

# Commerce Commission

## Draft final pricing principle determination of UCLL and UBA prices

2 December 2014

Stephen Gale, Telecommunications Commissioner



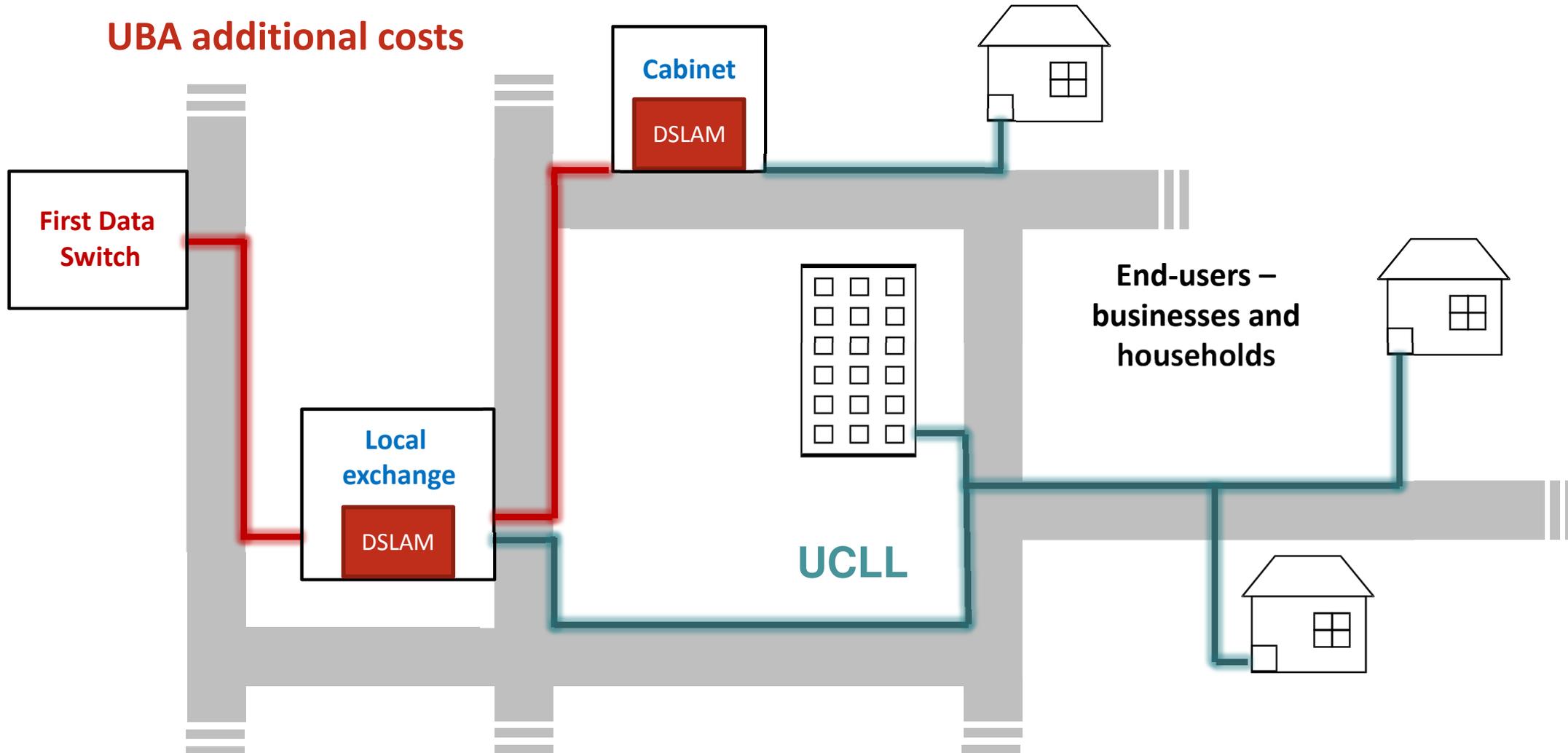
# What I am going to cover

- The UCLL and UBA services
- The final pricing principle (FPP)
- Our draft decision on FPP prices for UCLL and UBA
- How we determined FPP prices
- What happens next



