

Market Release

2 July 2015

Commerce Commission releases updated draft FPP regulated input charges

The Commerce Commission has announced today further draft Final Pricing Principle (FPP) determinations in relation to two regulated input products that Retail Service Providers (RSPs) purchase from Chorus, the Unbundled Copper Local Loop (UCLL) product and the Unbundled Bitstream Access (UBA) product. Spark New Zealand purchases UBA and a Baseband product which is priced equivalent to UCLL.

The FPP determinations supersede earlier Initial Pricing Principle (IPP) determinations and the 2 December 2014 draft FPP determination. A final FPP determination is expected in December 2015. These determinations are available on the Commerce Commission's website at www.comcom.govt.nz

Under the revised draft FPP, it is proposed that the UCLL wholesale charge initially increase from \$23.52 to \$26.74 per customer connection, per month. It is proposed that the UBA wholesale charge under the FPP initially increase to \$11.15, compared with the IPP charge of \$10.92 which took effect from 1 December 2014.

Based on this draft, the final FPP prices will replace the IPP prices effective from 1 December 2015 and will not be backdated.

The proposed changes to these charges are set out in the table below:

Service	IPP effective 1 Dec 2014	Draft FPP 2 Dec 2014	Draft FPP 2 July 2015
UCLL / Baseband	\$23.52	\$28.22	\$26.74
UBA	\$10.92	\$10.17	\$11.15
Total	\$34.44	\$38.39	\$37.89

It is proposed that total charges increase over time as below:

Service	Year 1	Year 2	Year 3	Year 4	Year 5
UCLL / Baseband	\$26.74	\$27.18	\$27.63	\$28.09	\$28.56
UBA	\$11.15	\$10.97	\$10.80	\$10.65	\$10.52
Total	\$37.89	\$38.15	\$38.43	\$38.74	\$39.08

Based on year 1 draft FPP charges Spark New Zealand's copper input costs would increase by approximately \$40 million on an annualised basis and increase UBA input costs by approximately \$2 million on an annualised basis, relative to the IPP charges.

FY15 Financial Guidance

Spark New Zealand's FY15 financial guidance is based off the IPP charges and remains unchanged.

Spark New Zealand Comments on Draft FPP

Spark New Zealand said today it was encouraged the Commerce Commission has taken on board consumer feedback, but disappointed the Commission is still proposing a significant increase in wholesale line charges to access the Chorus copper network.

In its latest draft decision, the Commission proposed today that broadband line charges be increased from December this year by \$3.97 per month (incl. GST) per line above current charges, with further increases totalling \$1.37 in annual increments over the following four years. This compares with its earlier proposal for a flat-rate increase of \$4.54 per month.

"While the Commission has slightly reduced first-year charges from its earlier draft position, this decision (if finalised) would still mean wholesale line charges in New Zealand are around 70% higher than comparable countries," commented Spark New Zealand managing director Simon Moutter.

"More than 52,000 New Zealand consumers sent a strong message to the Commission about the cost of broadband as part of our 'Be Counted' campaign. We're encouraged that the Commission has noted the campaign in its decision and has said that it welcomes greater consumer participation in its regulatory process."

Mr Moutter said Spark New Zealand was pleased the Commerce Commission is now looking to take backdating of the higher broadband line charges off the table. In its earlier draft decision, the Commission had foreshadowed backdating to December 2014 which has created major industry uncertainty. This uncertainty caused Spark New Zealand to reluctantly increase prices on most of its broadband and landline plans from February 2015 to partially offset the impact of backdated charges.

If the Commission confirms backdating is ruled out in its final decision, and that decision is not subject to appeal, Spark New Zealand will honour its commitment to pass the value of these related retail price increases back to customers in a fair and transparent way. However, if the Commission reverses its decision on backdating, that will create more upward pressure on retail prices as there has only been partial recovery of increased line charges to date.

"We think New Zealanders deserve good value broadband. Around half the monthly cost for broadband goes to line charges, so the Commerce Commission's decision has a big impact on what consumers and businesses pay for their broadband," said Mr Moutter. "We will continue to advocate on behalf of our customers as the Commerce Commission moves towards a final decision at the end of the year."

He said Spark New Zealand wanted to be more upfront with its customers about what makes up the retail price of a broadband or landline plan. It was looking to change the way it presents pricing on customer bills to give a clearer breakdown of regulated lines charges and government taxes and levies.



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