

**Final Cost Calculation Determination for the  
Telecommunications Relay Services TSO Instrument for the  
period between 1 July 2017 and 30 June 2018  
[2018] NZCC 17**

**The Commission:**

Dr Stephen Gale  
Elisabeth Welson  
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**Date of final determination:**

31 October 2018

## CONTENTS

<b>List of defined terms and abbreviations .....</b>	<b>3</b>
<b>Purpose .....</b>	<b>4</b>
<b>Executive summary .....</b>	<b>4</b>
<b>Background .....</b>	<b>4</b>
<b>Cost calculation for the TSO TRS .....</b>	<b>5</b>
Fixed charges .....	6
Variable charges .....	6
Variable charges price adjustment formula .....	6
<i>Table 1 – Variable cost schedule (conventional relay services) .....</i>	<i>7</i>
<i>Table 2 – Variable cost schedule (CapTel service).....</i>	<i>7</i>
Specified amount .....	7
<i>Table 3 – Total financial charges for conventional relay services.....</i>	<i>8</i>
<i>Table 4 – Total financial charges for the CapTel service.....</i>	<i>8</i>
Performance rebate .....	9
Summary .....	9
<b>Appendix 1 – Fixed charges .....</b>	<b>11</b>
<i>Table 5 - Fixed Charges (GST exclusive) .....</i>	<i>11</i>
<i>Table 6 – Fixed charges for the CapTel service .....</i>	<i>11</i>
<b>Appendix 2 – Legal framework .....</b>	<b>12</b>
The framework for the determination.....	12

## List of defined terms and abbreviations

<b>CapTel</b>	Captioned Telephone service
<b>Deed</b>	TSO deed for TRS between the Crown and Sprint dated 7 July 2011 (including Addendum One, dated 27 September 2011, Addendum Two, dated 15 February 2015, and Addendum Three, dated 3 July 2018)
<b>Draft determination</b>	Draft cost calculation determination
<b>Final determination</b>	Final cost calculation determination
<b>Sprint</b>	Sprint International New Zealand
<b>SQM</b>	Service quality measure
<b>TDL</b>	Telecommunications Development Levy
<b>TRS</b>	Telecommunications Relay Services as described in the TSO TRS deed
<b>TRS provider</b>	Sprint, the telecommunications relay service provider
<b>TSO</b>	Telecommunications Service Obligations
<b>TSO period</b>	1 July 2017 to 30 June 2018, the period to which this determination applies
<b>TSO provider</b>	Telecommunications Service Obligations provider

## Purpose

1. The purpose of this final cost calculation determination (final determination) is to calculate the amount payable by the Crown to Sprint International New Zealand (Sprint) for providing Telecommunication Relay Services (TRS) for the period 1 July 2017 to 30 June 2018.

## Executive summary

2. This final determination is required under section 94J of the Telecommunications Act 2001 (Act) and relates to the Telecommunications Service Obligations (TSO) for the TRS for the period 1 July 2017 to 30 June 2018.
3. Sprint provides relay services under the “Telecommunications Service Obligations (TSO) Deed for Telecommunications Relay Services (TRS)” (deed) to meet the telephone communication needs of the deaf, deafblind, hearing impaired, and speech impaired. The Crown compensates Sprint for providing the relay services.
4. The relevant deed for the purpose of this final determination was entered into by Sprint and the Crown on 7 July 2011, and amended by Addendum 1 signed on 27 September 2011, Addendum 2 signed on 15 February 2015, and Addendum 3 signed on 3 July 2018.<sup>1</sup> It is a TSO instrument under section 70 of the Act.
5. This final determination sets out the specified amount payable by the Crown to Sprint for the 2017/18 TSO TRS under the deed, and provides information relating to the calculation of that amount.
6. The Commerce Commission (Commission) has determined that the amount payable by the Crown to Sprint for the 2017/18 TSO TRS is \$2,576,710.66<sup>2</sup>

## Background

7. The Act regulates the supply of telecommunications services in New Zealand.
8. Under subpart 2A of Part 3 of the Act, the Commission is required to produce a cost calculation determination for the deed.
9. Under section 94F(1)(c) of the Act, the Commission is required to provide no more than 20 working days for submissions after giving public notice of the draft determination. The Commission posted its draft determination on 11 September 2018 and submissions closed on 18 September 2018. No submissions were received.

