

# B1 Business Information

Long form responses to the Information Request from the Commission dated 18 November 2020 that relate to business information.

**B1.1** A6 – company structure and organisational information

**B1.2** A10 – key legislative obligations

**B1.3** A15 – dividend and debt management strategy

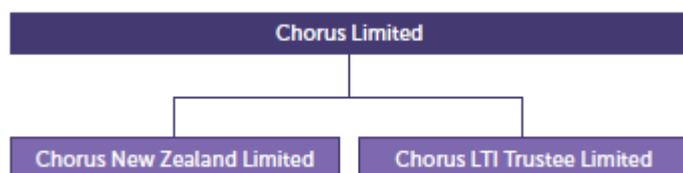
**B1.4** A19, A39 - policies

# Company structure and organisational information

A6 Provide a summary of the parts of Chorus’s company structure that are involved in the delivery of PQ FFLAS, including:

- A6.1 a current company structure map, including:
  - A6.1.1 **Chorus** and all of its related companies and subsidiaries;
  - A6.1.2 a high-level description of the main functions of each company and subsidiary and their relationship with **Chorus**,
  - A6.1.3 any proposed material changes planned to be made to **Chorus’s** company structure for or in **PQP1**.

Chorus’ company structure is as follows:



Chorus Limited is the regulated fibre service provider under the Telecommunications Act. That is the entity which partnered with the Crown to undertake the UFB build, is listed on the NZX and ASX, and is the borrowing entity in the group’s main financing arrangements. It has two wholly-owned subsidiaries.

Chorus New Zealand Limited undertakes, and is the contracting entity for, the group’s operating activities (including employing all Chorus people). It’s the guarantor under the group’s main financing arrangements. It has the same board as Chorus Limited, but a different company constitution.

Chorus LTI Trustee Limited acts as trustee for the long-term incentive plan currently in place for our CEO and executive team and is not involved in the delivery of PQ-FFLAS.

There are no proposed changes to this structure planned to be made for or in PQP1.

## B1.1 A6 – company structure and organisational information

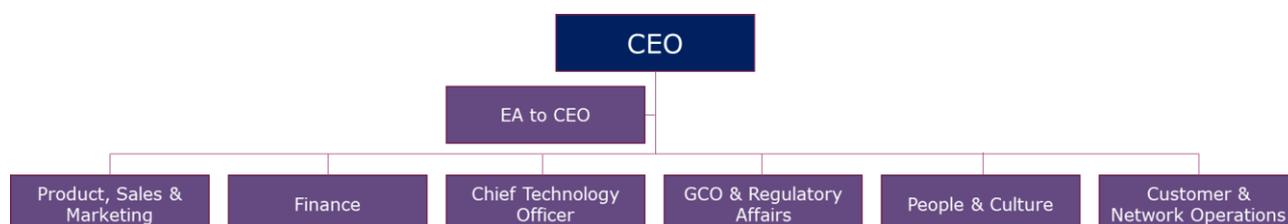
A6.2 a current organisation chart, including:

A6.2.1 a description of each operating unit;

A6.2.2 the relationships between the operating units; and

A6.2.3 staff numbers for each operating unit;

Chorus' most recent organisation chart, effective 1 December 2020 is shown below. It reflects the departure of two Executives in December 2020 and the recent decision to redistribute their accountabilities/teams across other members of the Executive team (taking the Executive team from 8 to 6). The teams from the departing Executives groups have been reallocated within Product, Sales & Marketing, Finance, GCO & Regulatory Affairs and People & Culture. It is likely that in FY2021 Q3 and Q4 functional team structures, names, and in some cases Executive titles, will be reviewed and may result in further operating model changes being made.



Operating unit	Description	Relationships between operating units	Staff numbers
<b>Chief Executive Officer (CEO)</b>	CEO	CEO	1
<b>Product, Sales &amp; Marketing (PSM)</b>	Product Sales & Marketing, Customer experience, and Strategy & Enterprise performance	PSM is Chorus' front line for our retail service providers (RSPs), developing services they want, managing relationships & sales.  The strategy team, as part of PSM, is accountable for the business-wide strategy agenda owned by the full Executive team.	111
<b>Finance</b>	Finance and Economics & Modelling	The finance team operate a business partner model across all other operating units.	84
<b>Chief Technology Officer (CTO)</b>	Technology strategy & architecture for both network and business technology, IT delivery & operations.	CTO determines the technology strategy and allocates capex for network & business technology delivery to support the achievement of our Chorus wide strategy.	159

## B1.1 A6 – company structure and organisational information

Operating unit	Description	Relationships between operating units	Staff numbers
<b>General Counsel Office &amp; Regulatory Affairs (GCO)</b>	General Counsel, External Communications, Government & Stakeholder Engagement and Regulatory & Policy Affairs	The GCO team provides legal, regulatory, and external communications support across all of Chorus.	27
<b>People &amp; Culture</b>	People & Culture, Internal Communication and Transformation	This is a shared or corporate function operating across all other operating units.  The delivery of individual transformation projects is owned by accountable business unit Executives.	35
<b>Customer &amp; Network Operations (CNO)</b>	Planning & infrastructure programmes, Connect delivery, Health, Safety & Environment, Operations	CNO manages delivery in the field, from building the network, connecting customers, maintaining the network & property, to managing our service company contracts.	443
<b>Administration</b>	Executive and Personal Assistant (EA & PA) support  Business Administration  Reception	The Admin team provide EA and PA support to the Executive team and senior leader community.  We have a centralised administration team who offer support to the business end to end that includes admin, facilities and reception activity.	16

### A6.3 any already-confirmed material changes planned to be made to Chorus's company structure for or in PQP1 that can be expected to alter opex or capex for PQP1.

