NEW ZEALAND TELECOMMUNICATIONS UPDATE FOR 2010

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Agenda

- Copper – most of the boxes have been ticked
- Mobile – real competition but fragile; MTRs a festering sore
- Fibre to the Premises – motoring ahead; sound commercial model, good progress

Copper – most of the boxes are ticked:

- Interconnection regulated
- Local loop unbundled
- Naked FDSL, vibrant wholesale market
- Number portability
- Customer complaints Code and Disputes Resolution Service
- Effective industry self regulation
- Etc etc

Copper – current issues:

- Lack of support for the Telecommunications Carriers Forum by a handful of Tier 2/3 service providers (no licensing regime)
- Discontent with the Telecommunications Disputes Resolution Service by a minority of smaller carriers despite the risk of a regulated alternative

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•Copper – most of the boxes have been ticked

•**Mobile – real competition but fragile; Mobile Termination Rates a festering sore**

•Fibre to the Premises – motoring ahead; sound commercial model, good progress

Mobile – where we've been:

- Two decades of:
  - duopoly market with pricing to match
  - two networks on incompatible platforms
  - Chequered regulatory history – national roaming timely and successful, but progress in radio co-location, mobile termination rates far too slow

Mobile – where we are now:

- **Third entrant arrived 2009 after 8 years gestation:**
  - **growing well but rapid resolution of MTR crucial**
- **Telecom introduced 3G at same time:**
  - **removed a major barrier to customer churn**
  - **freed up adjacent markets, especially handsets**
  - **“teething problems” but these will be fixed; meanwhile competitors showing no mercy**

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Mobile – competition issues & learnings:

- Apparent level-pegging by 2 service providers has disguised skewed geographic/demographic segmentation
  - Massive differential between on-net and off-net pricing compelled many customers to use the same network as their friends, colleagues, families
  - Failure to regulate termination is the primary cause – this has resulted in enormous over-charging for off-net traffic but more importantly, closed off competition
- Radio Co-Location is an essential measure but was left too late
  - Compelling competition/environmental rationale
  - Illustrates need for regulator to step in if self-regulation is taking too long

Mobile Termination Rates - Chronology:

- 2003 TUANZ goes to regulator about MTR following ACCC interest
- 2004/5 Investigation, consultation, issues paper, conference, paper to Minister, Minister sent it back, second paper to Minister
- 2006 Draft and Final Reconsideration Reports, Acting Minister signs deeds with Telecom and Vodafone
- 2008 new investigation into MTAS. Under the amended Act
- 2009 MTAS process and Undertakings regime working in parallel
- Feb 2010 final report to Minister – 2 Commissioners recommend accept Undertakings; third says regulate
- Decision now rests with Minister

MTR - TUANZ Submission:

- We support the dissenting view because:
  - Mobile market is dysfunctional due to MTRs
  - Commission has put excessive weight on (1) sanctity of 2006 Undertakings and (2) ensure ongoing confidence in the new Undertakings regime
- Submissions closed, we await the Minister’s decision

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•**Fibre to the Premises – motoring ahead; sound commercial model, good progress**

Fibre to the Premises – a New Paradigm:

- Government mandated to invest NZD1.5 billion to accelerate rollout of ultra fast broadband to 75% of population
- Will co-invest with the private sector
- One programme for urban areas (proposals lodged last month) and one for rural (less advanced)
- Government is re-entering a sector it vacated in favour of private ownership 20 years ago
- New proposal announced yesterday for Australia-NZ-US cable a welcome adjunct

Fibre: Funding Structure - Urban

- A government holding company (“Crown Fibre Holdings Ltd” - CFH)
- Up to 33 Local Fibre Companies (LFCs)
- Companies that offer retail telecomms services cannot control LFCs
- LFCs <u>must</u> offer open access at Layer 1 (dark fibre), and <u>may</u> also choose to offer Layer 2 services (lit fibre)
- Investment:
  - LFC establishment costs and end user connections will be funded by LFCs
  - Communal infrastructure will be funded initially by government (CFH) but sold to LFCs progressively as customers become connected

Fibre: Effect of This Funding Structure

- Risks associated with construction (cost over-runs etc) are taken by the LFC, and
- Risks associated with uncertain demand in an immature market (slow uptake etc) are taken by the government
- Over time, ownership shifts fully to the LFC, freeing the government's capital for re-investment
- A "Government Share" remains in each LFC permanently, to ensure open access

Fibre: Funding structure - Rural

- Rural proposal less advanced, submissions still being considered
- Incorporates a dramatic revision of universal service obligation
- Schools are the focus; businesses and homes are regarded as “spill over” benefits – this is poor terminology and a weakness
- $300 million available; 10 year time frame
- Meanwhile a small but significant area of rural NZ is starting to get services on a commercial basis

Fibre: Possible Scenarios

- **Incumbent Telecom (Chorus) could partner with multiple regional bidders to become a major investor, but with minority control.**
- **Telecom could go it alone, using its copper to compete against the government's fibre.**
- **Other major telcos could become serious FTTx investors.**
- **Electricity lines companies could play a leading role, individually or in consortia.**
- **International bidders may win out.**
- **Absence of bids in some marginal regions may leaves these un-served in the medium term.**

Fibre: Outstanding issues

- Lack of a National Digital Architecture
- Who will partner, how many LFCs will there be
- How will rural fit with urban
- Deployment and environmental issues e.g. aerial versus underground
- The residual role of a vertically-integrated Telecom in an LFC world
- Driving fundamental changes in key sectors e.g. education, health, rural communities, energy

Conclusion -TUANZ Challenges

- Make sure the fibre is implemented effectively
- Pursue MTR to an acceptable conclusion
- Drive key sectors toward transformation by articulating the vision of a fully-fibred NZ
- Guard against any retreat from the gains made
- Be ready for the unexpected

Thank You

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