

# **Snap Limited**

## **Submission on the Commerce Commission's Draft Determinations for UBA and UCLL services**

Public Version

20<sup>th</sup> February 2015

1. This submission is made by Snap and we thank you for the opportunity to comment on the Commissions draft determination. This submission supplements and broadly supports the submissions by Wigley & Company, InternetNZ, Consumer, TUANZ and CallPlus.
2. Snap has analysed current and historic billing data and found that there is sufficient evidence to suggest that post 1 December 2014, Chorus have unnecessarily employed a more extensive connection method than required.
3. The fees of most concern are the three connection fees introduced as of 1 December 2014:
  - a. Remote Transaction
  - b. Exchange or Cabinet Visit
  - c. Site Visit
4. Based on seven months of data from May to November 2014, excluding “Connection and Wiring” requests as these are voluntary, not reliant on the line status, we see a split of:

	Remote	Exchange or Cabinet Visit	Site TR
May-Nov 2014	64.1%	28.7%	7.2%

5. However, in the two months post the 1 December 2015 introduction of the new connection fees there is a substantial shift in these proportions.

	Remote	Exchange or Cabinet Visit	Site TR	Average Install Cost
May-Nov 2014	64.1%	28.7%	7.2%	\$43.47
Dec 2014	57.4%	20.7%	21.9%	\$61.48
Jan 2015	37.8%	31.8%	30.4%	\$80.97

- a. We can see that had these tiered connection costs been introduced in May we would have had an average install cost of \$43.47. Yet in the months since the introduction this has almost doubled to \$80.97 per connection.
  - b. The average install cost prior to 1 December 2014 that we saw (excluding connections with wiring where the customer paid a contribution) was \$2.34, so an increase to \$80.97, even spread over a 12 month term (as industry trends suggest) would require an increase in retail price of at least \$7.75 – an amount substantially greater than the decrease in UBA monthly line rental from \$44.98 pre-IPP to \$42.90 (\$38.39 + \$4.61) in the draft FPP. Methods for recovery of this amount are limited due to the highly competitive NZ broadband market and the likelihood of reduced uptake if upfront fees are introduced.
6. A valid explanation for the significant change in the spread of these connection types has not been forthcoming. We have analysed the following suggestions:

- a. Increased uptake in UCLL, though unlikely to be noticeable over such a short period of time could explain a shift from remote transactions to exchange or cabinet visits. A previous UCLL connection requires an exchange or cabinet visit in order for UBA to be connected on the line, however we are not seeing a marked increase in this tier of connections.
  - b. Whilst broadband penetration growth has slowed in the past five years up to last quarter [<http://oecd.org/sti/ict/broadband>], we are still seeing it increase at over 5% each year. With increased penetration, one would expect an increase in intact lines and therefore a slow but steady increase in remote connections required, this is not evident in our data.
7. Prior to ordering a broadband connection we can test the status of a line to determine if it is intact (requiring only a remote transaction) or non-intact. However:
- a. We can only view the status of the most recently disconnected copper pair, though there may be multiple to a site which could be connected to different jack points within the end user's premises.
  - b. The intact line statuses provided for copper pairs (Intact/Not Intact) are not granular enough to indicate what work is required.
  - c. Chorus acknowledges that the line statuses are frequently out of date due to poor record keeping and therefore are unable to be confirmed until a technician attends. This can result in higher tier installs than required causing additional expense and lower tier installs than required causing failed installs.
  - d. As a technician would not be paid to return for a failed install (if the fault is within the Chorus network) it is therefore in their best interest to always confirm the connection up to the edge of the Chorus network - the customer site. This provides a strong incentive to opt for the higher tier site visit truck roll (they get paid more, and ensure they don't need to return, though they do no additional work if records are correct), regardless of necessity, and ultimately passing the cost of Chorus's lack of network integrity and record keeping, to the end-user.
  - e. Chorus recommend all VDSL connections are ordered as a Connection and Wiring. The rationale is to ensure line quality as the technology has an increased sensitivity to interference. However is not required if the line has already been conditioned for VDSL – with the current Chorus toolset we cannot determine this prior to ordering.
8. When ordering a broadband connection, we currently have three available options: 'Connection Only', 'Connection and Wiring' or 'Connection and Wiring and Modem'.
- a. These do not align with the five tiered pricing structure for work completed by the service company.
  - b. The options presented prevent us from limiting or specifically requesting what work the service company will perform, leaving us unable to control nor predict the resulting cost.
  - c. When the order reaches a stage at which we can determine what work has been requested (though this may increase at the technician's discretion when they attend) there is a fee to cancel if we no longer wish to proceed.
  - d. We have no way to validate what work was required, nor performed for any given service install. Due to the information provided in the prequalification

stage and the lack of granularity in the supplied post installation data, we cannot reconcile the resulting charges.

9. We also believe that for the fully automated 'remote transaction' a fee of \$15.85 is not representative of the actual cost to Chorus. A similar situation in the telephone number porting industry was extensively investigated by Spark and Vodafone finding \$5.94 adequately covered costs for their fully automated porting transactions.
10. An independent investigation into the adequacy of Chorus systems and record keeping appears to be urgently required. Incorrect requests based on poor record keeping, allowing technician's full control over what fee is charged due to the inability to trust their own records, and the inability to predict or validate the work required to connect a customer are all driving huge inefficiencies into Chorus's operations – for which RSP's and end-users are footing the bill. We would expect to see:
  - a. Accurate and cohesive line status readings prior to an order being placed.
  - b. Ability to specify work to be done (and therefore manage costs and expectations of our end-user) based on accurate records.
  - c. Ability to validate end to end, what was required, what was ordered and what was completed for every connection.
  - d. An incentive to drive efficiency into Chorus processes.