

24 August 2012

Public

Submission in response to the  
Commerce Commission's  
Unbundled Bitstream Access Price  
Review Consultation Discussion  
Paper

24 August 2012

## TABLE OF CONTENTS

<b>Executive summary</b>	<b>6</b>
<b>Submission</b>	<b>8</b>
<b>Question 1: Do you agree with the Commission’s view regarding the absence of “similar services” from the benchmarking for UBA?</b>	<b>8</b>
<b>Question 2: Given that both the UCLL price and the UBA price will be cost-based in future, are there any other considerations relevant to the relativity requirement?</b>	<b>9</b>
<b>Question 3: What should the Commission consider in its section 18 analysis of the price review of the UBA service?</b>	<b>9</b>
<b>Question 4: Do you agree with the use of tele-density criteria for determining comparability?</b>	<b>12</b>
<b>Question 5: Are there any other comparability criteria that could and/or should be used?</b>	<b>15</b>
<b>Question 6: If comparable countries that meet the comparability criteria are limited, what other information should the Commission gather in order to establish a price for the UBA service?</b>	<b>16</b>
<b>Question 7: What key cost drivers do you think need to be taken into consideration when benchmarking the UBA service variants?</b>	<b>16</b>
<b>Question 8: Do you consider there is any other appropriate approach for determining the price of the UBA variants?</b>	<b>17</b>
<b>Question 9: Do you agree that the Commission’s proposal for adopting the UCLL STD core charges for the comparable UBA core charges is appropriate for the purpose of the UBA price review?</b>	<b>17</b>
<b>Appendix</b>	<b>20</b>

## EXECUTIVE SUMMARY

1. This is Chorus' submission on the Commission's Unbundled Bitstream Access Price Review Consultation discussion paper (**Commission's discussion paper**).
2. The Commission's discussion paper is a helpful way to start the price review. It usefully puts on the table some of the key issues the Commission and the industry are likely to grapple with in the review. These include:
  - a) how to recognise that Chorus delivers UBA services over a range of network configurations and technologies?
  - b) related to that, how to identify networks that are comparable when it comes to the delivery of UBA services?
  - c) what should the Commission do if there are few comparable benchmarks, which is possible?
  - d) how should the answer to each of these issues be guided by section 18 and the relativity requirement?
3. We appreciate the Commission being candid about the likely issues in this review. At this initial stage we have given answers where we can. In some areas, the way forward may become clearer once some draft benchmarking is available and the UCLL re-benchmarking process is further progressed.
4. The Commission will appreciate the significance of this process (alongside the UCLL re-benchmarking process) for setting the right incentives for the industry to focus on fibre – an outcome that will benefit all New Zealanders. The UFB prices were set prior to demerger and provide certainty for the industry as the fibre network is rolled out between now and 2019. How the UBA price is set is within the Commission's discretion. The outcome of this process (and the UCLL re-benchmarking process) will be a key influence on the incentives, efficiencies, innovation and competition in the provision of services and ultimately success of the UFB initiative.
5. To get this balance right, a coherent regulatory policy (of which copper is a part) is critical. We think the Commission has the tools to consider how to facilitate outcomes for the long term benefit of end users – including a requirement to consider the significant public private investment being made by Chorus and local fibre companies.
6. Against that backdrop, in this submission we have emphasised some key points that frame the price review at this stage. The first is that the context for this UBA price review is the transition to the UFB network. This has been addressed in detail in the UCLL process. The UFB network investment, the statutory direction of new section 18(2A), the move to cost-based UBA pricing, and the UCLL price review are a package. In this context of the transition to the UFB network, the UBA price is a balancing act in terms of creating the right incentives for the industry.