# The UCLL and UBA services

## UBA additional costs



# The final pricing principle

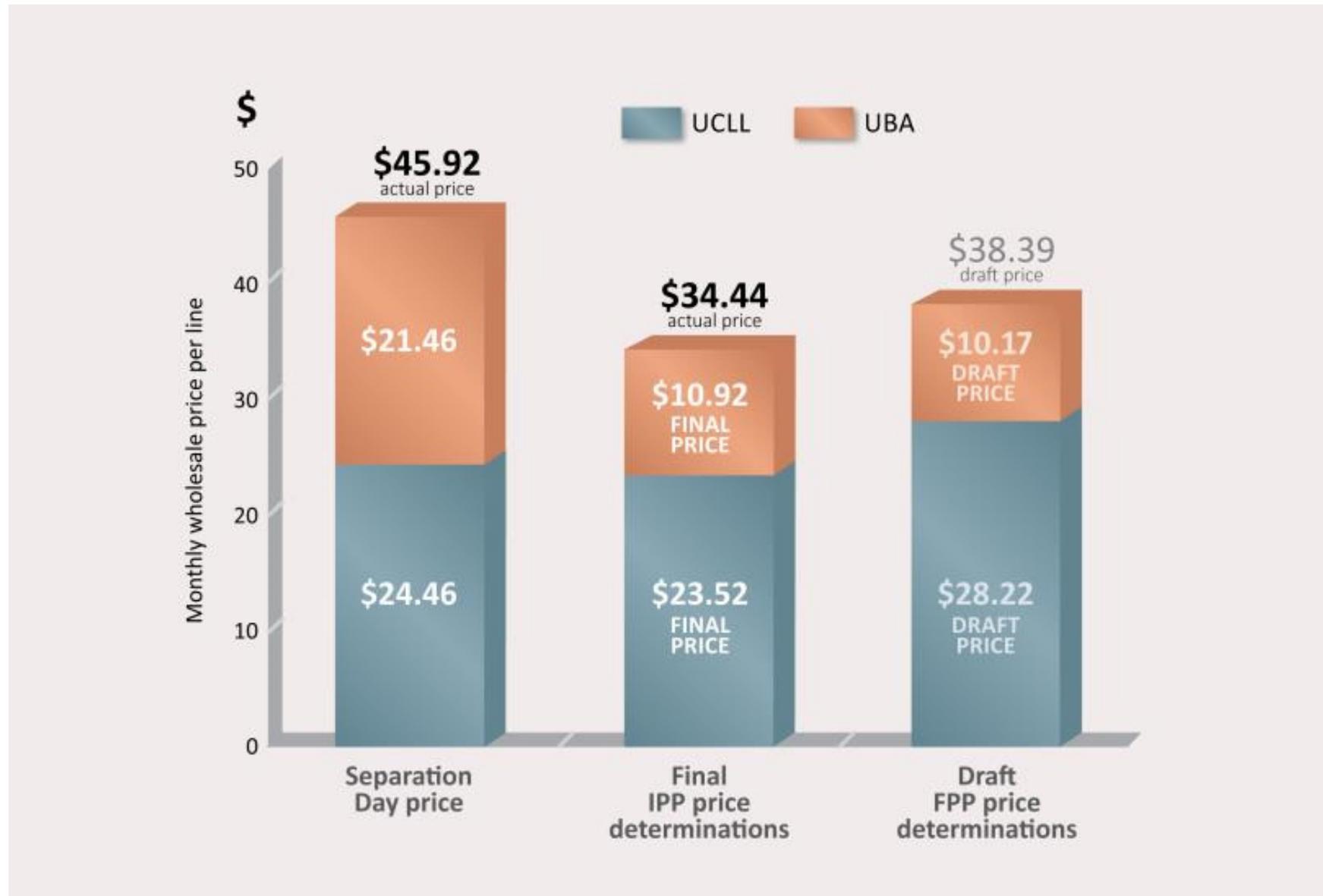
- The pricing principle for these services is ‘total service long run incremental cost’, TSLRIC
- 1<sup>st</sup> pass = initial pricing principle (IPP) involved benchmarking UCLL and UBA services in similar countries
- 2<sup>nd</sup> pass = final pricing principle (FPP) which now involves building our own TSLRIC model for these services



