



COMMERCE COMMISSION

Telecommunications Key Statistics – September 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 September, and utilises readily available key statistics.¹
2. A new format for the report was adopted last quarter to make the report more informative and user friendly. There are now sections dealing with industry developments during the quarter and the operational separation of Telecom. The Commission has recently consulted with industry and other interested parties on the format of the report and any changes that may be desirable. The Commission is currently analysing the feedback received.
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. *July 2008*
 - Vodafone announced it would continue building out its 3G mobile network, after last year saying it had suspended its build because of regulatory uncertainty. Vodafone is planning for its 3G broadband network to reach 97 per cent of places where the population lives and works by April 2010.
 - The V8 phone card for use with Vodafone mobile phones was launched, allowing international calls to be made at much cheaper rates than if dialled direct. Each call incurs a 19 cent 'flagfall' at the start, and then costs 5 cents per minute to more than 30 countries.
5. *September 2008*
 - TelstraClear launched a mobile phone plan for its residential customers, which utilises the Telecom CDMA network. The plan is available only to existing TelstraClear residential

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customers, costs \$20 a month and has a minimum term of 24 months. The plan includes a free Nokia 6275i handset, 500 texts to any network, and a flat 29c per minute rate for all national calling.

- Vodafone announced it had signed a deal to provide Slingshot with wholesale access to Vodafone's unbundled local loop services from November 2008.
- Telecom commenced offering enhanced unbundled bitstream access (enhanced UBA) wholesale services. Enhanced UBA provides a quality of service that allows telecommunications companies to provide good quality VoIP and other real-time services over broadband.
- TelstraClear announced that its residential broadband customers will no longer be metered for the data used when browsing the Trade Me website and viewing new video content on its website clearnet.co.nz.

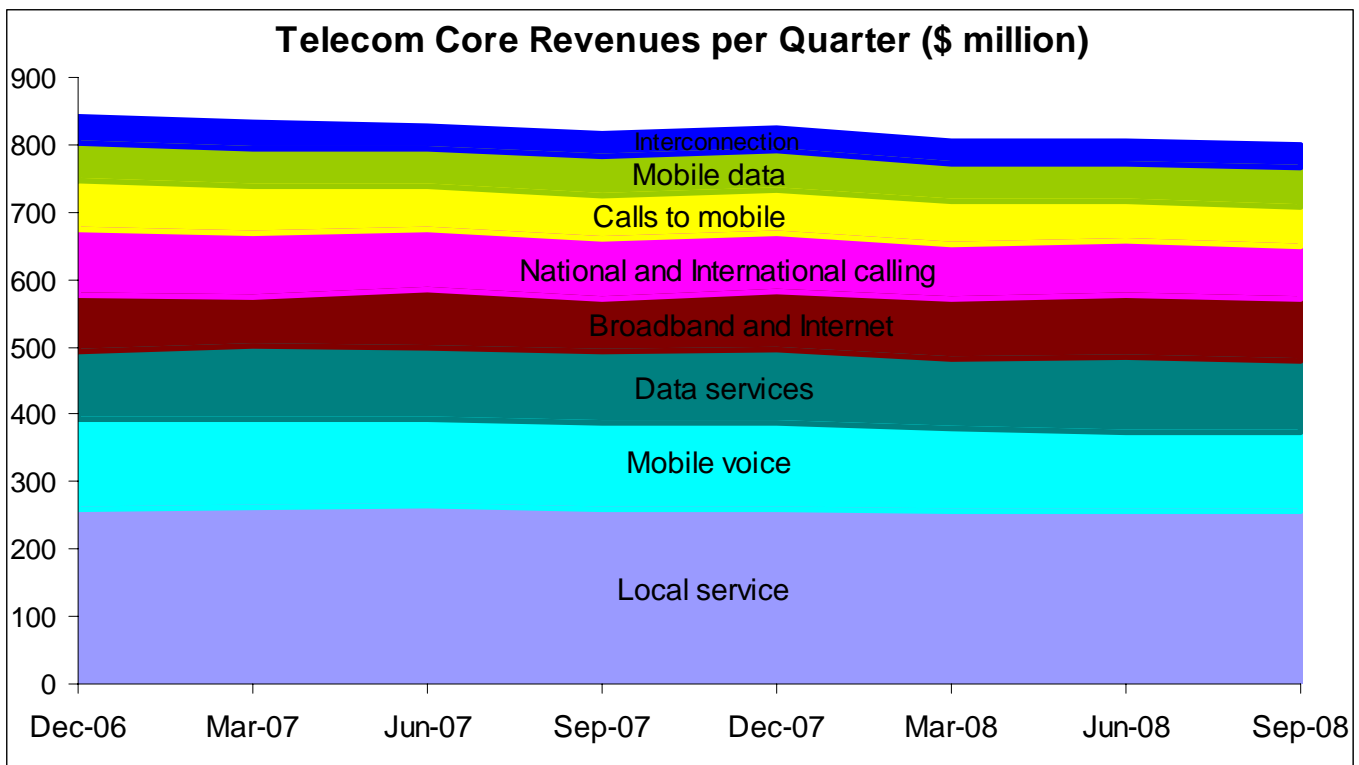
The Implementation of Operational Separation in Telecom

6. Telecom reported that it has remedied the breach of the Telecom Zones 1, 2 and 3 milestone reported last quarter.
7. Telecom has reported to the Commission that it has complied with all the operational separation milestones due in the September quarter. The Independent Oversight Group (IOG) are expected to formally report on the Telecom's September quarter compliance shortly.

Telecom’s Market Revenues

8. Comparing the trends in revenues earned in the different telecommunications markets gives an indication of the dynamics of the market. Only Telecom’s revenues are available on a quarterly basis, but since it makes up a significant proportion of the market, the Commission has been tracking the gross revenue for what it considers to be Telecom’s core telecommunications services². These are shown in Figure 1.
9. Telecom’s core revenues fell by \$6 million from last quarter to \$799 million. While most of Telecom’s revenue categories were static or showed a small decline, mobile data revenue increased by \$2 million to \$58 million.