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<sup>1</sup> <http://www.mbie.govt.nz/info-services/sectorsindustries/technologycommunications/communications/telecommunications-relay-service>.

<sup>2</sup> In our draft determination, the specified amount payable to Sprint for the 2017/18 TSO TRS was \$2,562,305.59. As noted in our draft determination, under section 94K(1)(e) of the Act, in calculating the final determination, we must include the additional amount payable for the loss of use of the specified amount. Consequently, the higher figure in this final determination (\$2,576,710.66) captures the additional amount payable for the time value of money over the period commencing at the end of the TSO period (30 June 2018) and ending on the date of the interim payment. We explain our basis for calculating this additional amount in paragraphs 38 to 41 below.

10. This document is the final determination made under section 94J of the Act, in respect of the deed, for the TSO period 1 July 2017 to 30 June 2018.
11. This final determination does not include any confidential material.

### **Cost calculation for the TSO TRS**

12. The deed requires the TRS provider to:
  - 12.1 provide a range of conventional relay services including text-to-voice conversation, voice-to-text conversation, and speech-to-speech relay; and meet the following service quality measures (SQMs):<sup>3</sup>
    - 12.1.1 *speed of answer for ordinary (non-emergency) calls*: at least 85% of calls must be answered by a Relay Assistant within 15 seconds; and
    - 12.1.2 *call congestion for ordinary (non-emergency) calls*: no more than 5% of calls to the TRS system should receive a busy signal.
  - 12.2 The deed also requires the TRS provider to meet the following SQMs for the Captioned Telephone (CapTel) service:
    - 12.2.1 *corrected text accuracy*: a minimum of 98% accuracy for testing levels, not live traffic; and
    - 12.2.2 *average transcription rate*: a minimum of 125 words per minute for testing levels, not live traffic.
13. Schedule 2 of the deed details a specified amount, calculated as the sum of an annual fixed charge and an annual variable charge.<sup>4</sup>
14. The total amount payable to Sprint is the specified amount, less any performance rebate calculated in accordance with the deed.<sup>5</sup>
15. Clause 8.3 of the deed requires the TRS provider to supply an annual audited report on each financial year to the Crown and to the Commission. The annual report must include the total billable minutes and sufficient information to enable the Commission to assess the TRS provider's compliance with the SQMs.<sup>6</sup>
16. The Commission received the annual audited TRS report for 2017/18 from Sprint on 31 July 2018.
17. All charges listed in this final determination exclude GST.

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<sup>3</sup> Telecommunications Service Obligations Deed for Telecommunications Relay Services, 7 July 2011, Schedule 3, Specified service quality measures.

<sup>4</sup> Section 94G(b) of the Act stipulates that the draft determination must contain the dollar amount of the amount specified in the deed.

<sup>5</sup> Section 94G(c) of the Act requires a reduction of the amount which would otherwise have been due under the deed where there is non-compliance with the deed.

<sup>6</sup> This includes a self-assessment by the TRS provider of its compliance with the SQMs.

### Fixed charges

18. The annual fixed charges for conventional relay services under Schedule 2 of the deed are shown in Table 5, in Appendix 1 of this final determination. There is no fixed charge for conventional relay services for this TSO period (1 July 2017 to 30 June 2018).
19. The annual fixed charge for the CapTel service for this TSO period is \$780,672 as shown in Table 6 (Year 7) in Appendix 1 of this final determination, taken from the amended Schedule 2 of the deed.
20. The combined annual fixed charge for conventional relay services and the CapTel service for this TSO period is therefore \$780,672.

### Variable charges

21. The annual variable charge is calculated by adding together the traffic charge and any activity charge specified in Schedule 2 of the deed.
22. The traffic charge is determined by adding together the total call charges for each month of the financial year. The total call charge for a month is determined by multiplying the chargeable call volume (in whole minutes) for the month by the applicable per-minute charge.
23. The chargeable call volume is the combined duration in seconds (without any session level rounding) recorded for all relay calls in the month, converted to whole minutes. The duration of a relay call is the relay session time measured in seconds from when the incoming call to the TRS system is answered until the incoming call is released by the TRS system.

