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Submission in response to
the Commerce Commission's consultation paper
"Consultation on setting prices for service
transaction charges for UBA and UCLL services
(25 September 2014)





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Executive Summary



EXECUTIVE SUMMARY

Introduction

- 1 This submission responds to the Commerce Commission (**Commission**) paper *Consultation on setting prices for service transaction charges for UBA and UCLL services (Consultation Paper)* released on 25 September 2014.
- 2 Transaction charges are in addition to the ongoing monthly charges that have been the focus of these processes to date. Transaction charges are generally non-recurring charges that recover the costs of a wide range of activities generated by Retail Service Provider (**RSP**) activity and that must be performed in order to deliver the regulated services to our customers, such as connections and transfers. These activities require internal and third party service company activities and costs.

Transaction charges subject to FPP

- 3 A subset of transaction charges – “core” charges – are subject to the final pricing principle (**FPP**) review processes having been set under the Initial Pricing Principle (**IPP**) during the IPP determinations. The remaining subset – “sundry” charges - were set on a cost recovery basis or a “price on application” (**POA**) basis reflective of their non-recurring nature. As they were not subject to the IPP they are not subject to the FPP process. Where relevant, sundry charges continue to be subject to annual reviews in line with the regulatory schema the Commission set up in the STDs. Given that the UBA wiring and modem charge was changed from a core to a sundry charge, we believe it is outside the scope of the FPP process unless it is linked to the connection charges and re-categorised as a core service.
- 4 In April this year the Commission determined that all UCLFS charges (including core transaction charges) should change to align to the benchmarked UCLL charges (other than the MPF Service Monthly Charge which was already linked). The Commission also backdated core transaction charges to 3 December 2012, including interest. UCLL core transaction charges are generally subject to the FPP process. UCLL and UCLFS connection charges are likely to be the same on a cost basis. On completion of the FPP process, the cost based prices for both UCLL and UCLFS should be replaced and backdated.
- 5 We appreciate the Commission commencing consideration of these charges. As part of the FPP applications, and the real-world business significance for the industry of these charges alongside the monthly charges, this consultation will assist by informing the draft determinations scheduled to be released on 1 December 2014.

TSLRIC approach

- 6 The Commission has sought comments on a range of approaches to TSLRIC for transaction charges. We favour the top down approach that starts with service company charges and overheads and enables the Commission to test for efficiency. Regulatory precedent supports basing transaction charges on operator costs. This was the approach adopted by the ACCC in Australia, for example, when it set TSLRIC prices for connection services for the unconditional local loop service. While the Commission

has indicated that the Danish Business Authority (**DBA**) has adopted a bottom up approach to modelling transaction charges, one of the reasons this approach was apparently adopted was due to the lack of transparency of the incumbent's costs. The situation in New Zealand is quite different: Chorus has been very transparent about third party charges and we are happy to assist the Commission to map the service company charges to the transaction charges.

- 7 This top down approach:
 - 7.1 Reflects the real-world costs of providing these services in New Zealand. These are prices we pay to third party service companies, that were set by competitive tender.
 - 7.2 Is consistent with TSLRIC.
 - 7.3 Reflects the industry's current price structure mitigating the risks of shocks in the market and has precedent. This is the same approach adopted for a significant number of the sundry charges in the STDs and something the industry is familiar with. This price review process should assure our customers that the transaction charges the Commission sets are efficient. We have provided substantial data to enable the Commission to assess that this approach achieves efficient cost recovery.
 - 7.4 Means transaction charges can be adjusted over time as real-world costs change, as happens in the case of the STD sundry charges using service company inputs.
 - 7.5 Helps ensure Chorus is able to recover its efficient costs. As a wholesale only network operator, and in a cost recovery regime, there is nowhere for any under recovery of costs to be absorbed.
- 8 Bottom up modelling would, on the other hand, be a potential substantial undertaking which could add significant delay and increased uncertainty for the industry if not already substantially progressed.
- 9 The Commission's preliminary views on its approach would be welcome given the need for everyone to consider the resource and timetabling implications going forward for completing the setting of transactions charges as part of the FPP applications. There are generally a large number of activities involved in delivering the transaction services, including internal staff time and systems costs, as set out in Appendix 1 of this submission.

