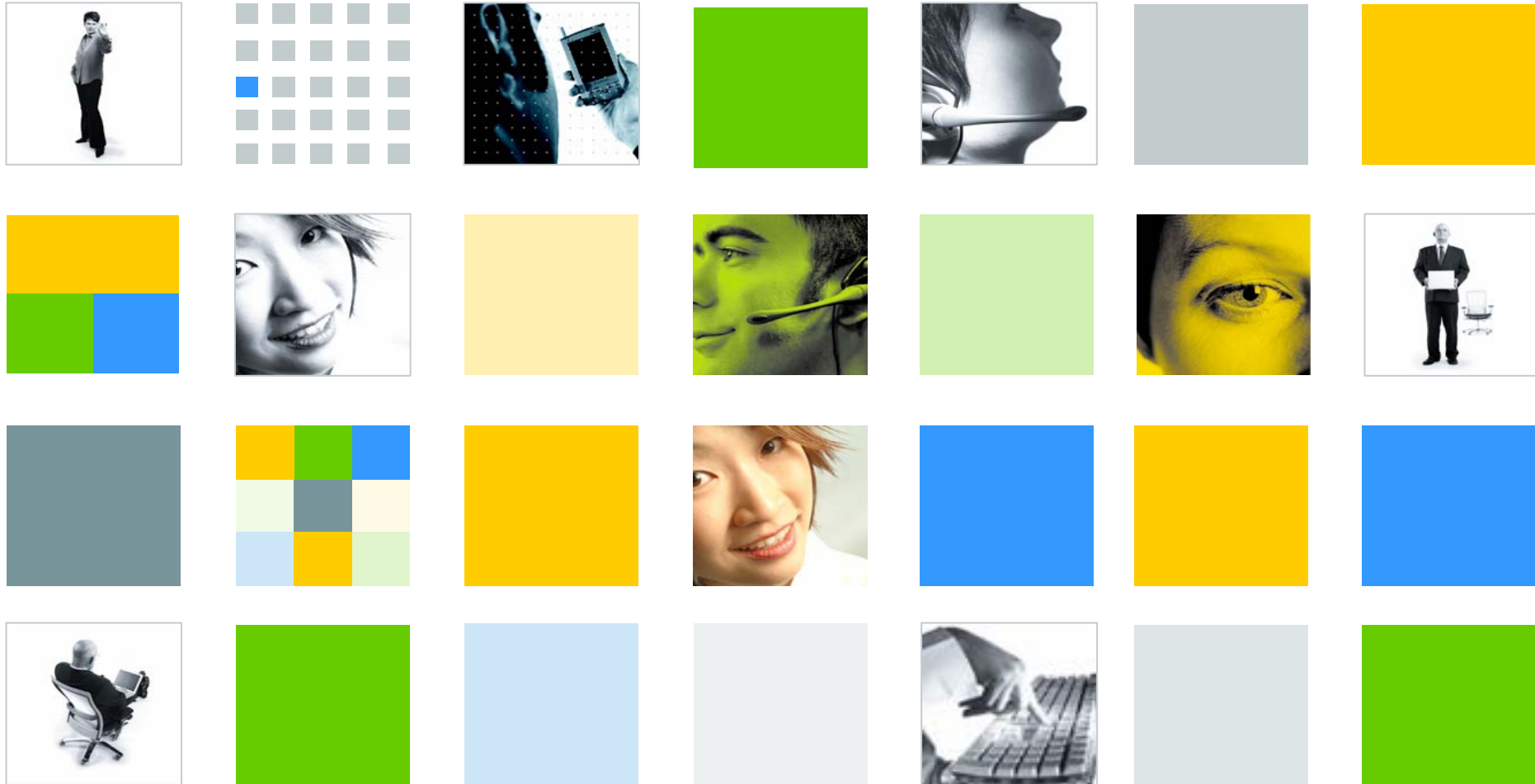


Bitstream Conference - Initial Pricing Principle






Nik Haden
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Purpose of Regression Models

