



COMMERCE COMMISSION

## Telecommunications Key Statistics – June Quarter 2007

### Introduction

1. The Commission is required to undertake telecommunications sector monitoring and information dissemination, so produces regular monitoring reports. This particular report is a quarterly monitoring report that utilises readily available key statistics<sup>1</sup>.
2. A more comprehensive set of statistics, commentary and analysis of New Zealand's telecommunications markets is planned to be presented in an annual 'state of the market' report later in the year.

### Broadband Connections

3. Most broadband connections in New Zealand are provided by Telecom over a standard copper telephone line using DSL technology. In around one quarter of the cases Telecom wholesales the service to another retailer.
4. TelstraClear provides some of its broadband connections via co-axial cable. Some broadband connections are also provided via fixed wireless technologies and satellite by other providers. The Commission has surveyed the main providers of these connections in order to estimate the total number of broadband connections as at 30 June 2007, both for this report and for the OECD's six monthly broadband statistics. The Commission has not counted broadband connections supplied by way of cellular data cards as these are not counted by the OECD in its statistics.

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#### <sup>1</sup> Notice of Disclaimer

The Commerce Commission has published this monitoring report under section 9A of the Telecommunications Act 2001. Readers are advised that:

- while every reasonable step has been taken to gather and produce accurate information, no guarantee is made as to its accuracy; and
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**Table 1: Telecom Fixed Line Broadband Connections<sup>2</sup>**

DSL broadband connections	30 June 2007		31 March 2007		31 December 2006	
Retail	440,000	73%	420,000	74%	395,000	76%
Wholesale	165,000	27%	145,000	26%	127,000	24%
Total	605,000	100%	565,000	100%	522,000	100%

Source: Telecom 2007 Results

**Table 2: Total Broadband Connections**

Total broadband connections	30 June 2007	
DSL	605,000	90%
Cable	35,000	5%
Fixed Wireless	31,600	5%
Total	671,600	100%

Source: Commerce Commission, Telecom

5. The latest statistics comparing the total number of broadband connections in New Zealand with the rest of the OECD are for 30 December 2006<sup>3</sup>. At that date the OECD estimated there to be 576,000 broadband connections, giving New Zealand a total of 14 broadband subscribers per 100 population (83 percent of the average) to rank 21 out of 30 in the OECD. The Commission's figures for 30 June 2007 put New Zealand at about 16 broadband subscribers per 100 population. The OECD statistics for 30 June 2007 are due to be published in late October.

### Average Prices

6. It is difficult to accurately measure how prices faced by telecommunications end-users are moving over time because of changing buyer behaviour, changing products and complex tariffs like capped calling.
7. Telecom publishes average calling prices and the Commission tracks these as one indicator of prices. The Commission has also calculated average access revenue per line as a proxy for the fixed line rental charged by Telecom. In addition, the Commission tracks the \$NZ cost of some of the baskets used for OECD benchmarking.

<sup>2</sup> Broadband connections include all plans with download speeds of 256 kbps or greater

<sup>3</sup> [http://www.oecd.org/document/7/0,2340,en\\_2825\\_495656\\_38446855\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/7/0,2340,en_2825_495656_38446855_1_1_1_1,00.html)

**Table 3: Telecom Average Prices**

<b>Telecom average prices<sup>4</sup></b>	<b>Quarter ended 30 June 2007</b>	<b>Quarter ended 31 March 2007</b>	<b>Quarter ended 31 December 2006</b>	<b>% change from Dec annualised</b>
Calls to mobile	33.7 cpm	35.5 cpm	35.6 cpm	-10.7%
National calls	9.7 cpm	10.3 cpm	10.5 cpm	-15.2%
Outward international calls	18.2 cpm	18.3 cpm	18.7 cpm	-5.3%
Access revenue per line <sup>5</sup>	\$43 per month	\$43 per month	\$43 per month	

Source: Telecom 2007 Results

## Market Revenues

8. Comparing the trends in revenues earned in the different telecommunications markets gives an indication of the dynamics of the market. Telecom publishes quarterly revenues for the different areas of its business and the Commission has been tracking revenues from what it considers to be core telecommunications services.

**Table 4: Telecom Core Revenues**

<b>Telecom core revenues</b>	<b>Quarter ended 30 June 2007</b>		<b>Quarter ended 31 March 2007</b>		<b>Quarter ended 31 December 2006</b>	
	<b>Amount (\$ m)</b>	<b>% of total</b>	<b>Amount (\$ m)</b>	<b>% of total</b>	<b>Amount (\$ m)</b>	<b>% of total</b>
Local service revenue	264	32%	262	31%	260	31%
National calling <sup>6</sup>	60	7%	63	8%	65	8%
International calling <sup>7</sup>	27	3%	31	4%	32	4%
Calls to mobile	66	8%	71	9%	72	9%
Mobile calling	130	16%	130	16%	132	16%
Mobile data	55	7%	55	7%	57	7%
Broadband and internet	88	11%	73	9%	83	10%
Traditional data services	59	7%	63	8%	59	7%
Managed IP services	45	5%	46	6%	43	5%
Interconnection	33	4%	38	5%	39	5%
<b>Total</b>	<b>827</b>	<b>100%</b>	<b>832</b>	<b>100%</b>	<b>842</b>	<b>100%</b>

Source: Telecom 2007 Results

9. Telecom derives nearly one third of its core revenues from local service, which is largely monthly voice line rental. Local service revenue has been growing at a very slow rate while nearly all other revenue types appear static or in a state of slow decline. Broadband

<sup>4</sup> Excluding GST

<sup>5</sup> Total business and residential access revenue for quarter divided by total business, residential and centrex lines rounded to nearest dollar.