Real-world activities and costs in New Zealand should be the focus of this exercise
- 10 It is important that the Commission takes into account the real-world activities involved in providing transaction services when setting these charges. We believe it is appropriate to look at the activities and costs in New Zealand associated with delivering

the relevant transaction services on the existing copper network. The activities and costs involved in delivering layer 1 transaction services on the copper network and layer 1 services on the fibre network both involve the same or equivalent activities (e.g. running a jumper in the copper world and connecting a patch lead in the fibre world). Further, as the Commission proposes to base the UBA service on copper inputs, it is particularly appropriate that the Commission looks at the UBA transaction services on the copper network.

Merging transaction charges is not appropriate

- 11 Within the regulatory framework mandated by the Telecommunications Act and through the Commission’s STDs, we don’t believe it is appropriate for the Commission to merge either transaction charges together or transaction charges and monthly rental. Merging transaction charges will carry new risks of regulatory error and may present costly implications for Chorus and RSP operational processes and systems.
- 12 With regulated services the Commission must ensure costs are not under or over recovered. Much more complicated regulatory analysis and discussion may be required if the Commission seeks to merge transaction services. Including these types of arrangements will also add complexity. For example, “claw back” and/or “wash-ups” will be required to ensure that Chorus recovers its efficient costs if an RSP relinquishes a line within the minimum term where monthly rental and transaction charges are combined.
- 13 Commercial offerings are not subject to the same constraints as regulatory price setting. More flexibility can be considered and enabled in the industry by agreement such as combining the monthly rental and connection charges in the Chorus VDSL service (to be renamed Basic VDSL).

Summary table

- 14 We set out below our response to each of the Commission’s questions in the Consultation Paper. A high level summary is set out in the following table for ease of reference.

Question number	Commission’s proposed position	Chorus’ response
1	The Commission can only set prices for the transaction charges for which it has set prices in the IPP determinations.	Core transaction charge prices set in the IPP processes are subject to the FPP. Once the FPP prices are determined they should be backdated and replace the IPP prices.
2	The list of charges in the Appendix to the Consultation Paper is the complete list of charges for the FPP determinations.	We agree on the understanding that:

		<ul style="list-style-type: none"> UCLFS core transaction charges based on flow through from the UCLL STD are also included;¹ The connection charge for when UBA and UCFLS are ordered at the same time is part of the UBA FPP process. <p>This should however be made explicit.</p>
3	When the Commission sets the prices for the transaction charges in the FPP determinations, it must apply the FPP of TSLRIC.	We agree.
4	How would you envisage this occurring?	It is consistent with TSLRIC to start with the service company charges, adjust for overheads and implement a mechanism to reflect changes in underlying cost inputs. This is our preferred approach.
5	Are there any other options for determining the costs of providing the transactions?	The Commission has identified the key options.
6	Which option should the Commission take?	The Commission should start with the service company charges, adjust for overheads and implement a mechanism to reflect changes in underlying input costs.
7	Do you agree that it is open to the Commission to merge some of the transaction charges into other charges?	The Commission should not merge transaction charges together as this would have no practical benefit and costly implications for Chorus and RSP operational processes and systems.
8	Do you agree that the Commission is entitled to set bulk rates for UBA transaction charges?	While the Commission may, in principle be able to set bulk rates, we do not think this process should change the price structure of transaction charges

¹ Commerce Commission "Review of the Standard Terms Determination for Chorus's Unbundled Copper Low Frequency Service under section 30R of the Telecommunications Act 2001", Decision [2014] NZCC 9. The Commission linked the transaction services for UCLL and UCLFS.

