

Market Release

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Spark New Zealand calls on Commerce Commission to rethink Chorus wholesale charges

International experts calculate proposed charges could be at least \$12 a month higher than they should be

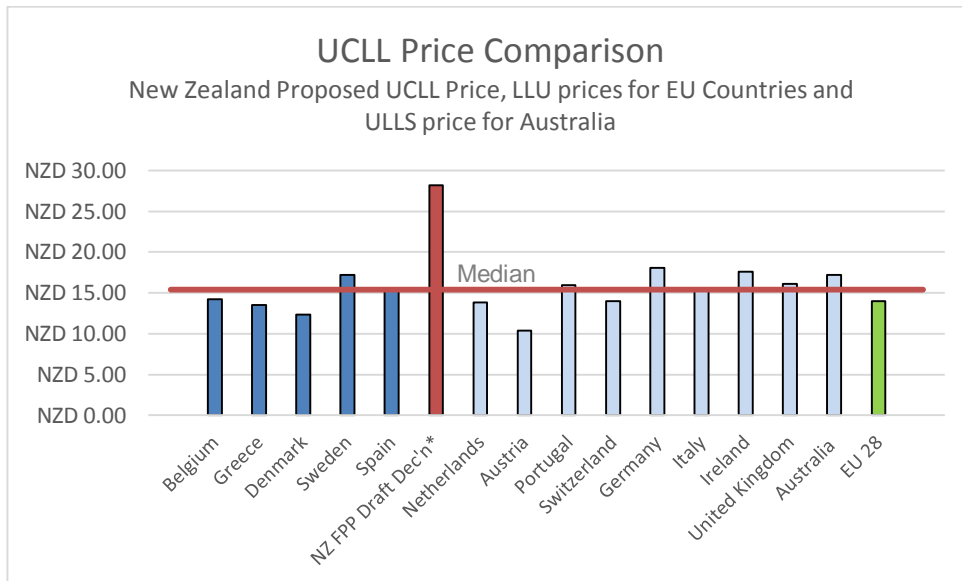
Industry input costs – which influence the retail prices for broadband services and landline phones - may be at least \$12 a month more per customer than they should be if the Commerce Commission goes ahead with proposed new charges for access to the Chorus copper wholesale network, Spark New Zealand said today.

In a submission to the Commerce Commission, Spark New Zealand has called for the Commission to rework its numbers and consult further with industry players before it finalises the new charges later this year.

General Manager of Regulatory Affairs John Wesley-Smith said Spark New Zealand believed the large increases in wholesale charges proposed by the Commission in a draft decision published last December were unnecessary and should be reversed when the Commission sets the final charges later this year.

He said the Commerce Commission's primary duty is to protect consumers against high prices in monopoly markets like the Chorus network where there is no competition. It is meant to do this by regulating Chorus charges based on what it would cost to replace the Chorus copper network today, using the most efficient combination of modern technologies.

However, the Commission's first attempt at modelling this cost had come up with a proposed charge for landline access (required for broadband and/or voice services, and known as the UCLL Price) that was 80% higher than the median price in 14 other comparable countries – and 60% higher than the next most expensive country.



“This is not because of any New Zealand specific factors – it does not cost 80% more to provide landline access in New Zealand than everywhere else on a like for like basis,” Mr Wesley-Smith said. “This is the result of choices made in the draft modelling, and in a number of cases we think there are better choices it could make that avoid this significant divergence from international prices.

“Our experts’ analysis shows that the Commission’s draft model loads an enormous amount of unnecessary costs onto New Zealand consumers. We think we’ve shown enough to put the onus on the Commission to change its model to exclude these costs - or if not, to explain why it would be in New Zealand’s best interests to hold broadband prices up by setting wholesale charges 80% higher than in other countries.”

He said two international expert firms commissioned by Spark New Zealand had independently reviewed the Commission’s cost model and concluded it overstated the costs involved in Chorus providing wholesale voice and broadband services by a considerable margin.

By making some conservative adjustments to the Commission’s model, one expert firm came up with a charge for landline access of \$16.64 a month – compared with \$28.22 proposed by the Commission. The other expert firm said this charge could be reduced even further if the model took more account of newer technologies such Fixed Wireless Access (FWA).

“With these adjustments the wholesale charges in New Zealand would be much more in line with those applied overseas – and this would translate into lower retail broadband prices than we have today,” Mr Wesley-Smith said.

“We are doing everything we can, in what is a fiercely competitive market with about 80 providers, to give New Zealanders more value and keep broadband prices low. Yet the Commission’s draft decision will make broadband less affordable for New Zealanders. It also doesn’t make sense that the charges for last-century copper broadband are increasing at a

time when ultra fast broadband (UFB) over fibre is being rolled out to three quarters of New Zealanders. The Commerce Commission needs to make it clear why any increase in wholesale charges for copper access would be justified.”

Spark New Zealand was also concerned that the Commission was leaning towards backdating the new Chorus charges to 1 December 2014, even though it would not finalise charges until at least the second half of 2015.

Because of this uncertainty, Spark reluctantly increased its prices for home phone and broadband packages by between \$2.50 and \$4 a month from 1 February 2015, in a move that only partially offset the expected increase in Chorus wholesale charges.

Mr Wesley-Smith said Spark New Zealand had given a written undertaking that if the Commission decided not to backdate any increase in Chorus charges, “we will pass the value of our related retail price increases back to our customers in a fair and transparent way.”

A copy of Spark New Zealand’s submission can be downloaded at <http://www.comcom.govt.nz/regulated-industries/telecommunications/regulated-services/standard-terms-determinations/unbundled-copper-local-loop-and-unbundled-bitstream-access-services-final-pricing-principle/>

Further notes:

The Commission released two draft decisions in December 2014, setting out proposed charges for Chorus unbundled copper local loop network service (UCLL) and wholesale broadband service (UBA).

The Commission proposed charges of \$28.22 for UCLL (up \$4.70 from \$23.52) and \$10.17 for UBA.

The Commerce Commission’s draft charge for UCLL is 80% higher than the median of 14 comparator countries, including those countries that New Zealanders like to compare to in social and economic terms. It is almost 60% higher than the second-most expensive country.

Spark New Zealand commissioned international experts to review the Commerce Commission’s cost modelling for UCLL and UBA. Specific concerns raised by the experts include that the Commission’s model:

- a) Does not use modern FWA technology and incorrectly models potential FWA coverage and so overstates the cost of serving non-urban New Zealand by 37%;
- b) Compensates Chorus for lead-in costs (which make up 26% of overall network costs) that are actually separately funded by end-users;

- c) Makes unrealistic assumptions that an efficient operator building a modern network today would not re-use any existing ducts and trenches, or seek to share the cost of trenching with any other utilities in order to save costs – even though both practices are used by operators in our market today; and
- d) Assumes no population growth in New Zealand over the next five years, and no further high or medium density housing projects – despite policies being put in place by central and local Government to drive exactly this sort of urbanisation in Auckland and other areas. Correcting for those two assumptions alone reduces the wholesale charges in the Commission’s model by almost 10%.

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