



COMMERCE COMMISSION

Telecommunications Key Statistics – June Quarter 2008

Introduction

1. The Commission is required to undertake telecommunications sector monitoring and information dissemination as part of its functions under the Telecommunications Act, and as part of this process produces regular monitoring reports. This report is for the quarter ending 30 June, and utilises readily available key statistics.¹
2. The format has been changed from that used in previous quarterly monitoring reports to make the report more informative and user friendly. There are new sections dealing with industry developments during the quarter and operational separation. The Commission intends to consult shortly with industry and other interested parties on the format of this report and any changes that may be desirable.
3. A more comprehensive set of statistics, commentary and analysis of New Zealand's telecommunications markets will be presented in an annual market monitoring report for the 2008 year.

The Quarter in Review

4. *April 2008*
 - Telecom lowered most of its retail fixed-to-mobile rates by two cents per minute after wholesale mobile termination rates reduced by one cent per minute. Telecom's standard residential fixed-to-mobile rate is 65 cents per minute compared to the wholesale mobile termination rate of 16 cents per minute.
 - TelstraClear launched a range of mobile voice and data business plans aimed mainly at small to medium-sized businesses.
5. *May 2008*
 - Telecom increased its residential line rentals. The standard residential home line rental was raised by \$1.25 to \$44.85. This was in line with inflation, as allowed under the local calling TSO (formerly the Kiwi Share).

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- Vodafone started to SIM lock the mobile handsets it supplied to customers, and was going to charge a \$50 fee for unlocking.
- Telecom announced that it would not be SIM locking the mobile handsets it will supply for use with its new GSM/WCDMA mobile network due to become operational within the next year.
- After encouragement from the Commission, Vodafone stopped locking its mobile handsets.

6. *June 2008*

- Vodafone launched its \$25 a month Home Phone Plus Local Plan. This plan allows a fixed line phone to be connected to the mobile network with calls charged for in the same way as a traditional fixed line phone.
- BayCity launched a new range of cheaper satellite broadband plans called Rocket Broadband, with prices starting at \$56.20 a month (for 256 kbps download speed and 500 MB datacap) and \$167.63 for installation.
- Vodafone launched its Local Zone service where a mobile phone can adopt a fixed line number and have all calls treated like fixed line calls while the phone is in a customer's home. Home Zone is an add-on to a You Choose plan and costs \$20 a month, including free local calls while in the home zone. Calls to the home number while the phone is outside the home zone can be diverted to the mobile phone for a flat rate of \$30 a month.
- The Commission released its final determination on the price and non-price terms for the backhaul services that support the unbundled copper local loop (UCLL) and unbundled bitstream access (UBA) broadband services.

7. *July 2008*

- On 1 July, both Vodafone and TelstraClear raised residential line rentals by between \$1 and \$1.50 a month. Given this was only one day outside the June quarter and two months after similar increases by Telecom, these increases were taken into account in the benchmarking results shown later in this report.

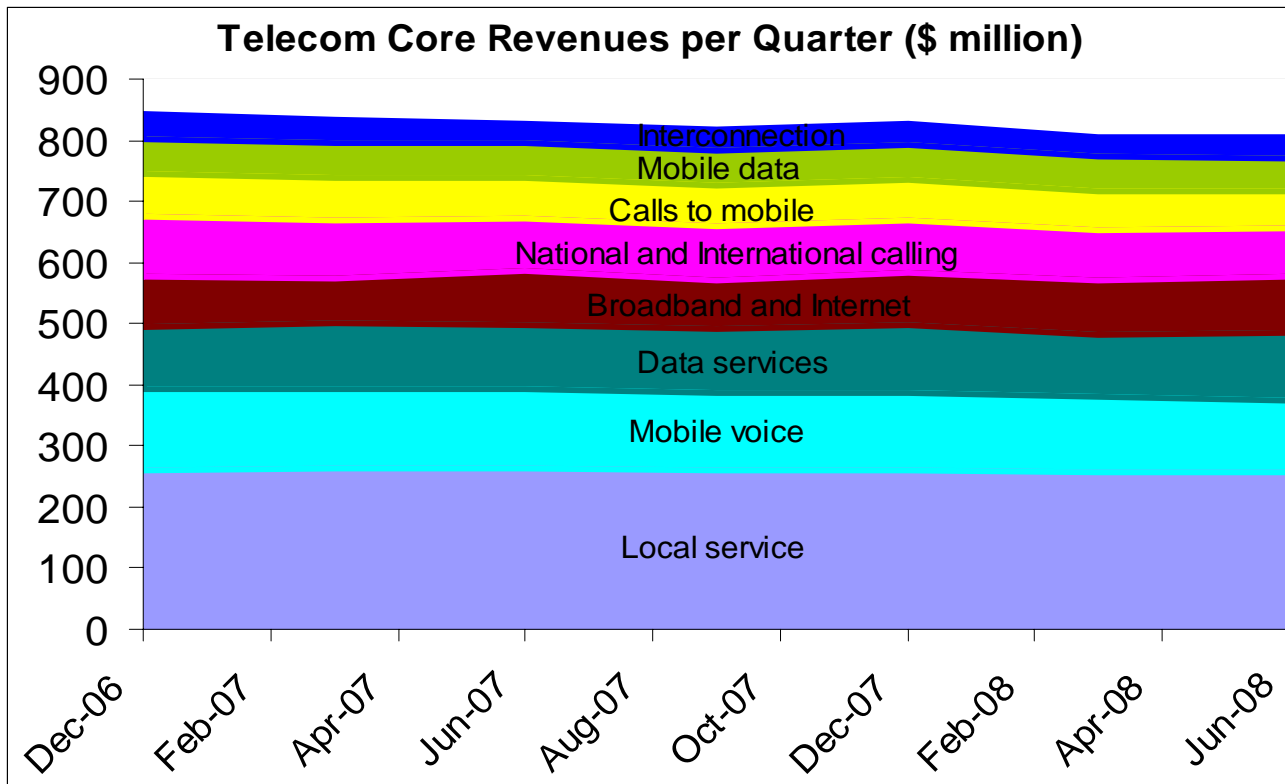
The Implementation of Operational Separation in Telecom