		and there are unlikely to be many scenarios where this is necessary.
9	Are there any charges you consider should be merged into the monthly charges or re-classified in some other way? (Please also provide comments in response to paragraph 44 under this question).	To merge monthly rental and transaction charges the Commission would need to ensure that the full amount of the efficient transaction charges would be recovered and that there is no systematic under or over-recovery. This is something that can be achieved commercially but is more difficult to do within regulatory rules. The only way we can be confident about recovery in the regulatory context is to set a separate charge.
10	Please provide your understanding of what is involved in providing each transaction and the associated costs.	We have set this information out in Appendix 1.
11	Do you have any other comments on the topics discussed in this paper?	No.

RESPONSE TO THE COMMISSION'S QUESTIONS

Question 1 – Do you agree that in the FPP determinations the Commission can only set prices for the transaction charges for which it has set prices in the IPP determinations

- 15 Chorus believes the appropriate approach for the Commission to take is to review prices for core transaction charges set in the IPP determinations, as the Commission has only applied the relevant IPP to core transaction charges. Other sundry charges are priced on a cost basis, including in many cases taking the service company input with additional charges to cover administrative costs and common costs with a mechanism to reflect changes in the input costs.
- 16 The STD prices lists are generally split into 3 categories of charges:
- 16.1 Recurring charges (i.e. monthly rental);
 - 16.2 Transaction charges, which covers activities like connections and transfers; and
 - 16.3 Ancillary services, which cover a number of services such as pre-qualifications, additional billing information and training.

Recurring charges and transaction charges are split into “core” or “sundry” charges. When the STDs were originally set up, and during the IPP reviews, the IPP (benchmarking) was only applied to core services.² Ancillary services are all sundry charges.

- 17 Sundry charges were set on a cost recovery basis. Where Chorus uses the service companies, the sundry charges are based on the service company input and recovery of relevant overheads, with price change mechanisms to reflect changes in the underlying costs. Other sundry charges are based on a POA or cost basis.
- 18 This submission deals with core transaction charges.

Question 2 – Do you agree that the list of charges in the Appendix is the complete list of charges for which the Commission is setting prices in the FPP determinations

- 19 We believe that the list of services in the Appendix must include:
- 19.1 The UCLFS core transaction charges; and
 - 19.2 The UBA connection charge when UBA and UCLFS are ordered at the same time.

² Draft UCLL STD, 31 July 2007, paragraph 160: “For each component that relates to a core charge the Commission has determined the charge in accordance with the applicable initial pricing principle”. This was the approach taken in subsequent IPP reviews.

The UBA connection and wiring charge should only be included if it is determined to be part of the core connection charges, as was originally the case.

UCLFS core transaction charges should be included as part of the FPP process

- 20 In Decision [2014] NZCC 9 the Commission linked the transaction services for UCLL and UCLFS. The Commission stated:³

We also noted that the current final pricing principle (FPP) review determination of the UCLL STD (UCLL FPP process) may result in changes to the core prices determined under the UCLL STD; and that if this occurred, the UCLFS prices would adjust automatically if they were linked to the UCLL prices.

- 21 Earlier this year the Commission determined that all UCLFS charges (including core transaction charges) should change to align to the benchmarked UCLL charges (other than the MPF Service Monthly Charge which was already linked). The Commission also backdated core transaction charges to 3 December 2012, including interest. UCLL core transaction charges are generally subject to the FPP process. UCLL and UCLFS connection charges are likely to be the same on a cost basis.
- 22 Accordingly, Chorus' view is that connection charges for UCLFS are part of the UCLL FPP process and should be reviewed with the benefit of the TSLRIC process. The impact of the change to the UCLFS connection charges to align with the benchmarked UCLL connection charges had an annualised EBITDA impact of around \$6 million. The net effect of backdating and interest charges around the decision to backdate these charges was estimated to reduce Chorus' FY14 EBITDA by an indicative \$9 – 10 million. In a situation where the FPP review changes the benchmarked connection charges again, consideration of backdating remains relevant and the current position should be reversed.
- 23 We therefore believe that the UCLFS core transaction charges should be included explicitly, and effectively they are already, as part of the UCLL FPP process.
- 24 We note in addition that section 1 of UCLFS price list states "All MPF service transaction charges specified under the equivalent service components of UCLL STD, Schedule 2 price list " but there are no equivalent UCLL charges for 3 of the UCLFS service components (MPF new connection, MPF transfer and 1.4 cabinetisation related transfers) because UCLFS can be taken with UBA but UCLL cannot. Accordingly these scenarios are not explicitly addressed. They were in the original UCLFS price list prior to Decision [2014] NZCC 9 and we assume the original prices continue to apply.

