Business

Wholesale broadband CPI price rises a 'crock' - Now NZ CEO

Small broadband player says retailers can't keep absorbing price increases.

By Will Mace
Wed, 30 Mar 2022


Now NZ CEO Hamish White.

Broadband retailer Now NZ will probably need to pass upcoming inflation-driven wholesale price increases to its customers, but its CEO Hamish White thinks wholesalers and the Government should rethink the price rises altogether.

White cited the 5.9% price rise being proposed by Christchurch City Council-owned wholesale fibre company Enable Networks from July 2022, saying it is "monopolistic abuse".

Enable's local fibre network monopoly, and that of others like Chorus, Tuatahi First Fibre and Northpower, insulates it from facing the brunt of unhappy household and business internet consumers and they should be doing more to help the retail industry survive, White told *NBR*.

Enable is using the December quarter CPI rate of 5.9% as reference for its price rise, while a Chorus spokesperson said its pricing adjustment would take place from October, and reflect the lower of the March or June quarter CPI figures.

Wholesaler CPI price adjustments are nothing new, but with inflation reaching new heights, White questioned the suitability of the model which fed directly through to retailers struggling with high labour costs, thinning margins, and consumer expectations of lower prices.

"As an industry, we've been absorbing it for about a decade... and that's been great for Kiwi homes and businesses, and we've had to operate more efficiently, and the market hasn't really tolerated us being able to pass it on," said White.

"But I think when we're talking about the CPI sitting at where it's at, and the labour market conditions, I think you're going to see that all the telecommunication companies in New Zealand, including ourselves, have got no other option but to pass it through this time (to consumers)."

White said his Hawke's Bay company's average revenue per household is $78 excluding GST, so with a marginal connection cost of $50 from the fibre provider, it operates at a gross margin of $28, or 36%. From that $28 comes payment for provision of the service itself, including backhaul and upstream, as well as customer service, administrative and compliance overheads.

He calculates that a 5.9% increase to the wholesale cost of fibre represents a 10% (or $2.95) reduction in his gross margin.


Enable Networks CEO Johnathan Eele.

Cost 'crock'
What sits most uncomfortably with White is Enable's justification that the increase was a result of its own cost increases.

"If you're applying a price adjustment on $84m (revenue) and their overheads only represent $23m, that amount that they're increasing their fees by suggests an increase in overheads of 21%, which is just a crock."

Enable's 2021 annual report showed operating expenses had decreased from $24.4m in 2020 to $23.3m in

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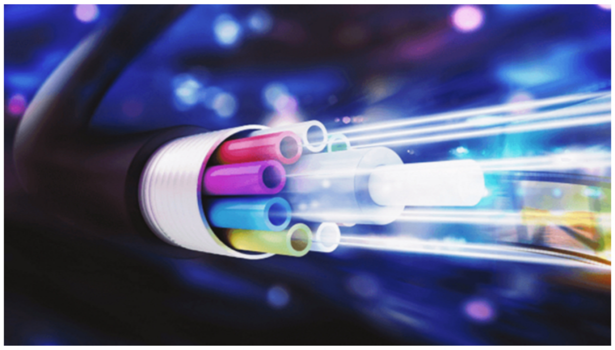
the year ended June 30, 2021. Revenue increased from $76.9m to $84.4m in 2021, while ebit was at $35.9m, up from $28.4m, and net profit hit $15.8m, up from $11.3m. The company paid an $18m dividend to Christchurch City Council – the first in its history, and one year ahead of expectation.

There appeared to be a lack of a sense of “industry stewardship” from wholesalers and the government, White said.

“They've been put in this privileged position of having a monopoly, and you would have thought that they have some sense of responsibility in the current environment to contain costs.

“It's one area where costs can arguably be contained, because the lion's share of their expense is actually depreciation - a non-cash item that's not subject to inflation. Yes, there's some upkeep to those assets, but they're 100-year assets.

“I accept that there'll be some inflationary impacts to upkeep and maintenance of the asset, but nothing of the magnitude that they're suggesting.”



Fibre network operators should have a sense of 'industry stewardship', says Now NZ.

White said he had contacted Finance Minister Grant Robertson’s office but was referred to the Telecommunications Minister.

