

Tabled at EC ITA  
Estimates  
hearing, 22/5/06  
By Senator Conway

## Alcatel Issues

### Summary of Root Causes

In the last 10 years there have been a number of problems with Alcatel projects at Telstra. The systemic reasons behind these problems are listed below.

- Knowingly overselling capabilities and timeframes
- Short cuts taken to then deliver sub standard solutions
- Finding clauses in contracts and specifications to avoid obligations rather than deliver working solutions and / or what was sold in the first place.
- Alcatel overcharging Telstra whenever it had the opportunity
- Alcatel Australia inventing specials which then don't fit with worldwide Alcatel strategy increasing the cost of the project and creating a risk Alcatel Australia would exit the project if Telstra did not continue to pay
- Poor software quality and testing -- in particular poor exception handling consideration at the design stage, poor quality processes ie peer review, configuration management and testing
- Poor system integration capability and problems managing projects requiring interfacing to different components / vendors

In some respects, issues such as Alcatel's overselling of their capability in the late 90s were prevalent throughout the whole industry but Alcatel was on the leading edge of this trend.

### Comments on Specific Projects

#### S12 mid 90s

Alcatel chosen as FMO PSTN supplier. Software quality problems resulted in poor availability in the network which took 18 months to resolve. Some promised features were very late being delivered and some were not delivered at all ie Centrex facilities.

#### Mobiles Mid 90s.

Alcatel were chosen as a second switch supplier for mobiles. No progress on the delivery of promised features led Telstra to junk the Alcatel mobile switch as did many other carriers.

#### RIM 1995 - 97

COMET management software was late and missing key functionality, and proved to be not scalable to manage the size of our network, increasing Telstra's capital and operations costs, delaying the introduction of RIMs and creating large data migrations and data quality issues for Telstra when the system was eventually installed.

**IN**

Alcatel integrated IN platform had scalability and reliability issues in the initial releases.

**CMUX 1999-2003**

Solution sold to Telstra was for integrated voice and ADSL. Alcatel locally decided to create an Australian special by integrating two pieces of equipment. After winning the contract short cuts were taken by deciding to keep the voice and data parts of the CMUX managed separately. A new element manager was to be developed to hide the separate parts from Telstra operators. The development of the element manager started but was harder than thought leading to the temporary solution of two element managers for the one piece of equipment, which Alcatel eventually admitted they would never rectify. The contract and specs were written as if there was only one element manager, and therefore there was nothing legally to force them to integrate the systems, despite it being clear that this was not what we had bought and had only agreed to two element managers as a temporary measure.

The cost of Alcatel not meeting their commitments is that Telstra is still paying licence fees, hardware and support costs to Alcatel and our own operation costs for two element managers. Alcatel Australia could not discount the charges on the element manager software to us as the element managers were controlled by overseas profit centres in Alcatel who had no regard to the problems created by Alcatel Australia's design or the relationship with Telstra. Furthermore even though each management system is only managing half of the CMUX, the un-managed part still consumes management system resources and needs to be scaled accordingly. Alcatel licence fees are increased in the same way.

On the voice side the full implementation of the upstream 5.2 interface on the CMUX took Alcatel 2 years longer than committed at the time of winning the tender. This put the whole program behind and Telstra had to bear the large cost of retesting and delaying the integration with other suppliers at a cost of approx \$2M.

Despite having world's best pricing clauses in the CMUX and ASAM contracts, the CMUX (and later) ASAM costs were significantly higher than prices achieved when a second supplier was introduced.

Alcatel Australia were reluctant to move Telstra to world products such as the ASAM due to the larger margin and profit to them of an Australian special like the CMUX.

**SAM 1997-2000**

Alcatel were contracted to provide an alarm management system as part of the DMO (Data Mode of Operation). During the tender period Alcatel demonstrated the Netcool system and some add ons they were developing. After winning the contract Alcatel decided to start development of SAM using in house element manager software as the base platform. When it was obvious that they could not meet the contracted requirements using their own software Alcatel refused to consider using a 3<sup>rd</sup> party

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product such as Netcool, even though Netcool was part of the original tender. In the end the SAM project was halted.

**XDM 1999-**

The XDM system was designed to be flexible. A lot of work was put into specifying the required functionality and how the system should be architected. During the tender process Alcatel assured Telstra that they had already developed key parts of the underlying platform, as the system was to be part of a new product line to be sold to other carriers around the world. Some parts of the system were even demonstrated and aggressive timeframes agreed. Work was split up in phases (by interface) to deliver the full system and progress payments agreed per phase. In reality Alcatel had not developed much functionality at all before the contract was signed. When the contract was signed and first delivery dates set, Alcatel deliberately set about building the first phases in a way that hid that the core platform was missing. This was only discovered later when more advanced functionality and integration was required and Alcatel tried to charge extra for this functionality.

Some of the parts that Alcatel had developed couldn't be integrated together due to each development team using incompatible versions of software. As a result we still have two XDM systems. A lot of software quality problems were also found leading to much rework.

Eventually Telstra stopped paying the software licence fees and a contract dispute resulted. Alcatel threatened to walk away from the project unless Telstra pay more than the contracted costs as the system had not been sold to others and Alcatel was losing a lot of money. A settlement was reached but the direct cost to Telstra was about \$7M with a similar amount lost due to missing functionality.

Due to the move away from the contract there was no limit on Alcatel's ability to charge Telstra high prices for required XDM functionality as Alcatel had a virtual monopoly. Therefore some XDM system changes have been very expensive, especially where Alcatel was going to lose margin on hardware, ie with the introduction of ASAM and NEC DSLAMS.

To Alcatel's credit when a supplier of a key component went into liquidation in 2003 Alcatel and Telstra worked together well to rebuild the system and replace the component without cost to Telstra. The resulting system was closer to the original objective.