

## APPENDIX A: CHORUS PROPOSED AMENDMENTS TO THE FURTHER IM DETERMINATION

This table outlines Chorus' suggested changes to the Commission's further draft IM Determination (of 23 July 2020). It includes issues we have identified that do not reflect our preferred position as well as issues where we consider that the Commission's drafting is not workable. We propose alternative drafting where relevant in red. We note that this drafting is shown as against the Commission's latest draft IMs, and in some cases the red amendments simply go back to the Commission's previous wording. The proposed changes do not reflect all our submission points, as many changes have either been proposed before or would require substantial changes throughout the draft IM. We intend this table to be of assistance for the more straightforward changes proposed.

Reference in Further Consultation Paper	Issue	Proposed change to the IM Determination (23 July 2020)
<b>PART 1: General provisions - Interpretation</b>		
Allocator value definition	The definition needs to accommodate use for allocation between FFLAS classes.	<p>(a) for the purpose of determining the financial loss asset, has the meaning specified in Schedule B; and</p> <p>(b) in all other instances, means a value in units for each cost allocator or asset allocator that is used to calculate the ratio of operating costs or asset values to be allocated to:</p> <p>(i) regulated FFLAS (and further allocated to PQ FFLAS and ID-only FFLAS, and any additional FFLAS class); and</p> <p>(ii) services that are not regulated FFLAS;</p> <p>Example: if the allocator type for a central office's asset value is 'floor area', and 30 square metres of the floor area of a 120-square metre central office is used for regulated FFLAS, then the 'allocator values' used to calculate the asset allocator (used for attributing asset values to regulated FFLAS) would be a numerator of 30 and a denominator of 120.</p>
Allocator type definition	The definition needs to accommodate use for allocation between FFLAS classes.	<p>Carry through the same change as set out above to include allocation between FFLAS classes.</p> <p>Example: if the allocator type for central office costs is 'floor area', and 30 square meters of the floor area of a 120-square metre central office is used for regulated FFLAS, then the 'asset allocator' is 1/4 (ie, 30/120).</p>

Building blocks revenue	The definition of “building blocks revenue” should provide for revenue smoothing between years, within a regulatory period.	Building blocks revenue means the sum of building blocks components (which may have positive or negative values) as determined by the Commission for a regulatory year, and, for the avoidance of doubt, includes a component or components that give effect to the smoothing of revenue under s 197 of the Act and within a regulatory period where the methodology for revenue smoothing is determined during the PQ determination.
[ID-only RAB]	This is a suggested new definition. We note that if adopted there would need to be a series of consequential amendments to give effect to the express inclusion of an ID-only RAB.	<b>ID-only RAB</b> means, in respect of a <b>regulated provider</b> , all <b>fibre assets</b> that are employed by that <b>regulated provider</b> in the provision of <b>ID-only FFLAS</b>
<b>Part 2: IMs for Information Disclosure</b>		
<b>Cost allocation</b>		
2.1.2	ABAA isn’t specified for allocation between FFLAS classes (e.g. PQ and ID-only FFLAS), only between FFLAS and non-FFLAS services.	Carry through the same change as set out above to include allocation between FFLAS classes.
2.1.5 (6)	As described in our submission, we disagree with the draft decision to impose a cap on the allocation of shared costs.	Clause 2.1.5(6) should be deleted.
2.1.5 (7)	As described in our submission, we disagree with the draft decision to impose a cap on the allocation of shared costs.	If clause 2.1.5(6) is deleted, delete this clause.
<b>Asset valuation</b>		
3.3.1 (6)	We support the Commission’s alternative method described in the Revised Paper (3.87), requiring amendment to clause 3.3.1(6) as indicated, and recommend using data up to 30 June 2020.	(6) For the purposes of specifying the price-quality path for the <b>first regulatory period</b> , the values referred to in subclause (1) must be determined by: <ul style="list-style-type: none"> <li>(a) applying section 177 of the Act to actual values prepared in accordance with GAAP and obtained from a <b>regulated provider</b> by the <b>Commission</b> prior to the <b>implementation date</b>; and</li> <li>(b) where actual values are not available in respect of any <b>disclosure year</b> (or part thereof) prior to the <b>implementation date</b>, subject to subclauses (3), (4) and (5), applying forecasts of all values required to</li> </ul>

