

COMMERCE COMMISSION

TELSTRACLEAR BITSTREAM DRAFT DETERMINATION CORRECTION OF BUSINESS BITSTREAM ACCESS CALCULATION

27 April 2005

Summary

1. On 21 April 2005, the Commission issued a draft determination in relation to TelstraClear's bitstream application. The Commission has become aware that incorrect input prices were used to calculate the bitstream access price to supply to business end-users. This paper sets out the amendment necessary to correct the draft determination for this error.
2. The correction amends the initial price for bitstream access for supply to business end-users (set out in paragraph 201 of the draft determination) to \$28.88 per month excluding GST (being an imputed retail price of \$44.32 less a speed premium adjustment of \$9.94 less internationally benchmarked avoided costs saved of 16%).

Correction Required

3. The monthly adjusted retail prices set out in paragraph 192 (p.39) are incorrect. The correct monthly adjusted retail prices are provided in the table below:

Telecom Retail Jetstream Business Plan ¹	Data Cap (Megabytes)	Monthly Adjusted retail price ² excluding GST
Venture 1 GB	1	\$51.06
Venture 3 GB	3	\$71.06
Jet 600	0.6	\$61.33
Jet 1200	1.2	\$120.00
Jet 1800	1.8	\$176.00
Jet 3000	3	\$292.00
Jet 5000	5	\$458.00
Jet 10000	10	\$888.00
Jet 20000	20	\$1,600.00
Jet 30000	30	\$2,400.00

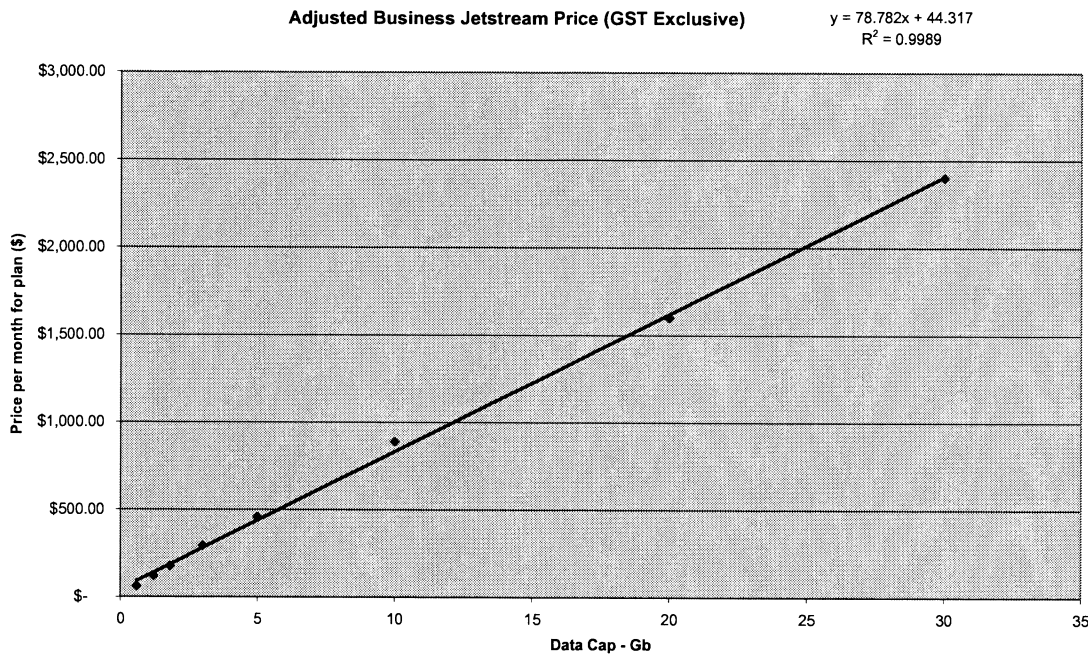
4. In undertaking a regression analysis using the data caps as the independent variables, and the monthly adjusted retail prices as the dependent variables, it is necessary to exclude the Venture plans from the regression analysis as the inclusion of these plans

¹ Xtra Jetstream Venture Flat Rate was omitted for the sake of consistency in that this plan has different characteristics to the other Jetstream business retail plans with respect to the application of data caps.

² Excludes ISP charges

does not provide a meaningful outcome.³ Venture services do not appear to share the same functional relationship between the retail price and the data caps as Telecom's other Jetstream services.

5. The amended plot of the adjusted business Jetstream prices is:



6. This results in an intercept of \$44.32 excluding GST. This contrasts with an intercept for residential bitstream access of \$31.19 excluding GST. These intercepts can be thought of as representing a starting point for estimating business and residential imputed bitstream access prices.
7. However, the Commission considers that the business intercept in particular is likely to overstate the access charge by including a premium which reflects the higher downstream and upstream speeds that the Jet services offer (2–8Mb/600k) in contrast to the Venture services (256k/128k) which are not included in the regression. The Commission does not consider that the bitstream access price should include a speed-related component. As noted in the draft, the Commission understands that the cost of a bitstream access service is not materially influenced by service speed.⁴
8. In terms of Telecom's retail pricing, the per Mb throughput charges for Jet services are materially higher than for the Venture services. This suggests that pricing of the data cap, in part, is explained by the higher speed of the Jet services compared to the Venture service. The Commission has been unable to find alternative functional forms that might explain this variation. Accordingly, it is necessary to apply an adjustment to the intercept of \$44.32 to account for the speed premium.

³ Inclusion of the Venture services in the regression results in a y-intercept of \$3.85. The use of alternative functional forms does not appear to better explain the relationship.

⁴ Commerce Commission, Draft determination on the application for determination for access to and interconnection with Telecom's fixed PDN service, 21 April 2005, paragraph 159

9. The Commission does not consider such an adjustment is required for residential access services for two reasons. The speed premium does not appear to be significant for residential services, and the residential regression considered the full range of upstream and downstream speeds.
10. In order to derive an adjustment to the business intercept, the Commission has compared the Venture 3GB plan and the Jetstream 3000 plan. These are the respective low and high speed business services with the smallest comparable data cap. Both of these plans have a monthly data cap of 3GB, although service speeds and retail prices differ. This suggests that the variation in price between the two plans can be attributed in large part to the different service speeds.
11. Venture 3GB has downstream/upstream speeds of 256/128 kbps, and a monthly retail price (excluding GST) of \$71.06. Jetstream 3000 has speeds of 2-8Mb/600 kbps, and a monthly retail price (excluding GST) of \$292.00. This suggests that Jetstream 3000 has a speed premium for an equivalent data cap of \$220.94 representing 75.67% of the Jetstream 3000 retail price.
12. Accordingly, the Commission considers that it is appropriate to deduct a speed premium from the business intercept that reflects 75.67% of the differential between the business intercept (where the speed phenomenon occurs) and the residential intercept (where speed does not appear to be a material factor). This results in an adjustment of $\$13.13 \times 75.67\% = \9.94 .
13. Accordingly, the adjusted initial price for bitstream access for supply to business end-users is:

Regression intercept	\$44.32
<i>less</i> Speed premium adjustment	<u>(\$9.94)</u>
Adjusted intercept	\$34.38
<i>less</i> Avoided Costs Saved (16%)	<u>(\$5.50)</u>
 Bitstream Access for supply to business end-users	 \$28.88