

Initial ID RAB technical working group session

Summary of discussion

Date: 31 March 2022

Purpose of this paper

1. This paper provides a summary of the discussion of the topics covered at the initial information disclosure (**ID**) regulatory asset base (**RAB**) technical working group session (**session**) on 3 March 2022.
2. The PowerPoint presentation referred to during the session is available on the Commission's website.¹

Background

3. This session was to provide information on the process to determine the value of the initial ID RABs for regulated fibre service providers (**regulated providers**) other than Chorus Limited (**Chorus**).

Session purpose and objectives

4. The purpose of this session was to provide an overview of some of the things Commerce Commission staff (**Commission staff**) expects that the regulated providers other than Chorus will need to consider as they gather the relevant information required to determine the initial ID RAB values.
5. Commission staff's objectives were:
 - 5.1 to inform participants of the indicative timeline for the determination of the initial ID RABs (as of the date of the session);
 - 5.2 to gather information on the status of each regulated provider other than Chorus in terms of progress towards starting to extract information on the initial ID RAB;
 - 5.3 to explain Commission staff's view on how the Commerce Commission will obtain relevant information that is expected to be required to determine the value of other local fibre companies (**LFC's**)² initial ID RABs.

Session format and process

6. The session was held as an online meeting. An option of a face-to-face meeting would normally have been provided, but in light of the current public health situation, an online only format was chosen.
7. Commission staff presented on a number of technical areas that staff saw value in highlighting. Staff's view is that understanding these areas and the associated requirements in the *Fibre Input Methodologies Determination 2020*, as amended on

¹ Commerce Commission "Initial ID RAB technical working group session 3 March 2022" (31 March 2022).

² We refer to regulated providers other than Chorus as "other LFCs" in the rest of this document.

21 December 2021 (**fibre IMs**) will assist the Commerce Commission to accurately determine the value of the initial ID RABs for the other LFCs.³

8. It was noted that any:
 - 8.1 views discussed by Commission staff represent preliminary views and are not the views of Commissioners; and
 - 8.2 future decision to issue a notice in respect of information relating to a regulated provider's initial ID RAB under s 221 of the Telecommunications Act 2001 (**the Act**) would be made by the Commerce Commission and not Commission staff.
9. Commission staff noted that if regulated providers have any issues with interpreting or applying the fibre IMs, they encouraged regulated providers to seek independent legal advice.

Session date and venue

10. The session was held online on the 3 March 2022.

Outcome of the session

11. The session was attended by representatives of the LFCs.
12. The session generally followed the agenda and the presentation generated discussion of various topics.
13. Commission staff appreciated the open discussion and would like to thank participants for their contribution to the outcome of the session.
14. Discussion points are detailed below. A summary of views expressed at the session is included in Attachment B.

Agenda of the session

15. Commission staff discussed the following technical topics:
 - 15.1 Information requirements;
 - 15.2 Assurance considerations;
 - 15.3 Alternative Methodologies for determining financial losses (clause B1.1.14 of Schedule B of the fibre IMs);
 - 15.4 Cost allocation; and
 - 15.5 the Commission financial loss asset demonstration model.

³ The latest consolidated version of the fibre IMs can be accessed at <https://comcom.govt.nz/regulated-industries/telecommunications/projects/fibre-input-methodologies?target=documents&root=259371>.

16. There was also time for questions from regulated providers.

Discussion points from the session

Introductions

17. Commission staff asked where each of the other LFCs was at in terms of its initial ID RAB work.
18. Northpower Fibre Limited (**Northpower**) indicated that it is early in the process but have information disclosure experience on the electricity side of their business.
19. Tuatahi First Fibre Limited (**Tuatahi**) indicated that it was gathering data and relevant information for long term forecasting. Tuatahi said it has done a lot of internal analysis and has considered system capabilities on how to extract information and talked to advisors.
20. Enable Networks Limited (**Enable**) indicated it is in a similar position to Tuatahi and Northpower.

Information requirements

21. Commission staff asked whether the other LFCs have any core fibre assets that were employed in the provision of ID fibre fixed line access services (**FFLAS**) on 1 January 2022 that were not Ultra-fast Broadband (**UFB**) assets during the financial loss period.⁴
22. It did not appear that this was an issue for the other LFCs.

Assurance considerations

23. Commission staff asked about engagement with auditors so far.
24. The other LFCs were early in the process of engaging with auditors, with some having had initial engagement.

Alternative Methodologies for determining financial losses (clause B1.1.14 of Schedule B of the fibre IMs)

25. Northpower indicated there were issues around retrieving capital contributions data in earlier years. Northpower found the overall principles to be good, provided alternative methodologies can meet the Commerce Commission's requirements.
26. Tuatahi did not express initial views on whether an alternate methodology is needed. Tuatahi indicated it would apply a similar method to Chorus when matching capital contributions to assets.
27. Enable indicated it may have issues identifying individual asset classes.

