[1.05 p.m.]

COMMISSIONER GALE: Okay, well you can probably all hear me
with or without the microphone. Nau mai, haere mae,
thank you for coming. Everyone can turn their cellphones
up so we see who has the most amusing ring tone. The
first issue of the day is the health and safety
requirements. Please wear your stickers while you're in
the building and on departure can you hand the stickers
back to reception outside. If there's a fire alarm or
other emergency, there will be a continuous siren.
Please evacuate the building by the stairs, don't try and
use the lifts, and one of us will accompany you down to
the assembly point. You're required under the Health and
Safety Act to obey all reasonable instructions while on
the premises and not to create any hazards of your own
accord. In the event of an earthquake we don't attempt
to leave the building, we just drop and hold. Presumably
just hold hands, there's not much to hold in here.

So, thanks for your attendance to help us clear up
some questions on this topic, and thanks for your
participation so far in the process with careful
submissions and cross-submissions.

I know most of you. I'm Stephen Gale, the
Telco Commissioner, and with me are the other
Commissioners who decide Telco matters, Elisabeth Welson
and Jill Walker. We also have senior staff here who will
participate in the questions and make sure we get to the
bottom of all the matters.

So, this is part of a statutory process for
considering deregulation of this access service, but what

it comes down to is what best promotes competition. It's
subtle because this is a backstop piece of regulation,
the resale services, and there is no STD. The Buddha
apparently said, "A good horse always runs at the shadow
of a whip", and so we're wondering which shadow is
relevant here; is it the STD, the shadow of that, or is
it the shadow of Chorus' Baseband? So, it seems to us
there are two main topics with some extra details. One
is whether there's a chicken and an egg problem with
Baseband IP, and the other is the role of a transition
period.

So, I understand you've all got the questions and we
sort of won't recite them in great detail but we want
everybody to have an opportunity to answer each one. In
the process of the submissions it seemed to be broadly
agreed that there were substitutes for the resale service
now, but Trustpower in particular has said that those
wholesale alternatives aren't sort of available enough
widely enough in a mature market to allow us to take the
resale service out of Schedule 1.

So, we wondered, as you'll see in that first question,
where we could talk about whether the degree of
substitutability and the availability of substitutes for
the resale service, and so why don't we do it in the
order that's listed in front of you.

Vodafone, do you have a comment to make? No-one is
compelled to talk, it's just if you want to add a point
to what you know we already know.

CHRIS ABBOTT: So, we fundamentally agree with the
Commission's analysis around what the direct and indirect
substitutes are. So, in rural areas there's, you know,
wholesale RBI available as an indirect substitute,
there's the likes of mobile network and fixed wireless
access. In urban areas there's obviously the roll-out of
UFB fibre, the availability of Baseband IP and we're

interested to hear about what the actual roll-out
commitment of Chorus is and how that access is substitute
for resold voice as well as obviously Vodafone has its
own cable networks in Wellington, Christchurch and
Kapiti. So, when we look at it over time, we think
there's considerable competitive alternatives. I think
one of the key things for us is understanding the
roll-out and commitment and timeframe for Baseband IP.

COMMISSIONER GALE: Okay, shall we go to Trustpower, because
this is obviously of central concern to you.

PETER GREGORY: Yeah, I think they - one of the concerns that
we've got is the coverage of the alternatives and, you
know, whilst we acknowledge Chorus' commitment to rolling
out Baseband IP across the nation through to I think 97%,
it was the time that it would take to transition those
existing customers across to said technologies.

　　We also acknowledge that there are other alternatives
available such as fixed wireless, an example would be
rural broadband. There is still some uncertainty around
what rural broadband 2 looks like, and there are - and
we've touched on our concerns with previous submissions
in, about the rural broadband initiative 1, in terms of
the equivalent technologies and also the success of that
service at a wholesale level. So, we don't believe that
there is enough open access technology available for a
true substitution.

COMMISSIONER GALE: So, what are the numbers involved, roughly
speaking, the numbers involved who, where you'd be
dependent on RBI, or something other than a Baseband?

PETER GREGORY: So, the information that we've got from
Chorus, and I'm not going to speak for Tim but he can
certainly jump in. You know, look, Chorus have made
commitment that they can scale up to anywhere, you know,
up to 3, 4, 5,000 migrations of services across on a
monthly basis, but that's yet to be demonstrated. From

what I understand, the numbers are in the likes of the 1-2,000 range. So, if you take that over a period of a year, you know, that's only 20 or, you know, possibly 30,000 services that are able to be migrated over the volume.

In terms of rural broadband, you know, the numbers that we've had available to us is, there's only anywhere between 10 and 20,000 active services on RBI, and we've struggled making that business case work for providing that service to the rural community through the wholesale agreements and the technologies.

COMMISSIONER GALE: Right. Okay, thank you. Anyone else want to add anything to this part of the conversation? John?

JOHN WESLEY-SMITH: I'll comment. And, so we also agree with the conclusions in your draft report, and I guess the way that we think about this is, we've all set out in our submissions what we think the competing and substitute technologies to our resale services are, but when I look at the commercial behaviour we see in the market, I think that is the best example we can provide of the competitive constraint that is put on our services by the likes of Baseband IP and Vodafone's RBI.

So, we see commercial behaviour from our customers and we've got three of our largest customers sitting here. That reflects a view on their part, at least that they express to us, that they have credible alternatives to our resale services, and in return the commercial behaviour you see from us is declining price for our resale services so that we can retain that customer base.

COMMISSIONER GALE: Mmm mmm, okay.

GRAHAM WALMSLEY: I'd just like to add to what Chris and Peter said in terms of, you know, for us Baseband IP is a substitute. I think we submitted on that. It's more an issue around coverage, and there is a bit of - and then there were practical considerations around timing, and

there's a few people who are hard to move on to it, but broadly our key issues are around coverage.

In terms of things like fixed wireless and RBI, the practical reality is RSPs right now is with the focus on UFB and everything else, that's pretty much fringe consideration, so -

COMMISSIONER GALE: Not reactive competition for those.

GRAHAM WALMSLEY: I'm not aware that fixed wireless is really outside of the RBI programme in offering too much by way of a wholesale substitute, but it's a relatively small thing. I mean, here I think the focus I think is Baseband IP and the issue is simply around practicalities and coverage.

COMMISSIONER GALE: Okay. All right, so we'll come to the coverage in a little while. In your submission, Trustpower, you drew attention to the comings and goings around about the threat of backdating in the FPP process and then the fact that there wasn't an argument about whether there's a repayment of any of that. Am I right in thinking that that was your sort of demonstration, or that you were seeking to demonstrate that Spark had the power to put prices up at that time of the wholesale resale service, was that the point of - you didn't want us to adjudicate on the repayment, you just wanted to point out that Spark could adjust prices?

PETER GREGORY: The key issue for us is, you know, there are some, there's some commercial concerns around the way that the product is made available to us, and if it was deregulated, then does that open that product up for some further constraints, and all we were calling out was, you know, the retail price, Spark increased the retail price off the back of the Commission signalling it was going to backdate and then obviously when the price then went up at a retail level, that then flows through to wholesale. And, there was a commitment made from Spark to return

those funds back to consumers and their customers if backdating didn't occur, but unfortunately that didn't flow through back to wholesale. Even though Spark encouraged other RSPs to do, so we weren't enabled to do so, and I suppose it's that type of behaviour which gives us concern.

COMMISSIONER GALE: So, when the price went up and it did flow through to wholesale, what prevented you going straight to Baseband or opening those negotiations to say, well, we don't need to put up with this, why don't we just start to move quickly now?