8. Telecom's separation plan of 25 March 2008, which comprised various undertakings to achieve the robust operational separation of Telecom, was provided to the Minister of Communications and was approved under section 69L of the Telecommunications Act 2001 on 30 March 2008.
9. Schedule 1 of the Undertakings sets out the binding commitments that Telecom has made regarding migration of its existing services to the equivalence of supply required by operational separation. The Commission monitors Telecom's compliance with the undertakings, including achievement against the tracking and enforceable milestones listed in Schedule 1.
10. Telecom has reported that it has met the milestones falling within the June quarter, apart from the expectation of a breach of a Telecom Zones 1, 2 and 3 milestone specified in Schedule 1. This milestone requires Telecom by 30 June 2008 to have allocated 80 percent of its PSTN lines to those three geographic zones. The milestone is important as Telecom must have 80% of its lines in Zone 1, 2 and 3 being capable of being migrated from the PSTN by 2012. Correspondence regarding this issue is on the Commission's website.²
11. There was one complaint regarding Telecom's behaviour with respect to the milestones received by the Commission during the quarter. This was referred to the Independent Oversight Group established under the undertakings.

Telecommunications Market Revenues

12. Comparing the trends in revenues earned in the different telecommunications markets gives an indication of the dynamics of the market. Telecom, which makes up a significant proportion of the market, publishes quarterly revenues for the different areas of its business, and the Commission has been tracking revenues for what it considers to be core telecommunications services. These are shown in Figure 1.
13. Telecom's core revenues fell by \$1 million from last quarter to \$805 million. However, this result disguised some rises and falls in various revenue categories that offset each other. The largest falls were reductions in revenue from mobile voice and calls to mobile of \$4 million. The largest rises were increases in revenue from data services and broadband and internet of \$6 million.

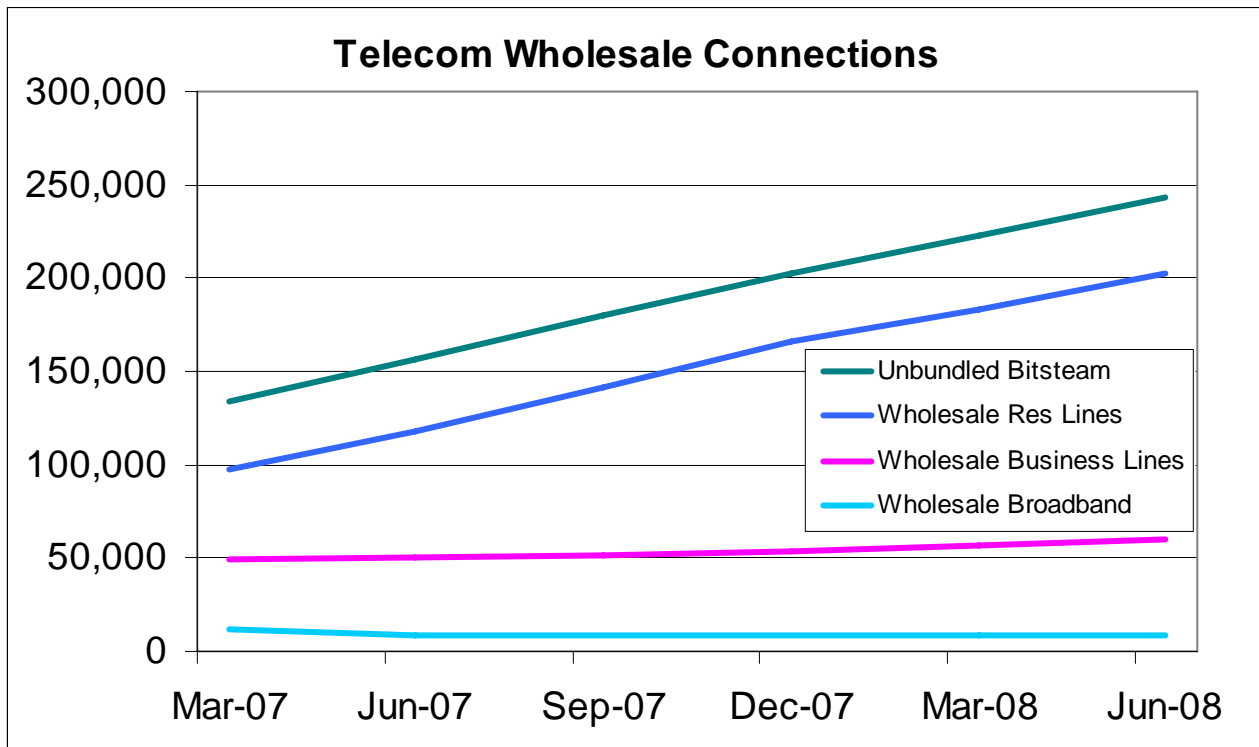
²<http://www.comcom.govt.nz/IndustryRegulation/Telecommunications/OperationalSeparationofTelecom/implementationoftheundertakings.aspx>

Figure 1: Telecom Core Revenues

Source: Telecom

Wholesale Connections

14. Telecom is the predominant wholesaler of telecommunications services in New Zealand, and the Commission has been tracking the connection numbers for its most popular wholesale products. The number of Telecom residential lines resold by other carriers has now reached just over 200,000, as illustrated in Figure 2.
15. Unbundled copper local loop is a new product sold directly by Telecom's local access network operator, Chorus. The Commission understands several thousand lines had been unbundled as at 30 June 2008, but the exact number is still considered by the UCLL retailers to be too commercially sensitive to be disclosed. The Commission hopes to start publicly reporting unbundled line numbers from next quarter.

