certain establishment requirements with regard to responsibilities, personnel, accommodation and brand. The IOG considers that the Undertakings requirements relating to the establishment of Chorus have been met as follows:

- The ANS business unit has been created under the Chorus brand (clause 12).
- The Chorus CEO was announced as CEO designate on 21 November 2007, and became CEO on 31 March 2008, reporting directly to the Telecom CEO (clause 25). The Chorus CEO is required to work on matters relating solely to Chorus and to manage Chorus in such a way as to secure compliance with the provisions of the Undertakings and to optimise the commercial interests of Chorus. Nothing has come to the attention of the IOG which indicates that this is not the case.
- At 31 March 2008, the Chorus leadership team was in place and employees had been transferred to Chorus (clause. 38). While it is not practical to exhaustively test that all employees working on the access network and relevant network access services work solely for Chorus (other than as allowed by the Undertakings), a review by the IOG Support Office of the Chorus internet site, intranet site, internal directory and organisation charts, found no indication that this is not the case.
- A copy of the Board approved Chorus Business Plan for the period April 2008 to June 2008 was submitted to the IOG, together with certificates issued by the Telecom Board and CEO, which state that the plan and their involvement in the development of that plan, complies with the Undertakings and is consistent with a

robust operational separation of Telecom (clause 27). The IOG considered this plan and noted no issues with regard to Undertakings compliance.

- By 31 March 2008, 95% of Chorus employees had completed training in the core operational separation requirements including requirements to act in good faith and in what they believe to be the best commercial interests of Chorus (clause 30).
- Wellington and Auckland Chorus people working on relevant services had moved to new office locations with their own branding and identity. In other areas, the Support Office has verified that they are appropriately located in separately secured access controlled premises (clause 36.1). Minor process issues were noted regarding lack of written guidelines for people authorising access requests.
- The Chorus brand was launched in January 2008 and is consistent with the requirements of clause 37.1.

2. Wholesale business unit established

clauses 9.1 (h) to 9.1 (k)

The Wholesale business unit is required to be responsible for relevant wholesale services, with certain establishment requirements with regard to influence over assets, personnel and accommodation. The IOG concludes that the Undertakings requirements relating to the establishment of Wholesale have been met as set out below.

- The Wholesale business unit was established effective from 1 January 2008 (clause 43).
- The Telecom Board approved a Wholesale Asset Influence Policy in March 2008, consistent with the requirement for the Wholesale unit to have sufficient influence over certain Telecom network assets that are used to provide relevant wholesale services (clause 44.1). The IOG noted no issues with the policy, and the Support Office will review and report at a future time to the IOG on the operation of this policy.
- The Wholesale CEO was appointed in November 2007 reporting directly to the Telecom CEO (clause 53). The Wholesale CEO is required to not have any responsibility for Chorus or any of the Retail units, and to manage Wholesale in such a way as to secure compliance with the provisions of the Undertakings. Nothing has come to our attention which indicates that this is not the case.
- At 31 March 2008 the Wholesale leadership team had been largely appointed, with one vacancy at that date. While it is not practical to exhaustively test that all required employees work solely for the Wholesale business unit (other than as allowed by the Undertakings) (clause 62), a review by the Support Office of the Wholesale internet site, intranet site, internal directory and organisation charts, found no indication that this is not the case.
- Wholesale accommodation requirements have been met with Wholesale people in access-controlled accommodation separate from Retail (clause 61.1). Minor

process issues were noted regarding lack of written guidelines for people authorising access requests.

3. Establishment of an IP Interconnection consultation process by Wholesale
clause 9.1 (l)

The IOG considers Telecom to be compliant with the requirement for Wholesale, as soon as practicable after separation day, to undertake a comprehensive consultation on Service IP interconnection, and by 4 April 2008 to have presented a comprehensive Service IP interconnection consultation project proposal to the Telecommunication Carriers Forum (TCF) Board requesting the establishment of a working party to be the vehicle for the consultation (clause 66).

A project proposal on Service IP Interconnection was submitted to the TCF by Telecom on 31 March 2008. The proposal was subsequently approved by the TCF Board in May 2008 and industry consultation via the TCF working party is underway.

4. Establishment of a NGN Consultation programme by Wholesale
clause 9.1 (m)

The IOG considers Telecom to be compliant with this Undertaking which required, before separation day, Wholesale to establish a comprehensive industry-wide NGN consultation programme (clause 67). *Dialogue*, the NGN consultation programme established by Wholesale to capture industry insights and requirements and discuss NGN operations and technical development, was launched in February 2008. Stakeholder consultation on the programme framework has continued since that date and the TCF is assisting to facilitate some aspects of the *Dialogue* programme.

