

NOTICE OF INTENTION

29 APRIL 2021

Proposal to Make Potential Amendments to the Input Methodologies for Fibre – potential August 2021 amendments

1. The purpose of this notice of intention is to advise that we are beginning work to consider certain potential amendments to the *Fibre Input Methodologies Determination 2020* [2020] NZCC 21 (**fibre IMs**).
2. In accordance with section 179 of the Telecommunications Act 2001 (**the Act**), this notice outlines the scope of the potential amendments under consideration, and the proposed process and indicative time frames for considering and consulting on these potential fibre IM amendments.

Scope of potential amendments to the fibre IMs under consideration

Process for determining Chorus' initial PQ RAB

3. We are currently in the process of determining the first price-quality (**PQ**) path for Chorus Limited (**Chorus**) under s 170 of the Act, and have commenced evaluation of Chorus' initial price-quality regulatory asset base proposal (**initial PQ RAB**) as part of that process. That initial evaluation has led us to refine our intended process and time frame for determining Chorus' actual initial PQ RAB.
4. We propose to use a transitional initial PQ RAB for Chorus' first PQ path determined in November 2021, based on estimates of asset values and an application of provisional cost allocators. The actual initial PQ RAB for Chorus would be determined in 2022, once further review and scrutiny had been applied to those asset values and cost allocators. We would then 'true-up' for differences between the transitional and actual initial PQ RAB values through a wash-up mechanism, which would adjust revenue values in the second PQ path.
5. In order to implement this proposed approach to determining Chorus' initial PQ RAB, the following amendments to the fibre IMs are being considered:
 - a. amendments to clause 3.1.1 of the Specification of Price and Revenues fibre IM, which would specify that the "wash-up amount" for each regulatory year of the second regulatory period onwards would include a wash-up account balance available to draw down, including a true-up for differences in revenue due to differences between the initial PQ RAB and the transitional initial PQ RAB;
 - b. amendments to clause 3.3.1(8) and clause B1.1.5(1) of Schedule B of the Asset Valuation fibre IM, which would specify that our transitional initial PQ RAB is determined, in part, on "estimates of historic values", rather than "actual values";

- c. amendments to clause 3.5.7(2)(c)-(d) and clause 3.5.10(1)(d) of the Cost of Capital fibre IM, which would specify that the transitional initial PQ RAB inputs to the “term credit spread differential allowance” and “term credit spread differential” for the first regulatory period (1 January 2022 until 31 December 2024) would be determined, in part, on “relevant estimates of historic values”, rather than “relevant actual values”; and
- d. amendments to the Capital Expenditure fibre IM to change the date by when we must determine a “base capex allowance” and “connection capex baseline allowance” for the first regulatory period, which would
 - i. recognise anticipated changes to the time frame for this process; and
 - ii. ensure that cost allocation assessments across Chorus’ transitional initial PQ RAB and forecast capital expenditure for the first PQ path are aligned.

Amendments to correct technical errors

- 6. We are considering amendments which would correct the following technical errors in the fibre IMs:
 - a. errors in our formulae in clause B1.1.2(5)-(6) of Schedule B of the fibre IMs for determining the “present value benefit of Crown financing” - at present, the formulae do not match the definitions of “financial loss year 2012” and “financial loss year 2022” in clause 1.1.4(2) of the fibre IMs.
 - b. errors in our use of the terms “commissioned”, “commissioned for FFLAS”, “commissioning date”, “FFLAS commissioning date”, “regulated provider” and “regulated fibre service provider”, as defined in clause 1.1.4(2) of the fibre IMs.

Proposed process and indicative time frames for potential fibre IM amendments

Process		Indicative time frame
1.	Draft decisions by the Commission Draft decisions on potential fibre IM amendments	27 May 2021
2.	Submissions due from interested persons on potential fibre IM amendments (4 weeks)	24 June 2021
3.	Cross-submissions due from interested persons on potential fibre IM amendments (2 weeks)	8 July 2021
4.	Final decisions by the Commission Publication of final decisions on potential fibre IM amendments	August 2021

Updates and any process refinements will be published on the Commission’s website.