7. Second, the requirement for relativity between UCLL and UBA services will be satisfied by setting cost-based prices. This should result in efficient levels of investment. Choices that the Commission has to make when setting cost-based prices should be guided by the section 18 considerations discussed above.
8. The relativity condition may count in favour of using a benchmark set of countries similar to the set used in the UCLL process as a starting point. However, the Commission should ensure that its benchmarking approach also recognises forward-looking fibre networks and Ethernet technology.
9. Third, the Commission is correct to highlight that Chorus delivers UBA services over both cabinetised and non-cabinetised lines. However, there are also underlying protocols and networks that Chorus uses to provide the UBA variants. It is important that these are understood when benchmarking a price that can be expected to recover Chorus' forward-looking costs. It is important that the benchmarking process is carried out not only in the context of the transition to fibre so it does not undermine such a migration, and with a view of how the UBA price sits relative to the UCLL price, but also to ensure that Chorus fully recovers the costs of providing the UBA service. Unlike when Chorus was a business unit of a vertically integrated operator, most of our prices are price capped by either contract or regulation. This means that if the regulated UBA price results in Chorus under recovering its costs in providing the service we cannot absorb the costs elsewhere.
10. Regulated pricing also impacts a significant proportion of Chorus revenues. The UFB roll out is a long term project and enabling uptake will require the whole industry to come on board. Until fibre uptake accelerates in the coming years, copper connections and broadband pricing are our two largest revenue lines, but they are now a means to an end that is ultimately acceleration of fibre.
11. While there has been a view espoused in the UCLL re-benchmarking process (which is an input into the UBA price) that Chorus' costs have decreased on the UCLL service, the facts do not support that view. In relation to UBA, there has been significant investment in fibre to the cabinet, and it's important that this investment is recognised and recovered as part of that process. All of which emphasises the importance of getting the benchmarking right.
12. Given the extensive costs and time involved in undertaking a price review it is also important that the initial pricing principle (**IPP**) is set correctly now. A costly and time consuming FPP process risks focusing the industry on copper for some time to come, rather than focusing on transitioning their businesses to fibre.

## **SUBMISSION**

### **Scope of this UBA price review**

13. The Commission is required to set a UBA price using forward-looking cost-based benchmarks from comparable jurisdictions while taking account of the section 18 purpose statement, including section 18(2A), and relativity between UCLL and UBA services.
14. We agree with the Commission that the scope of this review is limited to implementation of the new IPP for UBA and that in all other respects the Commission's power to conduct a section 30R review is suspended in relation to the UBA STD until December 2014. In this submission, we respond to each of the Commission's questions in turn. We note that there are naturally overlaps in our response to some of the questions in respect of "similar services", comparability criteria and key cost drivers of the UBA variants.

### **Question 1: Do you agree with the Commission's view regarding the absence of "similar services" from the benchmarking for UBA?**

15. We agree that the absence of "similar services" wording in the IPP is unlikely to materially affect the benchmarking exercise. The concept of similarity is inherent in benchmarking. We do not expect the Commission to benchmark the UBA price by reference to services that the Commission believes are dissimilar.
16. We agree with the Commission that the IPP is intended to be a proxy for the final pricing principle (**FPP**). The Commission should therefore seek to determine a price that reflects a TSLRIC cost of the service provided by Chorus. When implementing both the IPP and FPP the Commission needs to take into account:
  - a) network components used by Chorus to provide the UBA service are both copper and fibre; and
  - b) bitstream services are increasingly delivered over FTTN and FTTP network topologies – this has been recognised by regulatory bodies in some jurisdictions (for example, Sweden) which have assumed that FTTP is the Modern Equivalent Asset for cost modelling purposes. The European Commission has recognised that "the appropriate modern equivalent asset for calculating copper access costs seems to be a fibre network", in its policy statement of July 2012 on broadband investment.
17. For these reasons the benchmarks need to include UBA services provided over both copper and fibre.

