

Subject: Commerce Commission – Fibre Input Methodology Amendment Clarifications in response to Chorus

Tēnā koutou

This email is to inform stakeholders on the Commission’s response to questions raised by Chorus in relation to our Fibre Input Methodologies (IMs) Amendments draft decisions published 31 August 2021.

Our responses represent Commission staff views, not the views of Commissioners. Should stakeholders wish to provide any further views on the Commission’s draft decisions published 31 August 2021, we encourage them to provide those views in a formal submission.

The draft decisions that these clarification questions relate to can be found on our website [here](#). We plan to publish a copy of this e-mail on our website on 17 September, alongside our submissions on Fibre input methodology amendments.

Submissions can be submitted via our submission portal [here](#), by **5pm, 16 September**. Please select “Fibre Input Methodology Amendments” from the drop down menu.

Chorus question	Commission response
<p>Proposed amendment: Improve the workability of Asset Valuation fibre IM requirements in respect of the cost allocation process used to determine the “opening RAB value” of fibre assets at implementation date in Chorus’ transitional initial PQ RAB (para 3.4.8 of the additional IM amendments draft decision paper)</p> <p>Our interpretation is that the intended outcomes of these IM changes are:</p> <ul style="list-style-type: none">• it is being clarified that cost allocation is undertaken via the PQ cost allocation provisions (cl. 3.2.1) rather than the ID cost allocation provisions (cl. 2.2.3(2)(b)(ii)); and• the “estimated” characteristic of RAB values is being shifted from applying to the source historic values themselves, to applying to the net result of the calculation of post-allocated asset values (see para 3.71.2.2 of the reasons paper).	<p>Chorus’ interpretation is consistent with Commission staff’s understanding of the intent of these proposed changes in respect of ascertaining the “opening RAB value” of core fibre assets as of the implementation date in Chorus’ transitional initial PQ RAB – see [Draft] Fibre Input Methodologies Amendment Determination 2021 [2021] NZCC [XX] (31 August 2021) (draft amendment determination), clause 3.3.1(8) of Attachment B and 3.71-3.72 of the draft reasons paper.</p> <p>As specified in paragraph 3.73 and clause 3.3.1(9) of Attachment B of the draft amendment determination, Commission staff consider that there is a slightly different proposed process for ascertaining the “opening RAB value” of the financial loss asset as of the implementation date in Chorus’ transitional initial PQ RAB. In determining this under clause 3.3.1(9) of Attachment B of the draft amendment determination, it is Commission staff’s understanding that this does not involve a cost allocation process in accordance with clause 3.2.1 of Attachment B of the draft amendment</p>

determination. Rather, due to clause 3.3.1(9)(d)-(e) and clause B1.1.5(1)(a)-(b) of Schedule B of Attachment B of the draft amendment determination, the determination under clause 3.3.1(9) of Attachment B of the draft amendment determination would involve a cost allocation process under clause B1.1.6 of Schedule B of Attachment B of the draft amendment determination for historic values/forecasts applied.

Proposed amendment: Clarify how certain Asset Valuation fibre IMs for ID are used to determine asset valuation inputs for Chorus' maximum revenues for PQP1 (para 3.4.9 of the additional IM amendments draft decision paper)

Our interpretation is that the issue these amendments are intended to address is:

- that opening "RAB values" at 1 Jan 2022 for s177 and the loss provisions are post-allocated values, but in terms of rolling asset values forward for PQ purposes those values need to be somehow regarded as "unallocated" RAB values so they can be cost allocated over the ensuing years of PQP1 using up-to-date metrics etc.

Chorus' interpretation is consistent with Commission staff's understanding of the intent of these proposed changes in respect of applying forecasts of all core fibre asset values for each regulatory year in the first regulatory period under clause 3.3.1(7)(c)(i)(A) of Attachment B of the draft amendment determination.

As the financial loss asset is not assigned an "unallocated initial RAB value" or an "unallocated opening RAB value", Commission staff's understanding is that the proposed changes to clause 3.3.1(7)(c)(i)(B) of Attachment B of the draft amendment determination instead regard the "opening RAB value" of the financial loss asset as of the implementation date in Chorus' transitional initial PQ RAB as an "initial RAB value" for disclosure year 2022. This would allow a forecast value of the financial loss asset to be determined for each regulatory year of PQP1 using the roll forward provisions in clause 2.2.6 of Attachment B of the draft amendment determination.

If you have any questions, please contact us via telcofibre@comcom.govt.nz.

Thomas Jones (He/Him)

Manager – Fibre regulation

Commerce Commission | *Te Komihana Tauhokohoko*

44 The Terrace | PO Box 2351 | Wellington 6140 | New Zealand

DDI +64 (0)4 924 3817 | Thomas.Jones@comcom.govt.nz

www.comcom.govt.nz



