

21 December 2018

Stephen Gale
Telecommunications Commissioner
Commerce Commission
44 The Terrace
Wellington

Northpower Fibre Limited

28 Mt Pleasant Road
Raumanga
Whangarei 0110

Private Bag 9018
Whangarei Mail Centre
Whangarei 0148

Phone 0800 667 847
www.northpowerfibre.co.nz

Dear Mr Gale

New Regulatory Framework for Fibre

Thank you for the opportunity to provide feedback on the *New regulatory framework for fibre* discussion paper (**Discussion Document**), including your proposed approach for developing the fibre input methodologies. This covering letter accompanies our views on the specific questions posed which are covered in a joint submission with Ultrafast Fibre and Enable Networks.

Northpower Fibre Limited and Northpower LFC2 Limited (**NF**) are supportive and comfortable in the direction and approach that the Commission is taking in developing the regulatory framework for fibre, in particular the adoption of the building blocks methodology, and NF only being subject to Information Disclosure obligations. We consider that an ID regime provides appropriate regulatory assurances, while supporting our focus on achieving the best possible outcomes for consumers by moderating regulatory costs, and enabling us to be flexible in our approach.

Within this overall context, we support a principles based development of the specific ID regime and suggest the following core principles as an appropriate starting point:

- Putting consumer outcomes at the core of the requirements
- Ensuring proportionality in order to minimise the cost burden to consumers
- Ensuring a pragmatic and cost effective process to establish the framework
- Retaining flexibility within the framework to adapt as technology evolves and the market matures

Focus needs to be on delivering outcomes for consumers

The joint ownership model between Northpower and Crown Infrastructure Partners (**CIP**) is progressively transitioning towards full ownership by Northpower, which is owned (via the Northpower Electric Power Trust) by its electricity consumers, and as such NF will ultimately be owned by its consumers and the community it serves.

This long term ownership structure has been front of mind for Northpower and CIP in building its fibre business and approach to date, and NF is focused on delivering a superior retailer and consumer experience and a high level of service which represents value for money to our consumers. We achieve this by:

- Providing fast, high quality internet connections to our consumers
- Setting wholesale prices which ensure retailers can provide cost competitive services that meets the needs of consumers in our market
- Supporting retail competition within the Whangarei and Kaipara region to ensure competitive retail pricing for consumers
- Running an efficient business which delivers fair returns back to our consumer owners
- Providing the very best service levels to retailers and consumers in terms of connections, fault repair and network quality
- Supporting product innovation, and encouraging the community to leverage the fibre network to deliver economic growth and prosperity to consumers and the community.

We are confident that the Commission is similarly focused on ensuring that the regulatory framework delivers competitive outcomes for consumers that result in affordable internet access, superior levels of service, ongoing technical innovation, and economic growth and prosperity which benefits all New Zealanders.

Proportionality of regulatory framework

We support a high-level principles based approach and alignment with GAAP to the maximum extent possible as a lever to ensure that the regulatory framework and the associated costs to implement and manage it on an ongoing basis are proportionate. Our network is comparatively small at 33,000 potential consumer connections (once LFC2 areas are complete) and the costs of regulation are ultimately borne by our consumers. It follows that an approach that is cost effective to implement and manage will also be cost effective to develop, and this will support our active participation in the Commission's process.

Technological evolution

We expect that the telecommunications market will continue to evolve with the development and commercial deployment of new technologies such as 5G. Input methodologies are designed to be enduring, and as such there is a risk that too prescriptive IMs may not be adaptable enough to address changes in the market, technology and the competitive landscape.

Technology will continue to evolve rapidly, competition in the marketplace will change, and the regulatory environment needs to be flexible enough to change with it to ensure enduring consumer benefit. A broad based principles approach provides this flexibility.

Key differences between EDBs and Fibre networks

As discussed above, we support the use of the building blocks methodology incorporating a weighted average cost of capital, and appreciate there are some synergies in aligning with the EDB regulatory regime. However, care needs to be taken before adopting aspects of this regime.

EDBs do not currently face the competitive threats that the fibre networks are experiencing in the form of the existing Chorus copper network (including VDSL upgrades which are only being rolled out in LFC areas), existing 4G FWA, forthcoming 5G FWA, and unbundling of the fibre network. There is also much faster technological evolution and therefore uncertainty in the telecommunications industry, and as such risk of asset stranding. It is important that IM

settings adequately reflect this reality, and enable necessary return to adapt to, and effectively compete in this increasingly competitive marketplace.

For this reason, we consider that the asset beta included in the WACC calculation should vary based on the level of risk, and that the level of risk is not consistent across networks. Having said this, we expect that the market price is likely to be dictated by competition from the different networks available, and that this price is likely to be below the pricing levels allowed by the building block methodology using the applicable WACC.

NF understands these competitive risks and is focused on continually improving its product offering to compete against alternate networks and products. NF has already trialed the next generation of 10G GPON and received international recognition for its work. We are currently underway in replacing our entire GPON network to be able to enable this new technology platform and are in the planning stages of trialing the latest WiFi enabled ONT (one of the first incorporating the new 802.11ax WiFi standard, and including both IoT standards of ZigBee and Z-wave). These type of innovations deliver further value to our retailer customers and improve the overall customer experience.

We are tightly focused on managing the network in an efficient manner to deliver a cost competitive product to consumers, a fair return to shareholders and by allowing us room to move, we will be an exemplar in chasing quality of consumer outcomes.

We thank you for the opportunity to provide feedback, and look forward to working closely with you to develop the new regulatory framework for fibre, for the benefit of all consumers.

Yours sincerely,



Darren Mason
CEO