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Keston Ruxton
Chief Adviser
Regulation Branch
Commerce Commission

By email: telco@comcom.govt.nz

28 March 2014

Dear Keston

Submission on cost of capital for the UCLL and UBA price review technical consultation paper

Vodafone welcomes the opportunity to comment on the Commerce Commission's (**Commission**) technical consultation paper on determining the cost of capital for the UCLL and UBA price reviews.

As indicated in our submission on the process and issues paper for the UCLL final pricing principle determination, we agree that the input methodologies process provides a useful starting point for consultation on the for the UCLL (and UBA) TSLRIC model.¹

We attach to this submission an expert report prepared by Network Strategies. This paper provides preliminary comments on some of the specific challenges that are likely to emerge in applying the input methodologies cost of capital principles to Chorus' regulated services. In particular, the paper addresses:

- the appropriate estimates for WACC, supposing that a mid-point WACC estimate minimises the risk of error; and
- the term credit spread differential, supposing that no further allowances are required in this regard.

In respect of the first point, we acknowledge that there may be—on closer analysis—reasons to support a WACC estimate that is higher than the mid-point. That said, we wish to highlight Network Strategies' observation that, should the Commission decide to deviate from the mid-point estimates for WACC, along with mid-point estimates for other input parameters, then there is a significant risk that the margin of error for the final result will be wide. This would result in an outcome that would be detrimental to the long term benefit of end-users.² Put another way, the Commission must ensure that any uplift applied to adjust for a perceived estimation error is not, in effect, double-counted.

¹ Vodafone *Comments on process and issues paper for the unbundled copper local loop (UCLL) final pricing principle* (14 February 2014) at p 29.

² Network Strategies *Commission consultation on WACC for UCLL and UBA services* (Report for Vodafone New Zealand, 27 March 2014) at p 9.

Finally, we note that we agree with the Commission's approach in not specifying (and therefore consulting on) the specific parameter values for WACC at this stage in the consultation phase. We intend to engage more fully on these in the later phases of both the UCLL and UBA determinations. We note that, consistent with the Part 4 process, it may be appropriate for the Commission to undertake a separate stream of consultation on cost of capital, as part of its UCLL and UBA determinations.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized, cursive 'M' followed by a long, horizontal tail stroke.

Mitchell Cooper
Senior Public Policy Analyst
Vodafone New Zealand