Figure 1: Telecom Core Revenues



Source: Telecom

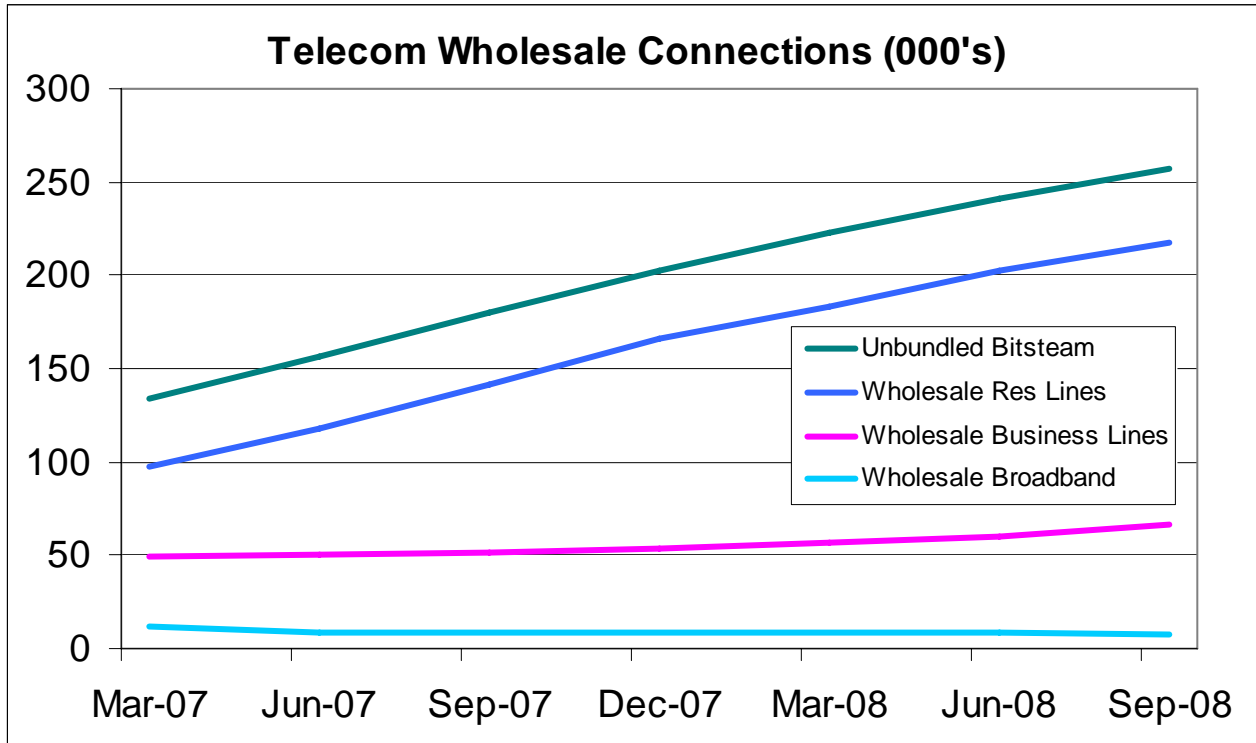
Wholesale Connections

10. Telecom is the predominant wholesaler of telecommunications services in New Zealand, and the Commission has been tracking the number of connections for its most popular wholesale products. The wholesale products, namely unbundled bitstream (broadband) and wholesale residential lines, continued the strong growth shown over the last 18 months, as illustrated in Figure 2.

² This revenue excluded is largely earnings from IT services and non-domestic calling, which was \$257 million for the quarter.

11. Unbundled copper local loop is a new product wholesaled directly by Telecom’s local access network operator, Chorus, to Telecom’s retail competitors, and is proving very popular. The number of unbundled lines at the end of the quarter was over 12,000 lines.