PETER GREGORY: Look, to be honest, the capability of actually moving to Baseband wasn't available back then and there was still some uncertainty, and I don't think Extend was available then, is that right? This is going back a while, yeah, Baseband IP Extend wasn't available and Baseband IP actually only had about 1,251 cabinets and our reach was really only 3,000 odd customers out of our customer base, so it was very very minimal. We actually had no other alternative.

COMMISSIONER GALE: So, things have evolved a bit since then, or are you still, if Spark just decided now to put prices up, would you still be sort of caught and have no alternative, or now the negotiations are much more serious with Chorus as to migration?

PETER GREGORY: Yeah, look, I think it's safe to say without divulging too much, there is increased capability within our organisation, although we are heavily reliant on Chorus' capability of migrating, and there are commercial constraints in place which means that if you go, you have to go hard, because of the commercial impacts.

COMMISSIONER GALE: Oh, okay. Yeah, no, we'll come to that, contractual features a bit later. Any other questions? So, are the team happy for us to move on to the other questions? No more from –

STEPHEN HUDSON: Sorry, I just have one question for Trustpower.

COMMISSIONER GALE: The mics, you understand, are as much as for the stenographer as much as our state of hearing.

STEPHEN HUDSON: Hi, just a question for Trustpower. I think in your submission you said that we should really focus on the wholesale alternatives that are available and not the, sort of the retail alternatives, for example cable is one example, and I just wonder if you could maybe just sort of talk through that a wee bit more given that I think in the draft we did talk about the indirect constraints on Spark flowing through the retail level, if they did try and put prices up; are you saying that's not a relevant sort of constraint to look at?

JESSICA BEVIN: I think for us it was sort of looking at what alternative services do we have available, and the only alternative really is Baseband IP. And, so I guess to the extent that you're looking at other services to act as a constraint on what Spark can do, I guess the relevance to us was quite - I didn't see them having sort of any impact on our ability to negotiate with Spark or with Chorus. Correct me if I'm wrong, Peter, but is that -

PETER GREGORY: Yeah, we have had dialogue in the past and we've tried to discuss commercials and, you know, we've looked at alternatives and those, the limitations of the alternatives were highlighted to us by Spark who said, well, that's the position you're in, and it's almost your hands are tied. You know, those limitations are slowly going away but in saying that I suppose that's the concern that we have, is the timeframe.

COMMISSIONER GALE: Okay, do Spark want to respond to this? Was it a year ago that you could put prices up without losing all your resale customers?

JOHN WESLEY-SMITH: Well, look, I think the decision - well, the price increase was just a result of the way we sell this service, it's a retail minus price. So, when the retail price goes down, this price comes down, and when it goes up, it goes up, and it just so happened that this was a retail price increase and it flowed through automatically, and we had conversations with our customers at the time that said we understand that if we get to a point where there isn't backdating, we need to have a conversation with you. That occurred with all of our wholesale customers and we have subsequently reached agreement with those wholesale customers as to how we treat that period, including with Trustpower. And, to the best of our understanding, our wholesale customers and we are happy with those agreements.

COMMISSIONER GALE: All right. You want to add something, Graham?

GRAHAM WALMSLEY: Just kind of, not putting words in Peter's mouth. I'm trying to summarise what I think I hear him saying. If you said there's an RSP and you're looking at a substitute, you want it reasonably ubiquitous. If we were faced with a choice of wholesale and some cable off Chris, some RBI over here, a bit of that over here, the barriers are enormous by the time you've got UFB and God knows what constraints on our business, so. You hear people focus on Baseband IP because it has the prospect of being a reasonably ubiquitous service but, as Peter's alluding to, he's saying, whilst that's the case, it's no mean feat. You know, I've got to build my systems and stuff, and then I've got to do my physical migrations. And, so if John, and clearly there's a degree of mistrust given the nature of the conversations, we'd moved away, he's saying that I'm worried that I'm exposed to Spark, you know, taking advantage of the situation. That's what I hear.

PETER GREGORY: Yep, yep.

COMMISSIONER GALE: Okay, all right.

PETER GREGORY: And just in terms of those conversations, you
know, acknowledge that we had those conversations with
Spark post the determination. It would be safe to say
that, you know, we didn't agree with the outcome and we
weren't happy, you know, hence that's the reason why
we're in that position at the moment. So, unfortunately
with the lack of those alternatives, didn't really give
us much choice to proceed forward with other products,
and I think Graham's point is quite right, is it's the
availability of ubiquitous technologies to provide an
alternate service.

COMMISSIONER GALE: Okay, all right. No, thank you.

COMMISSIONER WELSON: Can I just ask one question there. In
the draft paper we noted, as part of that mix we noted
that naked UBA with the option for managed VoIP was one
of those retail alternatives. I'm just interested that
in this discussion that hasn't been mentioned. So, if
we're talking about a ubiquitous alternative, I'm quite
interested to understand, is that part of the mix or is
there a reason that it's Baseband rather than a managed
VoIP?

GRAHAM WALMSLEY: So, I think the relevance there is if we're
going to migrate somebody from an existing voice in
broadband, it's to Baseband. Yeah, trying to migrate
somebody on to a VoIP service and naked UBA is far more
challenging, and there's only a segment of the market
that's going to go that way. There's been a swing of the
market, as we've all seen, to naked, about a third, but
it's not going to appeal to everybody. It has its
difficulties.

COMMISSIONER WELSON: But is it customer stickiness factor to
that which is different to migrating to -

GRAHAM WALMSLEY: No, I think there are just different challenges. I mean, people like ourselves who are large unbundlers because it enabled us to do the migration by having the same capability Baseband IP off our own [NSUMs] effectively. That is a very different proposition. We could have made a decision, as Orcon did at the time, to try and go VoIP and Orcon were an RSP that really went down that VoIP path. Had some success but it's still only a segment of the market.

COMMISSIONER WELSON: Okay, thank you.

JOHN WESLEY-SMITH: Can I just make one observation, just wrapping this up, because there is a danger we get taken down a path that sort of avoids the, or misses the wood for the trees. Because what I hear, this is the nature of competition. You don't get competition, perfect competitive substitutes that are identical to each other. The type of competition you want and that we have is competition based on a bunch of different innovations that offer different customer service sets, and coverage, and price points. And, so we would be the first to acknowledge that Baseband IP is not a perfect replacement for our resale best end services. That's why we think we've been able to retain our customers, but it is absolutely an effective competitive constraint. That's why the price for our resale [pot] services has been coming down continuously since we separated.

GRAHAM WALMSLEY: Just in response to John, I think, I would agree with him if we started with a clean sheet and there were competing technologies and different RSPs adopted different products and services. The problem with this is that this is the de facto standard coming from the 1990s where this was the default and everything else was built around it.

COMMISSIONER GALE: Okay, anyone else want to add any more to that? Other questions, Stephen, Filomena? No.

So, let's move to the transition period, and so the
discussion that's come through in submissions is RSPs
saying we'd like a longer transition period because we
need more time to develop business systems and to make it
all happen, and sort of we've been wondering why suddenly
now, because does this presuppose that if we recommended
to the Minister and the Minister responded by saying, I'm
going to take it, at some time in the future I'm going to
take it out of Schedule 1, that as soon as that track
started, that Spark would opportunistically seize the
moment and say, now we can just put prices up, and
wondered what purpose is being served by a transition
period?

Because for us to move to an STD would take quite some
time. We would need to get the parties to offer up an
STD, it would need to be consulted, and negotiated, and
settled. I don't know how long that might take, but
suppose that was going to take a year. This price
excursion that we're worried about Spark taking, they
could start now because then it would be a very open
questions as to whether with competition growing all the
time, would we even make an STD.