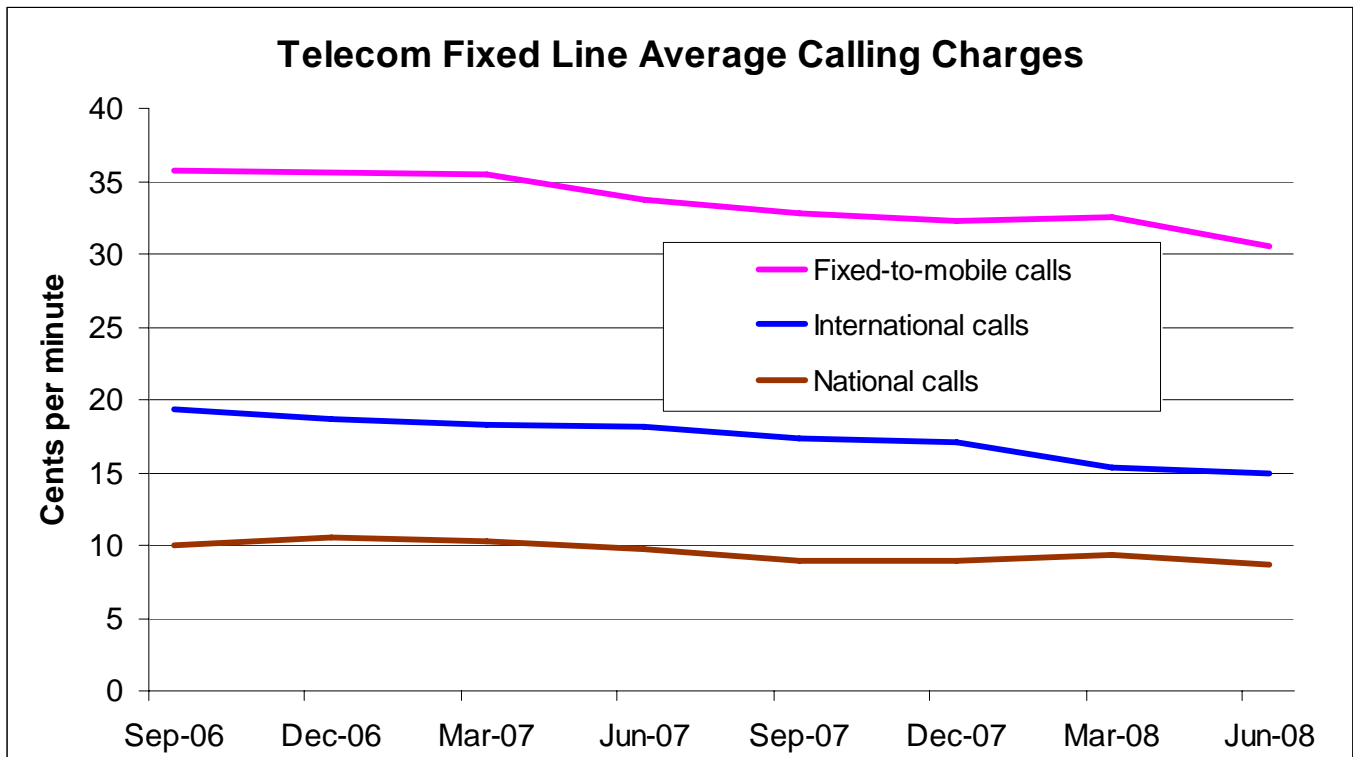
Figure 2: Telecom Wholesale Connections

Source: Telecom

Average Prices

16. 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 and on-net/off-net pricing.
17. Telecom publishes average calling prices and the Commission tracks these as one indicator of the level of nominal telecommunications prices. These are shown in Figure 3.
18. The Commission also calculates average access revenue per line as a proxy for the average fixed line rental charged by Telecom across all its customers. This figure has remained unchanged for the last two years at \$43 per month.

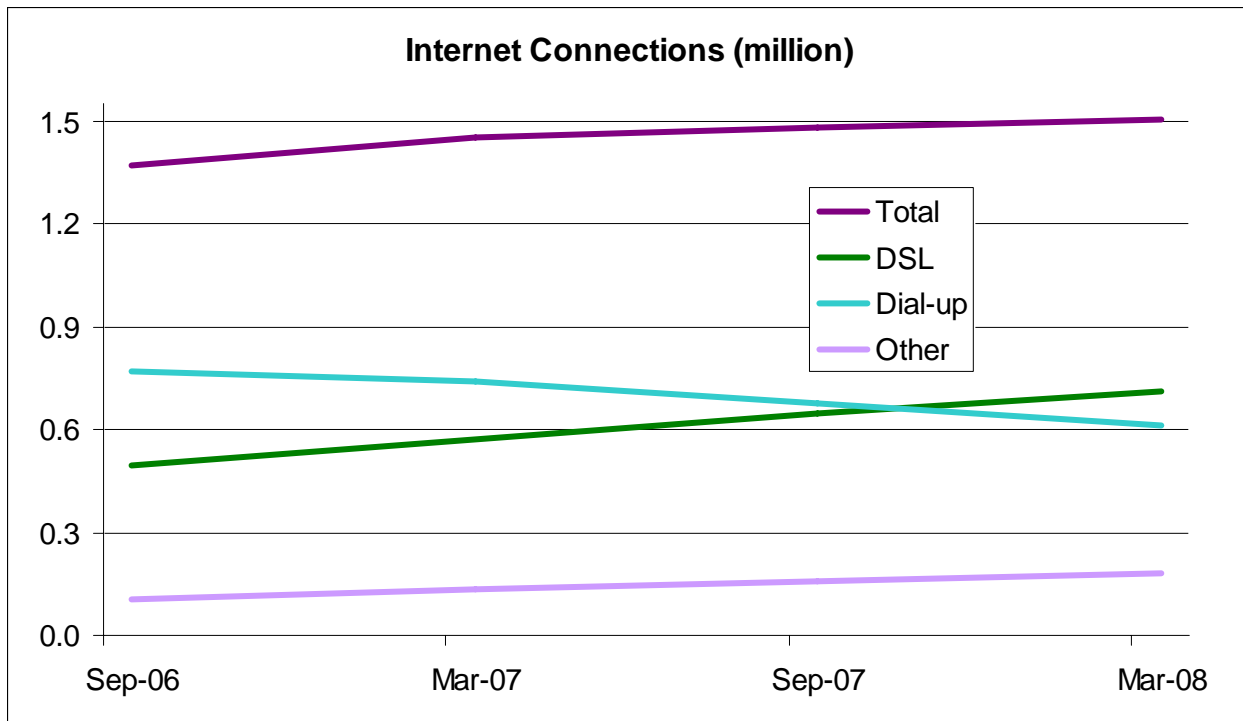
Figure 3: Telecom Fixed Line Average Calling Charges



