



GOVERNMENT & INDUSTRY RELATIONS

Telecom New Zealand

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Osmond Borthwick
Manager, Network Access Group
Commerce Commission
PO Box 2351
WELLINGTON

Dear Osmond

Clarification of mobile termination offer made to Minister

I refer to your letter of 24 August 2005 requesting clarification on various aspects of our mobile termination offer made to the Minister.

I respond to your questions as follows.

- *Will the initial (1 September 2005) price reduction be introduced irrespective of the outcome of the Commission's reconsideration?*

Yes, we are already proceeding to make an offer to wholesale customers that would reduce the termination rate to 24c as from 1 September 2005. As set out in our offer to the Minister, the 24c price would apply from 1 September 2005 but would revert back to the originally contracted prices should regulation be introduced. If this was to occur, there would be no backdating, i.e. the reversion back to the currently contracted rates would only apply from the date when regulation was introduced.

- *Does the offer in any way influence the price and/or non-price terms at which Telecom retail mobile services will be offered? In other words, should the Commission assume the presence of a "waterbed" effect flowing from the reductions in the Telecom termination rate set out in the offer?*

As Telecom has submitted to the Commission, changes to termination rates affect the economics of mobile services. Telecom's four year reduction of termination rates will impact on mobile services pricing in this way.

- *Is there an implied 3G take-up profile implicit in the offer?*

The offer we have put forward is a termination rate for all FTM calls over both 2G and 3G. The vast majority (90% plus) of Telecom's FTM voice traffic is 3G as per the definition of 3G contained in the Telecommunications Act which in turn references the ITU standard ratified by the New Zealand Government. By mid-2007 when we turn off the 025 network effectively all traffic would be 3G.

- *Will Telecom offer its wholesale customers a contractual commitment to the new termination rates for a period equal to the term of the offer?*

Yes we will. If Telecom's commercial offer is accepted as an alternative to regulation, we would offer a contract extension to wholesale customers at the price points and timeframes set out in the offer.

- *Will the reductions apply to the termination rate for mobile originated voice calls (2G and 3G)?*

No, the offer relates to fixed to mobile calls as per the scope of the Commission's inquiry.

- *How will the pass-through of termination rate reductions to retail prices be measured? Will the reduction apply nationally and to all customer types?*

Our offer to the Minister provided a detailed worked example of how we would calculate the pass-through to retail prices. Telecom already sets out in its annual report an audited average fixed to mobile retail price, this being total fixed to mobile retail revenue divided by the total retail billed minutes. We would use this audited figure to demonstrate that the average fixed to mobile retail price has reduced in the year in question by the requisite amount. In respect of the reduction applying nationally and to all customer types, the average fixed to mobile retail price figure in the annual report covers all calls nationally to all customer types. We do not propose that we demonstrate that the average retail price has reduced by the requisite amount for, say, business and residential customers or across all geographies. Such an approach would only result in additional compliance costs and rigidities into the competitive marketplace. Our offer would see the full reduction in the wholesale termination rate flow through to customers as a whole.

None of this information is confidential and I would be happy for this letter or any of its contents to be incorporated into what the Commission may eventually release.

Yours sincerely



Bruce Parkes
General Manager
Government and Industry Relations