So, I wonder what the parties' views are now about the
role of the transition period, because it sounds as
though what you imagine is that as soon as this decision
was made to recommend, you would immediately embark on a
sort of an emergency programme to persuade Chorus to get
as much Baseband IP deployed; is the question clear?

GRAHAM WALMSLEY: So, I'll start the ball rolling. So, for us
it's not a suddenly now, we actually made a decision, I
mean you've got to remember, with us we're a large
unbundler, we actually consume Baseband effectively off
our own, within our LLU coverage for voice services. So,
we had already done some of the systems stuff, and that's
going back many years.

When Baseband came out from Chorus, we at that stage were minded to start derisking ourselves from exposure to Spark's PSTN service, and with 60% coverage we've started that process. We know how hard and how time consuming it is. It's not a perfect process, it's a process that drains resource at a time when UFB is draining the very self same resources. It's not a trivial task.

So, we're already embarked on the journey. The missing component is, we still haven't got the coverage that we need to further derisk, and we simply need to be able to get the time to be able to complete that journey. So, unlike some others in this room we're actually on the journey, and we made that decision a few years ago, but a substitute that was ubiquitous simply was not there, and still isn't in terms of the ubiquity. So, even if Chorus extend it, by the time we've worked through a joint programme, yeah, we think we're looking at a certain time period and we just are exposed to John's, whatever he chooses to do with his wholesale pricing in the meantime.

Your other aspect to the question was how effective was a regulatory backstop anyway. All I can answer on that is that up until now it has been reasonably effective. We have a retail minus regime on the service. Spark have played within the threat of a regulatory backstop and played the rules within that envelope.

COMMISSIONER GALE: Okay, thanks for that. Any other observations about whether this is the beginning of a sort of an emergency programme, or are you making these transitions anyway to derisk as Graham -

PETER GREGORY: Yeah, look, I agree with Graham, and we aren't at the same stage as Graham but just to reiterate the time and the cost and the effort to be able to simply migrate a customer is I think underestimated. Because there is technologies that may be unknown to us that the customer is using, so we need to go through a period of

finding out what those incompatible technologies are. Chorus has done quite a lot of work in terms of identifying some of those technologies. We, you know, the simple orchestration of that process is quite complex and when you're talking about porting thousands and thousands of numbers, it also puts constraint on other processes outside of Baseband IP, such as the porting process and the capability. So, you know, we're not at the same level as what Vocus is, but in saying that we're embarking on that journey, but in saying that we don't believe we've got that same capability yet.

COMMISSIONER GALE: And is the answer to Elisabeth's question the same, that you would - the step would be, even on people who have got a broadband service, the step would be to Baseband rather than to a VoIP alternative over -

PETER GREGORY: Absolutely, and there's probably two key reasons, probably three actually that I can think of. First is the technical constraint, such as quality of service, and the actual coverage and capability; the physical constraint, so that's the physical constraint on CPE, because you've got to have CPE to be able to deliver that capability, so it's cost prohibitive to us to roll out new CPE to every single customer; and, I think the third thing is it's actually real behavioural change for customers. To simply unplug their jack points from within their home to plug into a single point such as the like of the Orcon Genius product, that's a real mindset shift for some customers, and certainly some demographics of some customers as well, so.

COMMISSIONER GALE: So, there's quite a system change for you. As well as what Chorus would need to do to deploy into exchanges, there's quite a transition for you to get people across.

PETER GREGORY: Absolutely, yeah.

JESSICA BEVIN: Stephen, if I can - reading in-between the lines, it almost sounded like it was almost a good option if sort of we had to embark on this emergency situation after - okay, I guess I just kind of wanted to emphasise that I think we are working quite hard on this and there's already quite a lot of focus on it, and to rush something like that could lead to bad customer experience which -

COMMISSIONER GALE: Oh yes, my question was just whether unspoken in this discussion is the expectation that as soon as the backstop fell away, Chorus would suddenly raise prices radically and then you would be urgently trying to escape. So, and then any constraints in the Chorus process of deploying would start to be serious. So, our sort of puzzle was, how effective do you see the backstop as being? Graham is saying it appears to have worked, but when you think about the backstop just being a backstop, what would be required to actually turn it into regulation? It's quite a path.

JESSICA BEVIN: Mmm, I guess from our perspective what we've always sort of said is we I guess disagree with the decision to deregulate it in the first instance, and then sort of, in the alternative we would support the transition period. So, that's kind of how we've been definitely thinking about things.

COMMISSIONER WELSON: One of our puzzles is, how does the transition period help you, and just would appreciate -

CHRIS ABBOTT: So, from Vodafone's perspective, I think firstly it's not an emergency situation. I think we've always faced a risk that if we were, if competitive negotiations with Spark failed and we had to come to you for an STD, yes it would be an unpleasant 18 month process. There is always that exposure, there's been that exposure since 2004, I think, when the last, the TelstraClear decision was made around voice resale.

I think what we're talking about in a delay is not really around project implementation of Baseband IP, it's actually about how competition develops over time. So, when we look out to 2020, we expect that there will be, UFB will be complete, 75%-80%, and that's a complete substitute. So, we deliver our voice over for fibre and that's a complete substitute for copper. Similarly, we've got RBI which covers 80% at the moment of those residual areas and those residual connections, and RBI 2 is coming.

So, when we look out to 2020 we go, there are complete substitutes in place irrespective of whether or not, and whether or not Chorus actually rolls out Baseband IP. So, that's one aspect to it and that's why we were suggesting a little bit of a deferral and whether it's, whether you extend the regulation by one year or you defer the decision for a sort period of time, I think the risk reduces over that period.

So, I think that was the reason for us primarily talking about a little bit of extra time, and we're already seeing through all the stats about the declining relevance of PSTN, and that we expect to continue, all the trends show that. So, actually the risk of kind of significant impact to the market is significantly diminished the longer you leave the decision.

COMMISSIONER GALE: Okay, thanks.

CHRIS ABBOTT: And, the other part is obviously around Baseband IP, around how quickly that can emerge as well, and getting that commitment from Chorus to understand exactly how quickly it can be implemented, that would also drive the timeframe. But that's a secondary consideration to the first one, which is really around the emergence of competing technologies.

COMMISSIONER GALE: Right, understood.

JOHN WESLEY-SMITH: So, just on this question, we would observe - as Chris said, we've had ten years where we haven't had to use this backstop and we can't see why suddenly anyone would need to. We have signed long-term arrangements with all of our major customers that lock them in for differing periods, which I think the Commission is aware of, and we believe those periods will span any transition period the Commission might be considering.

   And, I want to just reflect back on Graham's point, because we have got a major customer that is transitioning off our services and we know that all of our customers at retail are shifting on to different technologies. That has not resulted in us increasing our price for any of them, including that major customer that we know has made a choice, a conscious choice to shift away from us. Instead we've done what you would expect in a competitive market, we've sat down with them and figured out what we can do to keep them with us for longer, and that usually means a lower price.

COMMISSIONER GALE: Okay, well, shall we touch on the contracts. I don't know what people would be willing to reveal here but do the contractual relationships that you have for buying resale mean that there's already a sort of transition period, there's already a period over which you're not susceptible to any price rises from, for resale, or are those, are they quite short-term or are they - what's the sort of order of magnitude of the look ahead?

GRAHAM WALMSLEY: It's also difficult to discuss commercial interests for obvious reasons.

CHRIS ABBOTT: So, I think, you know, we'd be happy to provide that information directly to the Commission but we're not going to talk through, and it would be in breach of our confident -

COMMISSIONER GALE: Okay.