**Question 2: Given that both the UCLL price and the UBA price will be cost-based in future, are there any other considerations relevant to the relativity requirement?**

18. We agree with the Commission that consideration of relativity between the UCLL and UBA services is required to ensure that the prices for those services are set at a level that encourages economically efficient investment.
19. When the Commission previously considered the relativity of these services the UCLL service was cost-based and the UBA service was set on the basis of a retail-minus methodology. The context of the Commission's consideration of the relativity requirement is different today. The regulated pricing for both services will be cost-based.
20. If both UCLL and UBA services are appropriately set on a cost-based approach, then presumptively those are the prices that encourage economically efficient investment between the two services. There should be limited scope for adjustment in reliance on the relativity condition.
21. In practice, this consideration may count in favour of using a benchmark set of countries that is similar to the set used for identifying the UCLL price. This will give some comfort that the difference between the two benchmark prices reflects the relativity in cost between the two services, rather than differences across countries. The practicalities of arriving at the best benchmark set means there is unlikely to be an exact overlap, but if the sets were markedly different this may be a cause for a relativity concern.
22. We believe that the more important consideration is to make decisions consistent with the section 18 statements of statutory purpose. Ultimately, it is important that when setting the prices of the UCLL and UBA services that the Commission ensures that it doesn't discourage migration to the UFB network.

**Question 3: What should the Commission consider in its section 18 analysis of the price review of the UBA service?**

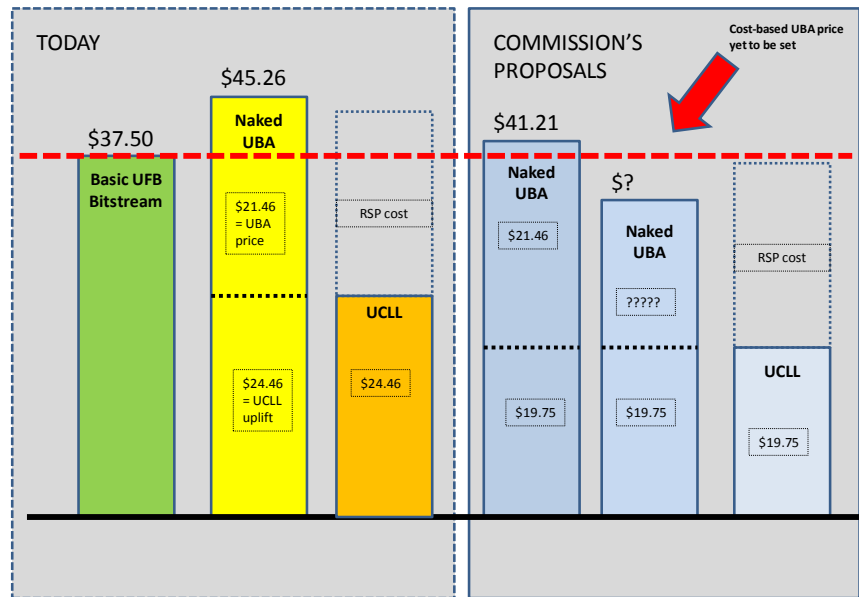
23. Section 18 played a central role in submissions on the revised draft UCLL benchmarking determination. The key issue is the UFB investment and transition to the UFB network.
24. The UBA price that the Commission will set is simply another piece in the same puzzle. For that reason, we recap below the main points from our UCLL benchmarking submissions. We then outline points that have additional impact on the UBA price.

***UFB investment and UCLL pricing***

25. As part of the UFB regulatory reset, a new provision (section 18(2A)) was introduced that explicitly requires the Commission to consider the impact of any decision on capital intensive and risky new investments that deliver innovative new services. This

amendment was specifically introduced to require the Commission to consider the UFB investment when making decisions under Part 2 and Schedules 1 to 3.

