ISBN 978-1-869454-71-5
Project no. 13.01/14544

# Consultation paper – Network footprint and demand

# UCLL and UBA pricing review determinations

Date: 21 September 2015

# We are consulting on whether our UCLL network footprint correction requires us to adjust the 'gap' between network footprint and demand

## Final Pricing Principle (FPP) determinations

1. We are currently undertaking a pricing review determination of the unbundled copper local loop (UCLL) service (including sub-loop unbundling) and the unbundled bitstream access (UBA) service, applying the FPP under the Telecommunications Act 2001.

2. The purpose of this consultation paper is to seek your views on whether the UCLL network footprint correction (set out below) requires us to adjust the 'gap' between footprint and demand.

3. The UCLL network footprint is simply how many buildings are connected to the network. The number of network connections drives the total cost of supplying the UCLL service.

4. UCLL demand is the number of customers over which the total network cost will be recovered, ie, how many people are paying for UCLL.

5. The relationship between network footprint and demand is a key consideration in setting a cost-based average price.

## We are interested in your views

6. We would like to know your views on the issues raised in this paper. We have concluded the discussion with numbered questions. Please provide evidence and reasoning to support your answers to the questions asked in this consultation paper.

7. Submissions are due by 5pm on 2 October 2015. There will be no cross-submissions.

8. Extensions of time for submissions may be granted on a case-by-case basis if requested by parties in advance and accompanied by a proper explanation from the relevant chief executive.

9. Please address responses to: Tricia Jennings (Project Manager, Regulation Branch), c/o telco@comcom.govt.nz.

## In the UCLL further draft determination we identified potential issues with the UCLL network footprint

10. We stated in the further draft determination that the UCLL modelled network should connect all buildings along New Zealand's road network.[1]

11. To undertake this task, our geo-spatial experts (Corelogic) provided us with the most comprehensive and complete database of the address and road network available for New Zealand.[2]

12. Modelling the UCLL network footprint on address points, rather than building or network connection data, has resulted in two potential issues:

    12.1 the inclusion of address points without any building ('vacant sites');[3] and

    12.2 the exclusion of multiple network connections at a single address point ('under-counting').[4]

13. We sought views on an approach to further refine the Corelogic database, and investigate the extent of multiple network connection at a single address point.[5]

## Parties' views on potential issues with the UCLL network footprint

14. Submissions from parties generally supported further investigation into any potential errors with our UCLL network footprint. Submitters also noted that they expect under-counting will outweigh the presence of vacant sites.[6,7,8]

## Our further investigation into a network footprint correction

15. Further investigation into vacant sites and under-counting shows that:

    15.1 We included 102,890 address points in the network footprint that are categorised by Corelogic as either 'vacant' or 'likely vacant'. These address points will be removed from the UCLL network footprint; and

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1 Commerce Commission "Further Draft Pricing Review Determination for Chorus Unbundled Copper Local Loop Service" 2 July 2015, paragraph 953

2 Commerce Commission "Further Draft Pricing Review Determination for Chorus Unbundled Copper Local Loop Service" 2 July 2015, paragraph 954

3 Commerce Commission "Further Draft Pricing Review Determination for Chorus Unbundled Copper Local Loop Service" 2 July 2015, paragraph 955

4 Commerce Commission "Further Draft Pricing Review Determination for Chorus Unbundled Copper Local Loop Service" 2 July 2015, paragraph 956

5 Commerce Commission "Further Draft Pricing Review Determination for Chorus Unbundled Copper Local Loop Service" 2 July 2015, paragraphs 958, 960

6 Spark New Zealand "Further draft pricing review determination for Chorus' UBA and UCLL services" 13 August 2015, paragraph 116

7 Vodafone "Further Draft Pricing Review Determination for Chorus' Unbundled Copper Local Loop Service and Further Draft Pricing Review for Chorus' Unbundled Bitstream Access Service" 13 August 2015, paragraph F2.2

8 Network Strategies "Revised draft determination for the UCLL and UBA price review" 13 August 2015, section 4.1

15.2 We are unlikely to have under-counted the number of lead-ins. We base this view on modelling lead-in cables or ducts that contain a minimum of two fibres. With the number of fibre pairs being scalable, an additional lead-in is only required where reticulation cannot occur from the existing lead-in (building termination point).

16. As views were sought on vacant sites and under-counting in our further draft determination, we are not seeking any further views on this matter in this consultation paper.

## Network footprint correction and implications for the 'gap' between footprint and demand

17. The UCLL network footprint correction reduces the gap between connections (footprint) and customers (demand). Our further draft determination included 1,994,654 connections and 1,823,153 customers – or an 8.6% gap. Removing vacant sites from the UCLL network footprint reduces that gap to 3.6%.

18. We are confident in the data sources under-pinning our revised network footprint and demand. However, we are concerned that the UCLL network footprint correction reduces the gap to well below TERA's observations[9] and also Statistics New Zealand's latest Census data on unoccupied residential dwellings (7.5%).[10]

19. We think that a consequential adjustment should be made to restore a gap between footprint and demand in line with relevant New Zealand data.

20. Statistics New Zealand's unoccupied residential dwellings measure provides a justifiable basis on which to make an adjustment. The percentage of unoccupied residential dwellings in New Zealand is a good indication of the gap we should model between footprint and demand.

21. We propose applying an adjustment that makes demand equal to our network footprint connections, less the unoccupied 7.5% measure, ie, the costs of connected, but unoccupied, buildings are borne by paying customers connected to the network.

22. Relative to our network footprint, this approach reflects the level of paying customers in New Zealand, and will therefore better approximate the unit costs of the modelled network.

23. Implementing this adjustment, based on our corrected network footprint, results in demand reducing by 73,271 from 1,823,153 to 1,749,882.

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9 Commerce Commission "Further Draft Pricing Review Determination for Chorus Unbundled Copper Local Loop Service" 2 July 2015, paragraph 944

10 In 2013, 1 in 10 dwellings were unoccupied. Nearly one-quarter were classified as unoccupied because all the occupants were temporarily away at the time of the Census, but about three-quarters had no occupants at all. Refer: http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-housing/occupied-unoccupied-dwellings.aspx

**Questions**

1 Do you agree that a 3.6% gap between the UCLL footprint and demand is too small, and an adjustment should be made?

2 We have Census data that suggests that the gap between the UCLL footprint and demand is closer to 7.5%. Do you support this statistic? Do you have any other data sources that support a different gap?

3 Do you agree with our proposed adjustment to demand? Do you have any alternative methods for implementing a gap between footprint and demand?