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Tristan Gilbertson  
Telecommunications Commissioner  
Commerce Commission  
Level 9, 44 The Terrace  
PO Box 2351  
WELLINGTON

**Trustpower Limited**  
**Head Office**  
108 Durham Street  
Tauranga  
Postal Address:  
Private Bag 12023  
Tauranga Mail Centre  
Tauranga 3143  
**F** 0800 32 93 02  
**Offices in**  
Auckland  
Wellington  
Christchurch  
Oamaru  
**Freephone**  
0800 87 87 87  
[trustpower.co.nz](https://trustpower.co.nz)

Via online submission portal: (<https://comcom.govt.nz/file-upload-form-folder/file-upload-form>)

## TRUSTPOWER SUBMISSION: CONSULTATION ON CHORUS' PROPOSED EXPENDITURE FOR PQP1

### 1. Introduction

- 1.1.1 The Commerce Commission (the **Commission**) is continuing to progress with developing the new regulatory regime for fibre fixed line access services (**FFLAS**) as required under Part 6 of the Telecommunications Act 2001 (the **Act**).
- 1.1.2 The Commission recently published its consultation paper on Chorus' proposed expenditure for PQP1 (the **Consultation Paper**) and is currently seeking feedback.
- 1.1.3 This non-confidential/public submission provides Trustpower Limited's (**Trustpower's**) feedback on customer incentive payments provided by Chorus, which is a particular aspect of the Consultation Paper that is relevant to Trustpower's participation in the communications sector.

### 2. Incentive payments

- 2.1.1 In terms of the customer incentive payments provided by Chorus, the Commission's question 3 is as follows:

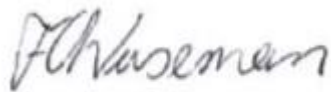
*"We welcome your views on customer retention and incentive capex, including whether the amount proposed by Chorus meets the expenditure objective and reflects good telecommunications industry practice. We are also interested in views on any competition impacts of this spend on relevant telecommunication markets and whether further information is required to assess Chorus proposed expenditure in this area."*

- 2.1.2 As referred to in the Consultation Paper (paragraph 61), these incentive payments are designed to incentivise customer connections to the fibre network and include cash incentives to RSPs and end users as modem credits.
- 2.1.3 We have no particular views on whether the amount proposed by Chorus meets the expenditure objective (i.e., whether the amount reflects *"the efficient costs that a prudent fibre network operator would incur"*).
- 2.1.4 We have focussed our comments on the Commission's questions regarding the competition impacts of these incentive payments and views on good telecommunications industry practice. We have taken into account the Commission's earlier competition and PQID consultation paper in relation to such payments.

- 2.1.5 As a retail service provider (**RSP**), we have benefitted from incentive payments made by Chorus. These payments have enabled us to offer a more compelling retail proposition to our customers and have enhanced our ability to compete with the larger RSPs.
- 2.1.6 We have been strong supporters of the Government's Ultra-Fast Broadband (**UFB**) project from the beginning. The key feature of the UFB project from our perspective is that it offers a level playing field among RSPs, regardless of scale and scope economies, encouraging new entrants into the New Zealand fixed-broadband market and increasing the overall level of retail competition.
- 2.1.7 At a principled level, incentive payments can be a legitimate measure for a network operator to generate usage of its network. Network operators, whether fixed, mobile, subsea or satellite, look to maximise the usage of network capacity and offer inducements to customers to join the network. This is the case, whether the relevant market is highly competitive or concentrated.
- 2.1.8 There are many situations where customers have not connected to the Chorus network, when given the opportunity to do so. These include where the customer is not yet convinced of the benefit of fibre, or where the customer moves to premises which are not yet connected, or where there are other access networks that may be available to connect that customer.
- 2.1.9 Given that we believe incentive payments can be a legitimate measure, we see these payments as reflective of good telecommunications industry practice, as described in the Capex IM. We also believe the case for incentive payments is arguably enhanced where the Government has invested significant amounts of taxpayer money in the UFB networks as a key policy initiative.
- 2.1.10 We see the competition implications of incentive payments as nuanced. We acknowledge that these payments have the potential to skew RSPs away from alternative access networks towards Chorus' fibre network, although these alternative networks are often owned by RSPs that are themselves able to offer incentives and recover this investment through subsequent retail price adjustments. We also consider that these payments allow Trustpower as a smaller RSP to compete more effectively with the larger RSPs in providing services over Chorus' fibre network, which is our primary competitive platform.
- 2.1.11 On balance, we advocate the Commission examining and monitoring incentive payments closely, including whether Chorus' proposed expenditure on these payments reflects efficient costs so as to meet the expenditure objective under the Capex IM.

For any questions relating to the material in this submission, please contact me on 027-549-9330.

Regards,



**FIONA WISEMAN**  
**SENIOR ADVISOR – STRATEGY & REGULATION**