Source: Telecom

Internet Connections

19. Statistics NZ's ISP survey collects data every six months (March and September) on the number of internet subscribers and the type of technology used for the connection. The Commission is tracking these results, as shown in Figure 4, to observe the rate of dial-up to broadband substitution and the overall growth in internet connectivity. The results also show growth in the use of non-DSL broadband technologies, with 'Other' internet connections shown in Figure 4 including broadband connections by way of co-axial cable, mobile data card, fixed wireless technologies and satellite.

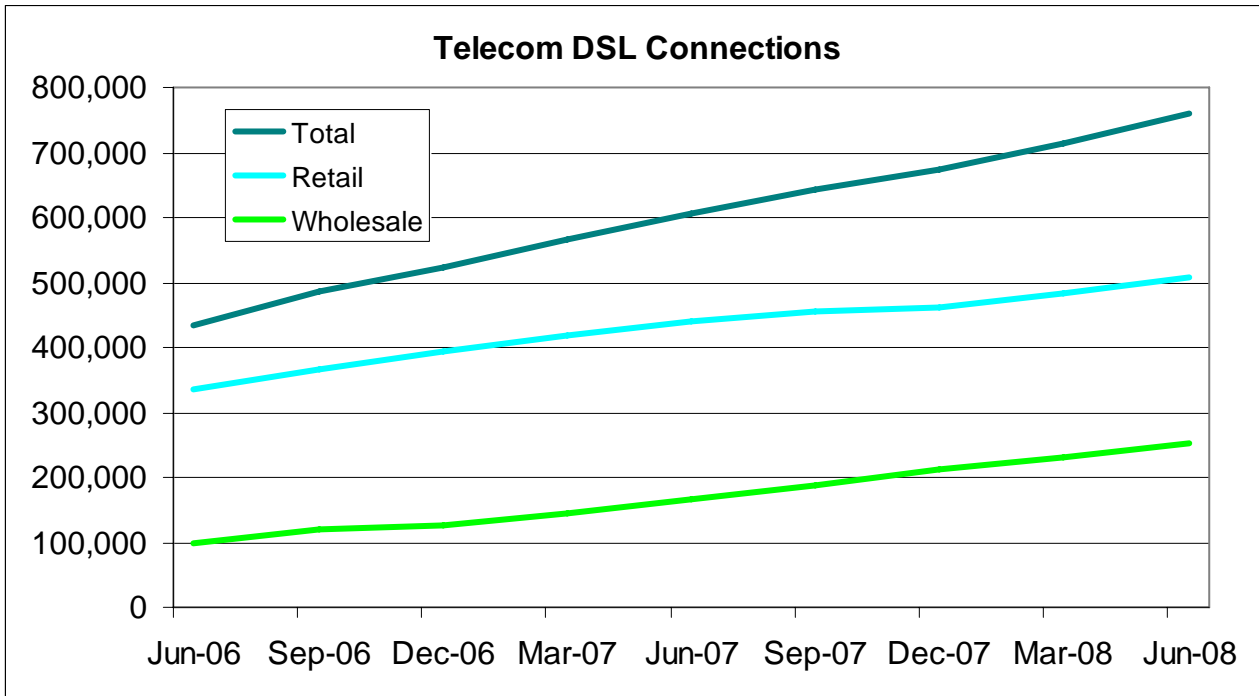
Figure 4: Total Internet Connections in New Zealand

