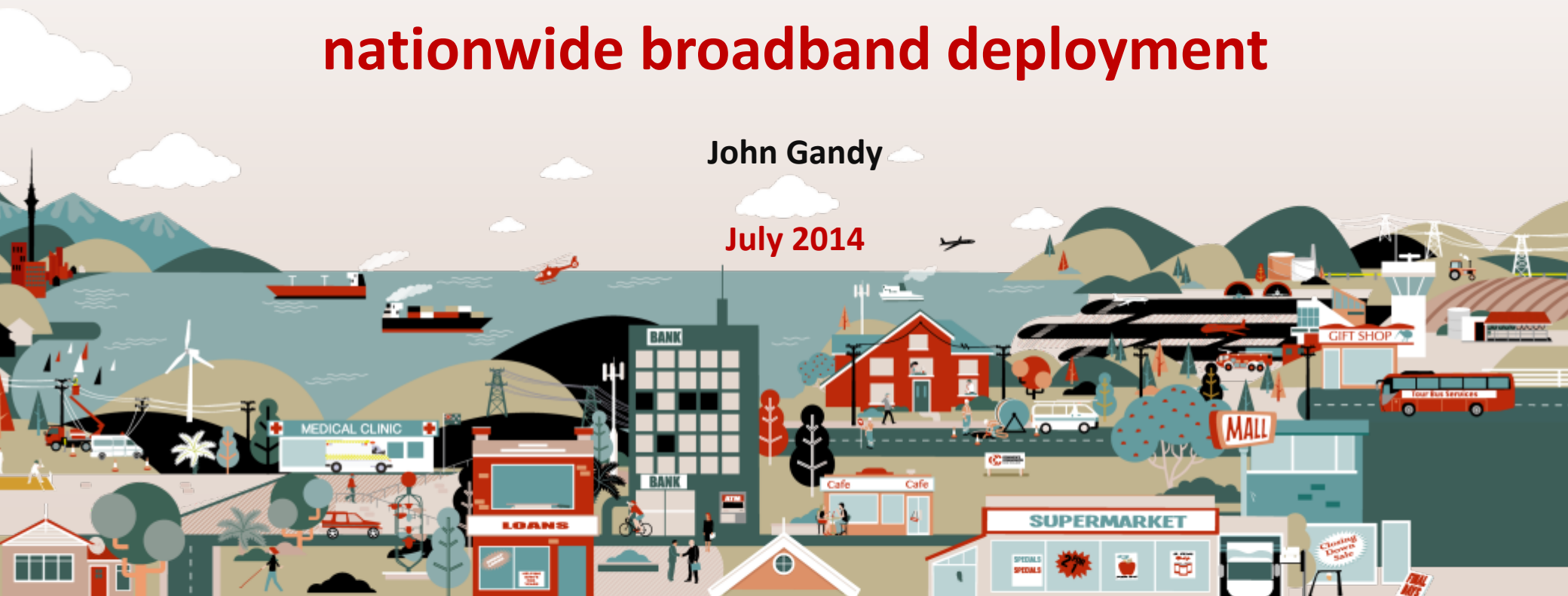


Commerce Commission

UFB and RBI New Zealand's initiatives for nationwide broadband deployment

John Gandy

July 2014



Objective:

- To accelerate rollout of ultrafast broadband (100Mbps/50Mbps) to 75% of New Zealanders over 10 years.



Principles:

Make a significant contribution to economic growth

Neither discourage nor substitute private sector investment

Avoid entrenching the position, or 'lining the pockets', of existing broadband network providers

Avoid excessive infrastructure duplication

Focus on building new infrastructure and not unduly preserving the 'legacy assets' of the past

Ensure affordable broadband services

Key Aspects of the UFB Initiative

Open access fibre infrastructure

\$1.5 billion of Government funding through Crown Fibre Holdings (CFH) alongside private sector co-investors

Creation of private Local Fibre Companies (LFC)

Rolling out FTTH in the first six years (priority) to schools, hospitals, businesses and tranches of residential areas