26. Parliament sent a clear signal that the promotion of competition is not to be pursued at the expense of the Government's UFB programme objective: wider fibre take-up in the New Zealand market as a means to productivity growth and social development.
  27. The key risk is setting copper prices that undermine the transition to the UFB network. Significantly lowered UCLL prices will result in RSPs basing more of their business on UCLL, and this will create material risks to the timely transition to the UFB network. If RSPs are investing in UCLL and developing services based on UCLL, then they are not making the longer term strategic investments to develop a UFB based business and foster demand for innovative new services. It would not be consistent with section 18 for the Commission to create risks to the transition to the UFB network.
  28. Any perceived short term benefits from lower copper prices are outweighed by the longer term detriment to New Zealanders in not receiving superior retail fibre services because investment is directed towards copper. The Commission must take full account of the impact of its proposal on risky new investments such as UFB under section 18(2A).
  29. The Commission needs to make many choices as part of this review. When making these choices, and arriving at an estimate of a forward-looking cost-based price, the Commission must have regard to section 18(2A). The long-term benefit of end-users will be best promoted if the Commission takes an approach that does not create risks to the transition to the UFB network.
- UFB investment and UBA pricing***
30. The UBA price also has a role to play in ensuring that the industry does not become entrenched on the copper network.
  31. Transition to the UFB network will be influenced by how the UBA price the Commission determines compares to both the new UCLL price and the entry level UFB bitstream price. Set out below is the graph we presented in the UCLL process based on the draft UCLL prices previously indicated by the Commission.



32. In our UCLL submission, we highlighted the potential impact of the UCLL price on the transition to UFB. This also illustrates how the UBA price could impact the transition to fibre. Obviously this is a balancing act. This means that the Commission needs to keep its eye on the horizon – the transition to the UFB network - and consider all of the pricing processes holistically.
33. The Commission must apply the IPP and set a cost-based price. However when doing so the Commission will have choices, and it must make those choices consistent with the demands of section 18. The cumulative impact of the Commission’s choices will significantly influence the framework for the UFB transition.
34. Specifically, the Commission must consider section 18(2A) when it:
  - a) selects its benchmark approach, including identifying similar services and comparable countries;
  - b) makes any adjustments to the raw price derived from benchmarking; and
  - c) selects a price point for the UBA Service.

**Section 18 – long-term benefit of end users**

35. In setting the UBA price, the Commission is required to consider the efficiencies that will result from its decision. One of the efficiencies it should consider is the potential impact on the industry’s efficient transition to fibre.



36. The Government's UFB initiative set up an environment and a pricing structure which would achieve an efficient transition to fibre, as discussed in detail in Chorus' submission of 1 June 2012 in the UCLL price review<sup>1</sup>. If the Commission's decision on the UBA price results in a change to the relativity between copper and fibre pricing (for example, if the UBA price were significantly lowered), this risks distorting the industry's efficient transition to fibre.
37. If RSPs are encouraged to delay migration to fibre, and to continue with a copper-based business model longer than they would otherwise have done, this introduces inefficiency into the UFB deployment by having two networks operating longer than they otherwise would have in an efficient migration. Martin Cave has recognised this fact in a recent paper:

*"Having the same firm run a legacy copper network side by side with a new fibre network is costly. Each network individually has strengths. Fibre has increased capabilities and low running costs; copper requires no significant new investment. Running them together diminishes both strengths – through imposing a combination of high capital and high running costs."*<sup>2</sup>

**Question 4: Do you agree with the use of tele-density criteria for determining comparability?**

38. In order to properly answer this question, it is necessary to consider the objective of the benchmarking exercise. The objective is to establish a robust estimate of the forward-looking cost of providing the UBA service in New Zealand that is consistent with the IPP and with section 18. We consider the key steps in this benchmarking exercise to be:
- a) defining the benchmark set;
  - b) adjustments to the benchmarked prices;
  - c) currency conversion; and
  - d) price point selection.