# Our draft decision on FPP prices

	UCLL	\$28.22
		+
UBA additional costs		\$10.17
		=
	Total UBA	\$38.39

# Wholesale price changes for UCLL and UBA



# How we determined FPP prices

- Building TSLRIC models is a significant undertaking
- We engaged TERA, experts in TSLRIC modelling
- TERA modelled the UCLL and UBA networks that a hypothetical efficient operator would build



# The modelling process

1. Build the hypothetical network



2. Cost the hypothetical network



3. Allocate costs



4. Convert cost to price

# How we built the hypothetical network

1. Build the hypothetical network

2. Cost the hypothetical network

3. Allocate costs

4. Convert cost to price

- TERA's model is built on New Zealand-wide geospatial data

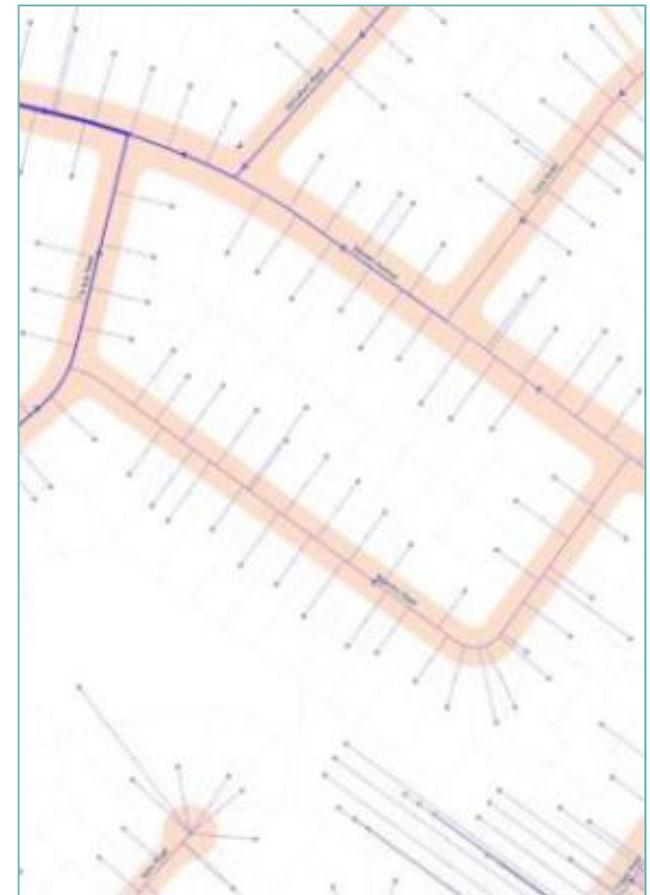
Exchange areas in NZ



Exchange/cabinet area



Road segment



# Our network assumptions

1. Build the hypothetical network

2. Cost the hypothetical network

3. Allocate costs

4. Convert cost to price

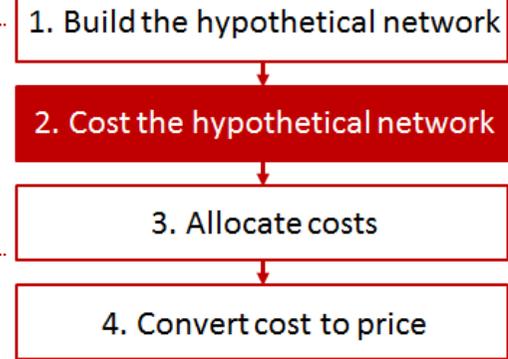
## UCLL

- A fibre to the home network with a wireless service in remote areas
- A hypothetical efficient network that replaces the copper network and the fibre networks currently being rolled out
- Aerial deployment across existing overhead infrastructure and underground deployment elsewhere