When UBA and UCLFS are ordered at the same time

- 25 In the UBA IPP decision the Commission also set the connection charge for when UBA and UCLFS are ordered at the same time. The Commission appears to have taken the

³ Paragraph 23.

view that Chorus should only be able to charge the UBA connection charge. For the avoidance of doubt, we also believe that this charge is therefore part of the FPP process.

- 26 This approach is problematic as it ignores the real work, and therefore costs, involved in connecting UCLFS and UBA when they are ordered at the same time. For example:
- 26.1 UBA may require remote connection activity and service company activity at the cabinet but UCLFS additionally requires service company activity at the exchange;
 - 26.2 UBA is a remote connection but UCLFS requires service company activity at the exchange and/or cabinet.
- 27 These are real activities that Chorus incurs costs for when providing services to RSPs that are otherwise not recovered in the UBA connection charge. Chorus should be able to recover the legitimate efficient costs it incurs.

FPP applies to core transaction charges

- 28 As set out above, the IPP was only applied to core transaction services (not sundry transaction services) and therefore only core transaction charges should be included as part of the FPP processes. The wiring and modem charge, originally a core charge, was amended as part of the UBA IPP to be sundry. For that reason we don't believe it should be included as part of the UBA FPP process unless it is linked, as it previously was, to UBA connection charges. Of course if it remains a sundry charge the Commission could review it under a section 30R review if it considered it was necessary.
- 29 We note that we have not previously included the UBA charge for handover fibre space rental (item 2.13 in the UBA Price List) as a transaction charge as it is included as a recurring monthly rental charge (like the other UBA monthly rental charges currently being modelled by the Commission). Our view remains unchanged. The UBA transaction charges are set out in part 1 of the UBA Price List (items 1.1 – 1.50).

Question 3 – Do you agree that when the Commission sets the prices for the transaction charges in the FPP determinations, it must apply the FPP of TSLRIC?

- 30 We agree. As a matter of principle, Chorus considers that the TSLRIC method should ensure that prices reflect the efficient cost of providing services. This principle applies equally to monthly recurring charge for access to UCLL and UBA (and SLU), as well as to the relevant core transaction charges.

Question 4 – How would you envisage this occurring?

- 31 Using Chorus' third party service company charges as input costs into the calculation of the transaction charges meets the requirements of a TSLRIC approach.
- 32 Chorus does not undertake many of these services in-house as it considers that it can achieve lower costs by running a competitive tender between service companies with

specialist skills. The tension created by the procurement process ensures that best value for money is achieved for such services and that prices reflect efficient costs.

- 33 Therefore service company costs can be incorporated in a top down model for costing transaction services.

Question 5 – Are there any other options for determining the costs of providing the transactions?

- 34 We believe the Commission has identified the key options for determining a TSLRIC price for the core transaction services.

Question 6 – Which option should the Commission take?

- 35 The Commission should adopt a top down methodology based on service company charges as an input to its cost model, with an allowance for overheads and a mechanism to adjust prices if the underlying cost inputs change or if there are changes in the relevant pricing index. This is consistent with the methodology already used for sundry items in the UBA and UCLL STDs (and other STDs).