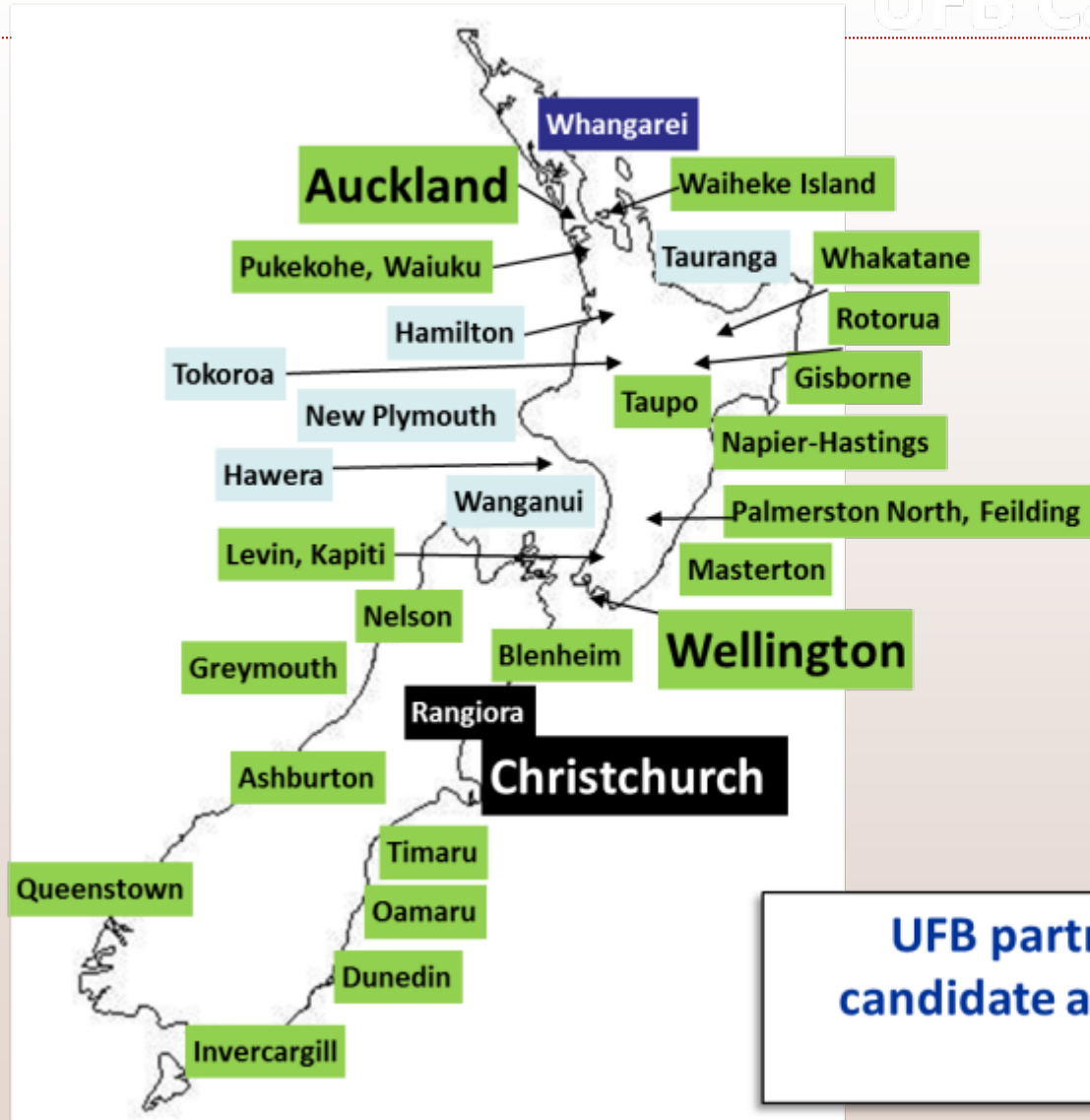
LFC's to provide Layer 1 and 2 services and are prohibited from entering the retail market





To participate in UFB, Telecom is required to structurally separate (subject to conditions).