### Variable charges price adjustment formula

24. Schedule 2 of the deed also includes a price adjustment formula. The variable charge per call minute is adjusted in accordance with the Statistics New Zealand Producer Price Index, Administrative Services. The Producer Price index used in the calculation of the Variable Charges Price Adjustment Formula was changed in Addendum 2 of the deed to better reflect the dominant labour cost component for delivering relay services, with the replacement formula taking effect from 1 July 2015.<sup>7</sup>
25. The price adjustment formula for this final determination uses the average index for June 2016, September 2016, December 2016, and March 2017, with a base index of March 2014.<sup>8</sup>

$$\text{Adjustment multiplier 2017} = \frac{(\text{Jun 2016} + \text{Sep 2016} + \text{Dec 2016} + \text{Mar 2017})/4}{\text{Mar 2014}}$$

<sup>7</sup> Previously, the price adjustment formula was calculated using the Statistics New Zealand Producer Price Index, Telecommunications, Internet and Library Services.

<sup>8</sup> The adjustment multiplier formula is taken from the Telecommunications Service Obligations Deed for Telecommunications Relay Services, 7 July 2011, Schedule 2, Annual Variable Charge.

26. This equates to an adjustment multiplier of 1.035, as can be seen below:

$$\begin{aligned} \text{Adjustment multiplier 2017} &= \frac{(1093 + 1112 + 1109 + 1103)/4}{1067} \\ &= 1.035 \end{aligned}$$

27. The multiplier is applied to the per-minute traffic charges listed in Schedule 2 of the deed to create a new set of 2017/18 charges for conventional relay services and the CapTel service, as set out in Table 1 and Table 2.<sup>9</sup>

**Table 1 – Variable cost schedule (conventional relay services)**

Monthly call minute volume	Charge per call min (\$) (1 July 2015 - 30 Jun 2016)	Charge per call min (\$) (1 July 2016 - 30 Jun 2017)	Charge per call min (\$) (1 July 2017 - 30 Jun 2018)
0-20,000	6.55	6.63	6.72
20,001-40,000	4.19	4.24	4.29
40,001-60,000	3.32	3.36	3.40
60,000+	3.03	3.07	3.11

**Table 2 – Variable cost schedule (CapTel service)**

Monthly call minute volume	Charge per call min (\$) (1 July 2015 - 30 Jun 2016)	Charge per call min (\$) (1 July 2016 - 30 Jun 2017)	Charge per call min (\$) (1 July 2017 - 30 Jun 2018)
12,500+	1.72	1.74	1.76

### Specified amount

28. Table 3 shows the total cost calculation for the 2017/18 conventional relay services; based on the billable minutes for each month, the traffic charges listed in Table 1, and the fixed charge outlined in paragraph 18. As noted in paragraph 18, there is no fixed charge for this period.

<sup>9</sup> Variable cost schedules from earlier TSO periods can be found in the cost calculation determinations for each relevant period, available at <https://comcom.govt.nz/regulated-industries/telecommunications/industry-levy-and-service-obligations/telecommunications-service-obligations/previous-trs-cost-calculations>.

**Table 3 – Total financial charges for conventional relay services**

Month	Total billable mins	Price per min (\$)	Variable charge (\$)	Fixed charge (\$)	Total amount due (\$)
Jul-17	19,044	\$6.72	\$127,975.68	\$0.00	\$127,975.68
Aug-17	19,865	\$6.72	\$133,492.80	\$0.00	\$133,492.80
Sep-17	18,569	\$6.72	\$124,783.68	\$0.00	\$124,783.68
Oct-17	20,021	\$4.29	\$85,890.09	\$0.00	\$85,890.09
Nov-17	19,211	\$6.72	\$129,097.92	\$0.00	\$129,097.92
Dec-17	19,353	\$6.72	\$130,052.16	\$0.00	\$130,052.16
Jan-18	22,059	\$4.29	\$94,633.11	\$0.00	\$94,633.11
Feb-18	19,915	\$6.72	\$133,828.80	\$0.00	\$133,828.80
Mar-18	20,891	\$4.29	\$89,622.39	\$0.00	\$89,622.39
Apr-18	18,561	\$6.72	\$124,729.92	\$0.00	\$124,729.92
May-18	19,025	\$6.72	\$127,848.00	\$0.00	\$127,848.00
Jun-18	19,751	\$6.72	\$132,726.72	\$0.00	\$132,726.72
<b>Totals</b>	<b>236,265</b>		<b>\$1,434,681.27</b>	<b>\$0.00</b>	<b>\$1,434,681.27</b>