## UBA

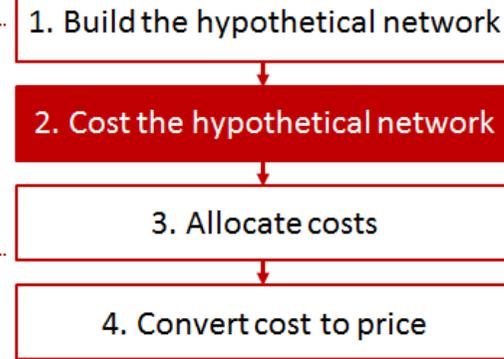
- Modern equipment on a copper network, as required by the Telecommunications Act
- Supplied where Chorus currently provides UBA

# How we costed the hypothetical network



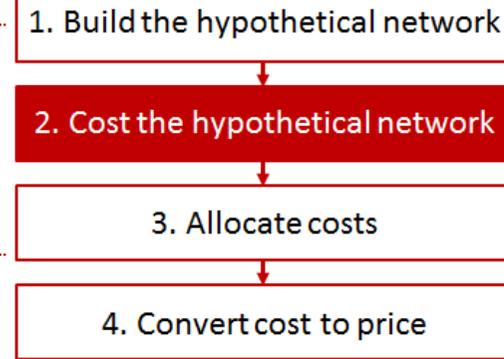
- We determined the costs of trenches, poles, ducts, and equipment based on both New Zealand-specific factors and international benchmarks using advice and information from:
  - TERA
  - Chorus
  - Spark
  - Vodafone
  - Local fibre companies
  - Beca
  - World Bank
  - Statistics NZ
  - NZIER
  - Bloomberg

# Our cost included the cost of capital



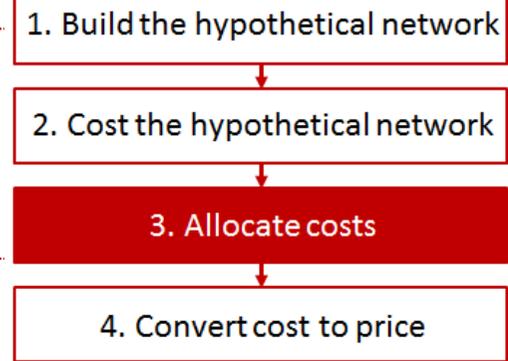
- We use the cost of capital to derive monthly charges that will recover total capital costs
- We determined a post-tax WACC estimate of **6.47%** for both the draft UCLL and UBA pricing reviews
- We used the same method as the Part 4 cost of capital input methodologies
- To assist us in estimating WACC, we sought independent expert advice from Oxera and Dr Martin Lally

# Section 18 adjustments



- We have not applied an uplift to the mid-point WACC estimate or to the overall price
- We accept the possibility that an uplift could be justified to avoid slowing the uptake of UFB...
- ...but we have also accepted Professor Vogelsang's advice that our TSLRIC choices have made adequate allowance for the network benefits of migration to UFB

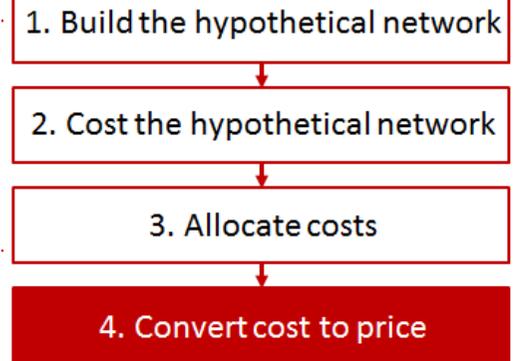
# How we allocated costs



- Other services share the networks we have modelled
- We allocated costs between these other services (regulated and unregulated) that share the networks



# How we converted the cost to price



$$\text{Price} = \frac{\text{monthly capital cost} + \text{opex}}{\text{number of customers}}$$

- We have used a constant nominal price over a 5 year period



# What happens next?

## This week

- TERA presentation of model at **2-5pm today**
- Chorus presentation of its model on **4 December 2014**

## Next year

- Submissions due on **23 January 2015**
- Cross-submissions due on **19 February 2015**
- Conference in **March 2015**

We will provide a process update shortly, including details on our process for non-recurring charges and backdating.



# Questions?