There are no material changes planned to be made to Chorus' company structure for or in PQP1 that can be expected to alter opex or capex for PQP1.

# Key legislative obligations

A10 Provide a description of the key legislative obligations owed by Chorus that are drivers of proposed base capex, proposed connection capex and proposed opex

The key legislative obligations that are drivers of our proposed expenditure (base capex, connection capex and opex) are found in:

- Telecommunications Act 2001
- Resource Management Act 1991
- Building Act 2004
- Health and Safety at Work Act 2015
- Utilities Access Act 2010.

The most significant driver of all expenditure (base capex, connection capex and opex) in RP1 relates to obligations for physical network works and civil works (e.g. ducting underground, maintaining buildings) including those specific to:

- installations and maintenance
- earthworks
- relocations
- reinstatement and
- works in a legal road.

## Telecommunications Act 2001

### Part 4

Chorus must ensure it has the necessary rights to carry out activities on properties it does not own. Part 4 of the Telecommunication Act 2001 provides these rights as well as notice requirements and other formalities that must be complied with. Chorus has rights of access, and to inspect and maintain existing lines (any lines existing before 1 April 1989) and existing works (any works related to provisioning telecommunications existing before 1 January 1988). Chorus also has certain access rights for installing fibre in shared properties and on existing electricity works (as defined by the Electricity Act 1992). These access rights trigger specific installation and reinstatement requirements and an obligation to subscribe to a specified dispute resolution scheme.

Some form of negotiated property right (e.g. an easement, lease or license) is required for activities that are outside the scope of Part 4, including for new network assets. There are costs associated with negotiating these property rights.

Under Part 4, we also have obligations to relocate the network if requested by a road controlling authority (local council or NZTA). This is a driver of base capex and opex as we cannot recover all costs for relocations.

### Part 6

Under Part 6 of the Telecommunications Act, we have costs in RP1 for implementing the new fibre regulatory framework, including to ensure appropriate processes are in place to:

- test whether new products or product variations fall within the scope of fibre fixed line access services (FFLAS) regulation
- comply with geographically consistent pricing requirements for new and existing FFLAS
- meet compliance requirements relating to revenue control, quality standards, information disclosure and declared services

## **B1.2 A10 – key legislative obligations**

- prepare our second regulatory expenditure proposal
- implement systems and processes to enable performance of the new regime.

### **Part 2A**

Chorus' compliance obligations under Part 2A of the Telecommunications Act will continue in RP1 including:

- our open access deeds of undertaking for fibre services
- line of business restrictions
- sharing arrangements – including shared systems arrangements for assets and systems shared with Spark.

We also incur costs under the Telecommunications Act obligations for levies (Commission and Telecommunications development) and membership fees for disputes schemes. We note that these are treated as pass through costs under the IMs.

### **Resource Management Act 1991**

Physical works and activities need to comply with the Resource Management Act 1991. The purpose of the Act is to promote the sustainable development of natural and physical resources. It does that by putting in place a framework for managing the effects of activities on the environment. Detailed rules are contained in lower level planning documents such as district and regional plans and the National Environmental Standard for Telecommunications Activities Facilities 2016. Some activities require resource consents including compliance with traffic management plans and specified earthworks and reinstatement conditions.

### **Building Act 2004**

Legislative obligations under the Building Act 2004 requiring the condition of network buildings to be safe is a driver of base capex and opex. For example, we use preventative maintenance to strengthen buildings to align with Building Code requirements under the Building Act 2004. Our engineering services for network buildings, including for ventilation/HVAC, power and fire suppression systems must also be compliant with the Building Code.

### **Health and Safety at Work Act 2015**

Chorus must comply with a range of obligations as a person in control of a business undertaking (PCBU) under the Health and Safety at Work Act 2015. This is relevant to all Chorus activities, both in the field with employees, contractors and subcontractors as well as in the office environment. Cost involved in implementing our Health and Safety obligations include making sure we have the right processes, systems and risk mitigation to support work activities in all locations, including the field.

### **Utilities Access Act 2010**

Chorus must comply with the National Code of Practice for Utility Operators' Access to Transport Corridors which applies under the Utilities Access Act 2010. The Code contains processes for coordinating and obtaining consent for access to road and rail corridors for utilities, including telecommunications related work in transport corridors.