CHRIS ABBOTT: I guess one thing that would be worthwhile noting is whether or not the decision to deregulate becomes a regulatory event. And, so a lot of standard contracts have a term which allows for renegotiation in the event of a, a regulatory event, let us say, and so that's something which maybe should be considered, but certainly -

JOHN WESLEY-SMITH: That genuinely hasn't occurred to us.

CHRIS ABBOTT: Yeah, so those - but that is something which ordinarily commonly appears. So, the question is would this trigger that type of clause for a contract is probably worth considering.

GRAHAM WALMSLEY: To try and sort of just help the conversation without going too deep, typically I think these things tend to float on the tide rather than fixing the price. So, I'm not sure the commercial arrangements necessarily fix anything.

COMMISSIONER GALE: Oh, okay. Can you add on that?

PETER GREGORY: No, I think we've - you know, I think you've already got the information pertaining to our commercial agreement, so, you know, yeah.

COMMISSIONER GALE: Okay. Anything from anyone else?

So, one sort of lesser topic, and we also might have a few more bites at what we've been talking about, was whether the system needs to - whether any such migration needs to be slowed down because of legacy technologies, medical alarms and faxes and security alarms. I understand, Chorus, you've been doing tests on how much Baseband IP actually just steps into those roles and allows those things to keep going. Vocus, you sort of raised the possibility that those tests might not be exhaustive. Can Chorus -

GRAHAM WALMSLEY: That wasn't actually what I intended to raise. What I intended to raise was, it's all very well

testing in the lab and those test may be reasonably robust, deploying in the real world is a very different factor and there's a several times multiplier in terms of getting customers across, and also the myriad of different circumstances that you hit when you actually go into the real world. So, let's say Chorus came out at 3.957% of devices are not compatible, the real world is a multiplier of three/four times that.

COMMISSIONER GALE: Oh, okay. Is this equipment on a life-cycle anyway?

GRAHAM WALMSLEY: Stephen, we've gone down Baseband migration, so in the midst of everything else and RSP, we've a fibre programme running through with people tied up on migrations, the biggest single focus for the business. So, in a way, our biggest threat is if we're forced to have to do a tonne of migrations onto a tonne of different systems at the time where fibre's going on, it's actually the opportunity cost, the missed opportunity on fibre that's probably the biggest thing - sorry, I've lost my thread on the thought.

When you actually go out and when we've done the Baseband IP migrations, we've tended to go, we'll let customers opt out because it's pragmatic, and what we've found is we take the 80% on the migrations but 20% of customers say, no, we want to opt out. Now, in there will be inertia, which is, can't just be dismissed, it's very real. Customers actually have, you know, you have to get them over the board, it involves people picking up the phone, a cost to the business when they could be doing other things. And, there's devices. We run a mile if anybody mentions the word medical alarm. You know, there's a myriad of those things.

And, so the lab is all well and good, and I'm sure Chorus have done robust tests in the lab. We all know tests in the lab are very different to tests in the real

world, and there's a whole myriad of factors on top of that. So, you know, of the 20% if I was going to, and this is purely a personal guess, if we went back and spent more resource trying to get more of these customers across, there's another tranche and we probably could get another 8% out of there. Getting down to the last 10%-12% of customers will be a nightmare and an expensive exercise. We're all going to hit that with the UFB programme at some point, and that's just the nature of where we are.

COMMISSIONER GALE: So, it sounds like - is that sort of time limited? It sounds like it could go for a very long time, that tail of people who -

GRAHAM WALMSLEY: Yep, until somebody closes out the network there will be 10%-12% I would say, even with everybody best will in the world trying to migrate off, there will be 10%-12% in New Zealand until that network closes or that service closes. There just will always be that.

COMMISSIONER GALE: Yes, does that mean that there's a closure programme anyway as Spark migrates off legacy equipment, moves to Baseband itself?

JOHN WESLEY-SMITH: There absolutely is, it is inevitable, because for the same reasons as these guys outlined, our retail base is shifting off copper and the PSTN at the same rate that these guys' customers are as well. So, we are already planning to decommission the PSTN. We have started decommissioning exchanges, we have started our own migration to Baseband IP, and Graham is right, we might disagree over the percentage but there will be x%, we think it's a very small number but there will be x% of customers who don't have the perfect service set replacement on the new service, and we will have to manage that migration with them.

I guess if - again, if I take it up a level, even in a perfectly competitive market, that will still be true,

there is always migration costs when you're switching
between competitive substitutes.

COMMISSIONER GALE: Yeah, what I think Graham is highlighting,
opportunity cost more than hardware?

JOHN WESLEY-SMITH: Yes.

COMMISSIONER GALE: Chorus, do you want to add anything to
this conversation about compatibilities?

TIM PEGLER: It's certainly true, when we developed
Baseband IP we did test the service against a range of
what you would call, you know, common devices that you
would find in the home and small business; so Eftpos
terminals, Sky, medical alarms, that kind of thing. The
general issue was a technology one around very low speed
modems not being compatible. So, it was sort of an
analog transition, how do you get a very early on device
to work, the reality is we could not get it in many cases
to work. I can certainly see that can be a challenge
because we may be able to tell you that we've tested
three out of five medical alarms and they work well and
the other two have got challenges.

COMMISSIONER GALE: Not good.

TIM PEGLER: So, that's probably not going to give you much
confidence unless you know exactly what device type your
end user has got, and even then that probably doesn't
give you a lot of confidence. So, there is a
transitional technology issue, and it certainly applies
to fibre as well. We have exactly the same challenge
with NGA or UFB services. If you have a monitored alarm,
for example, then you need to follow an upgrade path of
your home alarm if you still want that functionality.

COMMISSIONER GALE: Okay.

PETER GREGORY: Stephen, just to reiterate some of the points
that Graham talked about. The experience that we've had
around UFB, around migrating customers from PSTN based
technologies through to UFB is very similar to what we

see is going to happen with Baseband IP and other ubiquitous technologies, and I agree, there is a life-cycle with some of that end technology, but anyone that's got a medical alarm we are also very careful of and more than likely we'll actually exclude from anything from a migration tranche 1 simply around the risks.

COMMISSIONER GALE: Okay.

PETER GREGORY: We are actively working right now with two or three alarm companies, and the reasons being is because what we tested versus what actually we're finding in the field is actually two very different things, and the reason why we're working with them is because we're actually working actively with retirement villages and lifestyle villages who are switching to fibre based technologies. They are actively engaging because they've got their customers' interests at heart and they understand that there is a life-cycle involved, but when we're working with the general consumers, when you want to tell them that they need to go and buy a new medical alarm or they need to change companies, it's a very different conversation. And, you know, admittedly some of these customers - so some of these alarm companies are being more proactive than others and they do see that the technology is changing, but I think that time to change is actually at least more than a year, it's, I think it's a two to three year life-cycle for them, and I think they're learning off what's happening in Australia with the NBN as well, so they're just starting to adopt some of those behaviours.

COMMISSIONER GALE: So, the competition between RSPs isn't sort of compelling you to help out and provide them the new medical alarm, or sort of help them over the boundary? Because you see, this is off topic but I think it's quite something to say you can't go - say, I'm

sorry, I can't take you to UFB because of your other equipment in the house.

PETER GREGORY: Look, there are some customers we've actually said, we are not prepared to switch you to fibre because you have a medical alarm and we cannot take on the risk and you won't agree to the disclaimer that we're, they're reading out to you. We simply cannot guarantee a service because we believe that the model that they have won't function correctly over fibre.

COMMISSIONER GALE: Sure.