- 36 The Commission can be confident that service company charges reflect efficient costs, as they are set through a competitive tender process. On this basis, there is no need for the Commission to engage in bottom up modelling, which is complex and time-consuming. For similar reasons, cross-checks against international comparators are unnecessary. Cross-checks are also potentially misleading, due to the difficulties in finding appropriate comparators and making allowance for different circumstances in comparator jurisdictions.

Top down approach using service company costs

- 37 Service company charges reflect the efficient costs of providing Chorus' transactions services. They were set in 2009 in a transparent manner through a competitive tender process:

37.1 There are 11 patches that were tendered for by 3 service companies, which creates real competitive tension.

37.2 Collectively the contracts are nationwide, as are the STDs. It would not be appropriate to look at one patch in isolation because the costs of each patch vary from one to another, due to, for example, differences in travel time for the technician, labour cost and aggregation of customers.

37.3 Service company patches were tendered as a bundle of codes so they represent fully employed labour.

37.4 [

] CCI

37.5 [

] CCI

37.6 Chorus' internal corporate overheads should be allowed on the basis of cost recovery (and no more).

38 The Commission should adopt these competitively sourced service company charges with appropriate overheads as efficient cost inputs to its top down transaction charges model.

39 Chorus should be able to recover both the overheads of the service companies and its internal overheads. The service company overhead represents charges by the service companies for their indirect costs such as field managers, dispatch centres, logistics, administrative staff, IT systems, and corporate office rental etc. The internal overhead is Chorus' cost for our own back-office function. It includes, for example, the software licenses of our IT infrastructure, non-infrastructure net personnel costs, and a portion of our corporate property expenditure.

40 These reflect the real-world costs of providing the transactions services in New Zealand and these two types of overheads cover different costs. Further, it is not possible for Chorus to avoid these costs by rearranging the way it sources the transactions services, for the following reasons:

40.1 If we insourced the service that the service companies perform the result would be that, although we would not be incurring any service company overhead, our own internal overhead would simply increase (i.e. this would just shift cost).

40.2 All suppliers include the recovery of their overheads in their charges, although suppliers may differ in the degree of transparency over the recovery of overheads. Recovery of legitimate costs should not be excluded merely because Chorus is transparent in relation to overhead recovery.

Bottom up model

41 The alternative is to build a new cost model based on a time and motion study for the activities involved in performing each transaction but we believe this approach has a number of disadvantages. It is complex and time consuming compared to top down modelling.

42 There are challenges with estimating the time taken to perform a specific task, as the act of measurement may itself distort the performance:

42.1 Costs not easily identified, e.g. supervision and overheads such as training and tools, travel time depending on geography, network architecture, and organisation of the field force.

- 42.2 Some tasks may be impacted by circumstances that slow the task down, e.g. severe weather, access difficulties, environmental constraints, or that require multiple technician visits for specific skills.
- 42.3 Different service companies' transaction times are different due to travel time and organisational aspects, e.g. skills mix, tools and training.
- 42.4 Complex links between the required levels of performance in fault fixing and installation, the way in which the orders arrive through the week, and the relationship of the volume of orders to resource levels, skills mixes and the organisation of the field force, e.g. how many local teams do you have and can they be kept busy in their local area.
- 43 All these factors will require the measurement programme to be undertaken more widely, as a small scale sample of tasks is unlikely to gain good data.
- 44 There are implications for Chorus if the Commission sets transaction charges below forward-looking cost. If the Commission incorrectly determines the efficient cost lower than the current market price, then Chorus would be unable to obtain any contractor prepared to perform the required tasks for that price, or alternatively it may have an undesirable impact on the service quality and availability.
- 45 Further, it is not necessary for the Commission to undertake bottom up modelling when it has competitively sourced input prices to use in a top down model. Regulatory precedent supports basing transaction charges on operator costs. This is the approach adopted by the ACCC in Australia, for example, when it set TSLRIC prices for connection services for the unconditional local loop service "with reference to the amounts charged by third party contractors to Telstra for jumpering working in exchanges, indirect costs and back-of-house costs"⁴. We understand these rates have been used since 2007.
- 46 The Commission has indicated that the Danish Business Authority (**DBA**) has adopted a bottom up approach to modelling transaction charges. However it should be noted that one of the reasons this approach was apparently adopted in Denmark was because the incumbent, TDC, was not transparent in relation to its costs and third-party charges.⁵ Accordingly, the DBA took a view that the charges were likely to be in excess of costs and that a bottom up modelling approach would provide transparency. The situation in New Zealand is quite different: Chorus has been transparent about third party charges by providing service company costs to the Commission via the section 98 notice process. We are happy to provide any further assistance the Commission needs to understand the service company charges and how they relate to specific transaction services.

