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Public Version

Submission for Chorus in response to
Consultation paper – Network footprint and demand UCLL and
UBA pricing review determinations
(21 September 2015)



SUMMARY

- 1 This submission responds to the Commerce Commission (**Commission**) consultation paper on *Network footprint and demand – UCLL and UBA pricing review determinations* (**Consultation Paper**) released on 21 September 2015.
- 2 The Commission has requested views on their proposed approach to correct the UCLL network footprint (**network footprint**) and the implications for the gap between the footprint and active customers (**demand**).¹ The Commission explains in the consultation paper that by removing 'vacant' or 'likely vacant' sites in the CoreLogic database, the gap between the network footprint and demand would reduce to 3.6%. A sense check on the gap, based on TERA's observations and Statistics New Zealand's latest Census data,² confirms the gap is too small.
- 3 Submissions on the revised draft determination appear to have prompted the Commission to consult further on this matter, following other parties raising concerns about potential errors in the UCLL network footprint. However, as we noted in our August submission:³

The Commission's approach to using the available CoreLogic data in modelling the number of address points in the network footprint and included in the modelled demand is appropriate given the technicalities involved and there will be inevitable limitations with any geospatial dataset.
- 4 While the Commission seems to have concerns about the integrity of the network footprint data, we are of the view these are likely to be unfounded and that the Commission can revert back to its July approach. For example, depending on the way 'vacant site' is defined, the Commission may on its new proposed approach be inadvertently excluding currently unoccupied buildings.⁴ It is an orthodox TSLRIC approach to include all premises, potential customers and buildings requiring connectivity.
- 5 However, if the Commission continues with its proposal, we have the following comments:
 - 5.1 we agree with the Commission that the 3.6% gap between the network footprint and demand is too small. TERA has observed in other jurisdictions

¹ We refer to demand as 'active lines'. As we have previously submitted (but do not repeat here), we consider Chorus' active lines and forecasts of active lines should be the starting point. Also refer to Analysys Mason "UCLL and UBA FPP draft determination cross-submission" (22 September 2015) at Section 2.1. and CEG "Uplift asymmetries in the TSLRIC Price" (February 2015) at Section 5.

² Commission's Consultation Paper at [18].

³ Chorus "Submission in Response to Draft Pricing Review Determinations for Chorus' Unbundled Copper Local Loop and Unbundled Bitstream Access Services" (13 August 2015) at footnote 13.

⁴ We use the term 'vacant site' to mean an address point with no building, but this may not be consistent with the how the Commission is using the term when it refers to 'vacant site' or 'likely vacant site.'

that a gap of 10-20% is reasonable.⁵ Analysys Mason observe the same and provide additional examples;⁶

5.2 we do not believe making an adjustment using Statistic New Zealand's Census data for unoccupied residential dwellings is principled or the most robust way to resolve the gap. Such an adjustment would also understate the real gap between the network footprint and demand in New Zealand; and

5.3 adjusting demand is unorthodox, and there is no regulatory precedent for adopting such an approach in TSLRIC modelling.

6 An alternative approach, which would better reflect the correct level of active demand for total the network footprint, would be to increase network capacity as discussed in response to question 3 below, and discussed in the Analysys Mason report provided with this response.⁷

7 We discuss these points further in response to the Commission's specific questions.

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

8 We agree with the Commission that a 3.6% gap between the network footprint and demand is too small. In particular we note:

8.1 the Commission stated in the revised draft determination, based on TERA's experience of TSLRIC modelling in other jurisdictions, the difference between the network footprint and modelled demand is in the range of 10-20%;⁸

8.2 Analysys Mason has provided several examples of fixed access networks where not only is every premise passed, but where actual modelled demand is 80-90% of the network footprint;⁹ and

8.3 as TERA stated in their model specification,¹⁰ fixed access networks are dimensioned for the number of premises and not for actual demand – this approach is more efficient in the long run, as the efficient operator does not

⁵ Commerce Commission "Further draft pricing review determination for Chorus' unbundled copper local loop service" ("Further draft determination for UCLL") (2 July 2015) at [957].

⁶ Analysys Mason "Submission to UCLL and UBA pricing review determinations: Supplementary consultation on network footprint and demand" ("Submission on Supplementary Consultation") (4 October 2015) at Section 2.3.

⁷ Analysys Mason "Submission on Supplementary Consultation" at Section 2.3.

⁸ Commerce Commission "Further draft determination for UCLL" at [957] and Consultation Paper at [18].

⁹ Analysys Mason "Submission on Supplementary Consultation" at Section 2.1, particularly Figure 2.1.

¹⁰ TERA "TSLRIC price review determination for the Unbundled Copper Local Loop and Unbundled Bitstream Access Services – Model Reference Paper" (June 2015) at Section 4.1.1.

have to redeploy network as demand increases, resulting in significant cost savings. This approach is consistent with TSLRIC models in other jurisdictions, and is consistent with the network footprint modelled in July.

- 9 The Commission's approach in July resulted in a 9% gap between network footprint and demand. This is at the low end of international benchmarks, however by removing vacant sites, the gap of 3.6% puts it well below the low end. We discuss further, in response to question 3, whether it is appropriate to adjust demand.

Question 2 – We have Census data that suggests that the gap between the network 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?

- 10 While we agree Census data can provide a useful sense check, we do not agree with the Commission using it as the basis for making an adjustment in the model. The limits associated with the Census data would indicate the gap needs to be higher than 7.5%, as it does not take account of:

- 10.1 buildings unoccupied, by definition of the Census, but still have a fixed line connection, such as holiday homes;¹¹
- 10.2 vacant *business* premises;¹²
- 10.3 does not take account of spare capacity, including second lines at a single address point, including residential and business premises;¹³ and
- 10.4 non-building access points, which are vacant sites where active connections are required, for example traffic lights, water monitoring sites and bus stops.

- 11 In terms of alternative data sources, in the absence of robust, New Zealand specific data, the international comparisons as discussed in our response to Question 1 provide a sense check that a modelled gap should be between 10 and 20%.

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

- 12 Chorus does not agree with the Commission's proposal to adjust demand. It is not consistent with orthodox TSLRIC modelling, and we are not aware of any jurisdiction who has adopted such an approach. We believe there is no data integrity issue with

¹¹ Analysys Mason "Submission on Supplementary Consultation" at Section 2.2.

¹² Analysys Mason "Submission on Supplementary Consultation" at Section 2.2.

¹³ Analysys Mason "Submission on Supplementary Consultation" at Section 2.2.

the modelled network footprint and that the Commission should revert back to its July approach.

- 13 However, as discussed in the Analysys Mason report,¹⁴ if the Commission believes there is too much active demand compared to the network footprint, then the appropriate adjustment would be to increase network capacity, as proposed in the report it prepared for cross submission.¹⁵ This would allow for cables and terminals to have sufficient capacity to connect buildings, plus sufficient lead-ins provisioned. Based on its experience, Analysys Mason recommend adjusting network capacity by an 11% demand mark-up (equivalent to a utilisation factor of 90%) which could also be applied to the dimensioning of the network.

¹⁴ Analysys Mason "Submission on Supplementary Consultation" at Section 2.3.

¹⁵ Analysys Mason "UCLL and UBA FPP draft determination cross-submission" (22 September 2015) at Section 3.7.