

## Re: Submission to the Commerce Commission on increases to broadband and phone line wholesale charges

Dear Commissioners,

Eastland Group is the parent company of a number of businesses involved in the energy and logistics sectors in New Zealand. Our primary operations include electricity transmission, distribution, and generation; the operation of Gisborne's port and airport; and the ownership of strategically located investment property.

We are a Gisborne based national company that firmly understands the need for a solid quadruple bottom line – one that is...

- economic
- environmentally aware
- socially responsible
- culturally understanding.

Eastland Group's many companies provide the very heartbeat of the Tairāwhiti region – the team provides the necessities that not just keep the wider community going, but also constantly contribute to the betterment of the region.

While some of the group's companies are based out of the district, most of the support work is done in Gisborne. Eastland Group is a key employer in the region and we recognise the importance of investing in the creation of a healthy and balanced work environment.

Our critical services support, and are utilised by every resident and business in the region and we rely on telecommunications to deliver these services.

In the wider community sense access to affordable and reliable telecommunications services holds high importance in our everyday lives. Living in a remote regional location, while having some great advantages also has some great disadvantages, principal among these being the high cost of travel to get in and out of the region. The promise of modern telecommunications systems is that the tyranny of distance is dissolved and we can all fully participate in the so-called global village.

Telecommunications is, both metaphorically and literally, our lifeline.

The reality of the situation is, that given the economic status of the Tairāwhiti region, the uptake rate of UFB based services is going to be lower and slower than in other parts of New Zealand and the reliance on copper based services will persist.

Due to the importance of telecommunications to both Eastland Group and the residents of the Tairāwhiti region, we would like you to reduce the proposed wholesale charges for broadband and phone services. **Significant changes in wholesale rates for such services will hit hardest on those who need it most and can least afford it.**

Because Chorus is a monopoly, it is up to the Commerce Commission to protect end-users from unfair charges. Yet we note that the Commerce Commission's proposed charges are almost 80 percent higher than the median of 14 comparable countries and is almost 60 percent higher than the second-most expensive country. This is grossly unfair and cannot simply be explained away by the differences between countries.

The Commission needs to justify to New Zealanders why this price is so far out-of-line with other countries. The outcome of having a higher price simply harms New Zealand internet and phone users and transfers benefits to the Chorus monopoly.

Eastland Group also notes that prices for internet services have been coming down over the past few years and the same time as we are seeing increases in data allowances. This has been of huge benefit to individual consumers and the country as a whole. It would be disappointing if upward pressure on prices came from the Commerce Commission's incorrect interpretation of legislative requirements.

We support Spark New Zealand's submission, specifically the work they commissioned from international experts to review the Commerce Commission's cost modelling for UCLL and UBA and we note that specific concerns raised by the experts include that the Commission's model:

- a) Does not use modern FWA technology and incorrectly models potential FWA coverage and so overstates the cost of serving non-urban New Zealand by 37 percent;
- b) Compensates Chorus for lead-in costs (which make up 26 percent of overall network costs) that are actually separately funded by end-users;
- c) Makes unrealistic assumptions that an efficient operator building a modern network today would not re-use any existing ducts and trenches, or seek to share the cost of trenching with any other utilities in order to save costs – even though both practices are used by operators in our market today. **This is evidenced by the fact that Chorus themselves are seeking to use our above ground electricity distribution assets to carry fibre as part of the UFB rollout in order to lower costs;** and
- d) Assumes no population growth in New Zealand over the next five years, and no further high or medium density housing projects – despite policies being put in place by central and local Government to drive exactly this sort of urbanisation in Auckland and other areas. Correcting for those two assumptions alone reduces the wholesale charges in the Commission's model by almost 10 percent.

This means that industry input costs – which make up the largest component of the price Eastland Group pays for broadband services and landline phones - may be at least \$12 a month more per line than they should be if the Commerce Commission goes ahead with proposed new charges for access to the Chorus copper wholesale network.

We are also concerned that the Commission may decide on backdating the new Chorus charges to 1 December 2014, even though it will not finalise charges until at least the second half of 2015. This decision has placed a lot of uncertainty into the market, with Spark Digital and other service providers increasing their prices in response – and could entail substantial cost impositions in the future. We request that you make a public

declaration against backdating.

The Commerce Commission's primary duty is to protect consumers against monopolies like Chorus where there is no competition. It is supposed to do this by regulating Chorus charges based on what it would cost to replace the Chorus copper network today, using the most efficient combination of modern technologies. Yet the Commission's draft decision will make broadband less affordable for New Zealanders.

It also does not make sense that the charges for last-century copper broadband are increasing at a time when ultra-fast broadband (UFB) over fibre is being rolled out to three quarters of New Zealanders. The Commerce Commission needs to make it clear why any increase in wholesale charges for copper access would be justified.

Eastland Group firmly believes the large increases in wholesale charges proposed by the Commission in a draft decision published last December were unnecessary and should be reversed when the Commission sets the final charges.

Thank you for the opportunity to submit on this matter.

Kind regards,

Ian Bell  
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Eastland Group Limited.