UFB Candidate Areas

UFB Candidate Areas



	Candidate Areas	% of UFB
	2	15.3
	1	1.6
	24	69.4
	6	13.7
	33	100.0

UFB partnerships will cover all 33 candidate areas (75% of NZ population) by end 2019

Undertakings were introduced for LFCs and for Telecom (including the Commission's monitoring and enforcement role)

Undertakings must provide for:

- LFCs to achieve non-discrimination in relation to relevant services
- EOI-capable build
- EOI supply of unbundled layer 1 services 1 January 2020
- Arm's length dealing between LFC and UFB partner
- Rules for treatment of confidential access seeker information
- Disclosure of relevant information to the Commission



Equivalence Provision

Equivalence, in relation to the supply of a relevant service, means equivalence of supply of the service and access to the service provider's network so that third-party access seekers are treated in the same way to the service provider's own business operations, including in relation to pricing, procedures, operational support, supply of information and other relevant matters



Non-Discrimination Provision

Non-discrimination, in relation to the supply of a relevant service, means that the service provider must not treat access seekers differently, or, where the service provider provides itself with a relevant service, must not treat itself differently from other access seekers, except to the extent that a particular difference in treatment is justified and does not harm, and is unlikely to harm, competition in any telecommunications market

The Commission must require LFCs to prepare and disclose information annually about the costs and characteristics of relevant services and LFC fibre networks used to provide them

The
Commission
may require
(among other
things)
disclosure of:

- financial statements, contracts, asset valuations, transactions with related parties, prices, transfer payments, terms and conditions, network capacity, costs and cost allocation methodologies, financial and non-financial performance measures

The Commission may publish reports on and summaries of this information to increase the level of transparency and assist the Commission in its monitoring of compliance by Chorus with its undertaking.



To participate in UFB, Telecom must split into a network company (Chorus) and a retail company (Telecom)

Current Telecom shareholders must vote on this proposal. If they approve, they will be issued with shares in each company

Chorus will:

- Not be able to enter the retail business
- Provide regulated UCLL, UBA, the new low frequency voice input service, and the UBA with POTS bundle

Chorus and Telecom will deal on arm's length terms

Most regulated services will be supplied by Chorus, with Telecom being as free from regulation as possible



The single vertically integrated company Telecom was replaced by two entirely separate companies. The two separate companies are:

- Chorus, a nationwide fixed access network operator that offers services to retail service providers on an open access basis. Chorus is restricted to offering Layer 1 and Layer 2 services, and may not sell directly to end-users
- Telecom is now a retail-focused telecommunication business, comprising a fixed line, mobile and ICT business. Telecom also wholesales some services (especially POTS services) to other retail service providers.