“I said, ‘You guys are missing the point if you've forwarded this on to the Telecommunications Minister. This is about New Zealand Inc., it's actually nothing to do with telecommunications’.”

Enable Networks' response
Enable told *NBR* that many of its cost lines are under considerable pressure and increasing at a rate greater than CPI, but that it had opted to take the same CPI-based approach to its pricing adjustment as used in previous years.

It disputed White's characterisation of its cost base, saying the numbers he quoted “do not correctly pick up all our major cost lines and are not, therefore, reflective of our actual cost pressures.

“Our capital costs – incurred when we connect customers, grow our network, and upgrade our network to deliver faster services – mean that our total costs are much greater than suggested.”

The company said it gives “careful consideration to many market factors before considering what appropriate action to take in respect of prices”.

The consultation period on Enable’s pricing changes ended yesterday.

Chorus response
A Chorus spokesperson disagreed with White’s characterisation of wholesalers as being insulated from inflation and not operating in a competitive environment.

The company sees increased costs through the supply chain from its service companies, who build and maintain the network and connect customers, as well as through freight, labour and increased electronic equipment costs.

In addition, Chorus' maximum allowable revenue (MAR) as set out in wholesale regulation was based on an extremely low WACC (weighted average cost of capital), set when interest rates bottomed out last year, the spokesperson noted. These regulatory controls at wholesale have a similar impact to the effects of competition at retail.

Chorus also considers competition from other technologies, such as fixed wireless broadband service providers, when setting prices for its fibre services.

“It's unlikely that a single increase across Chorus's fibre portfolio will apply with more thought given to the competitive environment,” the Chorus spokesperson said.

Chorus' consultation on the CPI price adjustment gets underway with retailers in May, and the company would let retailers know what increases will be applied in early July.

Now NZ does not currently offer fixed wireless broadband but will in the future, White said, noting though that it only caters to a certain part of the market. However, with three spectrum wholesalers - Spark, Vodafone and Two Degrees – all competing for business, it would be unlikely a similar situation would occur in that market, he said.

Minister for Digital Economy and Communications David Clark.

The minister's response
David Clark, the Minister for the Digital Economy and Communications, said he does not have control over the prices that local fibre companies charge, but that Enable is subject to information disclosure requirements that allow the Commerce Commission to require it to publicly disclose key information in relation to pricing, and other important performance metrics.

Information disclosure provides increased transparency and is one of the tools that can be applied to limit excessive profits, Clark said.

“I’m advised that if the Commerce Commission were to have concerns about the prices being charged it has the ability to recommend additional price-quality requirements on Enable under s.209 of the Telecommunications Act 2018.

“In respect of the question as to whether Chorus will also follow suit and raise its prices: Chorus is already subject to price-quality regulation. As part of this it is required to have an 'anchor product', with the price of that anchor product set in regulations," he said.

"As the name suggests these products are designed to act as an 'anchor' on the price and quality of other fibre services Chorus offers. It is not able to increase the price of that product beyond what is set out in regulations, so that product will remain available to RSPs to offer as an option irrespective of any commercial decisions Chorus may make regarding any of its other products."

By **Will Mace**

Tags: Now NZ Hamish White Chorus enable networks Fibre local fibre company

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Anonymous Wed, 30 Mar 2022 - 02:48pm

New Zealand is somewhat unique in the world of telecommunications markets in that it regulates firms (e.g. Chorus) and not markets (e.g. wholesale fibre services). This is problematic when more than one firm provides the same services. Submissions made on the Telecommunications Act reviews in 2010 and 2017 identified this potential issue, arising because of the way the fibre contracts were tendered in 2010. The chickens have just now started to come home to roost, as expected, when prices increase (rather than decrease, which has been the norm in telecommunications markets for many years).

hamish.white Anonymous

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Anonymous Wed, 30 Mar 2022 - 12:27pm

The life of fibre in the ground isn't 100 years. I doubt the residential-grade stuff will even last twenty.

Reply

Anonymous Wed, 30 Mar 2022 - 1:44pm

It was designed to last 50 years, and I see no reason why it wont.

Reply

Anonymous Wed, 30 Mar 2022 - 1:23pm

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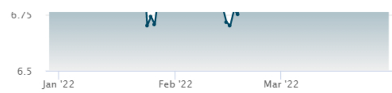

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