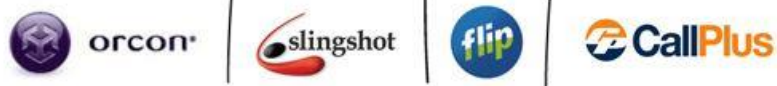


CallPlus Limited

Submission on the Commerce Commission’s Consultation Paper: setting prices for service transaction charges for UBA & UCLL

Public Version

9th October 2014



Overview

1. Thank you for the opportunity to comment on the Commerce Commission’s Consultation Paper: setting prices for service transaction charges for UBA & UCLL (**Consultation Paper**). This submission is made by CallPlus Limited (**CallPlus**).
2. CallPlus notes that Chorus has in recent weeks ‘played its hand’ with respect to transaction charges with some significant increase in costs of some items just announced along with the doubling of the amortised upfront fee for VDSL (from \$5 to \$10 per month).
3. No real justification has been given for some of the changes other than looking to offset the IPP price changes and maintain Chorus’ balance sheet.
4. Given the situation it is important that the Commission do a detailed bottom up assessment of the costs of an efficient operator rather than relying on Chorus data. The modelling of transaction fees needs to occur alongside the modelling of the monthly recurring fees; furthermore the modelling needs to be undertaken for a wider range of services as Spark have previously submitted. The modelling should be done on a wider range of services as part of this exercise, if the Commission concludes that some of those services cannot be included in the FPP and require a s30(R) review then CallPlus suggests the modelling should still be done now to ensure consistency and efficiency and input to the review.
5. Given the recent developments there is a real risk that escalating transaction charges which will create barriers to switching, inhibiting competition, and causing some significant confusion and issues for end users.
6. Our comments to the Commissions questions are detailed below. Please direct any questions in relation to this cross-submission to: -

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Question 1: Do you agree that in the FPP determinations the Commission can only set prices for the transaction charges for which it set prices in the IPP determinations?

Question 2: Do you agree that the list of charges in the Appendix is the complete list of charges for which the Commission is setting prices in the FPP determinations?

Question 3: Do you agree that when the Commission sets the prices for the transaction charges in the FPP determinations, it must apply the FPP of TSLRIC?

Question 4: How would you envisage this occurring?

Chorus has ‘played its hand’ – it is clear that they will look to significantly increase transaction charges wherever they can

7. In recent weeks Chorus in addition to the doubling of the amortised connection and wiring fee service for VDSL has clearly signalled its intention to increase transaction charges to RSP’s - with unprecedented price increases with little empirical justification. In the last few weeks alone we have had three examples:
 - a) A 53% increase in the charge for 10G handover links to \$1,444 per month. A comparable cost for UFB is \$300 per month. There appears to be no cost based justification and the cost of this type of technology has consistently dropped year on year.
 - b) A 25% increase in EUBA data tail extension.
 - c) Chorus unilaterally changed the process for charging customers to extend the copper network – i.e. a new service lead to connect from roadside to exterior of house. The CFH requirements covering fibre determine this to be the responsibility of the carrier in the fibre world. In effect it’s a utility company imposing the management of billing their network extensions and builds to their customers for their own convenience and benefit.
8. In a normal commercial environment these sort of changes would not be possible. Accordingly CallPlus supports Sparks’ position that the Commission should look at a wider range of transactions. We also support the position that the Commission should not do a separate consultation on transaction charges. Transaction charges and the service are inextricably linked.
9. However if the Commission concludes that it is constrained in the range it can consider under the FPP CallPlus recommends that the Commission still undertake the modelling of a wider range of services as part of this modelling exercise and revisit transaction charges outside the FPP as part of a 30R review in the light of the findings.

Question 5: Are there any other options for determining the costs of providing the transactions?

Question 6: Which option should the Commission take?

See also Question 10 below regarding what is involved in providing each transaction and the associated costs.

CallPlus strongly support the views of Spark & Vodafone that the Commission should not base the costs on Chorus’ data

10. CallPlus is of the view that where practical the Commission should take a ‘Bottom Up’ approach.

11. Commercial negotiations across a range of services rarely reflect the cost of the underlying individual services, rather they are a bundle with ‘overs and unders’. For the Commission to take the individual charges as an indication of the cost of the service would be flawed in our opinion. We agree with Spark that Chorus is incentivised to rebalance charges between regulated & commercial services to optimise their own position. Accordingly CallPlus supports the Vodafone and Spark concerns outlined in the Consultation document (para 37 to 40).

12. In addition to a bottom up exercise the Commission should look to the wider industry for comparable charges or best-practices as a ‘sanity check’. Vodafone for example must have experience with connection costs in their own fibre network. The following are some examples.