29. The Activity Charges section of Schedule 2 of the deed includes an Annual Updating Charge, which allows Sprint to recoup the Travel Expenses and Conference Expenses of the Ministry of Business, Innovation and Employment's TRS Contract Administrator (or designated alternate) attending the annual STARS conference, or similar events.<sup>10</sup> There were no Activity Charges incurred for this TSO period.
30. Table 4 shows the total cost calculation for the 2017/18 CapTel service, which is based on the billable minutes for each month, the traffic charge listed in Table 2, and the fixed charge outlined in paragraph 19.<sup>11</sup>

**Table 4 – Total financial charges for the CapTel service**

Month	Billable Captel mins	Price per min (\$)	Variable charge (\$)	Fixed charge (\$)	Total amount due(\$)
Jul-17	17,740	\$1.76	\$31,222.40	\$65,056.00	\$96,278.40
Aug-17	16,778	\$1.76	\$29,529.28	\$65,056.00	\$94,585.28
Sep-17	16,644	\$1.76	\$29,293.44	\$65,056.00	\$94,349.44
Oct-17	17,037	\$1.76	\$29,985.12	\$65,056.00	\$95,041.12
Nov-17	16,013	\$1.76	\$28,182.88	\$65,056.00	\$93,238.88
Dec-17	16,332	\$1.76	\$28,744.32	\$65,056.00	\$93,800.32
Jan-18	16,331	\$1.76	\$28,742.56	\$65,056.00	\$93,798.56
Feb-18	13,677	\$1.76	\$24,071.52	\$65,056.00	\$89,127.52
Mar-18	16,183	\$1.76	\$28,482.08	\$65,056.00	\$93,538.08
Apr-18	16,284	\$1.76	\$28,659.84	\$65,056.00	\$93,715.84
May-18	17,995	\$1.76	\$31,671.20	\$65,056.00	\$96,727.20
Jun-18	16,118	\$1.76	\$28,367.68	\$65,056.00	\$93,423.68
<b>Totals</b>	<b>197,132</b>		<b>\$346,952.32</b>	<b>\$780,672.00</b>	<b>\$1,127,624.32</b>

<sup>10</sup> Telecommunications Service Obligations Deed for Telecommunications Relay Services, 7 July 2011, Schedule 2, Activity Charges.

<sup>11</sup> Only CapTel minutes over 12,500 are billable and contribute to the variable charge.



31. The monthly fixed charge in Table 4 is calculated by dividing the annual fixed charge by 12.
32. The combined variable charge for conventional relay services (\$1,434,681.27) and CapTel (\$346,952.32) is \$1,781,633.59
33. The specified amount for this TSO period is the total fixed charge (fixed charge for conventional relay services plus fixed charge for CapTel service) plus the total variable charge (variable charge for conventional relay services plus variable charge for CapTel service), which comes to \$2,562,305.59

### **Performance rebate**

34. The final determination must include any price reduction of the amount that the TSO provider would receive from the Crown if its service performance does not comply with the deed.<sup>12</sup>
35. This price reduction, described in Schedule 2 of the deed as a performance rebate, takes account of two categories of compliance assessment: service availability and service quality. The price reduction is calculated by identifying the applicable discounts (if any) for each category and then subtracting them from the specified amount.<sup>13</sup>
36. The service availability discount would have applied if the conventional TRS launch was delayed beyond 1 October 2011. As the conventional TRS was launched on time, in 2011, the service availability discount does not apply for this TSO period. The deed does not specifically mention a service availability discount for the CapTel service, so it has not been assessed as part of this final determination.
37. Sprint's audited annual report shows that it has complied with all of the applicable SQMs in the deed as listed in paragraph 12 of this final determination. Therefore, there is no price reduction for this TSO period.
38. Section 94K(1)(e) of the Act requires the Commission to calculate the additional amount payable for the loss of use of the specified amount. This covers the period commencing at the end of the TSO period (the end of the 2017/18 financial year) to the date of the final determination. The loss-of-use component is calculated by multiplying the days elapsed for the period in question by the 90-day bank bill rate applicable at the date of the final determination.
39. However, the Crown and Sprint agreed to an interim payment for the 2017/18 TRS. On 16 October 2018, \$2,946,651.43 (the specified amount plus GST) was paid to Sprint on behalf of the Crown by the Ministry of Business, Innovation and Employment.