Figure 2: Telecom Wholesale Connections

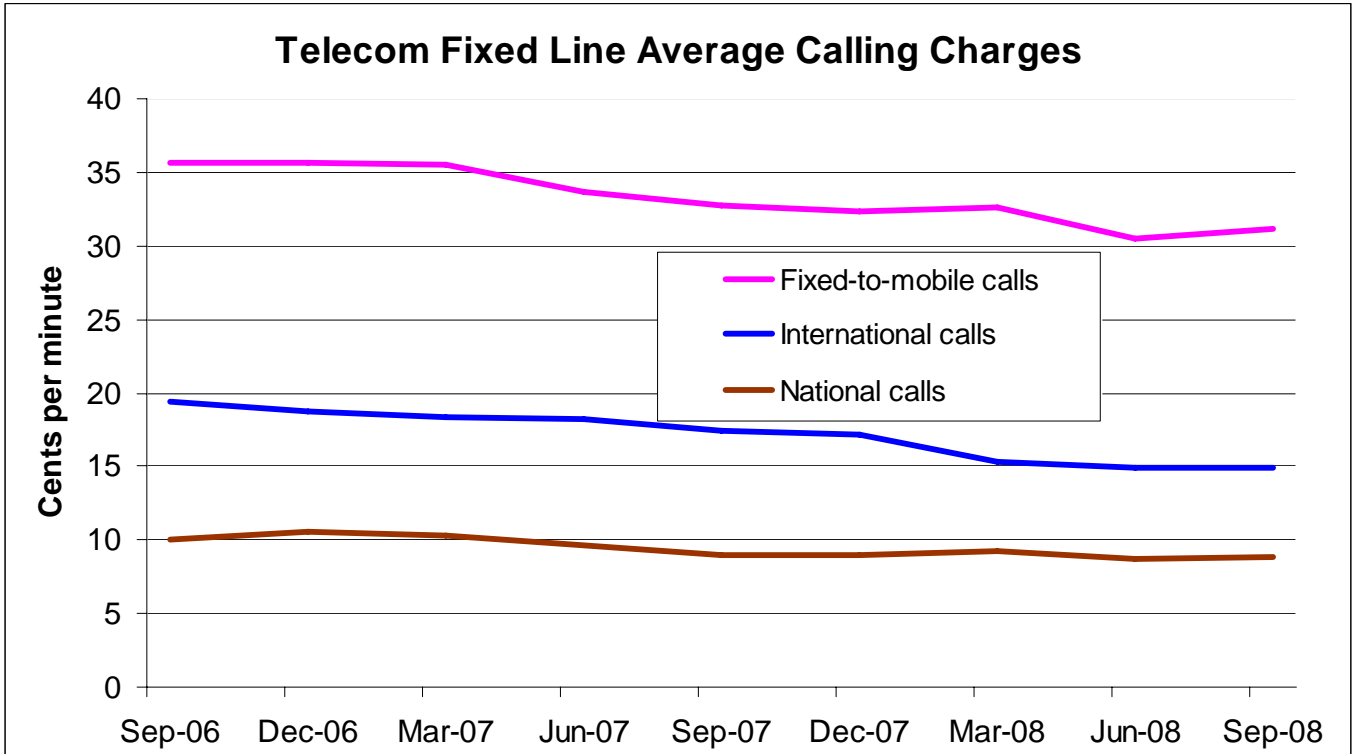


Source: Telecom

Average Prices

12. It is difficult to accurately measure how prices for individual services used by telecommunications end-users are moving over time because of increased bundling, changing consumer behaviour, a changing product suite, and complex tariffs like capped calling and on-net/off-net pricing.
13. Telecom publishes average calling prices and the Commission tracks these as one indicator of the level of nominal telecommunications prices. As shown in Figure 3, these have not declined over the quarter, and the average price for fixed-to-mobile calls has increased slightly. One possible explanation for this observed increase is the impact of falling call volumes on subscription based calling charges.
14. 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 over two years at around \$43 per month.