Separation milestones and obligations due 13 May 2008:

5. IOG and Support Office established
clauses 9.1 (n) and 9.1 (o), subject to clauses 9.3 (g) (i) and (ii)

The IOG considers Telecom to be compliant with these Undertakings which required Telecom to establish and appoint the IOG (clauses 77 and 78) and establish the Support Office and appoint key staff (clauses 81 and 82). The IOG has been established and the first meeting of the IOG was held on 28 and 29 April 2008. Support Office employees have been appointed.

6. Codes of Conduct submitted to IOG
clause 9.1 (p) subject to clause 9.3 (g) (iii)

This Undertaking required Telecom to prepare codes of conduct for employees and independent contractors performing the role of an employee, the CEO and the Board, ready to be considered by the IOG (clause 84.1 (b)). On 8 May 2008 Telecom submitted, for consideration by the IOG, 11 codes of conduct covering the Board, the CEO, each of its NZ business units, the Corporate Centre and for Part A, Part B and Part C persons who have certain rights and obligations with regard to receiving commercial and customer confidential information, and participation in policy.

The IOG reviewed the codes of conduct proposed by Telecom, together with associated online training material for Telecom staff, and recommended the codes to the Telecom Board.

7. Management of Chorus and Wholesale Commercial Information

clause 9.1 (q) subject to clause 9.3 (g) (iv)

Chorus and Wholesale commercial information is required to be managed in certain ways (clauses 34 and 59).

The IOG considers that Telecom has made employees aware of their obligations with regard to Chorus and Wholesale commercial information in respect of relevant services through training and communications.

The Support Office will continue to monitor and report to the IOG on Telecom's ongoing compliance with commercial information obligations.

Separation milestones and obligations due to 30 June 2008:

8. Customer service address classification

Telecom was required by 30 June 2008 to provide to the Minister full details of the precise method for classifying all customer service addresses within Telecom zones 1, 2, 3a and 3b, following consultation with the Minister of Communications and the Commerce Commission, and to ensure that not less than 80% of total existing PSTN lines are within these zones. On 26 June 2008 Telecom informed the Minister that it would not meet this obligation.

The IOG is monitoring Telecom's progress in remedying this breach and notes that significant progress has been made and that Telecom is actively consulting with the Commerce Commission and the Minister to resolve issues still outstanding.

3. Equivalence Migration Milestones (Schedule 1)

The status of Schedule 1 migration plan milestones due to 30 June 2008 and in the next quarter (July 2008 to September 2008) is provided in Appendix 1.

The IOG considers Telecom to be compliant with the requirements of Schedule 1 milestones due before or on 30 June 2008.

The IOG has also considered the status of equivalence migration milestones due in the July 2008 to September 2008 quarter:

The IOG noted that Telecom has advised that there is little contingency in the plan to deliver the EUBA 40 kbps and 90kbps service. The Telecom Board has confirmed to the IOG that they are aware of and are monitoring progress on this matter, and that the CEO and Management have assured the Board that they are doing everything possible to meet milestone commitments.

All other Schedule 1 milestones due in the July to September 2008 quarter were reported by Telecom as on track as at 30 June 2008.

4. Audit and Assurance Reviews

At the May 2008 IOG meeting, the Support Office agreed with the IOG a plan of audit and assurance activity to be undertaken to December 2008. Three reviews were undertaken in accordance with this plan during the period to 30 June 2008.

Codes of conduct training

An assurance review completed by the Support Office has identified that the processes and controls for codes of conduct training are effective. 71% of Telecom employees had completed code of conduct training as at 30 June 2008 (and approximately 85% at the time of the IOG meeting on 10 July 2008). The Support Office will continue to monitor and report to the IOG on training completion rates.

Shared information systems – Customer Confidential Information

The Undertakings provide for transitional arrangements until December 2009 for Telecom business units to access customer confidential information held in shared information systems, but not to use or disclose Wholesale or Chorus information so accessed in a manner contrary to the Undertakings. Telecom is required to develop a plan by September 2008 to upgrade these systems to meet the information sharing requirements by December 2009.

A review by the Support Office found that development of this plan is underway and that the project is following a logical and robust process. Until this plan is implemented in December 2009, Telecom is substantially reliant on training, compliance with codes of conduct and manual controls to meet its obligations when using shared information systems.

Further assessment will be undertaken during the course of implementing this plan.

The List

The Undertakings provide certain rights and obligations for named roles and functional groups to participate in Chorus and Wholesale policy, as well as receive Chorus and Wholesale commercial information and customer confidential information.