Source: Statistics NZ

Broadband

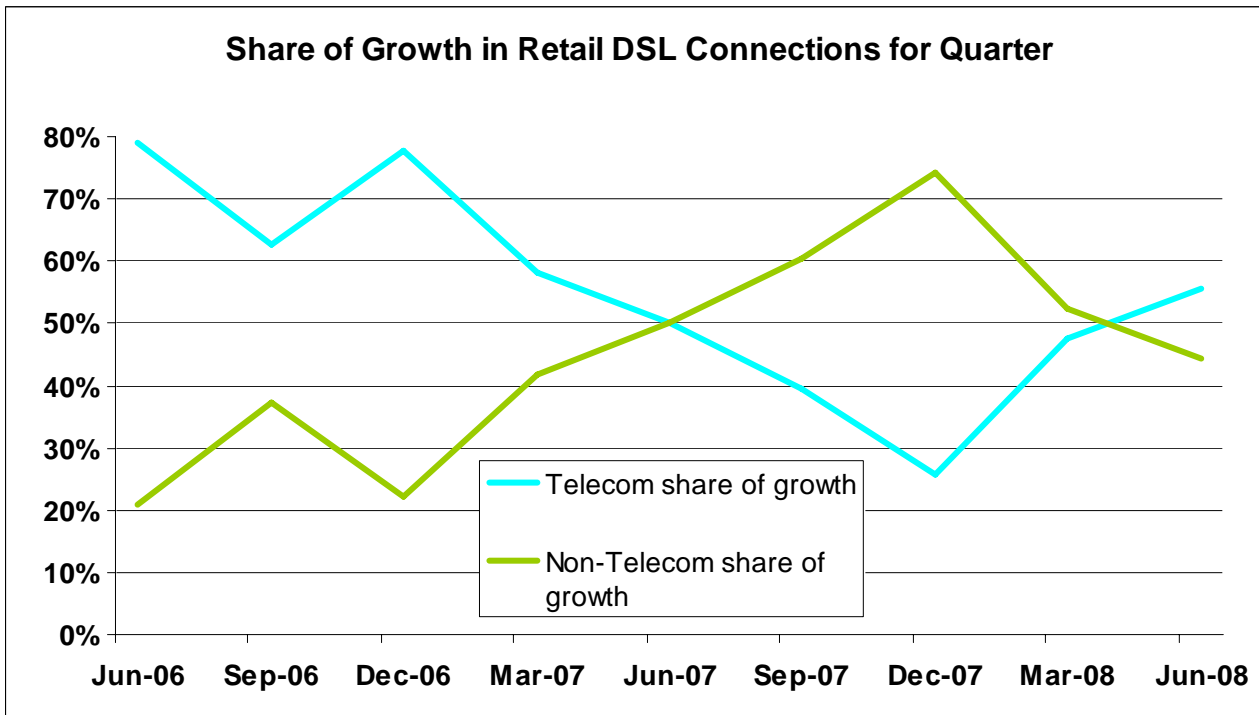
20. Most broadband connections in New Zealand are provided over a standard copper telephone line using DSL technology, and almost all DSL connections are provided over Telecom's network. One third of the DSL connections provided over Telecom's network were wholesale connections provided to another retailer. Figure 5 shows the growth in Telecom's retail and wholesale DSL connections. Telecom's retail connections have been growing more slowly than the total DSL market. This has resulted in Telecom's share of the retail DSL market decreasing from 76 percent in June 2006 to 67 percent in June 2008.
21. Telecom's share of the growth in retail DSL connections that has occurred each quarter has fluctuated markedly over the last two years, as can be seen in Figure 6. The recent upswing in Telecom's share of retail DSL growth, reaching 56 percent of quarterly growth in the June quarter, could be due to its \$16.95 'broadband at dial-up prices' promotion.

Figure 5: Telecom DSL Connections



Source: Telecom

Figure 6: Telecom Share of Growth in Retail DSL Connections



Source: Telecom

- 22. The Commission reports the total number of broadband connections, including non-DSL connections, every six months (June and December).

23. Unlike Statistics NZ, the Commission does not currently count broadband connections supplied by way of mobile data cards. These are not counted by the OECD in its broadband penetration statistics. However, the Commission would be interested in collecting such information in the future.

Table 1: Total Broadband Connections

Total broadband connections	30 June 2008		31 December 2007		30 June 2007	
DSL	763,000	89.4%	674,000	89.0%	605,000	88.5%
Cable	50,418	5.9%	48,087	6.4%	47,900	6.9%
Fixed Wireless	39,602	4.6%	35,045	4.6%	31,600	4.6%
Total	853,020	100.0%	757,132	100.0%	683,500	100.0%

