



Determining a TSLRIC price for Chorus' unbundled bitstream access service under the final pricing principle

Process and issues paper

Date: 7 February 2014

Purpose of this paper

1. This process and issues paper sets out our proposed approach to:
 - 1.1 the process for the price review determination for Chorus' unbundled bitstream access (UBA) service;
 - 1.2 the modern equivalent asset (MEA) to be used when modelling the costs of providing the UBA service; and
 - 1.3 information requests to the industry, seeking information to complete the price review determination for the UBA service.

Background to the UBA price review determination

We are required to determine a price for the UBA service under the FPP

2. The Telecommunications (TSO, Broadband, and Other Matters) Amendment Act 2011 (Amendment Act) requires us to determine a price for the UBA service that will apply from three years after separation day, that is, from 1 December 2014. Section 77 of the Amendment Act changed the pricing principle for UBA from a retail-minus based price to a forward-looking cost-based price with the IPP being benchmarking. On 5 November 2013 we set prices for the UBA service under the IPP.¹
3. Under the new IPP, we determined monthly cost-based prices for the Basic UBA service and the Enhanced UBA variants as set out in Table 1 below.

Table 1: Monthly cost-based UBA prices determined under the IPP

UBA service	UCLL	UBA additional costs	Total monthly price
Basic UBA	23.52	10.92	34.44
EUBA 40	23.52	13.25	36.77
EUBA 90	23.52	13.82	37.34
EUBA 180	23.52	14.85	38.37

4. On 16 January 2014, we received five applications for a price review determination for the UBA service. These applications were received from Chorus NZ Ltd, Telecom NZ Ltd, CallPlus Ltd, Orcon and Vodafone NZ Ltd. Submissions on the pricing review applications were received on 31 January 2014.

¹ *Unbundled Bitstream Access Service Price Review: Decision* [2013] NZCC 20.

5. Following receipt of these applications, we are now required to determine a cost-based price for UBA under the final pricing principle (FPP). In doing so, we must:
 - 5.1 follow the process set out in the Telecommunications Act 2001 (Act) for pricing review determinations;² and
 - 5.2 calculate the cost of UBA in accordance with the FPP using a forward looking cost-based method: total service long run incremental cost (TSLRIC).³

We are also currently working on a price review determination for the UCLL service

6. A price review determination for Chorus's unbundled copper local loop (UCLL) service is currently underway. On 6 December 2013 we released a process and issues paper for the UCLL pricing review.⁴
7. There are strong linkages between the UBA and UCLL price review determinations. Both determinations involve setting forward-looking cost-based prices for Chorus' copper network using TSLRIC cost models.
8. The UCLL price review process and issues paper describes many conceptual issues associated with TSLRIC cost modelling which are relevant to the UBA price review determination. Rather than replicate many of those issues here, the UCLL process and issues paper should be read in conjunction with this paper. We will take account of relevant submissions made in response to the UCLL process and issues paper as part of our UBA FPP process.

Our proposed process for the UBA price review determination

9. The Amendment Act requires us to make reasonable efforts to complete the price review determination by 1 December 2014. Our proposed process is designed to complete the UBA price review determination before this date.
10. If the UBA price review determination is not completed by 1 December 2014, the prices we have already determined under the IPP will take effect on that date. The UBA price may subsequently change, once the FPP price is set under the UBA price review determination, which will result in a longer period of uncertainty for the market. If we do not determine an FPP price by 1 December 2014, an issue arises as to whether we will backdate, which will create further uncertainty.
11. The UBA price that takes effect on 1 December 2014 will have a significant impact on the New Zealand fixed-line telecommunications market. For example, the UBA price is paid to Chorus on about one million lines and also affects the business case for unbundling. Such factors need to be weighed against the potential risks to the quality of analysis in designing a process to meet the 1 December 2014.

² Subpart 4 of Part 2 of the Telecommunications Act (2001).

³ Subpart 1 of Part 2 of Schedule 1 of the Telecommunications Act (2001).

⁴ Commerce Commission "Process and issues paper for determining a TSLRIC price for Chorus' unbundled copper local loop service in accordance with the Final Pricing Principle" 6 December 2013.

12. Our proposed process seeks to strike the right balance between the various trade-offs given the circumstances that surround the UBA price determination and drives our view that it is desirable that we aim to complete the FPP before 1 December 2014.

Table 2: Process for the UBA price review determination

Next steps	Indicative dates
Process and issues paper	
Process and issues paper released	Friday 7 February 2014
Submissions on process and issues paper due	Friday 21 February 2014
Modelling update workshop	Tuesday 13 May 2014
Draft determination	
Draft determination released	Tuesday 19 August 2014
Submissions on draft determination due	Tuesday 16 September 2014
Cross submissions on draft determination due	Tuesday 30 September 2014
Conference	Tuesday 7 October 2014
Final determination	
Final determination released	Before 30 November 2014

13. At this stage, we are planning to hold an informal modelling update workshop to share information with the industry on the key modelling concepts we are developing. We will release a paper in due course on whether and how this workshop will be run.
14. As part of this process, we will need to determine the weighted average cost of capital (WACC) to be used in the UBA cost model. We will advise you of the timeframes for consulting on WACC issues as soon as possible.

Our current thinking is that the relevant MEA for the UBA service is constrained by existing layer 1 inputs

15. Chorus' UBA service is a layer 2 bitstream service provided over Chorus' layer 1 copper local loop network.
16. In our view, in considering the relevant MEA for UBA on its own, a hypothetical new entrant seeking to compete with Chorus' UBA service would utilise the

existing layer 1 inputs that are currently available. This results in a practical constraint on the UBA MEA, and the degree of network optimisation possible.

17. Accordingly, our current thinking is that the UBA MEA will utilise Chorus' copper based inputs potentially with rural broadband initiative (RBI) fixed wireless in place of copper in some rural areas.

We will request information from the industry for the UBA price review determination

18. To inform this process, we are issuing compulsory statutory information requests to Chorus and other industry participants. The information obtained will be used to assist the modelling process.

We are interested in your views

19. We are interested in your views on the proposed process and approach for the UBA price review determination outlined in this paper.
20. Submissions on this process and issues paper are due by **5.00pm on Friday 21 February 2014**. Please address responses to: Keston Ruxton (Chief Adviser, Regulation Branch), c/o telco@comcom.govt.nz.