- a) **Interleaving** – the IPP has a charge of \$15.85. This could have a critical impact on RSPs. CallPlus offers interleaving on/off as an option for consumers. Furthermore it extensively uses this capability for fault diagnostics.

CallPlus offers this feature to our Wholesale customers using our own LLU services. CallPlus Wholesale customers are able to change interleaving on or off via an on-line portal in real time. There is no charge levied for this service and there are little or no costs incurred by CallPlus.

- b) **Charges with no port change** – these charges look high at \$15.85 for what is essentially a change in internal records or a simple plan change. If you compare this charge with, for example, the average cost of handling a customer call in a call centre – involving real time, person to person interaction – it is well above the cost of the average call.

CallPlus would suggest a good ‘benchmark’ may be the porting fee, the cost charged by service providers porting away numbers. This is a well-established industry charge which following a review reduced to \$5.94 based on a cost assessment by Spark and Vodafone plus a mark-up.

- c) **‘New Connection site visit required’ and ‘additional charge for wiring’** - Chorus have up to now provided at a commercial rate a combination of these two services for VDSL for \$145.05. That should be a strong indicator of a ceiling for any cost based

exercise. Chorus have now a proposed charge of \$284.73 for the equivalent service post 1 December.

13. The example in point (c) above also highlights the need for the Commission to look at the inter-relationship between services. As part of the exercise of providing the additional wiring service Chorus were effectively bringing forward the costs that they will inevitably incur when UFB is connected. Whilst this may be sensible for Chorus to undertake UFB preparatory work whilst onsite they would effectively be reimbursed twice, once by the RSP and once by CFH, for the same exercise if these costs are recovered through the UBA connection.

Question 7: Do you agree that it is open to the Commission to merge some the transaction charges into other charges?

Question 8: Do you agree that the Commission is entitled to set bulk rates for UBA transaction charges?

Question 9: Are there any charges you consider should be merged into the monthly charges or re-classified in some other way? (Please also provide comments in response to paragraph 44 under this question.)

Question 10: Please provide your understanding of what is involved in providing each transaction and the associated costs.

Question 11: Do you have any other comments on the topics discussed in this paper?

14. CallPlus supports the Commission’s preliminary view that it is open to the Commission to consider merging charges.

15. Charges are particularly problematic in situations where: -

- a) the cost of the service is unknown at the point of promoting it to a customer
- b) there is no prequalification tool to assist the RSP in ascertaining the cost when interest is expressed by a customer.
- c) there is no ability for the RSP to verify if Chorus were correct in electing to perform the more expensive option
- d) there is no ability of the RSP to verify if Chorus are correct in billing that service
- e) Chorus’ has no incentive to improve efficiency to minimise costs to RSPs and simply ‘clips the ticket’

16. ‘*Connection and wiring*’ charges can be charged to customers. Connection and Wiring is not a charge that we would merge as it is possible to recover this from customers as it is a service that customers have visibility of. Also there is a reasonable expectation that technology improvements in VDSL splitters will reduce the need for home wiring. To that extent RSPs have a degree of control over the situation. Furthermore we would expect the percentage to reduce

over time as an increasingly significant percentage of customers who have had a ‘connection and wiring’ already performed. Unfortunately RSPs have no visibility of these records.

17. However, where there is connection only (*‘New connection no site visit’* or *‘New connection exchange or cabinet site visit’*) the market typically doesn’t levy a charge and it is transparent to the end-user. An obvious candidates for merging is the new *‘New connection no site visit’* and the *‘New connection – exchange or cabinet visit’*. This is a material charge and it will be impossible for RSP’s to manage their costs or recover their costs from customers given that points (a) to (e) are relevant to this charge.
18. However whilst CallPlus supports the Commissions position we are cautious about averaging and concerned about Chorus’ data on the mix of remote and exchange visit connection charges. We have had no history of information to undertake our own assessment and Chorus have acknowledged that the figures to date are only ‘current assumptions’. Given the cost is forward looking the Commission needs to look carefully at the underlying drivers of a cabinet or exchange visit. For example: -
 - a) Chorus are in the process of replacing older ADSL2+ only cards with ADSL/VDSL2 cards. CallPlus understands that approximately 39% of EUBA connections are currently on old cards however that will naturally decrease over time. Accordingly many VDSL orders require a port change currently however that should diminish significantly overcost of the service is unknown at the point of promoting it to a customer.
19. Unfortunately simply reviewing the mix over time is flawed as Chorus have no incentive to maximise the remote connections.
20. CallPlus also supports the consideration of ‘Bulk rates’. These are a part of the regulatory regime and designed to give RSP’s the opportunity to lower the costs incurred by Chorus by placing orders in a prescribed manner, volume etc. It makes no sense for the industry to needlessly incur costs where they can be avoided – ultimately it is the consumer that pays – so it is difficult to see how any parties could have an objection to this.