



23rd November 2007

Operational Separation Submission
ICT Regulatory Team
Ministry of Economic Development
PO Box 1473
Wellington

Attention: Ralph Chivers

Dear Sir,

RE: Consultation on Telecom's Draft Separation Plan

This letter summarises WorldxChange's views on the Draft Telecom Separation Undertakings document.

Overview

WorldxChange agrees that the overall Telecom Draft Undertakings plan is a pragmatic and workable solution for achieving the Operational Separation requirements.

Our main concerns about Separation were discussed at length directly with Telecom and we are satisfied with the responses and clarifications that we have received to date with the exception of the three issues we have briefly raised in this letter.

We view the requested extensions for both "Trading Arrangements" and "Arrangements with Contractors and Agents" as being acceptable given the enormity of the Separation project.

We also agree with Telecom's general approach of horse-trading the modifications required to get legacy services to an EOI standard with alternative deliverables around getting NGN-based products into the marketplace in a more timely fashion.

There is no point in looking backwards and we strongly agree that the identified legacy TDM-based products and services should be excluded from all EOI requirements as well as being "Grandfathered" as soon as possible once an NGN-equivalent product/service is available to Access Seekers including Telecom Retail.

Telecom Retail & Xtra

WorldxChange does have some concerns relating to how Telecom Retail will calculate and accrue the true costs involved in selling their bundled retail products under Separation. The ability for Telecom Retail to sell bundled products as a "loss leader" has hamstrung competition in the marketplace for years, so we expect that Separation will be implemented to prevent this behaviour from continuing in the future.

We would expect that a fully-transparent transfer pricing methodology would be adopted that clearly identifies all costs as being the identical to those that are applicable to other Access Seekers and is auditable by the IOG to ensure a true level playing field.

We are also concerned that Telecom Retail (Xtra) can continue to retail a Layer 3 DSL-based broadband product until December 2009 whilst all other Access Seekers are stuck with the legacy Layer 2 UBS product as the minimum broadband service building block.

We see no reason why Xtra cannot almost immediately start using these same UBS/UBA products for all new customer broadband connections to ensure that true "equivalency of product" (ie technical specification and function) is guaranteed across the entire industry for this particular legacy service.

Legal & Regulatory

The Wholesale Unit should be required to have their own Legal and Regulatory sub-unit as "Chinese Walls" have historically not been a strong point for Telecom. We see the brave new world of Separation as facilitating potential conflicts of interest by having these resources in a centralised group that is shared across all of Telecom's Business Units.

IP Interconnect

IP Interconnection for voice is a major function of all Next-Gen telco infrastructures worldwide and whilst we appreciate that Telecom wishes to address this issue sometime down the track, we have no level of comfort that any priority has or will be assigned to this function, as there are no defined deliverables in this undertaking.

The notion of building and selling wholesaled NGN-based services to Access Seekers for end-user products and at the same time not building the equivalent NGN-based egress services for interconnection to these Access Seekers makes no sense at all.

We would like to see a set of prescribed deliverable dates for Telecom to deal with SIP/H323 interconnect standards for both carrier and end-user equipment (in the first instance) as well as actual dates for offering this function to Access Seekers as a live product to replace the existing legacy TDM-based SS7 carrier interconnect functions.

Migrating to IP Interconnects for both inter-carrier voice and internet traffic should be an enforced deliverable in 2008 as both of these products are egress-based and Telecom is one of the few carriers in New Zealand that does not already offer the capability to interconnect with other players in this manner.

Summary

WorldxChange views the pending separation of Telecom and the deployment of NGN-based infrastructure and products throughout the country as a good outcome for industry players and the country alike. The benefit to consumers will be in the form of more services for lower prices from a greater number of service providers.

We thank the MED for the opportunity to comment on the Draft Separation Plan and the Directors of WorldxChange are available should further comment be required.

Regards,



Paul Clarkin
Director, Operations & Carrier
WorldxChange Communications Limited