Source: Commerce Commission, Telecom

OECD Benchmarking

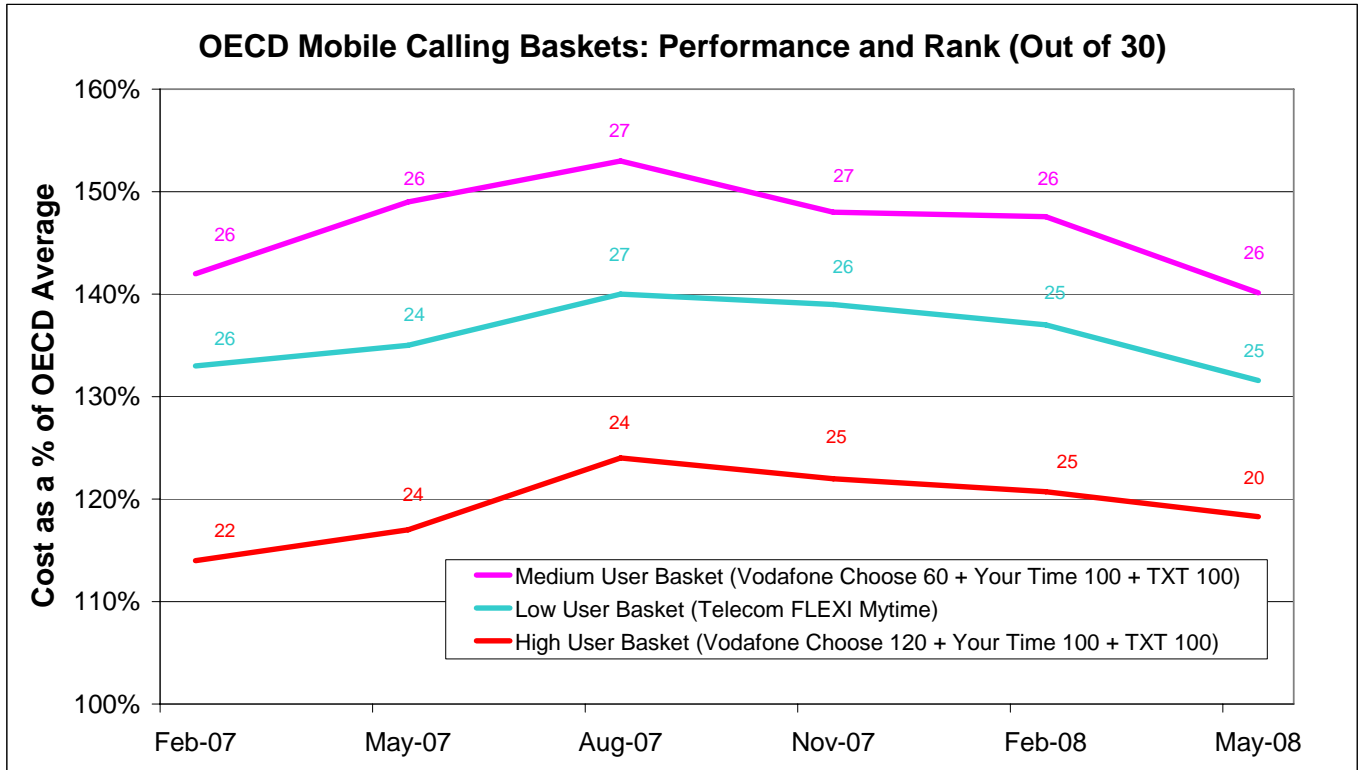
24. In order to compare the costs of telecommunications services in different countries, the OECD has developed a series of standard consumption baskets reflecting different telecommunications end-user profiles. Details of publicly available plans are used to calculate the cheapest cost of filling each basket in each OECD country. The benchmarking is performed by Teligen and the underlying data is available on a subscription basis. When interpreting the results it is important to note that the results are for the cheapest plan, which may not be the most widely used plan.
25. The Commission supplements the Teligen results by putting into the baskets additional commonly used New Zealand plans supplied by Telecom and other major carriers. This allows the Commission to observe price differences between New Zealand carriers.
26. The figures below indicate how New Zealand products rank against the cheapest plans of other OECD countries. The results are indicative only and need to be interpreted with caution. In addition to the reservation expressed above, the benchmarking does not capture special or confidential deals and the baskets are likely to differ from New Zealand customer profiles.

Mobile Plans

27. All the mobile plans benchmarked have not changed in price in \$NZ over the last 15 months, and have continued to rank in the bottom quartile of the 30 OECD countries surveyed, as can be seen in Figure 7.
28. The Commission notes that the OECD methodology is unable to benchmark plans that provide unlimited calling between one or several specified on-net numbers for a fixed monthly fee. While this may mean there are readily accessible plans that offer better value than those benchmarked, the Commission notes such plans offer this value only in the confines of closed network groups.
29. In its recent monitoring reports the Commission has not been benchmarking the results for Vodafone's You Choose Base plans because it has concerns over their accessibility. In June 2008, Vodafone made changes to its website to allow customers to be able to subscribe to the Base plans over the internet without having to visit a retail outlet. The changes effectively made the Base

plans ‘internet only’ plans. When Teligen became aware of this fact it informed the Commission and Vodafone that it intended to exclude the Base plans from future benchmarking as it did not knowingly benchmark internet only plans. This position is reflected in Figure 7.

Figure 7: NZ Performance in OECD Mobile Calling Baskets



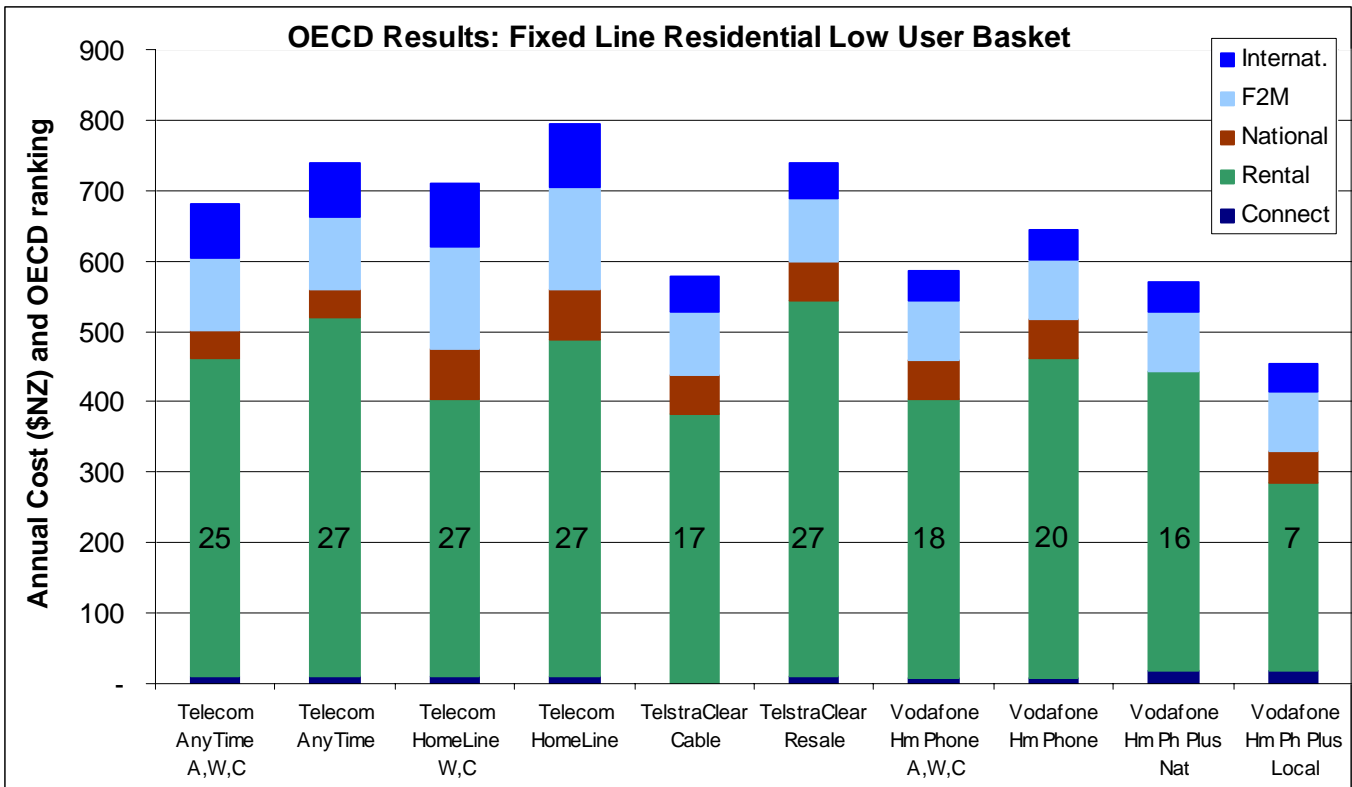
Source: Teligen T-Basket.