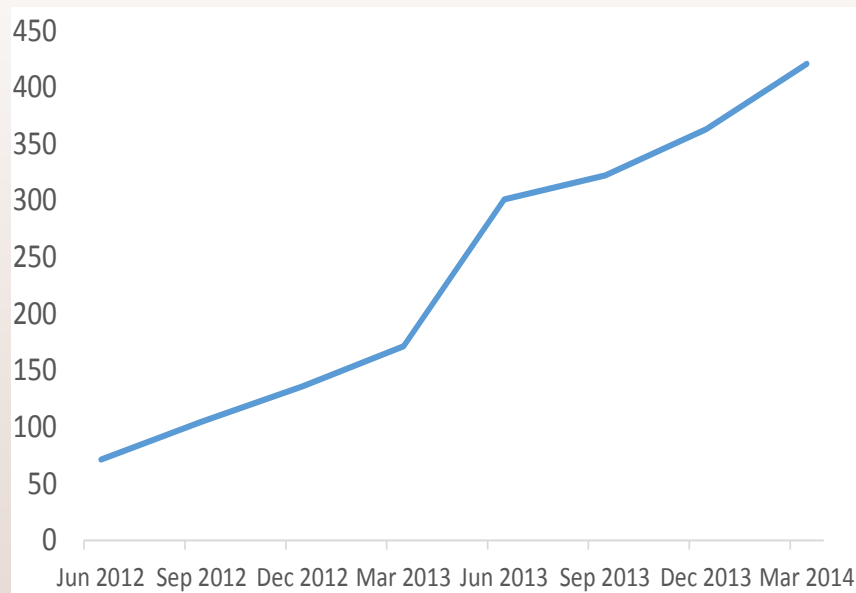
Structural Separation

- Assets, systems, services, people and everything else in Telecom is being split between the two new companies
- Any dealings between the two companies are on a formalised, arms-length basis, as occurs between any other companies
- Each company has its own board of directors, CEO, management team and employees, and is separately listed on the stock exchange



Deployment: *End Users Able to Connect*

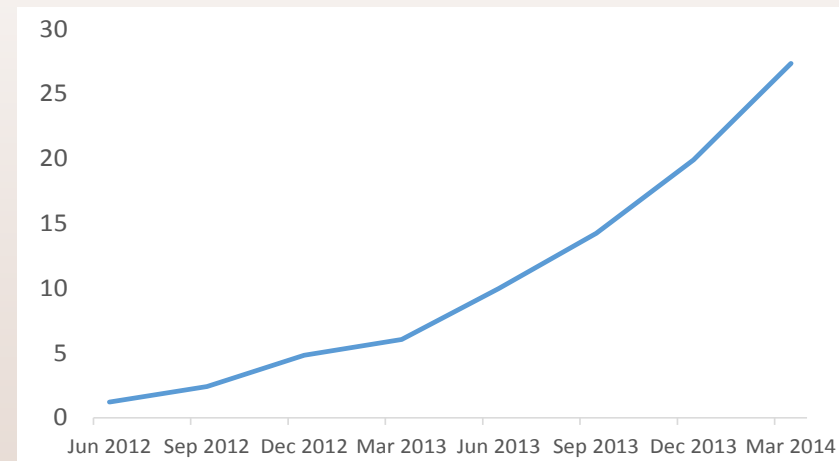
Thousands



Deployment growing steadily

Connections:

Thousands



Uptake growing but still modest

With thanks to CFH, figures as at March 2014. The latest (as yet unpublished) figures show a continuation of these upward trends

The 2011 amendment to the Telecommunications Act to facilitate UFB contained:

- Provisions to allow Telecom to de-merge into Telecom and Chorus, including trading restrictions for Chorus
- Provisions to require Local Fibre Companies and Chorus to enter into undertakings, mainly not to discriminate and to disclose information to the Commission on the ‘costs and characteristics’ of the network
- A number of arrangements for Chorus, primarily sharing arrangements and copper undertakings
- Change of pricing principle for bitstream services and change of ULL pricing
- A comprehensive review of the regulatory regime, starting no later than March 2016, finishing no later than September 2019



The Commission has been working through the work required by the 2011 amendment to the Act. Our work has included:

- Put in place an information disclosure regime for Local Fibre Companies and Chorus
- Reviewed the UCLL price, and now working on a cost-modelled price
- Reviewed the UBA price, and now working on a cost-modelled price
- Reviewed all regulation (STDs) to take into account the demerger
- Received a complaint regarding a possible breach of an undertaking, and we are currently investigating
- Put in place the ‘non-retail register’ to define entities that can do business with Chorus
- Preparing for the regulatory review



The RBI complements the UFB initiative and targets most of the remaining 25% of New Zealanders

The RBI is provided by way of a grant of \$300M recognising that providing fast broadband to rural communities is commercially unattractive to investors yet vital to NZ's economy

The RBI
objectives
are to:

- Improve coverage of fast broadband to enable 80% of rural households and businesses to access services of 5Mbps or better and the remaining 20% able to achieve speeds of at least 1 Mbps
- Connect 97% of schools to fibre enabling speeds of at least 100Mbps with the remaining remote schools able to achieve speeds of at least 10Mbps