# Dividend and debt management strategy

A15 Provide the following information, to the extent relevant to PQ FFLAS scope:

A15.1 a summary of Chorus's strategies for dividends and debt management applicable to PQP1;

The guiding principle for dividend and debt management is the Chorus Board's commitment to maintain a 'BBB' credit rating. Both dividends and debt are managed at a total Chorus level; PQ FFLAS and other Chorus services are managed as one cash generating unit.

For FY2021, Chorus has given the market guidance that a 25cps dividend is expected to be paid, subject to no material adverse changes in circumstance or outlook. In FY2022, Chorus will have begun the transition from a fixed cents per share dividend policy to a dividend policy based on a pay-out range of free cash flow. This dividend policy will remain in place for RP1 and the following regulatory periods.

Debt is effectively a balancing item, being the product of operating performance and dividend policy. Maturing debt will be refinanced as and when required.

A15.2 an explanation of how Chorus's strategies for dividends and debt management are consistent with the equivalent information available to Chorus's external stakeholders immediately prior to Chorus submitting its base capex proposal, connections capex baseline proposal and opex proposal;

Chorus has issued market guidance<sup>1</sup> on the FY2021 dividend and expected change to dividend policy from FY2022. There has been no change to dividend and debt management strategies prior to proposal submission.

A15.3 an explanation of how Chorus's strategy for dividends and debt management are consistent with proposed base capex, proposed connection capex, and proposed opex; and

Dividend and debt are managed by the corporate function at an overall Chorus level (PQ FFLAS and other services are managed as one cash generating unit). The forecast used for dividend guidance is based on the overall Chorus forecast (our 5YP). This is consistent with the proposed forecast for base capex, connection capex and opex as our regulatory forecasts are developed from the Chorus 5YP.

As noted above, Chorus has issued market guidance for FY2021 and its intention to transition to a pay-out of free cashflow based dividend policy from FY2022.

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<sup>1</sup> Refer Chorus FY20 Annual results presentation, p23-26, <https://company.chorus.co.nz/file-download/download/public/2153>

### **B1.3 A15 – dividend and debt management strategy**

A15.4 if Chorus makes assumptions in its responses to above that differ from its standard corporate modelling, describe those assumptions.

The assumptions used in our responses and for standard corporate modelling are the same except for some specific regulatory adjustments included in the proposal due to regulatory requirements. Regulatory adjustments (e.g. cost escalators) are described in the modelling section of our 'Modelling and Cost Allocation Report'.

# Policies

A19 Provide a list of and description of Chorus's existing key policies that materially influence the proposed base capex in each base capex sub-category, such as:

- A19.1 asset management, including ensuring the least whole of life costs for assets;
- A19.2 business planning;
- A19.3 insurance (including self-insurance); and
- A19.4 procurement related to the proposed **base capex**.

A39 Provide a list of and description of Chorus's existing key policies that materially influence proposed opex in each opex sub-category, such as:

- A39.1 asset management, including ensuring lowest whole of life costs for assets;
- A39.2 business planning;
- A39.3 insurance (including self-insurance); and
- A39.4 procurement related to proposed opex.

We consider that the following key policies influence proposed capex and opex.

Policy	Description	Category and sub-category affected
<b>1. Asset Management Policy</b>	Chorus's Asset management policy sets out how we will create an environment for our customers and our people that optimises today's business and allows us to innovate for the future. It references the management, maintenance and development of all Chorus assets. Chorus' assets referred to in this policy include our physical assets, plus anything that has potential or actual value to Chorus, including financial, human resources, intellectual property and intangible assets.	All
<b>2. Procurement Policy</b>	Chorus's procurement policy ensures Chorus applies a consistent, professional procurement practice and secures necessary materials and services at appropriate quality levels on commercially favourable terms.	All
<b>3. Health &amp; Safety Policy</b>	Chorus's Health & Safety policy includes our approach to Health & Safety, our responsibilities, our objectives and how we will achieve them.	All

Policy	Description	Category and sub-category affected
	Chorus also has a number of related policies including Health & Safety governance, Drug & Alcohol Policy, Motor Vehicle policy, Physical security and visitor access policy and the Rehabilitation policy.	
<b>4. Property policy</b>	<p>Chorus's property policy sets out expectations of how company property is treated and the limits to be applied in using it.</p> <p>The Property Infrastructure policy ensures Property Infrastructure is available for Chorus to install and operate equipment to provide services to our customers.</p>	<p>Network Sustain &amp; Enhance capex – Site sustain</p> <p>Network opex – Network operations</p> <p>Support opex - Corporate</p>
<b>5. Technology policies</b>	Chorus has a number of technology policies including Information Management, Information control, Technology and Technology security, and Technology continuity policies. These policies provide guidance on the management, control and security of Chorus information and systems.	<p>IT and Support capex including all sub-categories</p> <p>Network Capacity – all sub-categories</p> <p>Support opex - Technology</p>

We note that we do not have a formal insurance policy.

Chorus does not have a formal business planning policy but our approach to business planning process for both capex and opex can be summarised in the diagram attached.

# 5YP Process