***Defining the benchmark set***

39. The Commission's goal should be to define a benchmark set composed of countries where the cost of providing bitstream services is not significantly different to the cost of providing the UBA service in New Zealand.
40. To do so, it will first need to establish comparability criteria which reflect the important cost drivers for the UBA service. The identification of cost drivers should be evidence-

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<sup>1</sup> Chorus' submission of 1 June 2012 in the UCLL price review, Appendices B, C and D

<sup>2</sup> Martin Cave, June 2012, Regulating the price of copper in New Zealand, p.9

based. That is, each criterion must be demonstrated to be significantly related to the cost of the bitstream service through econometric analysis or some other recognised technique, or if this is not perceived to be possible due to data limitations, the reason for selecting the criterion must be transparent.

41. The Commission has identified tele-density as the most likely criterion for comparability, on the basis that tele-density is indicative of overall adoption of telecommunications services, including broadband. We note that the tele-density statistic proposed by the Commission does not contain any information on the adoption of broadband or bitstream services, so it is unlikely to be relevant to the cost of providing UBA. On this basis we disagree with the use of tele-density criteria for determining comparability. If tele-density is to be used as a comparability criterion, it would need to be identified as a cost driver using an objective, evidence-based technique.
42. We identify in our response to Question 5 a number of potential alternative comparability criteria which we think the Commission should assess. It should then determine whether there are any significant differences (in respect of the identified cost drivers) between New Zealand and the benchmark jurisdictions. If the differences are objectively determined to be significant, the jurisdiction should be excluded from the benchmark set.
43. Further, the Commission will need to address outliers. Outliers can have a material impact on the mean and median of a benchmark sample. The risk of distortion arising from the inclusion of an outlier will be particularly high if the sample size is small. Outliers should be identified using an objective method, such as Peirce's criterion.
44. In defining its benchmark set, we expect the Commission will be required to balance the application of its criteria for comparability with the need to retain a sample set of sufficient size to enable robust analysis to be carried out. However, the wider the comparability criteria the greater the probability that the sample set will include jurisdictions which have significantly different features compared to New Zealand (in respect of important cost drivers), which will introduce bias. In this eventuality, the Commission will need to take additional measures to address any remaining bias in its benchmark set and reflect New Zealand specific cost differences (as discussed below).
45. Finally, as discussed under Question 2, the Commission must consider the relativity requirement. If the benchmark set is similar to the set used for identifying the UCLL price, the difference between the UBA and UCLL prices will be more likely to reflect the relativity in cost between the two services, rather than differences across countries.

***Adjustments to the benchmarked prices***

46. The Commission should aim to make appropriate adjustments to the benchmark prices which will take into account and offset any remaining differences (between New Zealand and the countries in the benchmark set) in the cost of service provision, or differences in the way in which the regulated bitstream service is defined, costed and priced.

47. In the context of the UCLL price review, the Commission noted that one way to address the issue of bias in the benchmark set could be to choose a price point at a higher or lower percentile of the dataset instead of the median or mean. This is an imprecise measure which would not address the cost differences between the sample set and New Zealand with accuracy. It is critical in our view, if any such adjustments are undertaken, that the direction and quantum for the adjustment is assessed against section 18.

48. However, wherever possible we consider the better approach is “normalisation” of the benchmark prices to reflect expected differences in cost drivers, where the impact of the cost driver can be established using robust econometric analysis.

***Currency conversion***

49. In order to achieve a robust estimate of the cost of providing the UBA service in New Zealand, an appropriate approach to currency conversion must be adopted which does not result in distortions due to non-cost issues.

50. Comparisons of prices between countries are complicated because they are expressed in national currencies. Using standard exchange rates can result in such distortions because of the effect of non-traded goods and services, capital movements, and exchange market interventions. For this reason, the use of purchasing power parity (**PPP**) exchange rates is necessary for accurate comparisons between countries. Further, the exchange rate used must accurately reflect the mix of cost components in the product in question (the UBA service). As CEG has advised in the context of the UCLL price review, this requires the use of sector-specific PPPs. We consider a similar approach should be used in the context of the UBA review.