While establishment of *the List* is not a specific Undertakings requirement, Telecom has published on its intranet the names of such people (*the List*) to aid compliance with requirements relating to participation in policy, and commercial and customer confidential information. This provides a mechanism for staff to check whether an individual is permitted to participate in policy or to receive commercial or customer confidential information in certain circumstances.

The review found that at 1 July 2008 *the List* will be updated monthly to take account of employee moves, adds and changes (and reliance therefore should not be placed on the *List* in its current form). The review noted that work was underway to refine *the List* based on detailed analysis of the information requirements of the largest business group, Shared Services. The review also noted that work is underway to identify an automated solution to keep *the List* up to date and to provide details of an employee's status on the internal phone directory.

A further review of *the List* will be made once these initiatives are complete.

5. Whistleblowing

This is the first period during which Telecom has reported incidents which may be breaches to the Undertakings. Five such incidents were reported to the IOG by Telecom. The IOG Support Office is investigating these incidents, and will report to the IOG in August.

The IOG noted that Telecom launched the *Honesty Box* on 30 June 2008. The *Honesty Box* is an online system to enable Telecom employees to report possible breaches of the Undertakings, and to facilitate their disclosure and investigation. The *Honesty Box* also enables employees to report matters to the IOG.

The Support Office is working with Telecom to ensure that the IOG has transparency of all whistleblowing reports via the *Honesty Box*, and to provide assurance to the IOG that processes used by Telecom to investigate whistleblowing reports are transparent and robust.

6. Complaints and Investigations

A Service Provider complained that a Wholesale UBS promotion reduced the cost of a Telecom Retail broadband promotion, and that Telecom Retail appears to have had knowledge of the Wholesale UBS promotion which was not available to other service providers.

The IOG is completing an Initial Assessment of the complaint and on 24 June 2008 issued a draft assessment to Orcon and at 30 June 2008 was awaiting the Service Provider's response.

7. KPIs

Telecom is required, in consultation with the IOG, to prepare KPIs related to Telecom's compliance with the Undertakings and progress towards compliance, and to have those KPIs considered by the IOG for recommendation to the Telecom Board, if the final product of the consultation process is satisfactory to the IOG.

Telecom has proposed KPIs to the IOG, and the IOG is continuing to work with Telecom to assist in the development of these KPIs, with the intent of making a recommendation to the Telecom Board on the KPIs following the October 2008 IOG meeting.

8. Other documents considered by the IOG

1. Change in scope of Chorus' business *(clause 13.2)*

Pursuant to clause 13.2, Telecom advised the IOG of the decision to increase Chorus' scope of business to include the field services activities of on-site installation, services, and maintenance of telecommunications plant and equipment, network design and build. Certification was provided to the IOG by the Telecom CEO that these changes are consistent with the robust operational separation of Telecom.

The IOG considers that the changes are consistent with a robust operational separation. The IOG also noted that pursuant to clause 26.2 written arrangements are required from 1 July 2008 when Chorus performs technical or operational work for other parts of Telecom. The Support Office will review these arrangements and their implementation as part of a planned audit and assurance review.

Telecom also advised the IOG that the scope of Chorus' business has been expanded to include network access planning for the entire fixed network. The inclusion of network access planning is not considered to be an increase in the current scope of Chorus, as clause 100 of the Undertakings allows Access Planners to work for Chorus and perform the Access Planner function for the Telecom fixed network as a whole.

2. Chorus Business Plans *(clause 27)*

Chorus is required to develop and submit to the Telecom Board annual and long-term corporate plans and technology plans (business plans) of the Chorus business unit, and to provide the IOG with a copy of such plans approved by the Telecom Board.

Chorus business plans approved by the Telecom Board for the period April 2008 to June 2008, and for the July 2008 to June 2009 financial year, have been submitted to the IOG together with certifications from the Telecom Board and CEO that these plans and their involvement in the development of these plans complies with the Undertakings and is consistent with a robust operational separation of Telecom.

The IOG has considered these plans and noted no issues with regard to Undertakings compliance.

3. Chorus brand implementation plan
(clause 37.2)

Chorus is required to implement a separate brand progressively within a timeframe agreed by Telecom and the IOG. The IOG has agreed to a proposal from Chorus to complete the implementation of the Chorus brand.

4. IOG Service Provider Complaints Process

The IOG complaints process sets out the process for service providers to make complaints to the IOG if they consider Telecom has breached the Undertakings. The complaints process proposed by the IOG Support Office, and approved by the IOG, is published on the IOG website.

