

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

Dear Commissioners,

Industrial Transmission and General Engineers Supplies

Types of Lines Used: Centrex, Basic Rate, Business POTS Lines

Due to the importance of telecommunications to BGH Group, we would like you to reduce the proposed wholesale charges for broadband and phone services.

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.

BGH 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; 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 BGH 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.

BGH 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,

Craig Pope

BGH Group IT Manager