***Price point selection***

51. In the price point selection process the Commission must consider the risks to the transition to the UFB network, and the risks and incentives of UFB investors. As discussed earlier in this submission, lower UBA prices could have a detrimental impact on customer take-up of UFB services, and we consider any judgement exercised by the Commission in relation to price point selection needs to be assessed against the purpose of the Act, and in particular with respect to section 18(2A), as discussed earlier in this submission.

52. We provide our view from a technical perspective in each of these areas below. We note that the Commission may be required to exercise its judgment in some of these steps, in the event that the relevant data is inadequate. If this is the case, we think the Commission should be transparent about the fact that it is doing so, and set out clearly why it considers its judgment is consistent with the purpose of the Act. We have set out under Question 3 how we consider the Commission should ensure consistency with section 18.

**Question 5: Are there any other comparability criteria that could and/or should be used?**

53. We think that other comparability criteria should be used. In this section we set out a number of potential alternative criteria (as noted above, we recommend that the Commission assesses each of these potential criteria using an objective, evidence-based technique, such as econometric analysis):
- a) In order to properly account for scale, the Commission should consider the absolute number of broadband / bitstream subscribers in the jurisdiction as a relevant measure. Alternatively, revenue of the benchmarked fixed line operator in the jurisdiction would be relevant, on the basis that larger companies have greater buying power and can achieve lower prices for equipment from vendors.
  - b) The degree of uptake of UCLL and UFB may also be a relevant cost driver. As the Commission noted in footnote 24 of the discussion paper, increased uptake of UCLL and UFB will increase the cost of bitstream, as this will decrease the number of bitstream subscribers over which to share the fixed costs of DSLAMs and data switches.
  - c) Handoff points and distance are not always the same in other jurisdictions. New Zealand hands off UBA at the first data switch. Handoff points in other countries include the DSLAM, the MDF, the parent switch, distant switches, and the IP point of interconnection. Clearly the amount of transport included in a bitstream service will affect its cost. The distance between the serving exchange and the first data switch may be different in the various countries, both because of different distances between switches, and the prevalence of data switches. That is, some countries may have more or less data switches co-located with their parent switches than Chorus, impacting on the extent of transport included in the UBA price.
  - d) The degree of cabinetisation in the jurisdiction is also a relevant cost driver. Cabinetised lines have higher per-line costs than non-cabinetised lines, since they have a longer backhaul segment (incorporating the link between the cabinet and the exchange) and cabinet-related costs which are spread over a smaller number of lines.
  - e) Given that labour costs are a significant component of total UBA costs (particularly the trenching costs which make up part of the backhaul component of UBA, and the cost of construction of cabinets and exchanges), national wage levels are another important cost driver.
  - f) Given that trenching costs make up part of the backhaul component of UBA, population density and urbanisation may be good proxies for UBA cost drivers.

Population density is an important driver of trenching costs.<sup>3</sup> Population density and urbanisation also affect the number of subscribers that can be served by a single DSLAM (and perhaps a single data switch), and thus the per-subscriber cost of this equipment.

**Question 6: If comparable countries that meet the comparability criteria are limited, what other information should the Commission gather in order to establish a price for the UBA service?**

54. Set out above is the type of information that we consider is relevant for the Commission to take into account when assessing whether the comparability criterion in the IPP is met. As the comparability criterion is mandatory we do not believe any other information is relevant.