PETER GREGORY: And we would need them to look at alternatives. So, we have that conversation today with customers.

COMMISSIONER GALE: Okay.

GRAHAM WALMSLEY: Similar. I mean, in a way it's sensible. It gives people with medical alarms a chance for UFB to settle in, for people to get the first wave through, you don't want to mess up those migrations.

COMMISSIONER GALE: You mean leave them for later?

GRAHAM WALMSLEY: Well, as things mature, because you inevitably learn more as you go and technologies change, and there will be other drivers potentially for them changing as well, so.

COMMISSIONER GALE: Okay, so now this is question 5 which is sort of for the Chorus team, in a way, and this is why I mentioned the chicken and egg at the start. We were wondering a little bit about what your sort of positive business case is for migration, because you're selling the service either to Spark or to somebody else, and wondering, when you say it would be good if it was smooth and well planned, we're looking at you because there doesn't seem to be anybody else who would do it, but am I right in thinking that you have some capacity to step-up the rate of deployment, at least on your side? But then the question that kept coming back to us is, well, what's

the financial incentive for you to respond if the RSPs
say, we increasingly want to derisk our exposure to Spark
if that was a concern, we want to go faster to move to a
Baseband IP, does Chorus say well, eventually, yes, or
what's in it for you positively to make, to ease, to
speed that transition?

TIM PEGLER: Well, perhaps I could address that one first.
Where we offer Baseband services, you know, universally
across all lines there are a mixture of technologies,
Baseband IP would just be the latest version of the
underlying technology. Certainly we are seeing
challenges to keep a lot of the legacy equipment going,
and we're certainly very much on the periphery of the
network when we get into radio equipment but also other
technologies such as one called PCM. So, there is a
life-cycle issue there, and it is more efficient
generally for us over time to be able to retire that
legacy equipment. Baseband IP is, you know, our modern
equivalent alternative. So, that's one immediate
benefit. The other one is offering a service to our
customers which is universally available as well. There
is a challenge, it's one thing to say Baseband is
available but if it's over five or six different
technologies, that in itself creates complexity. So,
shifting to one universal input does have benefit in
offering the service to our customers.

COMMISSIONER GALE: Okay, so what is it that - to have a more,
a higher speed programme of migration, what is it that
you require of the RSPs?

TIM PEGLER: Ah, the coverage of Baseband IP, it is a complex
piece, as we've talked about, because there are - there's
the core IT service itself which delivers the service
around the country. There's the physical infrastructure,
so we're talking about deploying cards essentially to
provide the voice ports, you know, at different locations

around the country, and that's when we, when we talk about coverage, that tends to be what we're saying, we're saying it's available anywhere but we need to put some, you know, there is some investment required to make those services available. And, if we're talking a large volume, that could be a large amount of investment, it might be new DSLAMs and all sorts of things depending on the numbers of connections.

The real issue is about just the migration process itself. So, how fast you want to go is really how many resources you want to expend in the process of doing that. So, that's technical crews on the ground going out, you know, moving lines across, that kind of thing, and that has a direct relationship with the overall customer experience.

So, if we're moving someone's entire or a large portion of their customer base, the goal is to obviously give the best possible customer experience. You don't want people to be without service, that kind of thing. So, a lot of that is about how much resource you put into the upfront planning process, the timing. Everybody would have their, Chorus will have its own expectations around what kind of resources it can build up to in terms of capacity, you know, there's always going to be competition with other activities like fibre etc on the go. And, just as our customers would have the same constraint, you know, how fast can you provide orders to us to migrate, how much conversation do you want to have with your customer upfront, that kind of thing.

So, in order - you know, when we talk about a smooth managed migration, we're talking about all the parties involved committing enough time and resource to making sure that the outcome is going to be successful, and that may mean not necessarily rushing into it. It might mean going at a pace which is sustainable.

COMMISSIONER GALE: Okay, so it's plan on both sides -

ANDREW KERR: I think that was indicated by Peter in his
discussion before, talking about the, he was talking
about VoIP not being a substitute, talking about the
reasons why you actually apply the same thing in reverse.
So, you've got the technical issues, physical
constraints, and behavioural change. You're applying
that from the RSPs perspective to planning with us,
providing our part of the kind of supply chain, if you
like. So, it isn't a case of Chorus just providing and
then the RSP just dumping on an order. As Peter was
suggesting, there's a whole process of customer
engagement that is paired with that.

TIM PEGLER: Yes, because getting the physical network
deployed is one part of the picture. So, even if the
cards were universally available at every possible
location, we still have to have people going out there,
cutting across lines, making sure they're working. There
would be a lot of conversation at our customer's end just
managing those cutovers, what product are they moving to,
you know, number portability was mentioned before. So,
there are many facets that need to be managed in that
process.

PETER GREGORY: It's an important process so, Tim, there's
obviously a finite resource that Chorus can cope with
the, because it's swivel chair processes in terms of
taking information and putting it into the network, but I
think it's important to note that the actual migration
process is actually for the RSP to manage, not for
Chorus. We're the ones initiating Chorus to go out and
do the piece of work and then they're going to tell us
when that work is going to be done on that certain day.
But I think the actual orchestration of that process is
actually down to the RSP, and it's a very complex
process, and in terms of we've got to book porting to

make sure the customers don't lose service, we've got to
make sure that we identify what services they've had,
turn on alternative services over voice over IP, or over
[SIP] for the Baseband IP.

The success criteria that we have and that Chorus have
are actually slightly different, because the success
criteria is, Chorus go and activate the Baseband IP
service with the information they've been provided on the
day that they said they would, that's their success
criteria, and that's obviously how they would manage
their techs and their KAs, but the success criteria to us
is that out of every hundred customers that we migrate,
we've done them successfully. And, we admit that we're
probably going to have 2%-5% customers calling us. What
we don't want is 100-150 phone calls off a hundred
migrations, because that would be a bad outcome, and we
know that that has occurred with other customers that
have migrated across and obviously work's been done to
refine that migration process. So, we have a very
different success criteria to Chorus. Theirs is only a
small subset of that.

COMMISSIONER GALE: So, Graham, does that make for a - that if
it happens in an orderly way, it's fine. If it happens
in a gradual way, in the programme that you've already
undertaken and migrated a whole lot of people, that
there's a sort of limiting speed at which you can do it -

GRAHAM WALMSLEY: And in fairness of course both sides of the
equation, yeah, I mean we've got UFB, we're doing
migrations, we have fibre resources and similar for them.
So, it does need to be planned and it does take time.
We're talking about a service that's 30 - it's the
biggest single access service. You look at your own pie
chart in your things, it's something like 36% are on this
technology, it's the biggest service, you know. So, it's
a fairly significant thing.

My problem is I read a Commission paper where I think, if I interpret rightly, a lot of the thinking is, well, you've got Baseband IP, what's your issue? Then I listen to Chorus and I'm going, well, it's at 60% but I'm not sure if I actually am less certain that it will go to 97% or more certain at the end of that speech, and that's not meant to be pejorative on Chorus, it's an "I need to know".

So, I suggested that the transition periods, if we go into one, is triggered by some things that I don't know about Baseband IP right now. Which is, if I'm prepared to place orders, will it be available in that sort of coverage, and if the answer is yes, that will change my view, and then the secondary consideration comes, do I have time to actually make a migration to derisk myself before you change the playing field by, you know, removing the regulatory backstop.

COMMISSIONER GALE: Yes, the chicken and egg that we're wrestling is because Chorus has to spend some money to put the cards out and then has to spend quite a bit more presumably to actually go and change connections --

GRAHAM WALMSLEY: Yep.

COMMISSIONER GALE: -- then they're going to be looking for a commitment.