Figure 3: Telecom Fixed Line Average Calling Charges

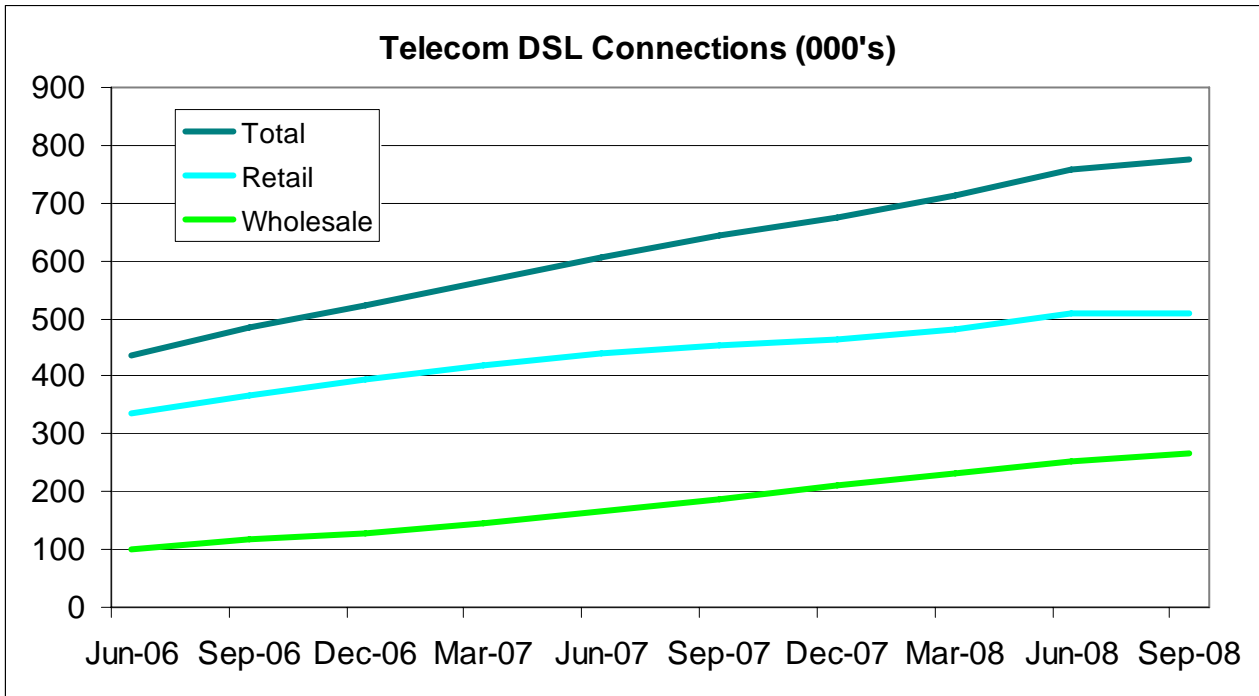


Source: Telecom

Broadband Connections

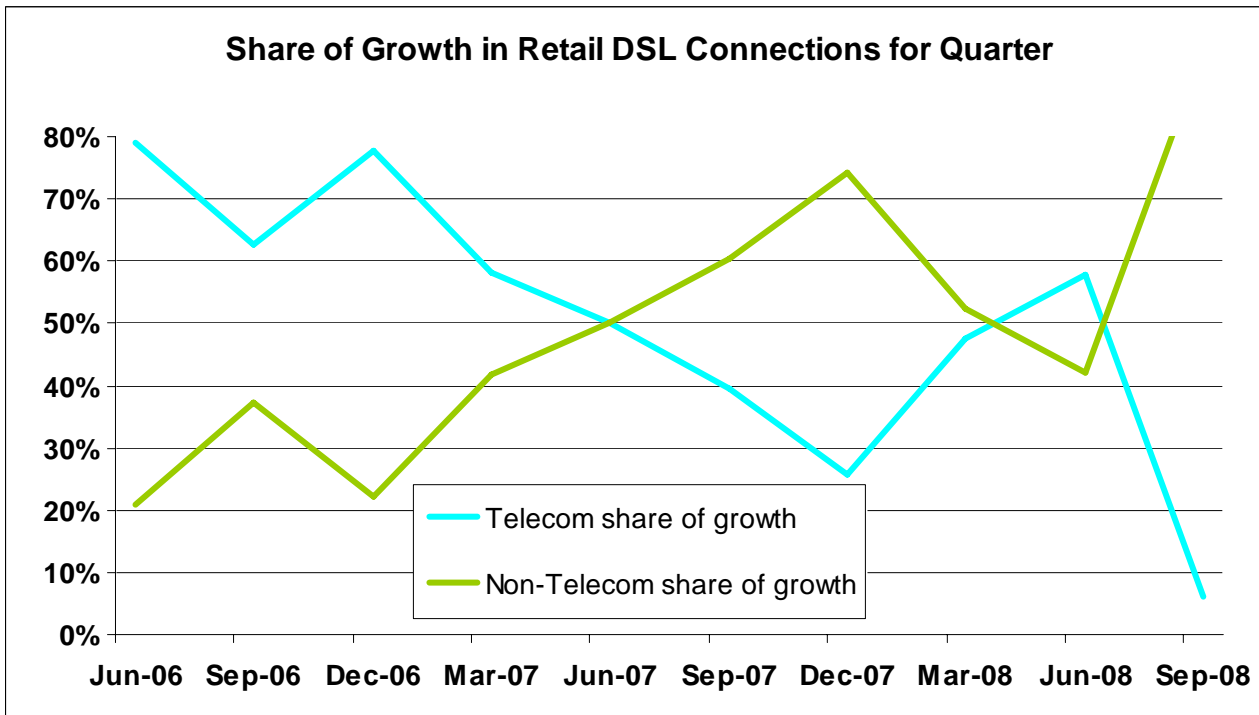
15. Most broadband connections in New Zealand are provided over a standard copper telephone line using DSL technology. Almost all DSL connections are provided over Telecom's network. One third of the DSL connections provided over Telecom's network were wholesale connections provided to another retailer. Figure 4 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% in June 2006 to 66% in September 2008.
16. 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 5. The recent downturn has been the largest experienced by Telecom, with its increase in retail DSL customers equal to only 6 percent of the growth in retail customers for the quarter. This could be due to the end of its \$16.95 'broadband at dial-up prices' promotion and the high charge for extra data usage imposed on customers of the Basic broadband plan pushed in this promotion. The Commission notes that the data charges for extra data used on Telecom's Basic plan are equivalent to around \$20 a gigabyte compared to the \$1 to \$5 a gigabyte that other popular ISPs charge. The data allowance for the Basic plan was only 200 megabytes in the September quarter but increased to 500 megabytes in October 2008.

Figure 4: Telecom DSL Connections



Source: Telecom

Figure 5: Telecom Share of Growth in Retail DSL Connections



Source: Telecom

17. The Commission collects the total number of broadband connections, including non-DSL connections, only every six months (June and December). The December numbers will be reported in the next monitoring report.

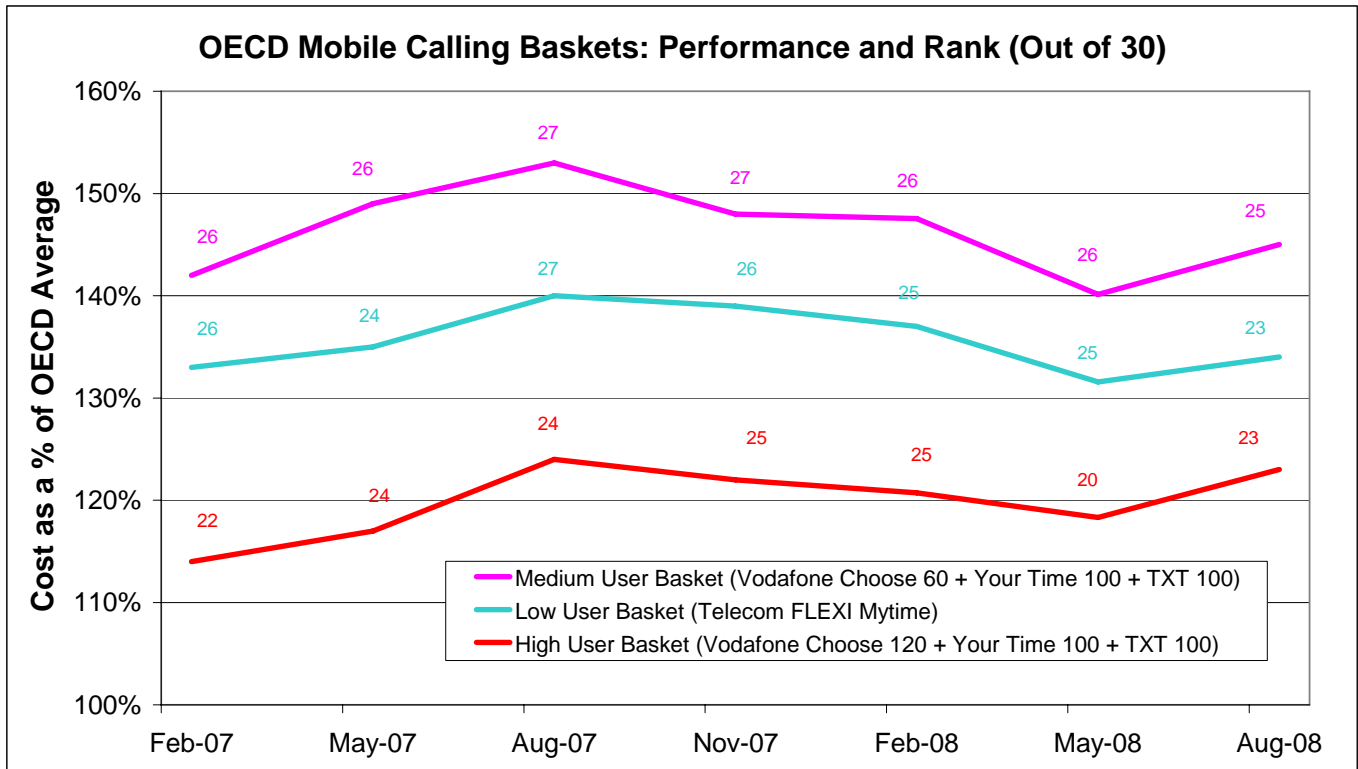
OECD Benchmarking

18. 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 least expensive plan surveyed in each country, which may not be the most widely used plan.
19. 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.
20. 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

21. The main mobile plans benchmarked have not changed in price in \$NZ over the last 18 months. As evident in Figure 6, for the most part these plans have continued to rank in the bottom quartile of the 30 OECD countries surveyed.