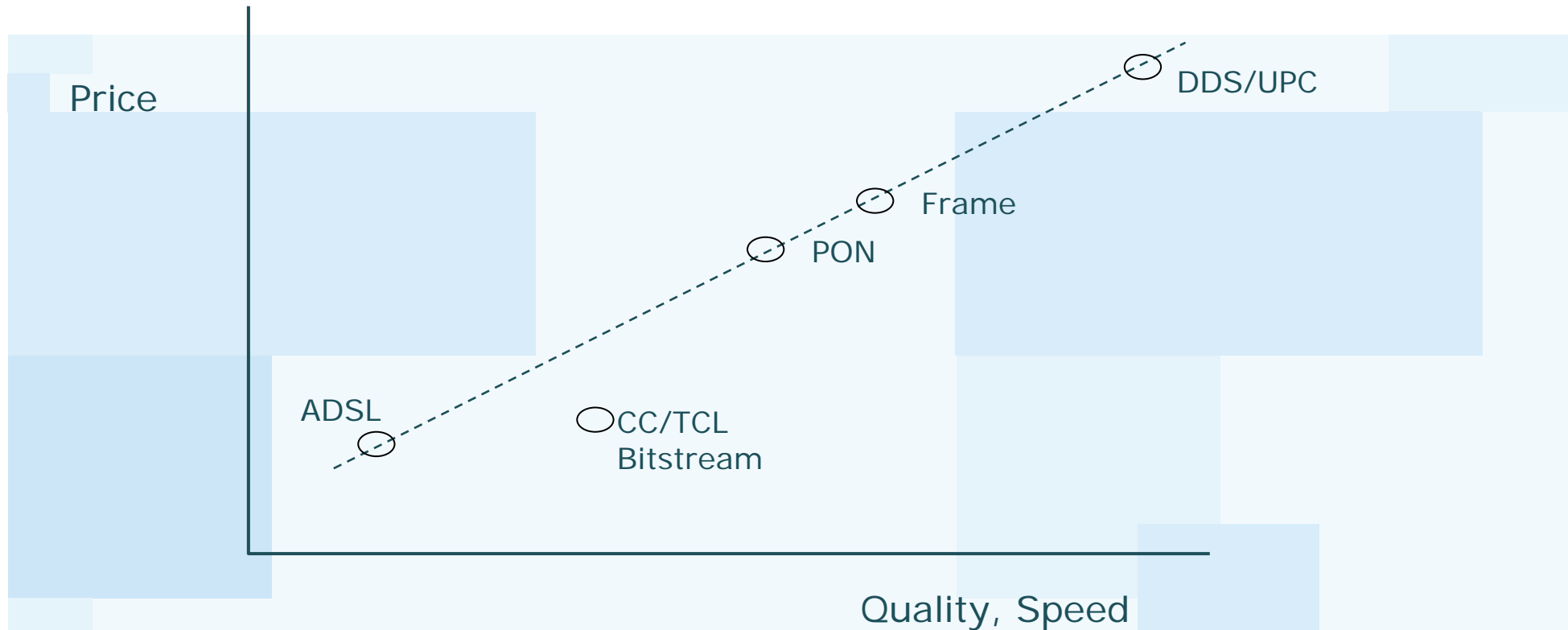


- Explain variation in observed data
 - Understand relationships between dependent and independent variables
 - Not simply about finding the best fit – need to have a supporting theory as to why model is appropriate
 - Produce predictions for alternative values of independent variables
 - Test effect of changes in independent variables
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The Commission's proposed model

- The Commission's model has a number of obvious errors in it
- It ignores a number of data points without providing an explanation
- When those data points are included, the result is a negative number, showing that the model specification is wrong
- The speed premium adjustment is in the wrong direction
- The ISP deduction is inconsistent with the wording of the Act
- The bundle imputation calculation does not take account of Telecom's retail business rules
- More generally, the specification does not produce a retail minus avoided cost price as required by the Act as it does not impute the price of any realistic retail service

Price Value Curve (conceptual)



- As quality and speed improve, customers value the product more highly and costs and prices increase
- Commission's proposed price/value combination doesn't match with other products – at least one parameter needs to change

Retail and commercial UBS plans

Telecom Price Summary

Residential (with tolls discount)

Plan	Gbytes	Speed	Price
Xtra Broadband Go	1	256	\$ 39.95
Xtra Broadband Discover	1	1024	\$ 44.95
Xtra Broadband Explorer	3	256	\$ 49.95
Xtra Broadband Adventure	10	2048	\$ 69.95
Xtra Broadband Navigate	10	2048	\$ 69.95

IHUG (with tolls discount)

Plan	Gbytes	Speed	Price
bliink lite	4	256	\$ 39.95
bliink 1Mb lite	1	1024	\$ 39.95
bliink 256k	20	256	\$ 49.95
bliink 2Mb lite	10	2048	\$ 59.95

Business

Plan	Gbytes	Speed	Price
Venture 1GB	1	256	\$ 59.95
Venture 3GB	3	256	\$ 79.95
Venture Flat Rate	10	256	\$ 99.95
Broadband 3GB	3	1024	\$ 119.95
Broadband 10GB	10	1024	\$ 149.95
Broadband 15GB	15	2048	\$ 299.95

Commercial UBS

Net Connections per month	Residential			Business		
	256/128	1024/128	2048/128	256/128	1024/128	2048/128
1-150	\$ 27.95	\$ 31.70	\$ 33.85	\$ 40.60	\$ 97.20	\$ 172.70
151-500	\$ 25.50	\$ 29.25	\$ 31.40	\$ 40.60	\$ 97.20	\$ 172.70
500+	\$ 24.50	\$ 28.25	\$ 30.40	\$ 40.60	\$ 97.20	\$ 172.70

Implications of CC/TCL model

- Commission has used a regression model to derive a price for a bitstream access product
- TCL model is similar, but uses only two data points
- Bitstream access price is derived by inspection of the y-axis intercept
- Commission has not considered what such a price represents
- Y axis intercept ($x=0$) means a service where the regression parameters are set to zero
- This means a service with no data and no speed (if speed is in the regression)
- A no data service is the opposite of an unrestricted data service
- The service which has been priced is one where the user is unable to transfer any data (which would be consistent with it being cheap)
- A realistic, useful, service would have a correspondingly higher price