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<sup>12</sup> See above, footnote .

<sup>13</sup> Telecommunications Service Obligations Deed for Telecommunications Relay Services, 7 July 2011, Schedule 2, Performance Rebate.

40. Therefore, because Sprint has already received the specified amount, we have calculated the financial loss-of-use component over the period from the end of the 2017/18 financial year to the date of the interim payment (16 October 2018). The amount is based on the 90-day bank bill rate at 16 October 2018. We consider this approach is consistent with the purpose of the provision in the Act enabling the financial loss-of-use component to be added to the amount payable by the Crown to the TSO provider.
41. The specified amount is \$2,562,305.59, the 90-day bank bill rate on 16 October 2018 was 1.90% per year, and the number of days elapsed over the stipulated period was 108. This means the amount payable for the financial loss of use component is \$14,405.07

### Summary

42. This final determination calculates the amount payable by the Crown to Sprint for the 2017/18 TSO TRS.
43. The total amount payable was calculated by adding the total annual fixed costs and variable costs for conventional relay services and the CapTel service, using the charges set out in the deed. There were no Activity Charges incurred for this TSO period. There were also no price reductions because Sprint met all of the required SQMs.
- 43.1 The total annual fixed charge is \$780,672.00;
- 43.2 The total annual variable charge is \$1,781,633.59;
- 43.3 The loss-of-use component is \$14,405.07; and
- 43.4 The total amount payable by the Crown to the TRS provider is **\$2,576,710.66**

## Appendix 1 – Fixed charges

**Table 5 - Fixed Charges for conventional relay services (GST exclusive)<sup>14</sup>**

	30 Sep 2011 – 30 June 2012	1 July 2012 – 30 June 2013	1 July 2013 – 30 June 2014 <sup>15</sup>	1 July 2014 – 30 June 2015	1 July 2015 – 30 June 2016	1 July 2016 – 30 June 2017	1 July 2017 – 30 June 2018	1 July 2018 – 20 June 2019
<b>Fixed Charge</b>	\$145,120	\$148,748	\$152,467	\$156,278	\$160,185	\$0	\$0	\$0

**Table 6 – Fixed charges for the CapTel service<sup>16</sup>**

	Year 1	Year 2	Year 3	Year 4 <sup>17</sup>	Year 5	Year 6	Year 7	Year 8
<b>Fixed Charge</b>	\$360,000	\$600,000	\$615,000	\$630,375 (1 July 2014 – 1 March 2015) \$724,931 (2 March 2015 – 30 June 2015)	\$743,054	\$761,631	\$780,672	\$800,188

<sup>14</sup> Telecommunications Service Obligations Deed for Telecommunications Relay Services, 7 July 2011, Schedule 2, Annual Fixed Charge.

<sup>15</sup> It is assumed that the dates for the third financial period in Table 5 should be 1 July 2013 – 30 June 2014 (incorrectly printed in the deed as 1 July 2014 – 30 June 2014).

<sup>16</sup> Telecommunications Service Obligations Deed for Telecommunications Relay Services, 7 July 2011, Schedule 2, Annual Fixed Charge.

<sup>17</sup> It is assumed that the dates for Year 4 in Table 6 should be 1 July 2014 – 1 March 2015 (incorrectly printed in the deed as 1 July 2014 – 14 December 2014) and 2 March 2015 – 30 June 2015.

