



Review of Standard Terms Determinations Price Lists

Submission | Commerce Commission

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Introduction

1. Thank you for the opportunity to comment on the Commission's draft review of Standard Terms Determinations (**STD**) Price Lists (**the draft**).
2. The draft proposes to:
 - a. Update the schedule 2 price lists to reflect:
 - i. Cost modelling of the 2015 FPP decisions across all service components and to include the most recent labour cost index updates to charges relevant to those;
 - ii. Add in prices for components of the recently determined 10GigE handover service; and
 - iii. Align pricing terms across associated services for similar activities; and
 - b. Improve the consistency and usability of the price lists (such as by aligning the non-price terms and other matters across relevant FPP and non-FPP service determinations) and improve the efficiency of annual updates.
3. The scope of the review includes FPP determined (UBA, UCLL/UCLFS) and a number of associated - or related - services. For example, associated services that are necessary to either consume the regulated access service (i.e. colocation, backhaul) or unbundle at a deeper level of the network (i.e. sub loop unbundling and cabinet colocation for UBA). These services share similar cost components and the Commission should ensure that – when considered together – they provide economically efficient prices.
4. We support the Commission aligning price lists where possible to reduce complexity and compliance costs. However, the Commission could go further than proposed and consider aligning a number of ancillary charges. For example, there seems little point in applying different No Fault Found (**NFF**) charges to, and taking a different approach to business system gateway training and licences across, regulated services. Accordingly, we have proposed some additional line items below that could be aligned.
5. The Commission should further consider whether, in light of the FPP decision, the monthly charges for associated services meet the requirements of the Act. The prices across all services individually - and in aggregate – should be set to provide efficient price signals and to avoid prohibited double recovery. However, different cost methodologies and input cost parameters were used to set monthly charges for the range of sub-loop services and UCLL/UBA backhaul - reflecting the then current state of delivery and service provision technologies, and the associated costs. Accordingly, we can have no confidence that prices across services reconcile to provide efficient overall prices, and the Commission should consider these prices further.

Ancillary charges

6. The draft proposes to align the wording and a number of prices across the various schedule 2 price lists. We support aligning prices for similar activities across associated services where possible, adopting the more recent FPP derived prices.
7. However, while the draft proposes to update UBA and UCLL/UCLFS ancillary charges for the FPP derived prices¹, it leaves those for associated services at the prevailing price². We believe

¹ UBA, UCLL and UCLFS

² Sub-loop, sub-loop colocation, sub-loop backhaul, UCLL/UCLFS backhaul and UCLL colocation.

the Commission could go further and align a number of ancillary service charges across all regulated services. For example, NFF charges and system gateway licences.

8. The Commission applied a standalone FPP methodology to ancillary services based on the recovery of efficient costs associated with these one off processes and activities, i.e. they were calculated separately to the hypothetical efficient operator standard applied to recurring charges³. Accordingly, ancillary service prices can be updated separately to consideration of core recurring charges (which are not easily considered in isolation). Therefore, the Commission may wish to consider updating:

STD charge	Current approach	Comment
No Fault Found (NFF)	The FPP provides for NFFs at \$89.69. The remaining STDs provide for NFFs at \$124.13.	The Commission should clarify with Chorus whether these require materially different activities and align across the STDs at \$89.96 per NFF if possible. It's likely that these require similar response from Chorus service companies and the FPP derived charge could apply to all NFF line items.
Additional B2B training (OO&T and OFM)	B2B training is provided for under the FPP at \$59.60 per hour, whereas the remaining STDs provide for training at \$113.72 per hour.	As far as we are aware, the same training is required and these charges could be aligned at the \$59.60 FPP cost.
B2B licence fees (OO&T and OFM)	These are provided at no charge under the FPP, and \$24 per month in other STDs.	There is no reason why these should differ and the FPP zero charge could apply to associated services.
Additional copies of invoices	Additional hard copies are free for FPP services, and \$113.72 per invoice for other STD services.	There is no reason why these should differ and the FPP zero charge could apply to associated services.
Order cancellation pre truck roll	\$8.34 under the FPP, and \$5 for remaining services.	For consistency, could be aligned at \$8.34.
Cancellation of order post truck roll	\$32.50 under the FPP, and \$104.13 for remaining services.	Again, this appears to require the same resource and could be made consistent at \$32.50.
UBA backhaul connection 1.3	UBA backhaul connection GigE is \$560.13, whereas the same handover at the first data switch is \$532.26.	The Commission may wish to clarify with Chorus whether these are materially different with a view to aligning at the \$532.26 FPP price.

