

STOCK EXCHANGE ANNOUNCEMENT

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COMMERCE COMMISSION MEDIA RELEASE – Commission announces proposed wholesale price for broadband bitstream service

The Commerce Commission has today released the attached media statement in relation to its draft decision on a new cost-based price for Chorus' unbundled bitstream access (UBA) service.

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Media Release

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Commission announces proposed wholesale price for broadband bitstream service

The Commerce Commission has today released its draft decision on a new cost-based price for Chorus' unbundled bitstream access (UBA) service.

The proposed full UBA price is \$32.45 per month per line and will come into effect on 1 December 2014. Until then, the cost of UBA will remain at the current price of \$44.98 for most lines.

The full UBA service enables retail telecommunications companies to supply broadband services to households and businesses without the need to replicate Chorus' local copper lines, electronics and software.

The most significant part of the proposed full UBA price change is the reduction in the non-unbundled copper local loop (UCLL) component, which has reduced from \$21.46 to \$8.93 for the basic service. This is primarily because the Commission has been required to move from a 'retail-minus' approach to a cost-based approach following the passing of the Telecommunications (TSO, Broadband, and Other Matters) Amendment Act 2011.

In applying the new cost-based approach, the Commission is required by the Act to benchmark the likely costs in New Zealand by examining prices in countries that calculate the relevant electronics and software costs in a specified way. If not satisfied with the benchmarked costs, industry parties can request that the Commission calculates the costs itself.

"Even though benchmarking seems a simple idea, we only found two other countries—Denmark and Sweden—that price similar services in the right way at similar quality levels," said Telecommunications Commissioner, Dr Stephen Gale. "We would have preferred a larger sample set but that does not appear to be available."

“This draft will be subject to robust consultation with all parties. We plan to release our final benchmarked price for the UBA service in June 2013. At the end of this process, if industry parties consider that the benchmarking result is seriously out of line with costs in New Zealand, they can require that we model the costs directly,” said Dr Gale.

The Commission has also specified cost-based prices for higher quality UBA variants, with prices up to 21.3% more than the basic UBA. The higher quality UBA variants provide additional service guarantees to telecommunications companies which can be used to provide more advanced services. The Commission has also set new cost-based prices for connection and transfer services.

The Commission also announced today that the final updated UCLL price is \$23.53 per month per line. The UCLL price is a component of the UBA price. The UCLL price applies to the local copper lines between homes or businesses and an exchange.

You can find the draft UBA decision on the Commission’s website

www.comcom.govt.nz/uba-benchmarking-review

You can also find the final UCLL decision on the Commission’s website

www.comcom.govt.nz/re-benchmarking-prices-for-chorus-s-unbundled-copper-local-loop-service

Background

Unbundled bitstream access (UBA) is a service that allows telecommunications companies to supply broadband services to customers without the need to replicate Chorus' electronics or software.

UBA was previously priced using a retail-minus approach determined using Telecom’s retail broadband service plans. With the separation on 30 November 2011 of Telecom into Telecom, a retail service provider, and Chorus, a wholesale provider of the UBA service, retail-minus pricing was no longer appropriate.

Amendments introduced to the Telecommunications Act 2001 by the Telecommunications (TSO, Broadband, and Other Matters) Amendment Act 2011 froze the prices that apply to UBA through to 30 November 2014. The Amendment Act also required the Commission to calculate new, cost-based, prices for UBA to have effect at the end of the 3 year transition period.

Unbundled copper local loop (UCLL) refers to the service that enables access to, and interconnection with, Chorus's copper local loop network. It allows telecommunications

companies to supply voice and broadband services to retail customers using their own equipment over Chorus's local loop.

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