		<p>determine the values referred to in paragraphs (a) to (f) of subclause (1) by applying the <b>input methodologies</b> specified in Subpart 2 of Part 2 <b>and on the basis of actual values obtained under clause 3.3.1(6)(a),</b></p> <p>where</p> <p>(c) the “opening RAB value” of the <b>financial loss asset</b> adopted under paragraphs (a)-(b) is determined in accordance with Schedule B.</p> <p>(d) [deleted].</p>
<b>Cost of Capital</b>		
3.5.11	<p>The Commission proposes to determine a value of the “annual benefit of Crown financing building block” without any regard to the residual risk that Chorus carries in relation to Crown financing.</p> <p>The Commission has introduced an option to change the value of the “annual benefit of Crown financing building block” in response to the change, or the expected change, of the structure of the Crown financing outstanding.</p> <p>We disagree with the proposed calculation of the “annual benefit of Crown financing building block”.</p>	<p>3.5.11 <u>Annual benefit of Crown financing building block</u></p> <p>(7) For the purposes of specifying a price-quality path, “annual benefit of Crown financing building block” for a <b>regulatory year</b> in a <b>regulatory period</b> is determined in accordance with the following formula:</p> <p><math>A \times B</math></p> <p>where:</p> <p>‘A’ is the <b>avoided cost debt rate that takes into account the credit rating that is one notch below the actual qualifying rating of the regulated provider</b>; and</p> <p>‘B’ is the forecast amount of <b>Crown financing</b> outstanding for that <b>regulatory year</b>.</p>
<b>Capital expenditure</b>		
3.7.4	<p>The proposed changes to the audit requirements mean our goal of a pre-Christmas sign-off of our RP1 proposal would not be realistically achievable, which we do not believe reflects the Commission’s policy intent.</p> <p>In KPMG’s view, its sign-off in respect of forecast financial and forecast non-financial information should contain wording which does not result in a presumption of a positive assurance sign-off.</p>	<p>We recommend the audit requirements are as follows:</p> <p>3.7.4 General audit requirements for capex proposals</p> <p>(1) If an audit is required for a <b>capex proposal</b>, it must include a report by an <b>auditor</b> that states whether:</p> <p>[...]</p> <p>(a) the historical information used in the preparation of the <b>capex proposal</b> has been:</p>

		<ul style="list-style-type: none"> <li>(i) compiled in all material respects in accordance with the input methodologies;</li> <li>(ii) properly extracted from financial records sourced from financial systems; and</li> <li>(iii) audited in accordance with applicable auditing standards;</li> </ul> <p>(b) the historical non-financial information used in the preparation of the <b>capex proposal</b> has been:</p> <ul style="list-style-type: none"> <li>(i) compiled in all material respects in accordance with the input methodologies;</li> <li>(ii) properly compiled on the basis of the relevant underlying source information; and</li> <li>(iii) examined in accordance with applicable auditing standards;</li> </ul> <p>(c) the forecast financial information provided in the <b>capex proposal</b> has been:</p> <ul style="list-style-type: none"> <li>(i) compiled in all material respects in accordance with the input methodologies;</li> <li>(ii) properly compiled on the basis of the relevant underlying source information; and</li> <li>(iii) examined in accordance with applicable auditing standards; and</li> </ul> <p>(d) the forecast non-financial information provided in the <b>capex proposal</b> has been:</p> <ul style="list-style-type: none"> <li>(i) compiled in all material respects in accordance with the input methodologies;</li> <li>(ii) properly compiled on the basis of the relevant underlying source information; and</li> <li>(iii) examined in accordance with applicable auditing standards.</li> </ul>
3.7.7(3)(a)	This clause requires certain IFP reports to detail the assumptions relied on for the forecasts. We support this requirement in principle but suggest that it is limited to the key assumptions, given the very large number of different assumptions included in the underlying forecast models.	(3) The <b>integrated fibre plan</b> must include following detail for the relevant reports: (a) in relation to subclauses (1)(a)-(b), (1)(d)-(e) and (1)(f), the <b>key</b> assumptions relied on for the forecasts and uncertainties associated with the forecasts;
3.8.6	The proposed change to mandatory consideration of assessment factors is unnecessarily prescriptive. The Commission should retain discretion as to when it is appropriate to apply individual assessment factors (that is, revert to the previous drafting).	3.8.6 (1) <b>To the extent the Commission considers it relevant, it must have regard to at least the following assessment factors when evaluating a <b>capex proposal</b>:</b> [...]

3.9.3	The intention behind the proposed change to catastrophic event reopeners is clear but the exclusions lead to a binary outcome. The Commission should remove the exclusions and include an additional evaluation criterion in clause 3.9.8.	<p>Deletion of 3.9.3(2).</p> <p>Add a further criterion to 3.9.8(1): <i>in relation to expenditure to prevent or mitigate a catastrophic event, the extent to which a prudent and efficient supplier would incur that expenditure.</i></p>
-------	--	--