



COMMERCE COMMISSION

Please refer to:

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18 January 2005

Mr Grant Forsyth
Manager
Industry & Regulatory Affairs
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AUCKLAND

Mr Bruce Parkes
General Manager
Government & Industry Relations
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Dear Grant and Bruce

**TelstraClear UBS Application
Calculation of the Initial Pricing Principle**

As advised last month, the Commission wishes to hear from both Telecom and TelstraClear views as to the interpretation and application of the Initial Pricing Principle ('IPP') for access to, and interconnection with, Telecom's fixed PDN ('bitstream access') in the context of the upcoming cross-submissions on the TelstraClear UBS application.

The Commission has had the opportunity to consider the application of the IPP for bitstream access in the IHUG UBS application. Although the IHUG application was withdrawn before a determination was made, the Commission has continued to develop its thinking on this issue, and considers that setting out at this stage its preliminary thinking on a possible approach will assist the parties to focus their comments in their cross submissions, due by 28 January. That approach is described in summary form below:

Imputation of the retail price

1. Consider Telecom Jetstream residential and business retail prices as comparable services;
2. Impute stand-alone Jetstream retail prices from Jetstream packages using the imputation methodology set out in the designated service 'Retail services offered by means of Telecom's fixed telecommunications network as part of bundle of retail services';
3. Deduct ISP charges from relevant Jetstream retail prices;
4. Deduct the data transmission charges from the Jetstream services for business and residential Jetstream retail offerings separately, using the data cap as the independent variable and the monthly retail price as the dependent variable to remove effects of transport. (The cost of providing Jetstream is assumed to be independent of download and upload speeds); and
5. Using the two access prices (business and residential), calculate a single weighted price for bitstream access using current Telecom residential and

business broadband users to weight into one price.

Removal of avoided costs saved

6. Deduct the avoided costs saved, using previous benchmarked avoided costs saved reports as set out in decisions 497 and 525, updated where regulated prices have changed.

The Commission emphasises that it has not reached a settled view on this topic, and is interested to receive the views of the parties both on the proposed approach and on any alternatives that may be supported by the statutory language.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Douglas Webb', with a long horizontal flourish extending to the right.

Douglas Webb
Telecommunications Commissioner