Figure 6: NZ Performance in OECD Mobile Calling Baskets



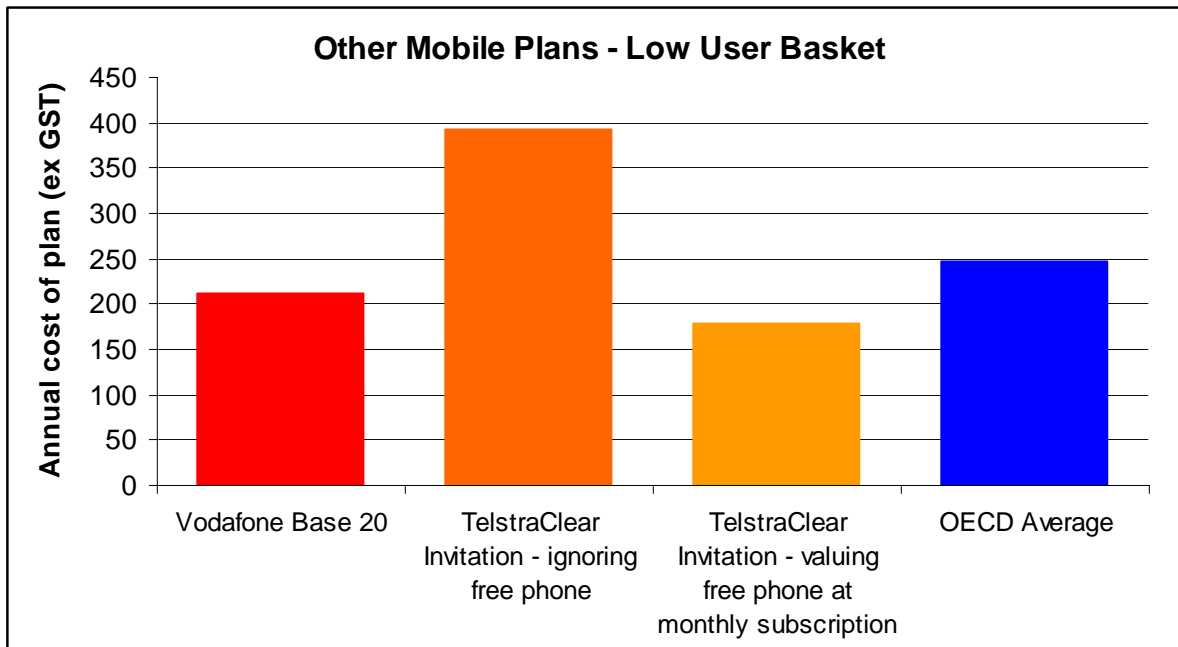
Source: Teligen T-Basket.

22. 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 the closed network groups they promote.
23. This quarter the Commission has benchmarked some additional mobile plans for separate consideration because it does not consider them to be mainstream plans. These are Vodafone’s Base plans and TelstraClear’s new residential Invitation mobile plan. As can be seen in Figure 7, Figure 8 and Figure 9, the plans compare favourably to the OECD average.
24. The Commission has not benchmarked the results for Vodafone’s three Base plans for some time because it had 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. In response, Vodafone made the plans available in store again in the September quarter. However, the plans are still not promoted or listed in store displays. Furthermore, the Commission understands that while some commission is paid for their sale, it is less than for other Vodafone plans. The plans appear to be constructed so as to optimise Vodafone performance plan performance under the OECD mobile baskets. Accordingly, the plans have a

high charge of 99 cents per minute for any minutes in excess of each plan's quota of national minutes and all international calls cost \$1.99 per minute.

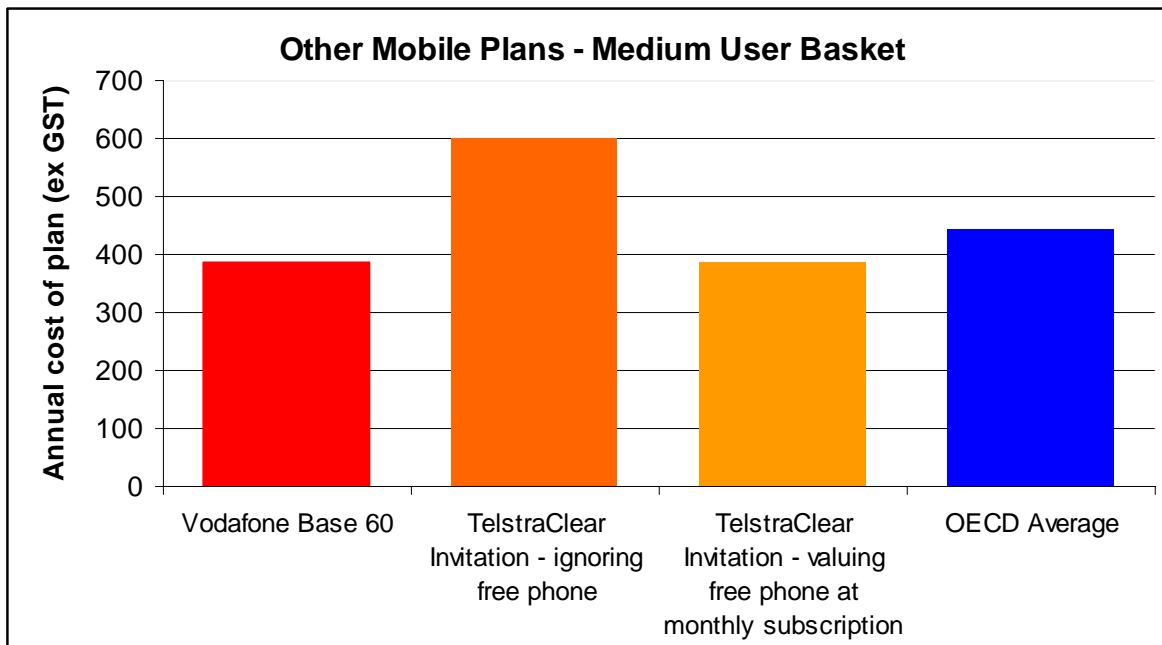
25. TelstraClear's residential mobile plan is available only to customers who also have a fixed line with TelstraClear and, like Vodafone's Base plans, has a minimum term of two years. The TelstraClear plan is unusual in that a permanent feature of the plan is a free handset. While free handsets are commonly offered to mobile customers, these are usually short term promotional offers and/or only associated with relatively expensive plans. To deal with the bundling of the free phone the Commission has benchmarked the TelstraClear Invitation plan twice for each basket – once disregarding the free phone, and once assuming the value of the phone (which has a normal retail price of \$499) is the \$20 per month the user pays in subscription charges (given that over the two year term of the plan the customer will have paid \$480). In contrast to the Base plans, all national calls are charged at a relatively low rate of 29 cents per minute.

