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By email: telco@comcom.govt.nz

Submission on the Commissions process and issues paper for determining a TSLRIC price for UCLL in accordance with the FPP

This letter should be read in conjunction with the detailed report prepared by Frontier Economics on behalf of CallPlus, Telecom and Vodafone. The comments below are also relevant to the Commissions 'UBA process and issues' paper of the 7th Feb 2014.

Frontier's report highlights the importance of the Commission not adopting too theoretical an approach to TSLRIC. The Commission should avoid cherry picking various models and "*take a balanced approach to forward-looking TSLRIC modelling that recognises the reality that any efficient network would use a combination of new assets and existing sunk assets*". Northpower by way of example has made extensive use of existing assets such as poles in its rollout.

CallPlus supports the Frontier report, however we have a different view on the extent to which the Commission can make judgment calls based on s18, as has been previously articulated by CallPlus, Kordia (UBA price review submission January 2013) and InternetNZ (Submission in response to UBA price review 1 Feb 2013) in the UBA IPP process. The approach suggested by Frontier, however, is correct without the need to rely on s18.

We would like to specifically comment on two issues.

Model the full loop before deriving the UCLL price for the non-cabinetised lines

UCLL is only relevant to non-cabinetised lines however the Commission should model the full loop as it is important to identify shared and common costs across the various interlinked services (UCLL, SLU, SLU backhaul, UBA & UCLFS etc). Whilst some of these services are relevant to voice and some broadband they share the same lines. Similarly whilst some only use non-cabinetised lines, others use only cabinetised and some use both, however they all share some components of the network, ducts etc to an extent. Furthermore there are other



core Chorus network services that utilize the same network elements and have shared or common costs.

Without doing a full model the Commission cannot identify these common, shared components. The full model can then be used to derive the individual services prices based on the unique and shared components that they each service utilizes (e.g. non cabinetised lines only for UCLL, Sub-loop extension for UCLFS).

It follows that it is hard to see how the Commission could arrive at a price for one service such as UBA without deriving the price of UCLL or the price of UCLFS at the same time. CallPlus would have significant concerns if the exercises were not conducted in parallel as these are the prices that underpin our industry and we have concerns that the quality of analysis might be compromised by imposed deadlines.

In CallPlus' opinion it does not significantly reduce the uncertainty that the market is experiencing if the price of one of the services, say UBA, is determined whilst UCLFS pricing and UCLL pricing are still under review. Customer Services often use two components (e.g. Naked UBA) and bundled prices of several services have become the norm.

Backdating

CallPlus agree with Internet NZ's view that there is little precedent and the Commission should be able to decide on whether backdating is appropriate. Backdating causes problems for both Access Seekers and Chorus depending on the scenario. However Chorus and Access Seekers are in different situations

If a price increases there is no practical ability for Access Seekers to recover the additional cost from consumers. RSP's set their price as a mark up to their costs, of which Chorus charges are the major component. If Chorus are able to backdate, to the extent their commercial terms with RSPs allow, then Access Seekers cannot practically reclaim the cost from consumers who have been the beneficiary of the lower price (not RSP's as the lower price is 'traded out' into the market).

If the price is determined to be lower and Chorus have to repay Access Seekers they are repaying a benefit from an overcharge for the UCLL service over many years including the 3 year period up to Dec 2014 that Chorus was the beneficiary of. A somewhat different situation.



The Commission will need to make the appropriate decision on backdating and it is a risk for all parties, particularly Chorus.

Thank you for the opportunity to comment, for further information please contact:

A handwritten signature in black ink, appearing to read 'G. Walmsley', enclosed in a circular flourish.

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