Fixed plans

30. This quarter the Commission has ranked Vodafone’s new fixed wireless Vodafone Home Phone Plus Local plan. The Home Phone Plus plans use Vodafone’s cellular wireless network, so may not provide the same voice quality as a fixed line service and cannot be used for dial-up internet or broadband. However, the Commission considers them to be a reasonable substitute for a fixed line voice service in areas with good Vodafone mobile network coverage. Users are provided with a wireless ‘box’ into which they plug a fixed line phone.
31. The Vodafone Home Phone Plus National plan provides free national calls (subject to a fair usage policy) and the Vodafone Home Phone Plus Local plan provides free local calls. Fixed-to-mobile calls are now charged at the same flat rate of 38 cents per minute that apply to Vodafone’s residential fixed line plans.
32. Telecom continues to use geographic pricing for its fixed line plans, offering a cheaper line rental for the standard HomeLine plan in Wellington and Christchurch, and a cheaper Anytime plan line rental in Auckland, Wellington and Christchurch. This geographic pricing is also observed in the pricing of Vodafone’s fixed line plans which rely on reselling Telecom lines. TelstraClear discounts its line rental for increased levels of spending on calls.

33. Given the increasing number of plans being benchmarked each quarter and the desire to illustrate results in graph format where possible, this report has graphed fixed line results for just the latest quarter. Figure 8 shows how much each of the New Zealand plans benchmarked costs when used to fill the OECD residential fixed line low user basket. The cost has been divided into the line rental and various calling cost components. Standard connection and reconnection charges are spread over five years. The connection charge for the Vodafone Home Phone Plus wireless plans is assumed to be the \$99 that applied before the current special deal of free connection, which expires on 9 September 2008.
34. The OECD benchmarking methodology rates the Vodafone Home Phone Plus Local plan as the cheapest NZ plan for the residential fixed line low user basket (ranking 7 out of 30 and 80 percent of the OECD average). The cheapest plan that actually uses a fixed line is the TelstraClear InHome cable plan (ranking 17 out of 30 and 101 percent of the OECD average) followed closely by the Vodafone Home Phone available in Auckland, Wellington and Christchurch (ranking 18 out of 30 and 102 percent of OECD average).

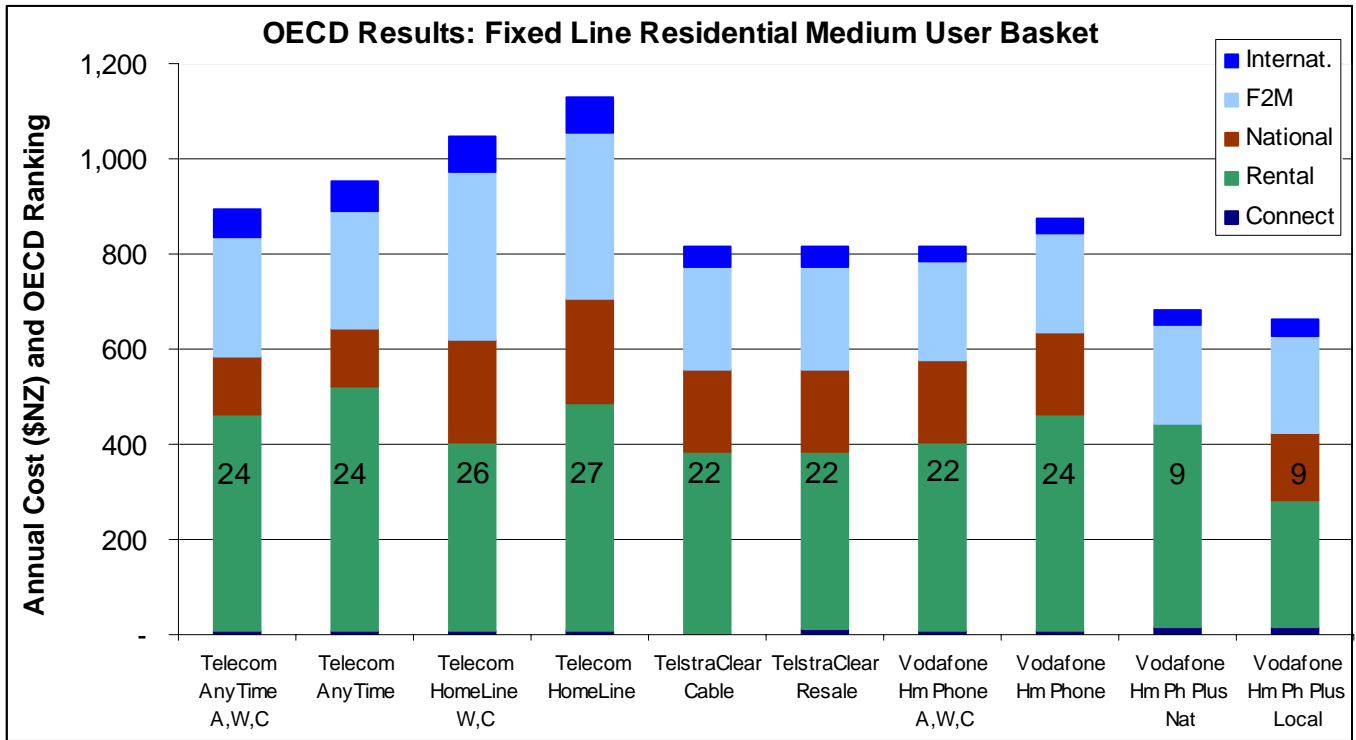
Figure 8: NZ Performance in OECD Fixed Line Low User Basket