⁴ Pricing principles and indicative prices for LCS, WLR, PSTN OTA, ULLS, LSS 1 August 2009 to 31 December 2010, Pricing Principles for the ULLS Determination 2009.

⁵ <http://erhvervsstyrelsen.dk/file/497321/3-udkast-horingsnotat-2014.pdf> page 71.

Top down with cross-checks

- 47 The Commission can be confident that service company charges reflect efficient costs, given they are set through a competitive tender process. For this reason cross-checks against international comparators are unnecessary.
- 48 Cross-checks are also potentially misleading, due to the difficulties of finding appropriate comparators and making allowance for different circumstances in the relevant comparator jurisdictions.
- 49 We are concerned that if benchmarked prices are used to set charges, there is a high risk that these charges will not reflect the real-world New Zealand circumstances in providing the transaction services.

Question 7 – Do you agree that it is open to the Commission to merge some of the transaction charges into other charges?

- 50 The Commission states that its preliminary view is that it can merge some of the transaction charges into other charges that are being set as part of the FPP processes. The Commission may find that some of the transaction charges should not be recovered separately and should be recovered as part of the monthly service recurring charges.
- 51 We don't believe it is appropriate for the Commission to merge transaction charges together, as this would have no practical benefit and costly implications for Chorus and RSP operational processes and systems.
- 52 The STD currently defines a range of transactions for which a charge is determined. Each transaction type represents a discrete set of activities, different from the set of activities required for another transaction type. To merge transaction charges therefore seems to imply merging transaction *types*, implying that any distinction between different sets of activities would be lost. However, that distinction remains necessary in a practical sense – it will remain necessary to differentiate between the current transaction types because the specific activities involved will differ. RSPs will still need to specify what particular transaction service (or type) they require when they order services and we provision them.
- 53 Where transaction types are sufficiently similar so that the costs of their discrete set of activities are essentially the same, the transaction types have the same charge. This would appear to achieve the same outcome as merging transaction charges, without losing the distinction between the differing transaction types or changing the pricing structure.
- 54 In addition, while the costs of particular transaction services may be similar today, over time this may change. On this basis it is preferable not to merge different transaction services.
- 55 We note we discuss merging transaction charges and monthly rental in response to Question 9 below.

Practical implications of changing existing price structures

56 Merging of transactions and transaction charges, or making other changes to pricing structures, is likely to have practical operational implications for Chorus and RSPs. These are likely to include changes to systems, which can have significant time and cost implications.

57 In the case of the UCLL and UBA STD 1 December price changes, the total cost of updating and implementing systems changes was [

] **CCI** It also can take considerable time and internal resource to plan, develop and implement these changes, including with third parties.

58 Changes to Wireline OO&T provisioning system, which could be necessary as a result of merging transaction types, would have an impact to an RSP whether they order directly into Wireline OO&T, or whether they have implemented a B2B (Business to Business interaction via a WSI – Web Service Interface):

58.1 Wireline OO&T Direct – RSPs will likely require process changes internally to support the change and roll this out to their staff to ensure no impact to provisioning processes. Generally Chorus has to provide a minimum notice period of 12 months, excluding consultation, for any system changes to the WSI.

