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STOCK EXCHANGE ANNOUNCEMENT

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Commerce Commission should use credible New Zealand data

Chorus has today called on the Commerce Commission to more clearly ground its work on the FPP in credible New Zealand costs when it delivers its final determination.

Chorus has provided a further submission in the long running FPP process, which outlines some key areas where the Commission appears to have deviated significantly from New Zealand reality.

"While we recognise that the Commission has taken on board several points of accuracy from the last round of submissions, some key parameters in the model have been adjusted materially downwards, meaning the overall effect was for the monthly charge to remain broadly the same," said Chorus General Counsel Vanessa Oakley.

"It is our view that the Commission still needs to do more to take credible New Zealand costs into account where that information clearly exists. If the Commission doesn't do this then it is sending a strongly negative signal to domestic and international investors who would otherwise enable improvement and innovation in network industries throughout New Zealand."

"In particular, the critical parameter of how much it costs to dig trenches in New Zealand has been drastically reduced in their hypothetical model. Chorus is currently building a new fibre network, and has tendered competitively for this work. As such we have genuine, tested in market, up to the minute, accurate information. The hypothetical trenching rate used by the Commission in its model is less than half of the true cost."

Chorus has also outlined that its one off transaction costs, such as the cost to connect a new customer, are also based off competitively tendered pricing, which ensures they are based on New Zealand reality.

"The Commission has applied an across the board 30% reduction to transaction costs, however we again have credible, up to the minute, competitive costings that could be applied," she said.

Chorus has also argued that there is a strong legal precedent for backdating the more accurate price indicated by the current FPP draft determinations.

"The Commission's own previously held view on backdating was that it should be applied, and it argued as such in the Court of Appeal. Putting aside the basic issue of

fairness, and the need to correct pricing that has been accepted as incorrect, adopting a different position on this matter serves to highlight just how hard it can be to predict the decisions the Commission is going to make, which is very likely to discourage investment over the longer term," she said.

Chorus' submission will be made available on the Commerce Commission's website.

ENDS

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