Figure 7: Performance of Other Mobile Plans in Low User Calling Basket in August 2008



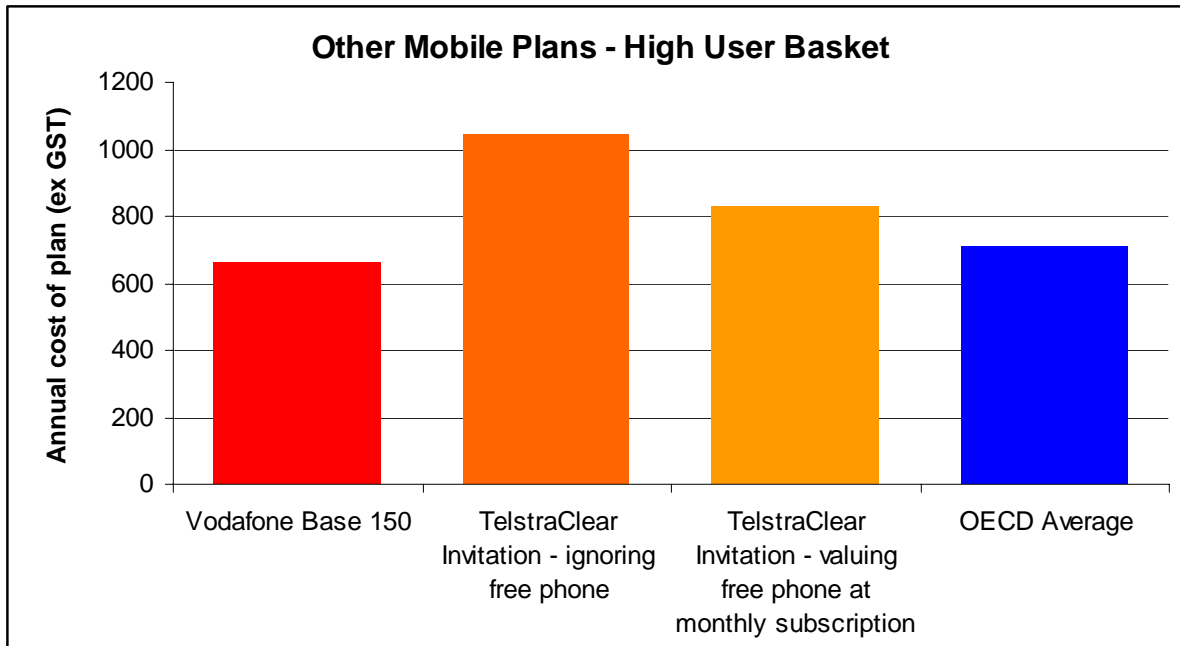
Source: Teligen T-Basket, Commission.

Figure 8: Performance of Other Mobile Plans in Medium User Calling Basket in August 2008



Source: Teligen T-Basket, Commission.

Figure 9: Performance of Other Mobile Plans in High User Calling Basket in August 2008



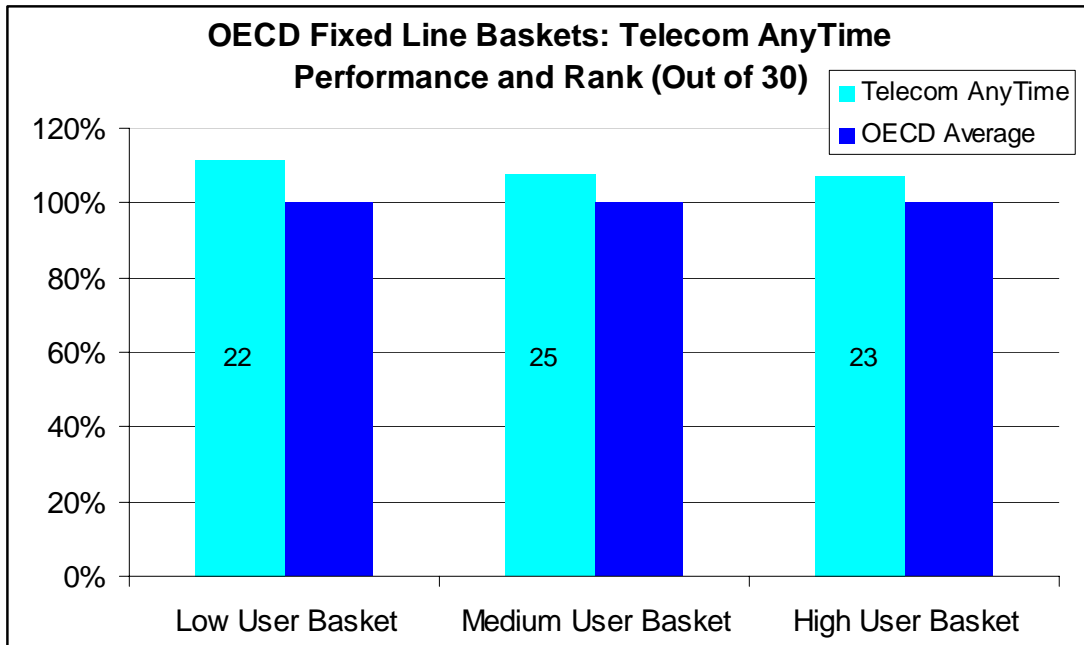
Source: Teligen T-Basket, Commission.