58.2 B2B – WSI has been constructed to allow business to business interaction with Wireline OO&T from RSP systems. A system change results in a change to a Web Service contract and the release of the update. To put it into production requires structured planning, control processes and testing. B2B has longer notice periods for changes than Wireline OO&T. RSPs will likely require system changes and potentially process changes internally to support the change and roll this out to their staff to ensure no impact to their provisioning processes.

59 There is also a potential impact on billing for RSPs if they have built automation off their monthly Chorus ebill, which drives the on-charging to their customers. It can also impact their reconciliation processes. This type of change can drive investment into the RSP as they will likely require process changes internally to support the change and roll this out to their staff to ensure no impact to billing processes.

Question 8 – Do you agree that the Commission is entitled to set bulk rates for UBA transaction charges?

60 We don't believe it would be practical to set additional bulk rates for the UBA STD, unless there are sufficient volumes and activities that can be completed at the same time and the same exchange or cabinet.

61 There are bulk migration charges in the UCLL STD and this makes sense if there is an appropriate volume of lines affected for each RSP off a particular exchange or cabinet. It is unlikely that an RSP would achieve the necessary volumes for other transaction types for bulk charges to be practical under the UCLL STD.

- 62 In the UCLL STD bulk connection charges make sense where an RSP is unbundling an exchange or cabinet as they would have a sufficient volume of lines at that location to make the business case and would likely want to cut over all customers at the same time.
- 63 In terms of the UBA STD, on the current STD terms, the scenarios where bulk rates may be relevant are as follows:
- 63.1 Cabinetisation – an RSP that has unbundled an exchange may want to migrate a number of customers at a particular exchange from UCLL to UBA if Chorus cabinetised lines. This scenario would be very low volume, given cabinetisation is now typically happening in rural areas.
 - 63.2 Bulk migration of customers from BUBA to EUBA – but RSPs have the option to use the business as usual order process or “managed provisioning” which is a POA sundry charge (see 1.37 Exception to BAU Order in the UBA Price List). This additional charge for UBA is appropriate, as there is a lot of management required to complete this process, we use a third party provider and a third party system. This saves the RSP the cost of processing individual transactions and ensures there is no end user impact.

Question 9 – Are there any charges you consider should be merged into the monthly charges or re-classified in some other way? (Please also provide comments in response to paragraph 44 under this question)

Merging monthly charges with transaction charges is not appropriate

- 64 We don’t believe the Commission should merge monthly rental and transaction charges, as there is no certainty as to what the actual input is. As transaction volumes vary year-on-year, it is not possible to predict the type, volume and geographical location of transaction services and they are outside Chorus’ control. The only way we can be confident about efficient cost recovery is if separate charges are set.
- 65 Including transaction charges in the monthly rental raises the question of forward looking cost recovery – it would be unfair for some users who have already paid the transaction charges but then pay again through the monthly rental. In addition, this would lead to unwanted administrative complexity if there was a different approach to different lines – e.g. different pricing structures where past users are charged one monthly rental fee and future users a different fee.
- 66 While there is some precedent for combining the monthly rental and connection charges in the Chorus VDSL and proposed Boost services, the circumstances are quite different. We included connection and wiring in the monthly rental:
- 66.1 For Chorus VDSL it was to encourage take up of wiring and connection, because careful installation is required to ensure the service works as intended. If the VDSL service fails because it is not correctly installed, there are inefficient outcomes for the industry as a whole (the end user calls the RSP help desk, the

RSP calls Chorus, we then need to call the service companies and will likely require a truck roll and the RSP needs to liaise with the end user to arrange a time for the service company to visit if they require wiring) and the end user has a poor experience.