Appendix 1 - Schedule 1 Equivalence Milestones

This Appendix sets out the IOG's consideration of the status of Schedule 1 Migration Plan milestones due in the period to 30 June 2008, as well as the status of milestones due from 1 July 2008 to 30 September 2008, as at 30 June 2008.

UCLL Migration Plan

To 30 June 2008

Milestone Obligation	Date due	Type	Status
UCLL available to Service Providers (in accordance with any soft launch and other launch requirements specified in UCLL STD)	Date specified in STD	Enforceable	Compliant/on-going: Telecom has met the requirement to complete a soft launch within 105 working days from the STD date. Phase 2 implementation is underway.
Contract signed for B2B gateway required for Chorus to complete the Channels EOI building block	31 March 2008	Tracking	Compliant: The B2B Gateway development contract has been signed.

Next quarter 1 July 2008 to 30 September 2008

Contract signed for Chorus Sales Order Management System	1 July 2008	Tracking	On track (contract subsequently signed)
Contract signed for Chorus Sales Inventory Management System	1 July 2008	Tracking	On track (contract subsequently signed)
Contract signed for Chorus Workforce Management System	30 Sept 2008	Tracking	On track

UCLL Backhaul Migration Plan

The UCLL Backhaul STD was published on 27 June 2008. The STD has introduced a Schedule 1 milestone due in September 2008, being the soft launch of UCLL Backhaul. Due to the timing of the publication of the UCLL Backhaul STD relative to the timing of Telecom's report to the IOG on 30 June 2008, this requirement was not considered by the IOG at the July 2008 meeting.

UCLL Co-location Migration Plan

To 30 June 2008

Milestone Obligation	Date due	Type	Status
UCLL Co-location available to Service Providers (in accordance with any soft launch or other launch requirements specified in UCLL Co-location STD)	Date specified in STD	Enforceable	Compliant/on-going: Telecom has met the requirement to complete a soft launch within 105 working days from the STD date.

BUBA and EUBA Migration Plan

To 30 June 2008

Milestone Obligation	Date due	Type	Status
Contract signed for B2B gateway required for Wholesale to complete the Channels EOI building block	31 March 2008	Tracking	Compliant: B2B Gateway Development contract has been signed.

Next quarter 1 July 2008 to 30 September 2008

Contract signed for Wholesale Sales Order Management system	1 July 2008	Tracking	On track (contract subsequently signed)
Contract signed for Wholesale Inventory Management system	1 July 2008	Tracking	On track (contract subsequently signed)
BUBA and UBA available to Service Providers (in accordance with any soft launch or other launch requirements specified in the UBA STD)	8 July 2008	Enforceable	On track (BUBA subsequently launched 8 July)
Delivery of BUBA (full launch) EUBA 40kbps and 90 kbps soft launch	29 July 2008	Enforceable	On track (EUBA subsequently soft launched 29 July 2008)
Delivery of EUBA 40kbps and 90 kbps (full launch)	23 Sept 2008	Enforceable	Telecom reports that there is no contingency in the delivery programme, however at 30 June considered this manageable within the programme.

UBA Backhaul Migration Plan

The UBA Backhaul STD was published by on 27 June 2008. The soft launch commencement date for UBA Backhaul is 12 November 2008.

HSNS, UNS (Over Ethernet) and UPC Migration Plan

To 30 June 2008

Milestone Obligation	Date due	Type	Status
UNS (over ATM) and UPC available to Service Providers	31 March 2008	Tracking	Compliant: UNS (over ATM) and UPC are available to Service Providers.

Resale Services Migration Plan

To 30 June 2008

Milestone Obligation	Date due	Type	Status
Broadband Wiring Only Orders	31 March 2008	Enforceable	Compliant: Functionality available and communication sent advising Service Providers of the relevant changes.

PSTN Migration Plan

Next quarter 1 July 2008 to 30 September 2008

Milestone Obligation	Date due	Type	Status
Contract signed for core capability for Retail Units to deliver primary line voice service that uses EUBA without POTS (or better alternative Wholesale input)	1 July 2008	Tracking	On track (contract subsequently signed)

Other Legacy Data Services Migration Plan

To 30 June 2008

Milestone Obligation	Date due	Type	Status
Retail Units will Stop Innovation and Stop Sell to new customers for all of the following services: <ul style="list-style-type: none"> • DSTN Services; • X25; and • Netway Integrated Access 	31 December 2007	Enforceable	Compliant: Retail has stopped innovation and selling to new customers of DSTN, X25 and Netway Integrated Access Services. Communications have been sent to customers and to sales staff advising them that these products are no longer offered. It is noted that there are no system controls to prevent new services being provisioned. In practice this is considered acceptable, the team is small and experienced and the requirement is well understood.