**Question 7: What key cost drivers do you think need to be taken into consideration when benchmarking the UBA service variants?**

55. To answer this question we must first be clear about the elements of Chorus' UBA Service, which comprise the following layer 1 inputs and layer 2 hardware:
- a) Backhaul – the fibre feeder component reflects the significant FTTN investment made by Chorus over the last 5 years;
  - b) Co-location – space and power;
  - c) DSLAM – shelf and linecards; and
  - d) Switches – 7450 (BUBA and EUBA over Ethernet) or LAC (BUBA over ATM and Ethernet).
56. The Commission's description of the UBA Service reflects the different transport involved over cabinetised and non-cabinetised lines, and the associated service handover point. As set out above in response to Question 5, handover points in other countries include the DSLAM, the MDF, the parent switch, distant switches, and the IP point of interconnection, which affects the amount of transport required for the UBA service and therefore its cost.
57. The Commission's description of the UBA Service does not capture the layer 2 protocols and networks Chorus uses to provide the UBA variants. Chorus provides the UBA Service over copper (UCLL and SLU MPF) and fibre (UCLL Backhaul and SLU Backhaul) using a combination of protocols and networks:

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<sup>3</sup> In the UCLL price review, Wik-Consult advised that national level population density statistics should not be used to directly assess comparability. However, CEG disagreed with this view. CEG's analysis showed that national level population density was a useful criterion, particularly when used in combination with the urbanisation rate criterion.

- a) BUBA – L2TP protocol over ATM network;
  - b) BUBA – L2TP protocol over Ethernet network;
  - c) BUBA – Ethernet protocol over Ethernet network; and
  - d) EUBA – Ethernet protocol over Ethernet network.
58. Compared to Ethernet protocol on an Ethernet network, ATM networks are low capacity and high cost, and L2TP protocol is high cost on either an ATM or Ethernet network. Chorus is close to full capacity at many LAC (L2TP) aggregation nodes. Rather than investing in a sunset technology, Chorus is working with customers to migrate their end users progressively onto our high capacity Ethernet network.
59. So while the BUBA variants involving ATM and/or L2TP cost significantly more to provide than Ethernet over Ethernet variants, we believe the Commission should focus on the key cost drivers of forward-looking networks and protocols, which in this case is Ethernet over Ethernet. The question is then whether there are other, distinct cost drivers of the BUBA and EUBA service variants delivered using Ethernet over Ethernet.

There are throughput differences between the UBA variants. Throughput can make a significant difference to the end user service experience, and it is therefore a price differentiator at the retail level.

**Question 8: Do you consider there is any other appropriate approach for determining the price of the UBA variants?**

60. We have set out above the service differences with the UBA variants and the networks that Chorus uses to deliver them. The Commission needs to take these aspects into account when approaching benchmarking under the IPP.

**Question 9: Do you agree that the Commission’s proposal for adopting the UCLL STD core charges for the comparable UBA core charges is appropriate for the purpose of the UBA price review?**

61. The core charges in the UBA Service Transaction Charges section of the Price List are as follows:
- a) New Connection (item 1.1);
  - b) Other broadband service (including UBS) to any UBA service change plan (item 1.9);
  - c) Any UBA service to any other UBA service change plan (item 1.10);
  - d) Transfer of Basic UBA Service from an Access Seeker to a Basic UBA Service with another Access Seeker (item 1.31);

- e) Transfer of Basic UBA Service from an Access Seeker to an Enhanced UBA Service with another Access Seeker (item 1.32);
  - f) Transfer of Enhanced UBA Service from an Access Seeker to a Basic UBA Service with another Access Seeker (item 1.33);
  - g) Transfer of Enhanced UBA Service from an Access Seeker to an Enhanced UBA Service with another Access Seeker (item 1.34);
  - h) Transfer of other broadband service from an Access Seeker to a Basic UBA Service with another Access Seeker (item 1.35);
  - i) Transfer of other broadband service from an Access Seeker to an Enhanced UBA Service with another Access Seeker (item 1.36);
  - j) UBA Service Relinquishment (item 1.39);
  - k) UBA Service Move Address (item 1.40); and
  - l) Data Interleaving Toggle (item 1.41).
62. We do not agree that the Commission should adopt the UCLL charges for these UBA core charges for the following reasons:
- a) we think there are a number of methodological problems with the benchmarking of the UCLL connection charges<sup>4</sup> and therefore we are concerned with their appropriateness in this process;.
  - b) the tasks required to connect a UBA service are different to UCLL (refer Appendix A).
  - c) UBA transfers require internal changes, but will not generally require a site visit, unlike UCLL.
63. We do not consider that there is any requirement for the Commission to try to benchmark the Transaction Core charges. These costs are generally discrete contracted rates with third parties or previously have been set by the Commission on a cost plus basis.
- A better approach***
64. In our view a cost-plus price is more appropriate.
65. Connection charges are unique compared to monthly rental charges in that the costs are fairly simple and easy to identify – Chorus outsources connections to service companies and that service company payment accounts for the majority of the cost.

