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31st March, 2009

Hon. Steven Joyce
Minister of Telecommunications
Parliament Buildings
WELLINGTON

A handwritten signature in blue ink that reads "Dear Steven,".

Proposed variation to Telecom's Operational Separation Undertakings

Telecom's Operational Separation has now been effective for almost a year, and in that time we have made significant progress delivering on the organisational, operational and technological requirements of Telecom's Operational Separation undertakings (**Undertakings**). We have successfully met over 100 individual milestones along the way, and remain committed to the programme of milestones and accelerated investment we have ahead of us.

We have also significantly progressed our planning for the systems and process changes necessary to deliver service equivalence, and spent considerable time consulting with wholesale customers on the wholesale service improvements they want to see delivered in conjunction with equivalence.

Based on this work, and these consultations, we have identified what we believe is a more optimal approach to the delivery of equivalence for Telecom Wholesale products, and propose a variation to the Undertakings (attached) in accordance with the variation process set out in the Telecommunications Act 2001 (**Act**), in respect of which I request your agreement.

As the Undertakings are currently drafted, they require Telecom Wholesale to deliver service equivalence in a phased manner, focussing on customer-facing systems first, and back-end, or non-customer facing systems second. As Telecom Wholesale's back-end systems place the most relevant constraints on Telecom Wholesale service experience today, this approach by definition delays delivery of any service improvements for wholesale customers or end-users.

Telecom proposes an alternative approach, focussed on optimising for delivery of both equivalence and service improvements in the quickest timeframe possible. This approach brings forward the delivery date for meaningful service improvements, enables Telecom to structure its systems-related work programme and capital expenditure in a much more efficient way, and causes much less disruption for Telecom's wholesale customers and end-users than the existing Undertaking approach would cause.

Accordingly, we consider this proposed approach better meets the purpose statement in Part 2 of the Act.

Variations to the Undertakings are explicitly anticipated within the Act, and ensure both the Crown and Telecom can be confident that the Undertakings continue to best meet their purposes. In the UK, variations to BT's undertakings are a frequent and important part of the separation scheme, as I am sure they will become here. However, I do recognise that this is the first such request in the New Zealand context, and Telecom has accordingly gone to significant effort to consult with the industry and officials in the preparation of it.

Attached to this letter are:

- A paper explaining the proposed variation and its rationale; and
- A marked-up version of the Schedule 1 to the Undertakings showing the proposed changes.

If you agree with these proposed changes, we will prepare an amended Separation plan, accompanied by certificates from two Telecom directors, as required by the Act.

Finally, I note that time is of the essence in this matter, given the significant demands facing Telecom on multiple fronts at present. I would accordingly be grateful for any steps you could take to expedite the progress of the variation. This will allow the benefits of the variation to flow through to all stakeholders as quickly as possible.



Paul Reynolds
Chief Executive Officer