Telecommunications Act Review: Public Questions & Answers

What is the Review about?

- The Review is assessing whether the current regulatory framework for telecommunications in New Zealand is the optimal one for competition, investment and innovation after 2020.

What is the Review aiming to achieve?

- The Government's goal is to develop a stable and predictable framework that supports competition, innovation, and efficient investment for consumers.

- We have already significantly improved New Zealanders' access to high quality connectivity through the UFB and Rural Broadband Initiative programmes (and this will continue via the extensions to these programmes). It is important to get the regulatory settings right to build on these opportunities and support future growth across the economy.

What decisions have been made so far and what is being proposed?

- We have concluded that change is necessary for the regulation of fixed line services.

- Ultra-Fast Broadband (UFB) pricing is currently set by contracts which expire at the end of 2019. To regulate UFB after 2020, a new regime for UFB will be established in the Telecommunications Act that is based on the widely accepted 'utility-style' of regulation.

- Following further consideration and analysis we have decided to take a different approach to the regulation of copper services, and focus the new regulations primarily on New Zealand's fibre network. We're seeking feedback on this proposal and on changes to the Telecommunications Service Obligation (TSO) through the consultation document released today.

What are the key features of the new regime for UFB?

- The new regime will ensure that UFB providers cannot make excess profits at the expense of consumers, and can expect reasonable rates of return and incentives for ongoing investment, by providing that:

    - All UFB providers will have to disclose information about their revenues and costs publicly;

    - Chorus will also be subject to a revenue cap from 2020; and

    - Local fibre companies will face competition from copper and cable, but can be regulated if problems arise.

- A clear value will be set for regulated assets at the outset, with a predictable process for updating this over time.

- Chorus will be required to supply price-regulated anchor products. These will initially be a basic broadband product (100/20Mbps) and a voice-only product.

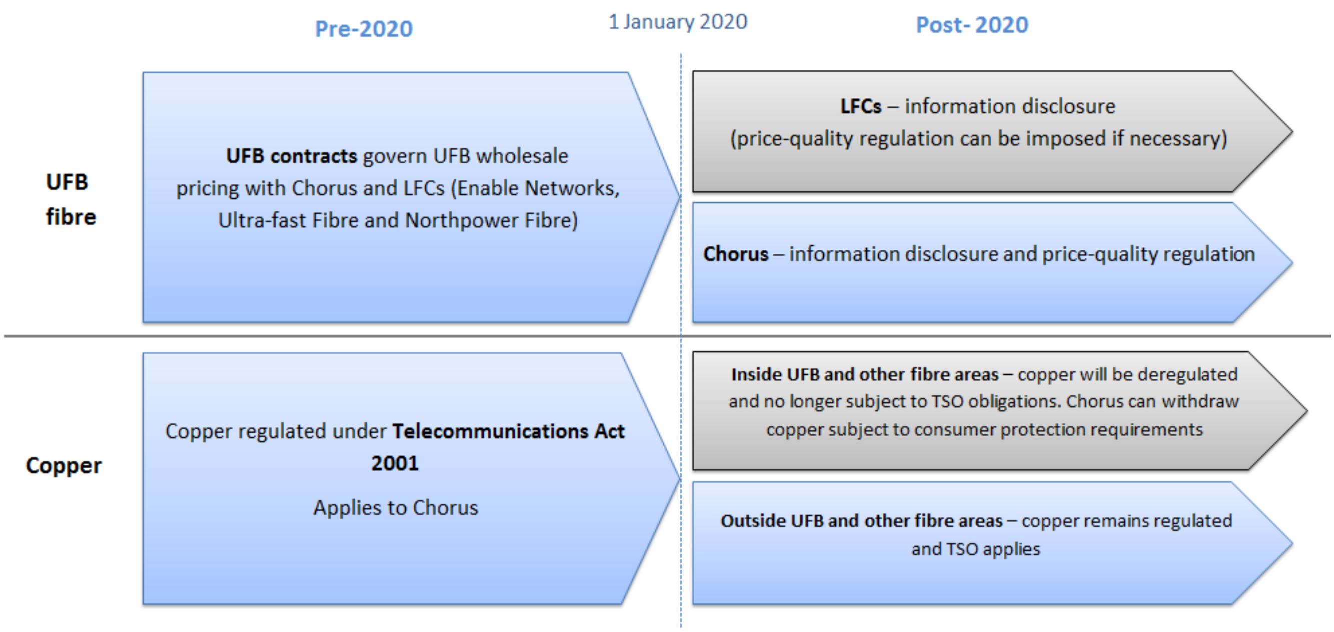
- There will also be a clear process for approval in advance of new investments, similar to that which applies to the electricity grid operator Transpower.