Source: Teligen T-Basket, Commission.

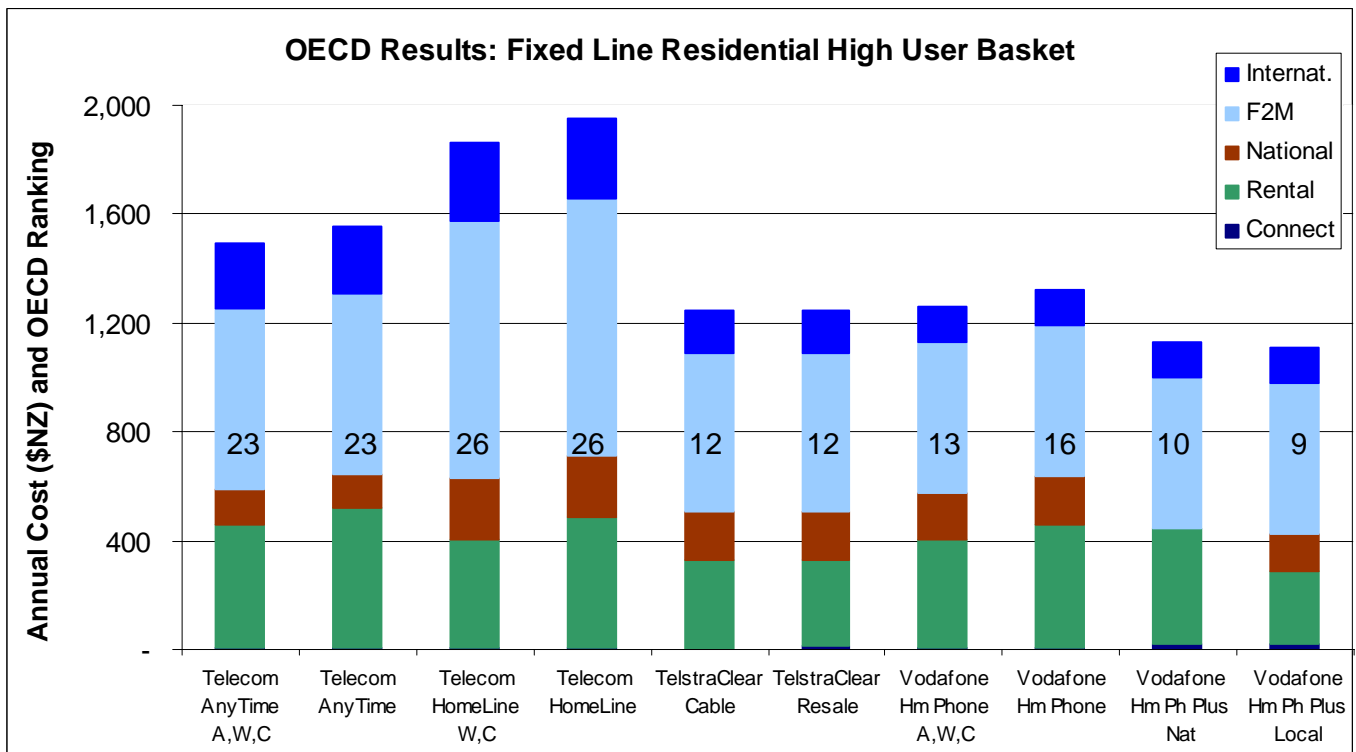
35. Figure 9: NZ Performance in OECD Fixed Line Medium User Basket shows the cost of New Zealand plans using the OECD residential fixed line medium user basket. The Vodafone Home Phone Plus Local plan is again the cheapest (ranking 9 out of 30 and 85 percent of the OECD average) followed closely by the Vodafone Home Phone Plus National plan. The cheapest plan that uses a fixed line is again the TelstraClear InHome cable plan (ranking 22 out of 30 and 104 percent of the OECD average). This is followed closely by the TelstraClear HomePlan resale plan and the Vodafone Home Phone available in Auckland, Wellington and Christchurch. All three plans have identical rankings using the OECD methodology.

Figure 9: NZ Performance in OECD Fixed Line Medium User Basket



Source: Teligen T-Basket, Commission.

Figure 10: NZ Performance in OECD Fixed Line High User Basket



Source: Teligen T-Basket, Commission.

36. Figure 10 shows the cost of New Zealand plans using the OECD residential fixed line high user basket. The Vodafone Home Phone Plus Local plan is again the cheapest (ranking 9 out of 30 and 83 percent of the OECD average) followed closely by the Vodafone Home Phone Plus National plan. The cheapest plan that uses a fixed line is again the TelstraClear InHome cable plan (ranking 12 out of 30 and 93 percent of the OECD average) followed closely by the TelstraClear HomePlan resale plan. These two plans have identical rankings.
37. There are still data issues with Teligen's SOHO (Small office/home office) results for May 2008, so no SOHO result will be given for this quarter.