COMMERCE COMMISSION
NEW ZEALAND
Te Komihana Tauhokohoko

Key points raised at the Fibre ID Technical Working Group 18 June 2021

The following summary contains key points/issues raised when we discussed the practical implementation of our draft ID requirements for expenditure with regulated providers.[1] We did not discuss the asset register questions in detail and had a brief added discussion on assurance and certification.[2]

These discussions should not be taken as pre-determining the decisions. Practical implementation matters will form part of our considerations when making our final decisions.

Regulated providers have been asked to include any substantive points in their formal submissions due 8 July 2021.

Key points arising from our questions for consideration

#	Topic	Key points
1	Expenditure categories	Some regulated providers do not currently record expenditure information at the category level proposed, specifically regarding separating network and IT costs into different categories. Capex tends to be capitalised into the area in which it was initiated. Some regulated providers do not currently allocate staff costs but report them on a department basis. Commission staff asked whether categorising expenditure by primary purpose, where it could be capitalised/expensed into more than one category, would be practicable. Regulated providers said they would need to go through GIS information to identify boundaries in some cases. The need for a split between network and non-network IT was questioned. Chorus noted the split did not correctly reflect the opex breakdown in their expenditure proposal.

[1] Commerce Commission "Fibre PQID - ID Technical Working Group session slides" (18 June 2021), Capex slides 8-11, Opex slides 14-15.
[2] Ibid Asset Register slides 8-11, Opex slides 18-19.

#	Topic	Key points
2	Expenditure sub-categories	Some regulated providers do not currently record expenditure information at the sub-category level proposed. Feedback was that the draft requirements are too granular and some sub-categories should be aggregated. Expenditure categorisation in practice is largely driven from the fixed asset register. Key sub-categories that could be aggregated are: • augmentation, new property, and UFB communal; • standard and complex installations; and • access, aggregation and transport. A suggested alternative was for aggregated network costs to be split into Layer 1 and 2, per current Commerce Commission reporting requirements.
3	Barriers to implementation	It was suggested that implementation of the proposed ID requirements for expenditure, which necessitates allocation of costs to different categories, would be onerous, costly and subjective. Interim manual processes would be required until the reporting could be fully automated. Commission staff noted that information would need to be captured from 1 January 2022 and staff training may need to be implemented.
4	Forecasts	Regulated providers suggested a 3-year rather than 5-year forecast, noting that forecasts beyond 3 years are likely to be unreliable. Commission staff clarified that the draft requirement is for a rolling annual forecast (as opposed to a periodic forecast). Consistent with the expenditure category discussion (points 1 and 2 above), it was felt that draft forecast requirements are too granular.

#	Topic	Key points
5	Confidentiality	Regulated providers raised concerns around the disclosure of potentially confidential or commercially sensitive information. This relates to the draft requirements to disclose: insurance, research and development, connection and revenue forecasts, and mandatory explanations of the link between capex and material projects or programmes.
6	Timing of disclosures	Concern was expressed that the requirement to report 5 months after the disclosure year-end does not allow enough time for regulated providers with a shorter first disclosure year to comply, particularly with respect to meeting audit requirements. The initial asset base might not be determined until sometime after 1 January 2022.
7	Assurance and certification	Concern was expressed that Director-certification may be no less burdensome than external audit certification as Directors may require the same level of assurance to sign-off; and it would be more difficult to certify information at the granular level proposed. It was noted that audit reviews to support Director certification need not constitute full assurance reviews but could be a range of assurance including limited scope agreed-upon procedures and tests of data. There was also doubt expressed that the requirement for Directors to certify quarterly disclosures within a month of the end of each quarter could be practically achieved.

Questions raised by attendees at the session

#	Topic	Key points
8	Why do we have to report material projects or programmes?	Concern was expressed that forecasts of expenditure on individual projects could provide commercially sensitive information that could be used by potential suppliers/providers in tendering for work. It was suggested that there be a $ threshold as well as a % threshold. Commission staff explained that the required explanations of the link between historical and forecast capex on material projects or programmes and opex and network quality performance (availability and utilisation) will be an important source of information on the intended outcomes of planned expenditure. Together with the historical information suppliers must disclose after the end of each historic year, this will help interested persons to make judgements on whether these outcomes have been achieved. This reasoning is set out in the Reasons Paper.[3]

[3] Commerce Commission, Fibre Information Disclosure Draft Decisions - Reasons paper (27 Mary 2021), paragraphs 6.42 – 6.43.