- 66.2 But this was optional. We provided this option to incentivise correct installation for the reasons set out above but in some cases it was not taken up.
- 67 Merging monthly rental charges with other transaction charges is also more complex, requiring claw-backs and/or wash-ups if the RSP churns within the minimum term. For example, the posted terms for the Chorus VDSL service include a wash-up:

Connection and Wiring Wash-up

*The Connection and Wiring Uplift assumes that the majority of connections will be for a period of **at least 30 months**. Chorus recognises that in reality some connections will be longer than 30 months and some connections will be shorter than 30 months. The Connection and Wiring Wash-up is designed to ensure that Chorus does not over recover the Connection and Wiring Charge in the UBA STD.*

Chorus will take an "overs and unders" approach, i.e. we will look at a Customer's total connections and provide a credit for the number of connections at the end of each quarter whose term exceeds 30 months, but this will be balanced off against any connections that were terminated before the expiry of 30 months. Chorus will not levy any early termination charges, but neither will we provide any credits unless on average a Customer's total connections exceed 30 months.

- 68 We can also manage this for VDSL because it is a lower volume service.
- 69 In addition, in the case of VDSL, when it was launched there was more certainty that a site visit connection charge was required. Whereas in other situations it is difficult to predict, for example, how often end users may change RSPs. This works for commercial services. However in a regulatory setting we query whether the Commission could or would grant this degree of flexibility to Chorus, and we wouldn't expect that to happen. However the alternative is much more complicated rules and processes that will increase the costs of our customers, Chorus and the Commission.

A wider s30R review to include sundry charges is not appropriate

- 70 A wider s30R review of other transaction charges is not appropriate for the reasons set out above.
- 71 The Commission believes that any process of merging some of the transaction charges into other charges may be frustrated by the fact that not all charges in the STDs are under consideration in the current pricing review processes. Accordingly, it may be more efficient to revisit transaction charges later, as part of a section 30R review. Accordingly, the Commission has asked for submissions on this point.

- 72 We assume that the Commission is considering reviewing the sundry transaction charges that are outside the FPP process. A decision can be made at a later stage but this would require a considerable amount of effort if the Commission was to substantively restructure the existing prices and there are consequential costs that may be substantial. We have set out above why merging monthly rental and transaction charges is problematic. The sundry prices in the STDs are cost-based and a number of them are already set on the basis of service company charges and a mark up to cover overheads, which we believe is the approach that should be adopted in the FPP processes (where there are third party service company inputs). There is already a mechanism in the STDs to ensure any adjustments (up or down) in the input costs of the sundry charges can be made, subject to Commission review.

Question 10 – Please provide your understanding of what is involved in providing each transaction and the associated costs.

- 73 See Appendix 1 for a list of the activities involved in providing the relevant transaction services and the types of costs involved.⁶ It is important to understand that there are both third party service company costs and internal costs (labour and systems) involved in the relevant transaction service costs.
- 74 If the Commission adopts our proposed approach of service company inputs plus appropriate overheads, this will enable Chorus to recover the efficient costs of providing the services. However if the Commission adopts a bottom up modelling approach, costing each activity (service company and internal activity and systems) this will be a complex and time consuming process.
- 75 In paragraph 43 of the Consultation Paper the Commission states that it may find it should set bulk rates for UBA transaction service, keep UBA relinquishments at no charge and/or it shouldn't set separate prices for the UBA service transactions where there is no port change at the DSLAM and allow for the costs of providing those transactions to be recovered as part of the monthly recurring charges.
- 76 We have addressed above our reasons why bulk rates for UBA and merging transaction charges with monthly rental are not appropriate. As the Commission can see from Appendix 1 there is activity required for all of these transaction services, including UBA relinquishments, which results in real costs (labour and systems) that should legitimately be recovered.

Question 11 – Do you have any other comments on the topics discussed in this paper?

- 77 We have no additional comments on the topics discussed in the Consultation Paper at this stage.

⁶ We note VDSL is not included in Appendix 1.

Appendices



APPENDIX 1: THE ACTIVITIES INVOLVED IN PROVIDING EACH TRANSACTION SERVICE AND THE ASSOCIATED COSTS