GRAHAM WALMSLEY: Yes, absolutely.

COMMISSIONER GALE: So, it seems unlikely that they would go to the 97% or sort of fill in the gap -

GRAHAM WALMSLEY: Well [inaudible words] expect them to.

COMMISSIONER GALE: So, that doesn't seem to be an obstacle?

GRAHAM WALMSLEY: What I'm saying is if I try and have a conversation right now - I need to get to a point where there's a clarity of understanding. It's something Chorus and ourselves are in dialogue about. If I place an order to go to these 97% potential coverage, if I place orders to these, will you go there and build this?

And if the answer is "yes", I will make commitments. That's how it works. No problem with that arrangement.

COMMISSIONER GALE: So, is that the same for you, for Trustpower? That if you embarked on a programme, you'd commit yourself to doing the other side of a transition and it's just a matter of timing.

PETER GREGORY: Absolutely we would and, look, I agree with what Graham said, it's getting that certainty and that's why I think we've supported that trigger point, because it does provide certainty in the marketplace, that there is the maturity of that process, and you know, I know what Chorus is capable of migrating now and we believe it needs to be five times that volume. But I think there needs to be time taken to enable them to demonstrate that capability, but more importantly, when you do go, you have to go hard otherwise there is a true cost to your business and that cost is we do face an increased cost because of thresholds of PSTN that we have, and more importantly there's a real cost to running that project and the governance of that project.

So, you've to try and, we've got to try and put a BAU reusable migration process in place and actually have a reiterative process to refine that down to the point where we're only going to get maybe 2% or 3%, or maybe 4% of our customers calling us on a migration, not 100% of our customers. So, we believe that's going to take some time, but having that regulatory backstop will certainly give us some protection and comfort from that until there are levels of certainty in the marketplace.

COMMISSIONER GALE: I can't remember who it was who mentioned that if you're going to do it, you have to go hard to do it. Is that because of the thresholds in the contracts that you already -

PETER GREGORY: That's a -

COMMISSIONER GALE: That you need to do it fast?

PETER GREGORY: That is definitely a consideration, yep.

COMMISSIONER GALE: So, why do you say Chorus needs to be able to do it five times as fast as their current sort of capability? Is that because of that effect, that you want to be able to derisk, to use Graham's expression, as quickly as possible to move all, to move a large bulk of customers away from -

PETER GREGORY: I say that for probably a number of reasons because it's not just obviously us that want to migrate to that technology, there are going to be other RSPs competing for a finite migration resource. So, and, you know, you've got to book that resource in months in advance. So, it's quite a complex planning process, and I think for the level of migrations that we need to see collectively, I think that volume does need to be increased, and I think there needs to be some sort of demonstration that there's capability of that. And, Tim has made some really good points, there is the physical and there's also the work force that's required to then execute the physical, yeah.

COMMISSIONER GALE: Sure, right.

FILOMENA ANTUNES: I have a question now for you, Tim. When you said that you would like - so, Tim, we've heard you saying that you need time so that migration runs smoothly, and we have also heard Spark saying that they have started their programme to migrate to Baseband IP. So, my question is, what does it matter whether it is Spark triggering the migration and with Spark the resale customers migrate, or whether it is triggered by the RSPs themselves; does it make any difference given that - another thing that I would like to hear you combining with these, is that you said that you have some issues with legacy technology and that you have, you know that the time is ticking and you would like to move to

more modern technology. So, how do you see these things happening?

TIM PEGLER: So, Baseband IP is a product that's available to any customer. So, whoever - what Chorus is trying to achieve is simply, if someone wants to consume that product, or any product for that matter, on a large scale, so there's going to be some kind of migration, then we're all - all we're putting our hand up to say is we need to work with you on a plan to enable that migration to be successful. Because you are talking about a lot of customers, a lot of locations, there will be work that's required on both sides to achieve it.

So, if we're dealing with Spark on a migration, it would be exactly the same kind of process as we would with any other customer. Certainly at the edge of the network where you do get into some legacy technologies, there are more complexities certainly, and we've encountered some of those. You get into unusual situations with copper lines that are particularly long, and usually on a case-by-case basis we've had to work through solutions and testing on some of those just to make sure that they work. But, you know, that's just another facet of a migration plan.

FILOMENA ANTUNES: So, when you're talking about time, what time do you have in your mind; is it five years, another five years, is it 12 months? We were - I mean, we took into consideration what you sent, the information you sent to us saying that by the end of September 2017 you will have your systems prepared to cope with massive migrations. Are you saying that you're still about that time, or you need more - so, it's not September 2017, you expect your systems to be ready later, or by that time? So, could you provide us a timeframe so that we understand how much time you need.

TIM PEGLER: So, that date of September '17 refers very
specifically to some automation processes that are being
built that will just make the whole process of migrating
from, on to that particular service faster. So, yes,
that's true, we will have a greater capacity around, at
the system level, in September, but it still will mean
that individual technicians will need to go out to the
field to manage the physical work.

So, there's different parts to it. It's something
like the technician force, particularly the copper
technicians, is currently a finite resource, and it's
obviously used for a wide range of things; fixing things,
provisioning new services, and we certainly have the
capability of increasing or decreasing that work force as
demand comes about, and it really just comes back to when
we talk about "coverage" we've always said the same
thing, we've built a product that is fit for a certain
purpose, it could be used in many cases as a wide offer
for a voice service, just as fibre can be as well. Yes,
we can on demand work with customers and put, you know,
additional cards and other network equipment in place to
support migrations as required. We haven't gone out and
put 100% of the network complete for that reason, because
unless we actually have a customer coming to us wanting
to arrange a migration, there is no particular reason to
go and take that step of putting the equipment out. But,
you know, we did try to find a sort of a middle ground.
The early life-cycle of Baseband IP was about a 10%
coverage, which was when we started the whole, when we
were on the demerger path, that was the purpose of
Baseband IP. We did recognise that it's very difficult
for our customers to take that in isolation, it's too
small a footprint, so we have proactively gone out and
expanded the coverage, which is where we've got to the
60% today.

So, and we take the same position that we always have, we're happy to work with customers on an on demand to increase that footprint.

FILOMENA ANTUNES: So again, if you could give us some sort of idea about the time, because we are talking about a transition period and you've seen other parties saying that probably they are willing to commit if Chorus is willing to commit as well, and we have heard also Spark saying that they are willing to migrate to Baseband IP in any case. So, either we keep the service or not, you will have that issue, and your goal to have the process running smoothly is a common goal --

TIM PEGLER: Yes.

FILOMENA ANTUNES: -- so, in terms of time, what's your expectation?

TIM PEGLER: Well, it comes back to putting the physical network in place out at the field is not the biggest barrier. I mean, it is only a matter of somebody going out and, you know, perhaps doing what we would consider to be BAU, let's put a card in or a new DSLAM. It's the managing the migrations of the customers that is the complex part of it. So, it would really come down to what that demand looked like from customers; how many, you know, any individual customer is going to want to migrate at a slightly different rate or have a slightly different sized base, or have different expectations. So, we wouldn't, we're not going to go out and proactively ramp up any specific work force without actually having those conversations first of all to understand what the timing and, you know, what is the customer experience that you want to achieve, how fast do you want to do it, over what time period, are you trying to condense it over a number of months, you know, all of those parts, and we would mutually agree on how much resource would be required to do that over what period.

ANDREW KERR: So, the upshot is it's difficult for us to specify a time because it's inextricably tied to what RSPs are kind of wanting from their own systems' perspective.

