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Wednesday, 21 March 2007

Neville Lord
Chief Advisor
Network Branch
Commerce Commission
WELLINGTON

Dear Neville,

**Ihug and Vodafone cross submission on draft reconsideration report**

1. This is Vodafone and Ihug's cross submission on the Commission's draft reconsideration of decision 582.

2. We are very pleased to see so much industry agreement on how UBS prices should be set. In this submission we wish to make some brief comments on issues about the estimation of data costs that were raised in Telecom's submission.

**It would be simpler to use the charges that Telecom makes to us to estimate data costs**

3. Telecom agrees that using ISP costs for bandwidth would be appropriate (para 35 of its submission). We suggested that either ISP costs or the charges that Telecom makes to us for bandwidth would be possible options (para 24 in our submission).

4. In practice, we think it is probably easier to use Telecom's charges. Other costs are more challenging to obtain and are commercially sensitive. Plus using Telecom's charges does avoid any risk of a price squeeze and has positive incentive properties.

**The conversion from Mbps to GB/month must be based on realistic assumptions**

5. Telecom states that it runs its links "at full capacity the whole time" (para 39). We find this difficult to accept. It is certainly impossible for us to achieve this level of utilisation.

6. Usage by our customers varies significantly across the day, meaning that at some times links are at or near capacity and at other times they are less utilised.

   - Our ratio of daily or weekly average traffic to traffic at peak times is 62%, a far cry from 100%.

   - We would expect Telecom's average to peak usage ratio to be even lower than Ihug's, as their predominantly light user customers use less peer-to-

peer data than Ihug's heavier users, and this peer-to-peer traffic tends to run at a fairly constant level over the 24 hour day. By contrast light-user internet browsing traffic drops away significantlly in off-peak times.

7. We also purchase more international capacity than we can actually use at any point in order to allow for growth, both in customer numbers and in customer usage.

   - The combination of customer number growth (due to increased broadband penetration and market share growth) and growth in average usage per customer leads to a monthly growth in total domestic and international data usage for Ihug in the 50Mbps to 100Mbps range.

   - This extra capacity has to be purchased ahead of time and so leads to further reduction in the number of GB/month of customer usage that will fit into a particular Mbps capacity link.

8. John de Ridder has a better model to transform Mbps into GB per month in his submission, although note that this takes into account the average versus peak ratio, but does not allow for the pre-purchase of additional capacity.

**Our national/international traffic split is more skewed (i.e., higher cost) than Telecom's**

9. The Commission will need to come to a view about a reasonable split between national and international traffic in estimating data costs.

10. Telecom states that its national/international traffic split is 14:86 (para 38).

11. Our national/international traffic split is around 6:94. This ratio obviously has a real impact on costs as national bandwidth is substantially cheaper than international bandwidth.

**The price of national bandwidth is much lower than we can achieve in reality**

12. Telecom suggests that the Commission use its current $80/Mbps/month figure as the basis for setting national bandwidth rates.

13. We agree that using Telecom's rates is sensible, but using this particular figure is not. The volume required to get this rate (>300 Mbps) is far larger than any access seeker requires at this point. We are the largest UBS broadband provider and for national bandwidth we pay double the price that Telecom has quoted in its submission.

   - Although our customers' data usage is growing quickly (at between 50 Mbps and 100 Mbps per month, as mentioned above), only 6% of this is destined for domestic destinations. It will therefore be quite some time before our domestic traffic hits 300 Mbps.

**Conclusion**

14. If you have any questions about this response, please contact David Diprose (021 275 0003, davidd@staff.ihug.co.nz).

Yours sincerely,

Hayden Glass
Public Policy