Media Statement

28 July 2011

COMMERCE COMMISSION MEDIA RELEASE – COMMERCE COMMISSION COMPLETES REVIEW OF WHOLESALE UBA PRICE

The Commerce Commission has today released the attached media statement in relation to its final determination of unbundled bitstream access (UBA) pricing.

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Contact:

Mark Watts
Head of External Media
Telecom New Zealand
+64 (0)272 504 018

COMMERCE COMMISSION

Media Release

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Commerce Commission completes review of wholesale UBA price

The Commerce Commission has released its final determination of unbundled bitstream access (UBA) pricing following a review of UBA pricing components (including overage, ISP services, bundle discounts and data transmission).

As a result of the review the Commission has updated the amount deducted from the UBA price to reflect the value of Telecom's internet service provider (ISP) services. The value of this component of the UBA price has increased to reflect the value that Telecom currently attributes to ISP services provided to its own customers.

The Commission has also updated the price for data transmission, which has decreased to reflect Telecom's retail data prices as at 30 June 2011. The Commission adopted a new method for calculating this price, following submissions from the telecommunication industry, which now takes into account the retail value of Telecom's broadband plans rather than cost.

The approach to other components of the UBA pricing (overage, the bundle discount and the avoided costs saved discount) remains unchanged.

Overall the review will result in a very small decrease in the UBA wholesale price.

Telecom is due to submit a service adjustment for approval by 31 August 2011. The changes in price from this review and the service adjustment will be implemented in September and backdated to 1 July 2011.

You can find a copy of the final determination on the Commission's website: www.comcom.govt.nz/review-of-uba-pricing

Background

In December 2007, the Commission issued a standard terms determination (STD) under section 30M of the Telecommunications Act 2001 in respect of the designated access service of Telecom's UBA service.

The Act requires the Commission to determine the UBA price in accordance with the applicable initial pricing principle. This principle stipulates that the Commission must impute the retail price for the UBA service having regard to the price of other broadband services. The Commission then deducts a discount benchmarked against discounts in comparable countries that apply retail minus avoided costs saved pricing.

Using Telecom's retail broadband pricing data, the Commission determines the imputed retail price for the 'retail equivalent of the UBA service' by applying the following calculations:

- calculates overage charges to be added to Telecom's retail broadband prices;
- removes the ISP specific component;
- removes the effect of bundled retail pricing; and
- removes national and international data transmission not supplied by the access seeker (based on usage).

The Commission then subtracts from the imputed UBA retail price a benchmarked discount, which remains at 18 percent following this review. Finally, the Commission calculates a uniform price by weighting the relevant wholesale bitstream prices by customer connection numbers.

On 19 February 2010, the Commission commenced a review of the data transmission component (a component of the UBA price) under section 30R of the Act. After considering submissions received during this review, the Commission considered that a much broader review of the UBA pricing methodology, and its inputs, was required.

On 3 March 2011, the Commission commenced a separate section 30R review of UBA pricing to consider the UBA pricing components. On 21 April 2011, the Commission released a draft Decision and invited submissions and cross-submissions on all UBA pricing components.

This report covers the Commission's final decisions for both reviews.

ISP services means services provided by Telecom's internet service provider such as, Security, Flickr Pro account, Yahoo!Xtra Pro Email, Homepage and up to 10 free sub accounts that are not part of the wholesale UBA service.

Overage means charge for additional broadband usage beyond the data cap attributed to Telecom's broadband plan.

Data transmission means data carried over transmission links beyond the First Data Switch (FDS) by the ISP to the end-user.

Telecom has undertaken a Quarterly Adjustment for the quarter ending 30 June 2011 as required by the UBA Standard Terms Determination, which would have been effective from 1 July 2011. However, that Quarterly Adjustment will not come into effect, as Telecom made changes to its broadband plans on 1 July 2011, triggering a Service Adjustment, which will also be effective on 1 July 2011. The UBA Price List states that where a Service Adjustment and a Quarterly Adjustment overlap, the Service Adjustment takes precedence for the purpose of addressing any over or under payments by the access seekers since 1 July.

Media contact:

Allanah Kalafatelis, Communications Manager

Phone work (04) 924 3708, mobile 021 225 4417

Victoria Parry, Senior Communications Adviser

Phone work (04) 924 3709, mobile 021 225 4454

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