JOHN WESLEY-SMITH: Just to add our perspective, because there is one piece which is missing from this conversation which is that we genuinely believe we are in a competitive market here, so we believe we will be a key determinant of that migration timeline. Because, as has happened already, if one of our customers comes to us and says "we're off", we're going to sit down with them and do whatever we can to try and keep them with us for as long as we can, and that will involve us putting incentives in place to slow the migration. We don't want any more than they do, them to turn the tap off overnight, and that is the behaviour we see in the market today.

COMMISSIONER GALE: So, Peter, do you have a programme of migration sort of independent of this matter, about whether the regulation changes, that it will suit you, for a number of reasons, to have one technology, so is that something that's happening anyway; and, that if the regulatory shadow was removed, you would sort of think you would have to do it faster?

PETER GREGORY: I think that if the regulatory backstop was removed, if we were in the middle of a migration process and we had already committed to that, then that potentially puts us in a position of exposure for our business, and there will always, and Graham was saying, there will always be a base that could not be migrated for one reason or another, and that's a relatively long tail. You know, it could be anywhere, two to three, four years, but in saying that obviously we would then look to also look at other ubiquitous technologies to migrate them off to as well.

GRAHAM WALMSLEY: So, your question was, if the regulatory
backstop's removed, what would Spark do? You're probably
asking the wrong parties, but we're trying to guess at
that. What I do know is I listen to this conversation,
if you're talking about the cessation of a service or
withdrawal of a service, that is a really different set
of considerations to simply exposing a service to more
commercial vagaries.

COMMISSIONER GALE: Withdrawal of which service, you mean
Spark's, withdrawal of the resale?

GRAHAM WALMSLEY: Yeah, you have 320,000 New Zealanders
sitting on this service right now. If this industry is
starting a process of withdrawal, I suspect if we're
honest about the scenario we probably could come up with
a more - we would think differently, all of us
collectively would think differently about how this
issue, than if we're talking about one of simply removing
a regulatory backstop. But I for one are really unclear
which scenario we're dealing to right now.

JULIAN KERSEY: Can I ask a question, a related question,
because there was an exchange before and I'm not sure I
quite understood it correctly, on the backstop, which was
Spark said a lot of customers are on long-term contracts.
Graham kind of said that might be right, but the price
floats around, but it seems like the service, there's
sort of long-term provision for the service. Vodafone
mentioned that there's a regulatory event clause. Spark
said, yes, we've considered that regulatory event clause,
but are you able to expand on whether this decision to
remove, or anything like that, would trigger that
regulatory event clause and thereby trigger a
negotiation?

JOHN WESLEY-SMITH: We hadn't considered that one.

JULIAN KERSEY: Oh, you hadn't considered it.

JOHN WESLEY-SMITH: And to Graham's point, this is not a
        process where we've come to the Commission saying there's
        a bunch of decisions we want to take and we want you to
        deregulate this service so that we can take them.
        Frankly, this is about good regulatory practice and how a
        well-functioning regulatory framework should operate,
        more than it is about enabling commercial decisions for
        Spark. Because this is a key revenue stream for Spark,
        in fact it's, I don't know, is it 90% of our wholesale
        unit's business?

DOUG VAN BOHEEMEN: Yep.

JOHN WESLEY-SMITH: And so we - the point is we're going to do
        everything we can to keep our business for as long as we
        can. And, so the regulatory event one is a really good
        example of, I can actually see that that might well be a
        potential impact of a deregulation decision which we
        would want to cover off, right? We have no intention to
        use a decision by the Commission as a lever to
        renegotiate contracts, because we're in a competitive
        market, that's how we, what we genuinely believe. So,
        that is something which we would have no problem covering
        off.

   But I guess my point really was, migrations is a
        reality. We know that all of this demand is going to
        disappear eventually because the PSTN is going to
        disappear and copper is going to disappear, and we, just
        as our customers are, try to be smart commercially about
        how we manage that, and if one of our customers decides
        they want to leave, we fully expect they will come to us
        first and try and protect themselves commercially for the
        period of that migration and get the best deal they can
        before they step into it, and we will do our best to give
        them incentives to slow that migration for as long as we
        can.

GRAHAM WALMSLEY: Another point is, even where you've got a situation where we kind of decided to leave effectively, for the sake of that, we're still in a position after a year where we still have more people on, voice and broadband customers on Spark's PSTN than we have on our own LLU, as an example. So, that just gives you an idea of the logistics of a motivated party trying to move off with 60% coverage and all the practical issues.

JOHN WESLEY-SMITH: It's also this, right? This is our net resale price and somewhere in here the competitor that we're talking about, Baseband IP, went up six bucks and we're still dropping price. So, we would say that's as much a part of that situation as the service and the migration side of it. We hope that, that's why we're paying Doug.

DOUG VAN BOHEEMEN: In December you'll have another price drop of 47 cents, so.

COMMISSIONER GALE: So, how would the worrying scenario play out? If we concluded that the competitive pressures were functioning and that you did have alternatives, and signalled that the backstop was removed, there is no STD, there is no price guarantee that you have, floats with the tide, more subject to the agreements you have. If that were taken away, what would you then imagine happen if Spark thought, well, there's a limit to which these people can escape - this will be a break from the past - there's a limit to which they can escape, so why don't we just make hay and put the prices up radically, suppose it is a regulatory event, how would the regulatory process work?

GRAHAM WALMSLEY: So, the one scenario we can readily dismiss is wholesale price comes down, because that can happen now. So, you're not changing that scenario. So, the scenarios that we're talking about are Spark increasing retail pricing, or Spark collapsing the differential

between wholesale and retail pricing. I think those are
the two main scenarios, aren't they?

   If we're in a situation where we literally are looking
at closure of the service, quite often rational
businesses will make hay whilst the sun shines and
extract as much value as they can out of that.

COMMISSIONER GALE: Sorry, what do you mean by "closure", they
just say you can't have it any more?

GRAHAM WALMSLEY: So, if we're into a situation where we're
into the tail and the service is being withdrawn, and
Spark let's say have a plan over three years to withdraw
the service anyway, one rational consideration would be,
well, crikey, we might as well make as much money on this
service as we can in the rundown, particularly out of the
wholesale guys. And that's what you do, you collapse the
relative [inaudible word] retail/wholesale and you
extract as much margin off your competitor as you can.
Seems like a perfectly rational strategy to me.

   So, you know, we're speculating on what can happen but
the thing is things can change, and what I'm hearing
about this service is things are changing because Spark
are thinking about their withdrawal plans, whatever they
might be. That's a new factor in this -

COMMISSIONER GALE: The withdrawal of the resale, or just a
change of technology? Because are you entitled to
withdraw the service or are you just -

JOHN WESLEY-SMITH: We've had these discussions. We spend
more time thinking about what new wholesale service we
could build that our customers would purchase off us
actually, because most of the new wholesale services we
can build, Graham and Peter and Chris are more than
capable of building themselves. But no, we
aren't in - we have no plans to ask our customers to stop
purchasing our PSTN retail services.

We will eventually decommission the PSTN and at that
point, as I say, we'll ideally have a suite of wholesale
services that we offer for them to transition on to. The
challenge for us is that it is a migration, so at that
point they'll have the option to choose any other sort of
competitive products and migrate to them.

GRAHAM WALMSLEY: I would have thought the fear is, there's
320,000, the largest single access type, yeah? That's
the sort of size we're talking about here, where if you
remove the regulatory backstop, potentially Spark can
manage wholesale/retail pricing as they see fit, subject
to constraints from Baseband IP, whether that's 97% or
60% or whatever would factor into that decision.

The alternative technologies are things like fixed
wireless, which there's not an active wholesale market
particularly of any ubiquitous fashion around here, and
there's a whole different raft of considerations, and
retail strategies and UFB.

