



COMMERCE COMMISSION

Please refer to:

11128
869001v1

22 July 2009

Richard York
Regulatory Manager
Vodafone New Zealand Ltd
Private Bag 92161
Auckland

Dear Richard

Investigation into Mobile Termination Access Service (MTAS): Benchmarking

I refer to Vodafone's letter regarding the Commerce Commission's (the Commission) MTAS Benchmarking where clarification was sought in relation to the way in which the Commission assessed and treated the countries which it has included in its benchmarking analysis. Specifically clarification was sought around:

- a) Whether the model is a bottom-up or a top-down cost model;
- b) Whether the cost inputs contained in the model are based on forward-looking cost estimates; historical cost estimates; or a combination of both; and
- c) Whether the cost model has been constructed using a scorched earth or scorched node approach.

The Commission has used a benchmarking exercise to estimate the efficient cost of providing the MTAS in New Zealand. The Commission's benchmarking is based on costs estimated by regulators using MTAS cost models in other jurisdictions.

The Commission regards the bottom-up (BU) modelling approach using LRIC based on current costs¹ as being the preferable approach as this best estimates the efficient costs of the provision of the MTAS, and has included modelled MTAS rates that are based on a BU approach in its benchmarks. The Commission also considers that benchmarks based on a BU model which is then calibrated with data from operators may be appropriate benchmarks, as these benchmarks are based on an estimate of the efficient costs of the provision of the MTAS.

The Commission notes that the use of BU modelled MTAS rates is consistent with the European Commission (EC) recommendation that:²

¹ The Commission notes current costs are generally regarded as being consistent with forward-looking costs.

² European Commission, *Commission Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU*, 7 May 2009, Recommendation (2), page 124/70.

AUCKLAND:

L 19, ASB Building
135 Albert Street
P.O. Box 105-222,
AUCKLAND 1143, NEW ZEALAND
Tel: (09) 920 3480 Fax: (09) 920 3481

WELLINGTON:

L 6, Vector Building
44 The Terrace
P.O. Box 2351,
WELLINGTON 6140, NEW ZEALAND
Tel: (04) 924 3600 Fax: (04) 924 3700
Main Office

CHRISTCHURCH:

L 2, Riverlands House
31 Victoria Street
P.O. Box 25-193
CHRISTCHURCH 8144, NEW ZEALAND
Tel: (03) 964 3450 Fax: (03) 964 3451

“... the evaluation of efficient costs is based on current costs and the use of bottom-up modelling approach using long-run incremental costs (LRIC) as the relevant cost methodology.”

The Commission notes a number of jurisdictions used in its benchmarking have developed a BU model and calibrated it with data from operators. The Commission's view is consistent with that of the EC.³

The Commission recognises the associated risk of embedding operator specific inefficiencies in the benchmark when allowing reconciliation with top-down data.

The Commission's preliminary view, reflected in the preference for MTAS prices to be based on BU modelling, is for cost inputs to be forward looking or current costs although the Commission accepts that models may include some historical costs.

The Commission has excluded benchmarks that rely solely on top-down modelling or historical cost inputs.

The Commission's preliminary view is that either a scorched earth or scorched node cost modelling approach is appropriate. Therefore, the Commission's benchmarks do not exclude either type of modelling approach.

Yours sincerely



Tom Forster
Manager
Telecommunications Branch

³ European Commission, *Commission Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU*, 7 May 2009, Recommendation (3), page 124/70