



Market Announcement

19 December 2014

Commerce Commission Media Release - backdating

The Commerce Commission has today released the attached media release in relation to its emerging view on backdating prices for Chorus' copper lines and broadband service.

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Media Release

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Commission publishes emerging view on backdating prices for Chorus' copper lines and broadband service

The Commerce Commission has today published its emerging view on backdating the final prices that Chorus charges for its local copper lines and broadband service.

The Commission's current view is that once the final prices for the unbundled copper local loop (UCLL) and unbundled bitstream access service (UBA) are determined, they should be backdated to 1 December 2014, but not earlier.

"Backdating is an important issue to us and the industry. We are publishing our emerging view on backdating now to provide as much certainty to the market as possible," said Dr Stephen Gale, Telecommunications Commissioner.

The Commission is now consulting on the backdating issue and is welcoming submissions from interested parties.

The Commission has also published an updated process and timeframes for the remainder of the pricing reviews.

All industry parties asked the Commission for an extension to submit on the draft decisions published earlier in December. Due to these requests and the complexity of the wide range of issues being consulted on, the Commission has extended the deadline for submissions to 20 February 2015. The deadline for cross-submissions is now 20 March 2015.

"We appreciate that there is a large volume of complex information for submitters to review so we have agreed to a four week extension to the consultation period. This has a flow-on effect for the conference, which will now be held in April 2015," said Dr Gale.

“We are also consolidating the various pieces of work relating to the pricing reviews, so are now planning to produce a full package of information including draft monthly UCLL and UBA charges, non-recurring charges and backdating in a further draft decision in May 2015. This means another round of consultation to ensure all interested parties have the opportunity to provide some final input,” said Dr Gale.

The Commission is now expecting to make its final decisions on UCLL and UBA pricing, non-recurring charges and backdating in September 2015.

You can find the draft backdating paper and process update on the Commission’s website:

www.comcom.govt.nz/unbundled-copper-local-loop-and-unbundled-bitstream-access-services-final-pricing-principle

Background

What is UCLL?

UCLL stands for unbundled copper local loop and are the copper lines that Chorus owns and maintains. The copper network is the means for delivering telephone and internet services to businesses and households all over the country.

What is UBA?

UBA stands for unbundled bitstream access and this is the service that Chorus sells to retail telecommunications companies so that they can provide broadband services to businesses and consumers without replicating Chorus’ electronics or software.

How do the prices for these services relate to each other?

The UCLL price is the base price for using Chorus’ lines. The UBA price is for the use of Chorus’ electronics and software that enables retail telecommunications companies to provide phone and broadband to their customers.

Any change in the UCLL price will flow through to the total prices of the UBA service (for broadband services), the unbundled copper low frequency (UCLF) service (for voice services), and the sub-loop service (SLU).

What are non-recurring charges?

Non-recurring charges are one-off transactions that relate to connecting and maintaining UCLL and UBA services.

The process under the Telecommunications Act

The processes for setting prices for UCLL and UBA services are set out in the Telecommunications Act 2011. The legislation sets out a two stage process. The first stage is to set prices by benchmarking against similar services in other countries. The benchmarking approach is called the initial pricing principle (IPP).

If any industry parties are not satisfied with the benchmarked costs, they can require the Commission to calculate the full cost of the services. This approach is called the final pricing principle (FPP). The FPP approach involves the Commission calculating the price and modelling the cost of a hypothetical network that uses modern technology, to efficiently deliver the regulated services.

The process to date

In 2012 and 2013, the Commission carried out the required benchmarking exercises to establish the maximum prices for UCLL and UBA. Following the announcement of the IPP pricing, Chorus New Zealand Ltd, Telecom New Zealand Ltd (now Spark), Vodafone NZ Ltd, CallPlus Ltd, Kordia Ltd and Orcon Ltd all asked the Commission to undertake an FPP for both the UCLL and UBA services.

In December 2013, the Commission published a process and issues paper on UCLL which set out the framework for modelling the UCLL service, and a number of modelling issues. The Commission also hosted an industry workshop on initial processes.

In February 2014, the Commission published a process and issues consultation paper on UBA.

In March 2014, the Commission published further consultation papers on topics including backdating and modern asset equivalents, and a technical consultation paper on the cost of capital. The Commission also hosted an industry workshop on TSLRIC.

In April 2014, the Commission held a workshop with industry for its consultants from TERA to explain the modelling approach.

In June 2014, the Commission published the TERA Literature Review and expert reports from Oxera, Dr Martin Lally on WACC and Professor Vogelsang on TSLRIC and promoting competition.

In July 2014, the Commission published a consultation paper relating to the cost models that the Commission would build for both the UCLL and UBA service.

In September 2014, the Commission published an open letter on the process and also a consultation paper on Service Transaction Charges.

In December 2014, the Commission published its draft pricing review determinations containing draft monthly prices for Chorus' UCLL and UBA services.

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Commission media releases can be viewed at:

www.comcom.govt.nz/the-commission/media-centre/media-releases/