JOHN WESLEY-SMITH: That's a theoretical concern but you have
to come up with a set of incentives that logically lead
us to that place for it be a real concern. That's where
I struggle. You know, the reason we're deregulating, or
the Commission would deregulate it is if it believes
there is a competitive market, or there's effective
competition, and if there is effective competition, I
can't see how that outcome eventuates. And, we genuinely
believe we're in a competitive market, so I can't see how
we would say to you, we're jacking the price up.

GRAHAM WALMSLEY: So a scenario would be Vocus have already
decided to move or move as many as they can, given the
coverage issues with Chorus. Vodafone decide to move.
At that point you would have got a wide range of people,
from Trustpower downwards, who run things who you hear
they're saying they're struggling to, they've got to
resource up the whole migration plan at the time when

they're trying to sell the service into UFB. There's a
rational argument that says Spark at that point would
take the 320,000 lines, bump up the wholesale pricing,
sell in their own UFB product, the fixed wireless access
and what have you. I would certainly consider it if I
was sitting in Spark.

COMMISSIONER GALE: And they couldn't do that now, anyway?

GRAHAM WALMSLEY: No, because retail and wholesale are tied,
aren't they? If they don't want to put up their
wholesale price, they're going to put up their retail
price.

COMMISSIONER GALE: They're only tied if we impose an STD.

GRAHAM WALMSLEY: Well, then the working assumption has to be
that the threat of the backstop at this stage is why
they've been tied for the last four or five years.

COMMISSIONER GALE: Yes. The thing that we were curious about
was not so much how it's worked so well for the last five
to ten years, but the prospect for the next few years as
UFB is actually being completed and this [rump] is
actually contracting all the time, and the process now of
developing an STD, if it suddenly all turned bad, would
that all work out in time to actually stop the problem,
developing an STD and imposing regulation?

GRAHAM WALMSLEY: This is a circuitous argument, Stephen.
What you're saying is that the regulatory backstop's
doing nothing and then not changing behaviours, then
removing it is not going to change anything either, but
what if you're wrong?

COMMISSIONER GALE: There was the question about whether you
could make an incentive based argument to show that the
backstop was actually working and that competition hasn't
been doing the job all this time.

GRAHAM WALMSLEY: So, my argument would be if you look at the
behaviour of Spark, it's consistent with the fact that
the regulatory backstop's been doing its job.

COMMISSIONER GALE: Okay, all right. Does anyone else want to add any -

JESSICA BEVIN: Just at a really simple level, if you went to Trustpower today and said, do we have an option between Spark's services or Chorus' Baseband IP, we don't; is that right?

PETER GREGORY: Yeah, there would be a considerable period of time where we would have more Baseband IP services versus PSTN. So, we would be in the same position as Graham for quite some time.

COMMISSIONER GALE: You mean you would be stuck with the resale service?

PETER GREGORY: We would be consuming more PSTN than base band, yes, and Spark know that, so therefore they'll provide you a commercial service or they'll provide you a retail minus wholesale service with some rebates, but if you then think about going or even signal going or, they'll say, well, there's the price, but then if you actually start going and you've invested all this money and then they try and throw a whole lot of carrots in front of you nose saying "oh, please don't go", you've actually almost gone too far, you've gone down the V1, you know, you've got to take off, there's been too much cost to the business.

And, the question is strategically, you know, what would we do, what could we have done now versus what could we do in six months' time? But I think Jess is right, if you asked us that question today, we actually don't really have an alternative, and having that regulatory backstop provides some certainty and some, at least some certainty in the industry for the benefits of the [FEN] customer.

COMMISSIONER GALE: Okay, I think we might have covered what we need to do today, actually. Just the arguments on

both sides. Anybody got some unfulfilled questions or want to retrace some of the material we've already had?

GRAHAM WALMSLEY: Just when you're thinking about the transition period, I mean one option is some triggers in there. We've talked about certain behaviours where we've said "if this were the case, then", you know, so as we submitted, consideration around could you build in triggers. You know, we're not adverse to the removal of the regulation but we would like to see certain conditions, which we don't yet see in place.

COMMISSIONER GALE: So, the triggers of the kind that the 60% moves to something higher?

GRAHAM WALMSLEY: Coverage is one, yep. Coverage and timing were the big ones that were raised, yes.

COMMISSIONER WALKER: Coverage would give you availability and timing would give you time for that resource commitment to be staged.

GRAHAM WALMSLEY: Precisely.

TIM PEGLER: I would just like to make the comment, Stephen, as we said before, Chorus is happy to sit down with any customer at any stage and work out a migration plan which involves putting equipment into appropriate places to enable that. What Chorus has always been concerned about is jumping ahead of such a plan, and deploying equipment and resources which aren't going to be utilised.

COMMISSIONER GALE: Yep, yep.

GRAHAM WALMSLEY: If it's helpful, we're ready to have that conversation.

COMMISSIONER GALE: Yes, we'll have to give more thought to the 60%. There's a sort of critical loss thing in the back of my mind about how, depending on where the 60% coverage is, that would be a large loss for Spark. To lose 60% might not make the price hike worth having. I take it the 60% is sort of in high density areas where most of the people are?

TIM PEGLER: Well, I would just like to point out that Baseband as an input product is something that Chorus offers all its customers. Baseband IP, the physical coverage, yes, is currently at 60% but it's not there to be in competition with Spark's product, or anything else, it's just another access input option such as UFB fibre, so, which can be used for voice. So, it is available to anybody for that purpose.

COMMISSIONER GALE: True.

TIM PEGLER: And like any service that we offer, where there's demand from our customers, we'll continue to increase the availability of the service, as we will make changes and improvements to the service in consultation with customers.

COMMISSIONER GALE: Thank you. Stephen, Filomena, anything you want to add, any other questions?

FILOMENA ANTUNES: Just one question to you, Pete, because you, well, there was a question around the monitored alarms and the technology that they require, and sometimes they are old equipment and require PSTN, but then I've heard both Chorus and Spark saying that they may switch gradually to IP in any case. So, I was wondering if you have a plan, a proactive plan in place to keep those customers with you, or whether you are just waiting to react when the time comes and the technology goes away?

PETER GREGORY: We are working proactively to look at alternative technologies for those customers and present them with options. We are also looking for other ubiquitous technologies so it's not all just about Baseband IP. If the customer might not have access to UFB and there is Baseband IP available, there could be alternatives for them to work on as well. The important thing for us is to look at the alternatives which are open access. You know, we are actively working with

alarm providers and other providers of telephony type CPE
and working through compliance to make sure that we know
what works, what doesn't work, and if a customer has
something that doesn't work, we'll present them with
something that does work. So, we are proactively doing
that, although it does take some time and cost to be able
to do that.

GRAHAM WALMSLEY: Our focus is on, I mean we have to solve
these problems for fibre, that's a given. So, our focus
is on finding fibre based solutions for these people, and
rather than going into the cost of an intermediary like a
Baseband, then go to fibre, I think our preference would
be focus our resource and then take it into fibre. You
have to solve this problem for fibre but that's a
different challenge. You need to understand, that's a
different challenge to solving this problem for
Baseband IP, they're different technologies.

COMMISSIONER GALE: Thanks very much. Any burning closing
remark anyone wants to add, or you think you've made your
views clear?

I think it was a really useful exchange and we don't
usually allow discussion across the table but it's turned
out that way anyway and it's been very useful to us
actually to get the arguments on both sides. So, I think
we call the meeting to a close, and thank you again for
your help.

(Meeting concluded at 2.33 p.m.)