Fixed plans

26. The Commission is again showing the results for Vodafone’s fixed wireless home phone plans, where consumers are provided with a wireless ‘box’ into which they plug a fixed line phone. As the Home Phone Wireless plans (previously called Home Phone Plus) use Vodafone’s cellular wireless network, they 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. .
27. The Vodafone Home Phone Wireless 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 charged at the same flat rate of 38 cents per minute that apply to Vodafone’s residential fixed line plans.
28. 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. 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 toll calls.
29. Given the multitude of plans being tracked, the Commission has again graphed fixed line results for just the latest quarter. New Zealand’s ranking compared to other OECD countries has improved this quarter. This has come about due to the lower PPP exchange rate applied, which takes into account the differences in buyer power between countries. In the circumstances, the Commission does not consider that it would add much value to apply the OECD rankings to all the plans monitored. Consequently, only the official rankings are reported.

30. New Zealand’s official ranking is based on the Telecom AnyTime plan with the Auckland, Wellington and Christchurch pricing. Figure 10 shows how the relevant Telecom AnyTime plan ranks out of the 30 OECD countries and its cost compared to the OECD average, for each of the OECD baskets.

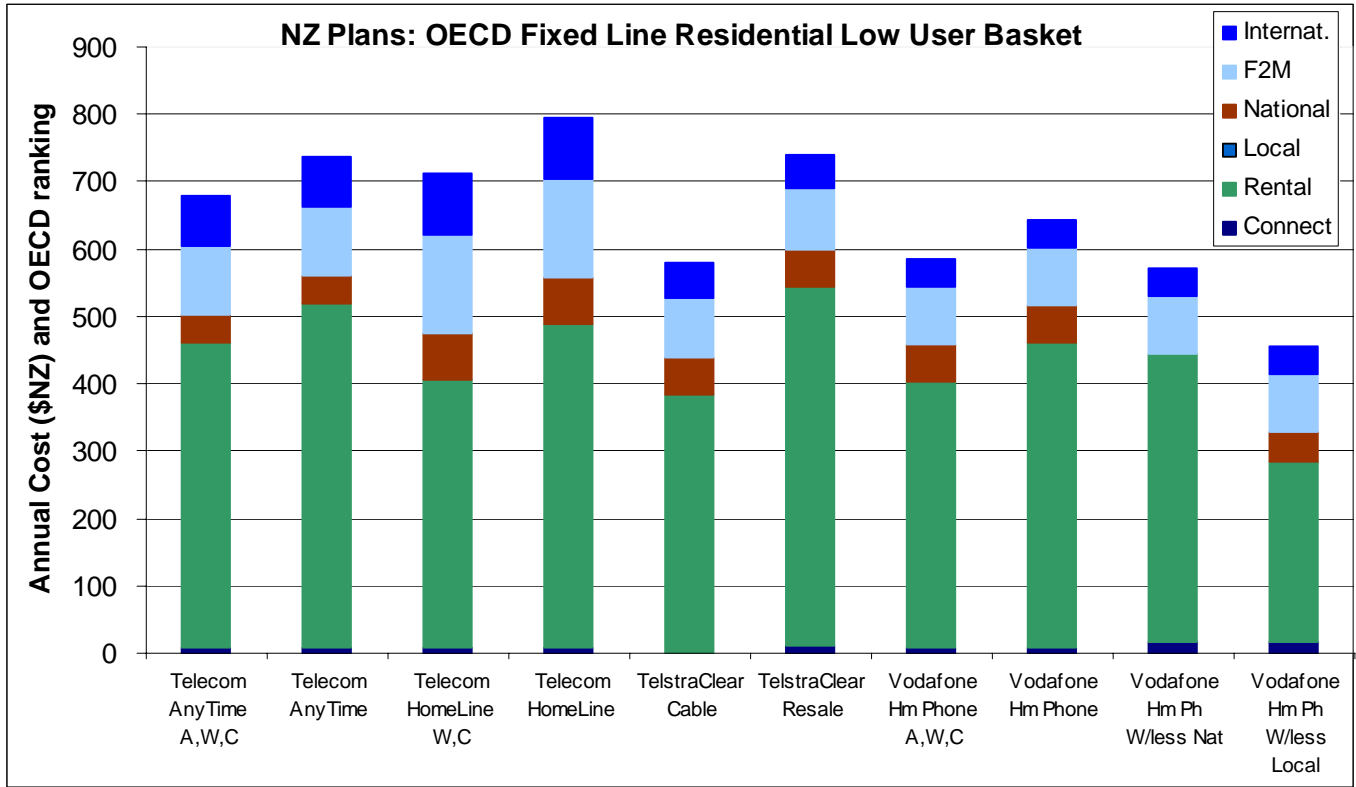
Figure 10: Performance of Telecom AnyTime Plan in OECD Fixed Line Baskets in August 2008



Source: Teligen T-Basket.