<sup>6</sup> National calls and national 0800 calls.

<sup>7</sup> Inwards and outwards calls, so excludes transit revenues

and internet revenue is rising after declining last quarter when large falls in business pricing and fewer dial-up subscribers offset the strong growth in broadband subscribers.

### OECD Benchmarking

10. In order to compare the costs of telecommunications services in different countries, the OECD has developed a series of standard consumption baskets reflecting different telecommunications end-user profiles. Details of publicly available plans are used to calculate the cheapest cost of filling each basket in each OECD country. This work is performed by Teligen and the underlying data is available on a subscription basis. The Commission has started to supplement the Teligen results by putting additional commonly used fixed line plans into the baskets, including TelstraClear's residential plans.
11. The tables below indicate how New Zealand products rank against other OECD countries using some of these baskets. The results are indicative only and need to be interpreted with caution as the baskets will be different from New Zealand customer profiles and do not capture special or confidential deals.

#### *Mobile Plans*

12. With the mobile plans, little has changed since the March quarter. Telecom now has the option of a 12 month contract for its FLEXI plans, leaving Vodafone's Base plans as the only New Zealand plans surveyed with unavoidable restrictive conditions.

**Table 5: Mobile Low User Basket**

Carrier and Plan	May 2007			February 2007			November 2006		
	Rank from 30 <sup>8</sup>	% of avg <sup>9</sup>	Price in \$NZ <sup>10</sup>	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ
Vodafone Base 20	17	103	255.49	15	101	256.87	22	118	299.54
Telecom FLEXI Mytime	24	135	336.11	26	133	336.11	26	132	336.11
Vodafone Motormouth Prepay	28	155	386.55	29	153	386.85	28	152	386.85
Telecom Go Prepaid Mates' Rates <sup>11</sup>	29	198	492.92	30	194	492.92	30	194	492.92

Source: Teligen T-Basket, Commission.

13. The Commission notes that the top ranked low user plan for New Zealand, Vodafone's Base 20 plan, has an extraordinary number of restrictive conditions, including a two year

<sup>8</sup> The rank is calculated taking the cheapest \$US/PPP of two alternative plans given for every OECD country apart from NZ, and assuming the NZ plan named is the one plan selected for NZ.

<sup>9</sup> Calculated by comparing the plan price with the average from the top ranked plan for each country

<sup>10</sup> Annual cost excluding GST, with numbers over 1,000 rounded to the nearest dollar.

<sup>11</sup> Teligen figure amended to correct for overstated cost of calls to Cellular Secretary and understated calling costs due to incorrect rounding assumption for billing.

contract term, heavy early termination penalties, no handset rebate and no international roaming, which is likely to make it unattractive to the vast majority of mobile phone users.

14. Telecom's prepay voice call charging policy is to charge per minute (rounding up the nearest minute) while with Vodafone the prepay policy is, after the first minute, to charge per second. This difference wasn't picked up by Teligen so the cost of Telecom's Go Prepaid Mates Rates plan when corrected is significantly higher than previously assumed.

**Table 6: Mobile Medium User Basket**

Carrier and Plan	May 2007			February 2007			November 2006		
	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ
Vodafone Base 60	20	111	491.34	19	106	491.34	25	130	598.01
Vodafone Choose 60 + Your Time 100 + TXT 100	26	149	660.94	26	142	660.94	27	143	660.94
Telecom FLEXI Anytime	30	183	811.29	29	175	811.29	29	176	811.29

Source: Teligen T-Basket.

15. The Commission notes that the top ranked medium user plan for New Zealand, Vodafone's Base 60 plan, has the same restrictive conditions as the Base 20 plan. In calculating the price of the second ranked plan, Vodafone's Choose 60, Teligen has included bonus minutes given when a 36 month term is selected which reduces the cost somewhat compared to a shorter term, e.g. selecting a 24 month term would push the price up by around \$42.

**Table 7: Mobile High User Basket**

Carrier and Plan	May 2007			February 2007			November 2006		
	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ
Vodafone Choose 120 + Your Time 100 + TXT 100	24	117	886.56	22	114	886.56	23	115	886.56
Telecom FLEXI Anytime	28	180	1,369	30	177	1,369	30	177	1,369

Source: Teligen T-Basket.

