

Market Release

15 December 2015

Commerce Commission releases final pricing determinations for regulated copper input charges

The Commerce Commission has announced today the Final Pricing Principle (FPP) determinations in relation to two regulated input products that Retail Service Providers (RSPs) purchase from Chorus, the Unbundled Copper Local Loop (UCLL) product and the Unbundled Bitstream Access (UBA) product. Spark New Zealand purchases UBA and a Baseband product which is priced equivalent to UCLL.

The FPP determinations supersede earlier Initial Pricing Principle (IPP) determinations and the draft FPP determinations. A copy of the determination is available at <http://www.comcom.govt.nz/regulated-industries/telecommunications/regulated-services/standard-terms-determinations/unbundled-copper-local-loop-and-unbundled-bitstream-access-services-final-pricing-principle/>.

Under the FPP, the UCLL wholesale charge will initially increase from \$23.52 to \$29.75 per customer connection, per month. The UBA wholesale charge initially increases from \$10.92 to \$11.44 per customer connection, per month.

The FPP prices will replace the IPP prices effective from 16 December 2015 and will not be backdated.

The changes to these charges are set out in the table below:

Service	IPP effective 1 Dec 2014	Draft FPP 2 Dec 2014	Draft FPP 2 July 2015	FPP effective 16 Dec 2015
UCLL / Baseband	\$23.52	\$28.22	\$26.74	\$29.75
UBA	\$10.92	\$10.17	\$11.15	\$11.44
Total	\$34.44	\$38.39	\$37.89	\$41.19

The total charges increase over time as below:

Service	Year 1	Year 2	Year 3	Year 4	Year 5
UCLL / Baseband	\$29.75	\$30.22	\$30.70	\$31.19	\$31.68
UBA	\$11.44	\$11.22	\$11.01	\$10.83	\$10.67
Total	\$41.19	\$41.44	\$41.71	\$42.02	\$42.35



The FPP charges will increase Spark New Zealand's copper input costs by approximately \$21m in FY16 and \$36 million on an annualised basis and increase UBA input costs by approximately \$1m in FY16 and \$2 million on an annualised basis, relative to the 2 July draft FPP charges.

Previous price increases do not reflect this additional cost increase which means we will be raising our prices further to reflect the higher charges.

While the Commission has confirmed no backdating, given the significant cost increase we will have to assess the impact of this decision on our ability to return savings to our customers as previously indicated.

FY16 Financial Guidance

Spark New Zealand's FY16 financial guidance is based off the 2 July Draft FPP charges. Following today's announcement input costs will increase by \$22m in FY16, however Spark NZ intends to mitigate this impact through price increases, and as a result our guidance range is maintained.

Spark New Zealand Comments on FPP

Consumers lose out as Commerce Commission hikes Chorus copper line charges

Today's decision by the Commerce Commission to significantly hike regulated Chorus line charges for copper broadband and landline services is the worst possible Christmas present for New Zealand consumers and businesses, Spark New Zealand said today.

The new charges are almost \$8 per month (including GST) per connection higher than what all New Zealand retail broadband providers currently pay, and almost \$4 a month higher than the Commerce Commission proposed in its second draft decision just a few months ago in July.

As the Chorus line charges represent about half the typical retail price for broadband and landline voice services delivered over the Chorus copper network, this decision has a substantial impact on what most New Zealanders will pay for their internet or landline phones.

Spark New Zealand Managing Director, Simon Moutter, said, "We had been hoping that the Commerce Commission decision would allow us to pass on some savings to customers from retail price increases earlier this year, if the Commission had stuck to its decision not to backdate when the new higher charges would take effect. However, while the Commission has confirmed no backdating, given the significant and unexpected cost increase we will have to assess the impact of this decision on our ability to return savings to customers as previously indicated.

"We are now also forced to increase our retail voice and broadband pricing to take into account the significantly increased costs now faced from higher regulated Chorus line charges. While the Commerce Commission decision is effective from tomorrow, it will take months before the higher charges flow through completely into pricing for our customers. We will be advising customers of pricing impacts as soon as possible.



“The massive swings in successive Commerce Commission decisions within a matter of months makes it extremely hard for any business to invest, plan and price its services effectively. We have now had two years of market disarray, with significant fluctuations at every stage of the process. The losers out of this are New Zealand consumers and businesses.”

The Commerce Commission decision means that New Zealanders will pay almost double the median regulated lines charges in other comparable countries. It also means that the regulated charges for access to the aging, decades old Chorus copper network will now significantly exceed access charges for entry-level plans on the new state-of-the-art UFB fibre network.

This decision is doubly frustrating given the efforts taken with customers to help keep broadband and landline prices down. This decision is a slap in the face for the 50,000 customers who joined Spark earlier this year to send submissions to the Commerce Commission asking it to keep Chorus charges down, as part of Spark’s Be Counted campaign.

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