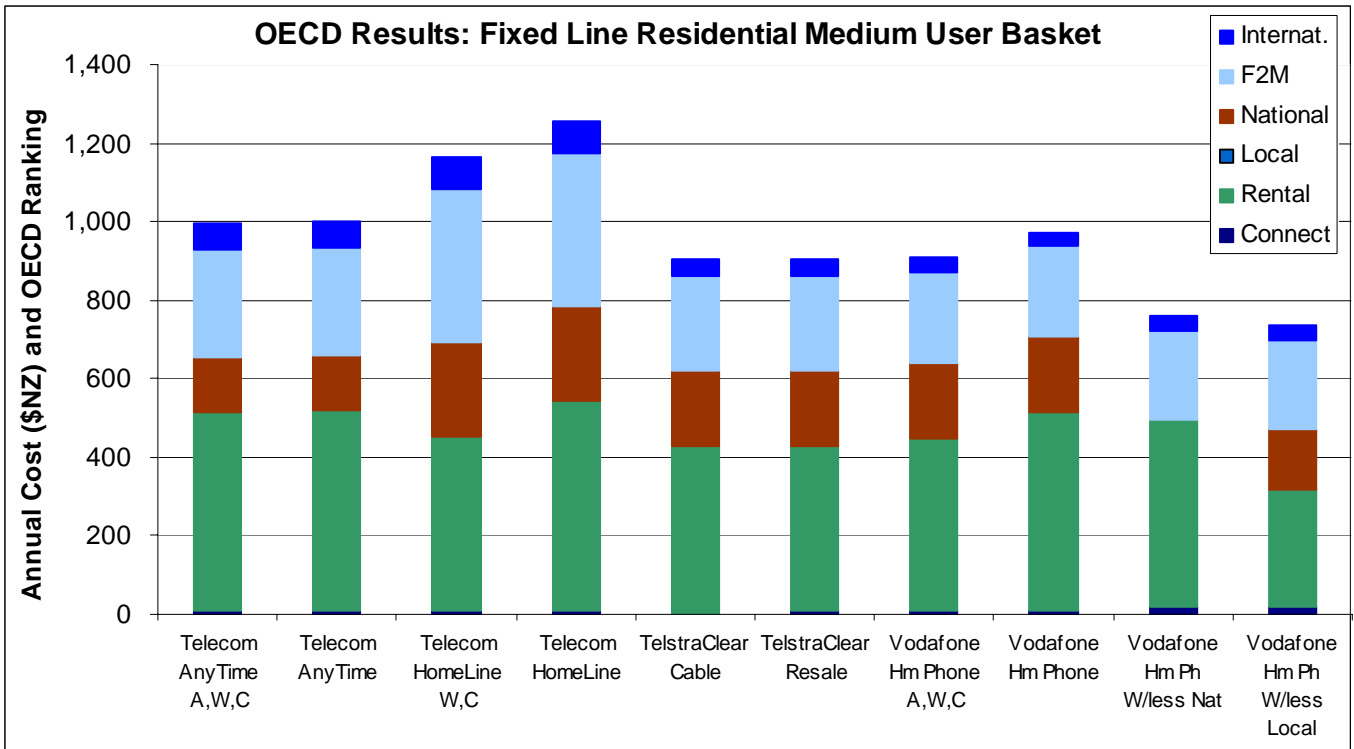
31. Figure 11, Figure 12 and Figure 13 show how much each of the New Zealand plans benchmarked by the Commission costs in \$NZ (excluding GST) when used to fill each of the three OECD residential fixed line user baskets. The cost has been divided into the line rental and various calling cost components. Standard connection and reconnection charges are spread over five years. The connection charge for the Vodafone Home Phone Wireless plans is the \$99 to purchase the wireless box.
32. The two Vodafone Home Phone Wireless plans are the cheapest plans for all three baskets. For plans that are available nationwide, the Vodafone fixed line plan is cheapest for the low user basket and the TelstraClear resale plan the cheapest for the medium and high user baskets.

Figure 11: Performance of NZ Plans in OECD Fixed Line Low User Basket



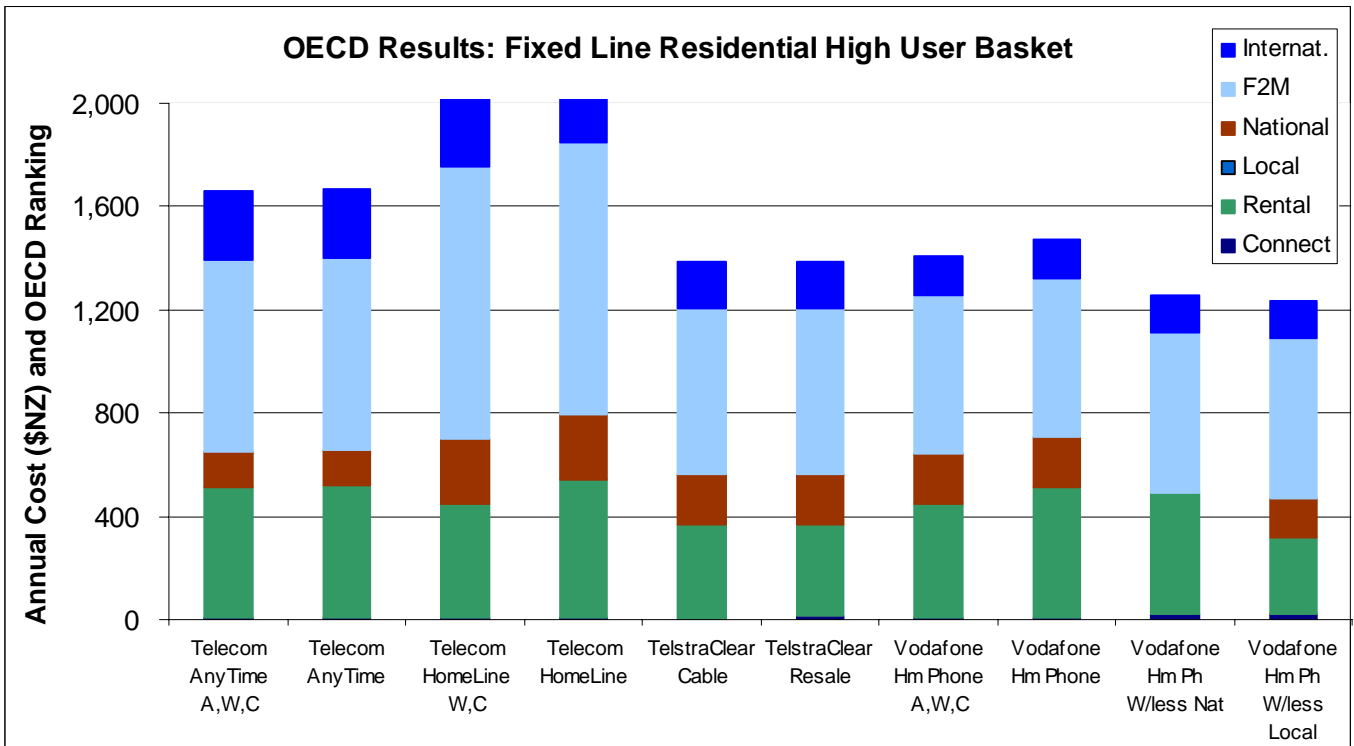
Source: Teligen T-Basket, Commission.

Figure 12: NZ Performance in OECD Fixed Line Medium User Basket



Source: Teligen T-Basket, Commission.

Figure 13: NZ Performance in OECD Fixed Line High User Basket



Source: Teligen T-Basket, Commission.