16. In calculating the price of the top ranked high user plan for New Zealand, Vodafone's Choose 120, Teligen has included the bonus minutes given when a 36 month term is selected, which reduces the cost somewhat compared to a shorter term, e.g. selecting a 24 month term would push the price up by around \$74.

### *Fixed line plans*

17. With the residential fixed line plans, Telecom line rentals have risen since last quarter and the Commission has corrected a Teligen error in the minute rounding assumption for residential national calls (which meant past costs were understated). The Commission has also added a significant number of new calling plans. For these reasons, the results for the previous quarter are not shown, but the effect has been to push the results for Telecom's plans further above the OECD average. TelstraClear's plans are generally significantly closer to the OECD average than Telecom's.

**Table 8: Fixed Line Residential Low User Basket**

Carrier and Plan	May 2007		
	Rank from 30	% of avg	Price in \$NZ
Telecom Anytime – AUCK, WGTN, CHCH	27	131	680.52
Telecom Anytime – rest of NZ	28	142	737.05
Telecom Homeline, \$3 weekends and nights – WGTN, CHCH	28	138	713.31
Telecom Homeline, \$3 weekends and nights – rest of NZ	28	153	794.38
TelstraClear InHome, Talk 24/7 – cable network WGTN, CHCH	22	110	568.36
TelstraClear HomePlan, Talk 24/7 – resale WGTN, CHCH	26	120	623.56
TelstraClear HomePlan, Talk 24/7 – resale rest of NZ	28	138	714.04

Source: Teligen T-Basket, Commission.

18. For the low user basket, TelstraClear's cable plan gets the highest NZ ranking at 22 out of 30 and 110 percent of the OECD average. The default plan for Telecom customers, Homeline, gets the lowest ranking, with the standard plan applying outside of Wellington and Christchurch ranking 28 out of 30 and 153 percent of the OECD average.

**Table 9: Fixed Line Residential Medium User Basket**

Carrier and Plan	May 2007		
	Rank from 30	% of avg	Price in \$NZ
Telecom Anytime – AUCK, WGTN, CHCH	26	129	914.93
Telecom Anytime – rest of NZ	28	137	971.47
Telecom Homeline, \$3 weekends and nights – WGTN, CHCH	28	151	1,067
Telecom Homeline, \$3 weekends and nights – rest of NZ	28	162	1,148
TelstraClear InHome, Talk 24/7 – cable network WGTN, CHCH	25	114	803.34
TelstraClear HomePlan, Talk 24/7 – resale WGTN, CHCH	22	106	751.88
TelstraClear HomePlan, Talk 24/7 – resale rest of NZ	25	119	842.36

Source: Teligen T-Basket, Commission.

19. For the medium user basket, all TelstraClear's plans are higher ranked than Telecom's. Its resale plan for Wellington and Christchurch gets the best result, ranking 22 out of 30 and 106 percent of OECD average. The resale plans have a discount on line rental for

increased toll spending. The margin by which Telecom's plans exceed the OECD average increases for the default Homeline plans while it drops slightly for the Anytime plans which offer cheaper calling rates.

**Table 10: Fixed Line Residential High User Basket**

Carrier and Plan	May 2007		
	Rank from 30	% of avg	Price in \$NZ
Telecom Anytime – AUCK, WGTN, CHCH	25	130	1,573
Telecom Anytime – rest of NZ	26	134	1,629
Telecom Homeline, \$3 weekends and nights – WGTN, CHCH	28	160	1,941
Telecom Homeline, \$3 weekends and nights – rest of NZ	28	167	2,022
TelstraClear InHome, Talk 24/7 – cable network WGTN, CHCH	21	106	1,291
TelstraClear HomePlan, Talk 24/7 – resale WGTN, CHCH	14	93	1,133
TelstraClear HomePlan, Talk 24/7 – resale rest of NZ	16	101	1,223

Source: Teligen T-Basket, Commission.

20. With the high user basket TelstraClear's results are again higher ranked than Telecom's, with its resale plan for Wellington and Christchurch ranking 14 out of 30 and coming in under the OECD average at 93 percent. The margin by which Telecom's plans exceed the OECD average further increases for the default Homeline plans, reaching 167 percent of the OECD average for the Homeline plan applying outside of Wellington and Christchurch. This increase is largely due to the high cost of fixed-to-mobile calls under these plans.

**Table 11: Fixed Line Business SOHO Basket**

Carrier and Plan	May 2007			February 2007			November 2006		
	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ	Rank from 30	% of avg	Price in \$NZ
Telecom Business Time	25	125	1,120	25	121	1,120	24	122	1,120

Source: Teligen T-Basket.

21. Telecom does not regularly raise its business line rentals so the price of the SOHO basket has not changed.
22. Benchmarking business costs is more problematic than benchmarking residential costs because businesses are more likely to be offered discounts and services whose prices are commercially sensitive. The Commission has reported the OECD's SOHO (small office/home office) basket results, which are less likely to be subject to these problems. Currently Teligen surveys only Telecom for its SOHO basket so the Commission may in future look to supplement this result with results from other providers.