- The Commerce Commission will be required to set clear rules ('input methodologies') before 2020 that outline its approach to how assets will be valued and costs recovered.

What are the key features of the proposed regime for copper?

- In areas where UFB or other fibre is available, the Government is proposing to deregulate the copper network from 2020 and remove the TSO obligation. Customers will have a wide range of choices in these areas, including the option of moving to fibre networks with better services and prices.
- In areas where UFB or other fibre is not available, the TSO obligation will be retained and Chorus will be required to continue supplying copper services at prices capped at 2019 levels. This will ensure consumers continue to have access to basic services at competitive prices, even when alternative networks are not available.

Diagram: Proposed framework for regulating fixed line services from 2020



Why is the Government proposing to regulate the copper network differently to UFB?

- The copper network is nearing the end of its life, and is largely being replaced by the UFB network. It makes sense to focus on the services that most people will be using after 2020. By doing this we will also give consumers alternatives to copper.
- The proposed regulatory model also creates incentives on network suppliers to provide competitive copper services at prices that compare favourably to fibre, which is likely to improve competitive pricing for cooper and support innovation.

What is the consultation paper process?

- The consultation paper seeks feedback on the proposal to deregulate copper services in areas where UFB is available, as well as removal of the TSO in these areas. The feedback received will help inform final decisions about the regulation of the copper network.

- Submissions on the consultation paper close on 3 March 2017. Officials will analyse the feedback received and make recommendations for the final regime to the Minister for Communications. The outcome will be announced in due course.

When will the new law take effect?

- The intention is to have the new regulatory regime ready to be implemented by 2020.

How will the new regulatory model affect consumers?

- In areas where UFB or other fibre is available, customers will have a wide range of choices in these areas, including the option of moving to fibre networks with better services and prices.

- In areas where UFB or other fibre is not available, the TSO obligation will be retained and Chorus will be required to continue supplying copper services at prices capped at 2019 levels. This will ensure consumers continue to have access to basic services at competitive prices, even when alternative networks are not available.

- Minimising any impact on consumers during the transition to the new regime is a priority. The regulatory scheme has been designed to protect consumers from price shocks in the transition to the new scheme in 2020. Consumers will continue to access services at competitive prices.

- More generally, a more stable, predictable regulatory framework will encourage innovation and investment to support the availability of high quality fixed line services at competitive prices.

What are utility-style regulation and the 'building blocks' methodology?

- Utility-style regulation refers to the way we regulate utilities (like gas and electricity distribution companies) in New Zealand, and its primary feature is the 'building blocks' methodology.

- The 'building blocks' methodology is a form of regulation that build up a 'maximum allowable revenue' that the supplier is permitted to earn, based on the actual investments and costs of a regulated supplier.

- This model is designed for regulated markets with natural monopoly characteristics and means that the regulated supplier can earn enough to cover its costs (including a reasonable return on its investment) but prevents it from making excessive profits.

How does the 'building blocks' methodology differ from the current approach?

- Under the current methodology for fixed line pricing in the Telecommunications Act, the regulator considers the costs and technology choices of a hypothetical new entrant rather than the costs a real operator faces.

- This hypothetical exercise increases unpredictability and in the case of copper pricing has led to lengthy, costly proceedings and significant uncertainty.

More information is available at www.mbie.govt.nz/telcoreview.