## Appendix 2 – Legal framework

### The framework for the determination

44. Part 3 of the Act facilitates the supply of certain telecommunications services to groups of end-users who may not otherwise be supplied those services on a commercial basis or at an affordable price.
45. Subpart 2A of Part 3 prescribes the annual procedures for determining the amounts payable by the Crown to the TRS provider in respect of its TSO instruments.
46. The Commission is required under section 93 to make an annual assessment of the TRS provider's compliance with its TSO instruments. Accordingly, the Commission must assess the TRS provider's compliance with the deed.
47. Section 94F requires the Commission to prepare a draft TSO cost calculation determination for the TRS:

#### **94F Commission to prepare draft TSO cost calculation determination**

- (1) The Commission must—
  - (a) prepare a draft TSO cost calculation determination in respect of each TSO instrument for each financial year; and
  - (b) give public notice of that draft determination; and
  - (c) include in the public notice the closing date for submissions, which must be not later than 20 working days after the date of giving public notice.
- (2) The Commission must make reasonable efforts to do the things referred to in subsection [\(1\)](#) not later than 120 working days after the end of the financial year.

48. Section 94G sets out the matters that must be included in the Commission's draft TSO cost calculation determination for the TRS. As the deed includes a specified amount, the draft determination need only include the following matters set out under section 94G(b) to (e):

#### **94G Matters to be included in draft TSO cost calculation determination**

A draft TSO cost calculation determination must include,—...

- (b) if the TSO instrument contains a specified amount, the dollar amount of the specified amount and all material information that—
  - (i) relates to the calculation of that amount; and
  - (ii) would not, in the opinion of the Commission, be likely to unreasonably prejudice the commercial position of the TSO provider; and

- (c) the amount (if any) by which the total amount that the TSO provider would receive from the Crown in relation to the TSO instrument must be reduced because the TSO provider has not complied with the TSO instrument; and
- (d) the methodology applied by the Commission in preparing the determination; and
- (e) the reasons for the determination.

49. Section 94H of the Act requires the Commission to consider the steps taken (if any) by the TSO provider (the TRS provider) to remedy any non-compliance with the TSO instrument:

**94H Requirements for draft TSO cost calculation determination**

In preparing a draft TSO cost calculation determination of the matters referred to in section 94G(c), the Commission must consider the steps taken (if any) by the TSO provider to remedy any non-compliance by the TSO provider with the TSO instrument between the date the TSO provider was notified of the non-compliance under section 93(b) and the date that is 15 working days before public notice is given under section 94F(1)(b).

50. Section 94J set outs the requirements that the Commission must follow in preparing the final TSO cost calculation determination for the TRS:

**94J Commission to prepare final TSO cost calculation determination**

- (1) The Commission must—
  - (a) prepare a final TSO cost calculation determination; and
  - (b) give public notice of that final determination; and
  - (c) give a copy of that final determination to the Minister, all liable persons, and the TSO providers in relation to the TSO instrument.
- (2) The Commission must make reasonable efforts to do the things referred to in subsection (1) not later than 40 working days after the closing date for submissions specified in accordance with section [94F\(1\)\(c\)](#).
- (3) This section is subject to sections [94](#) and [94C](#).

51. Section 94K sets out the matters that must be included in the Commission's final TSO cost calculation determination for the TRS. As the deed includes a specified amount, the final determination need only include the following matters set out under section 94K(1)(b) to (g):

**94K Matters to be included in final TSO cost calculation determination**

- (1) A final TSO cost calculation determination must include,—
  - (b) if the TSO instrument contains a specified amount, the dollar amount of the specified amount and all material information that—

- (i) relates to the calculation of that amount; and
  - (ii) would not, in the opinion of the Commission, be likely to unreasonably prejudice the commercial position of the TSO provider; and
- (c) the amount (if any) by which the total amount that the TSO provider would receive from the Crown in relation to the TSO instrument must be reduced because the TSO provider has not complied with the TSO instrument; and
- (d) the amount payable by the Crown to the TSO provider in relation to the TSO instrument in respect of the financial year calculated—...
- (ii) in the case of a TSO instrument that contains a specified amount, by subtracting the amount of the reduction (if any) referred to in paragraph (c) from the specified amount referred to in paragraph (b) ; and
- (e) the amount payable by the Crown to the TSO provider in relation to the TSO instrument for the loss of use of the amount referred to in paragraph (d), calculated at the 90-day bank bill rate (as at the date of the final determination) for the period commencing from the end of the financial year and ending with the date of the final TSO cost calculation determination; and
- (f) the methodology used by the Commission in preparing the determination; and
- (g) the reasons for the determination.