9. In terms of other possible tidy up amendments:

- a. The Schedule 2 description for UBA move address (1.40 of UBA) refers to Chorus retail charges. Chorus does not operate at retail and the description should be updated removing the reference to retail charges;
- b. The UBA s30R decision also capped the price for multiple 1GigE handover connections at the 10GigE handover connection price at all UBA handover sites.

³ General approach to NRC from para 713 of the UCLL determination.

268. Our final decision is to cap the price for multiple 1GigE handover connections at the 10GigE handover connection price at all UBA handover sites.

269. We are also clarifying that the availability of the 10GigE handover connection service is limited to those handover points where it is made available by Chorus – ie, Chorus decides if it will offer a 10GigE handover connection service or multiple 1GigE handover connections (the price capped at the 10GigE handover price) to access seekers.

For completeness, the Commission may wish to amend the price list to provide for the location price cap.

Monthly charges for related sub-loop and backhaul services

10. The FPP TSLRIC model seeks to identify efficient costs for a national service, and these costs were applied to regulated UBA and UCLL/UCLFS prices. However, regulated access services cannot be considered in isolation from associated services as individually - and in aggregate - prices must also be efficient, for example:
 - a. Access seekers require associated services such as backhaul and colocation, and it is the price across all services that will consistently provide the economically efficient build/buy signals to access seekers; and
 - b. The FPP TSLRIC model estimates costs for an end to end service, and some components of these services might be unbundled or complementary services. Therefore, there is the potential for inefficient unbundling or double recovery if not all prices are set at an economically efficient cost reflective level using current technologies.
11. Therefore, the price of a particular regulated service should reconcile to - or be aligned with – related regulated services and the underlying cost model. Otherwise, the potential remains for an inefficient aggregate price where the sum of the prices of all the associated services exceed that implied by the TSLRIC model (alternatively, the price of a particular regulated service is inefficient when set alongside other regulated prices) or prohibited double cost recovery occurring.
12. We believe this is likely to be the case for the associated sub loop and backhaul services. The relevant monthly charges were set using a variety of costing approaches (benchmarking and Chorus actual cost), and are unlikely to reconcile to the FPP model which is based on modern cost data. For example,
 - a. High level benchmarking undertaken in the context of the backhaul study suggested that New Zealand backhaul prices were significantly higher than those set by overseas regulatory authorities.

The Commission observed in the study discussion paper that regulated backhaul prices have fallen materially in the UK and Australia, and that Chorus prices had fallen significantly on routes where there was competition.
 - b. In the absence of reliable benchmark data, sub loop backhaul prices were based on a hybrid cost model (taking a proportion of the UCLL price to reflect trenching, and adding fibre deployment costs, and cabinet colocation prices were based on Chorus' average costs to build and install cabinets spread over an assumed 10 year economic life).

At the time sub loop prices were set Chorus was in early stages of the cabinetisation programme, and costs fell significantly over time. Chorus subsequently reported in 2012 that it found significant efficiencies and cabinet costs fell significantly through the roll out⁴.

13. The FPP model has only been applied to a subset of related services. Therefore, the model can't address inefficiently high prices for associated services (or ensure the end to end price is efficient) or reconcile inconsistent approaches. Accordingly, the Commission cannot have confidence associated service prices are consistent with FPP prices, nor that they meet the requirements of the Act.
14. There is little point prioritising to resolve sub loop service prices as there is little - if any - demand and the Government has announced that these regulated services will be removed from the Act. However, UCLL/UCLFS backhaul will remain a regulated service until at least 2023, potentially at prices set up to 16 years previously. The Commission noted in the 2016 backhaul 9A study discussion paper that prices for regulated backhaul services may be dated, and may be too high. Although the Commission has suspended the study pending finalisation of the Government Telecommunications Act Review it should reprioritise that work as soon as practical.

END

⁴ Chorus May 2012 investor day.