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<sup>4</sup> Chorus' submission of 1 June 2012 in the UCLL price review, Appendix I

66. This means connection charges are essentially a pass through cost – a pass through of real, tangible costs actually paid by Chorus to third parties. These prices are negotiated and set by a contestable competitive tender process.
67. In our view, a better way to set these connection charges would be for the Commission to require that Chorus sets connection charges at a rate that consists of the contractor fees plus administration costs and an appropriate margin to cover common costs. The connection charge in the STD would be set out as a formula.
68. Given how easily real costs can be obtained and verified, this seems the most sensible approach.
69. This approach would be consistent with the current cost based methodology applied to the UBA core charges of transfer pricing (items 1.9, 1.10 and 1.31-1.36). These charges were based on an agreed methodology with the Commission that could be re-evaluated post the demerger of Telecom to ensure consistency with current Chorus costs. In addition, there is likely to be an opportunity to consolidate existing UBA transfer services and we would be happy to engage with the Commission on how this could work.
- Grandfathered retail minus price is not appropriate***
70. The underlying policy change behind the move to cost-based UBA prices was that it was no longer appropriate to retain the current retail-minus based pricing approach when Telecom and Chorus de-merged into two separate companies and Chorus had no retail business. This was generally understood and supported by the industry.<sup>5</sup> For this reason we consider that it would be inconsistent with the Telecommunications Act and policy behind it for the Transaction Core charges to be grandfathered and therefore to continue to retain the retail link after 1 December 2014.
71. As explained above, Chorus incurs real costs in providing the relevant services. It is appropriate that it is able to recover costs reasonably incurred when providing the regulated service once cost-based pricing comes into effect. Chorus has no control over how Telecom (or any other RSP) sets its retail prices – which could include pricing installation below cost, and recovering the installation costs in the monthly rental (for example).

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<sup>5</sup> Minister's Policy Paper "Regulatory Issues Arising from the Ultra-fast Broadband Initiative" see paragraphs 22 and 23



## APPENDIX A

### Tasks involved in UCLL and UBA New Connections

Work Carried Out as required for each installation option	UCLL (no site visit required)	UCLL (Site visit required)	UBA Connection Only	UBA Connection and Wiring	UBA Connection and Wiring with Modem Installation
Confirm that correct pairs are allocated	√	√	√	√	√
Confirm that correct POTS and DSLAM ports are allocated			√	√	√
Breakdown any intacts	√	√	√	√	√
Rearrange pair gain End Users	√	√	√	√	√
Provide ADSL jumpering to existing POTS			√	√	√
Run any other jumpers at exchange and / or cabinet	√	√	√	√	√
Connection house lead-in to Access Network at premises		√		√	√
Install / connect POTS			√	√	√
Conduct functional tests of POTS		√	√	√	√
Conduct functional tests of ADSL		√	√	√	√
Connect wiring in ETP and install low pass splitter		√		√	√
Install jack point for broadband and any premises wiring		√		√	√
Convert any 3-wire systems to 2-wire systems*		√		√	√
Confirm PC meets minimum requirements					√
Install and configure broadband modem					√
Install and configure Ethernet adapter to PC					√
Install and configure WiFi devices					√

Set up of WiFi security					√
Install and configure web browser and email client					√
Resolve any hardware or software conflicts					√
Train End User					√