⁴ The "financial loss period" covers the period from 1 December 2011 until 31 December 2021.

28. Chorus indicated it could help the other LFCs with modelling capital contributions.

Cost allocation

29. Commission staff asked how far the other LFCs have progressed on cost allocation, including whether each other LFC:
- 29.1 expects cost allocation work to be material; and
- 29.2 expected to have 'other allocator type(s)' applied in determining the financial losses.⁵
30. Northpower indicated that cost allocation will have a minimal impact, as Northpower is set up for FFLAS.
31. Tuatahi indicated it is in a similar position to Northpower and did not yet know if it would use the standard list for cost allocation.
32. Enable did not believe cost allocation would be an issue.
33. Commission staff asked to what extent each other LFC uses existing infrastructure as part of its network build.
34. Northpower said that poles are practically all owned by its electricity business, with charges established between Northpower Limited and Northpower, and Chorus in some instances.
35. Tuatahi indicated that it does not own the poles it uses (i.e., leases this asset) and therefore, costs are easy to determine.
36. Enable indicated that its assets are directly attributable to FFLAS and therefore, cost allocation should not be an issue.

Commission financial loss asset demonstration model

37. Commission staff asked whether each other LFC intended to use its own model or whether it intended to use the Commerce Commission financial loss asset demonstration model (**Commission demonstration model**).
38. Northpower indicated it has an analysis impacts model and will cross check this with the Commission demonstration model.
- 38.1 Northpower indicated it needed more time for information disclosure and had identified issues in the information disclosure determination. This comment was not relevant to the determination of the initial ID RAB so Commission staff have handed it on to the Fibre ID team to investigate.

⁵ *Fibre Input Methodologies Determination 2020*, as amended on 29 November 2021, clauses B1.1.6(1)(c)(x) and B1.1.6(2)(d)(x) of Schedule B.

39. Enable indicated that it has its own model but would be interested in using the Commission demonstration model.
40. Tuatahi indicated that modelling is a challenge without a 30 June balance date, and that it is good to be able to use the Commission demonstration model.

Questions and Answers

41. Northpower asked about the process for finalising initial ID RABs, and if reasonable assurance opinion should accompany initial ID RABs for the other LFCs.
- 41.1 Commission staff said that limited assurance procedures may be appropriate, but the level of assurance should enable auditors to be satisfied in their end of year opinion.⁶
42. Tuatahi asked about the treatment of leased assets and their interaction with generally accepted accounting practice (**GAAP**).
- 42.1 Commission staff did not respond in the session but after consideration advise that the other LFC must treat the leased assets in accordance with GAAP, capitalising them in the financial loss year corresponding to the financial reporting year they are first capitalised for financial reporting purposes.⁷
43. Enable asked about whether tax depreciation would use the same rates as the Inland Revenue Department.
- 43.1 Commission staff said that the fibre IMs require the application of tax rules which are the rules applicable to a regulated provider for determining income tax payable under the Income Tax Act 2007.⁸
44. Enable asked about whether there is tax on the financial loss asset.
- 44.1 Commission staff said that there is no tax on the financial loss asset as it is not recognised as an asset by the Inland Revenue Department.

⁶ This discussion was in respect of audit opinions on other LFCs' end of year disclosures, so while it refers to "year" this would be more accurately "disclosure year".

⁷ Refer to Schedule B of the Fibre IMs. Clause B1.1.1(2) of Schedule B has the definition of a UFB asset, which includes identifiable non-monetary assets, and the general valuation provision at clause B1.1.3(1)(a)(i) of Schedule B which requires recognition of the cost at the commissioning date in accordance with GAAP.

⁸ *Fibre Input Methodologies Determination 2020*, as amended on 29 November 2021, clause 1.1.4(2), definition of "tax rules".

Attachment A: Technical session attendees

- a. Sarah Oldershaw (Chorus)
- b. Rob Redgrove (Chorus)
- c. Iley Joblin (Northpower)
- d. Lisa Parkes (Northpower)
- e. Simon Shen (Northpower)
- f. Elliot Foxall (Tuatahi)
- g. Sarah Jenkins (Tuatahi)
- h. Rick Thomson (Tuatahi)
- i. Alexia Khan (Enable)
- j. Shane Welsh (Enable)
- k. Steve Riceman (Commerce Commission)
- l. Donna Lee (Commerce Commission)
- m. Stephen Hudson (Commerce Commission)
- n. Paolo Caccioppoli (Commerce Commission)
- o. Robin Meaclem (Commerce Commission)
- p. John Gandy (Commerce Commission)
- q. Walter Lubberink (Commerce Commission)
- r. Elish Abraham-Beermann (Commerce Commission)

Attachment B: Summary of discussion points

Number	Topic	Main points
1	Introductions	Commission staff asked where the other LFCs are at in the process. The other LFCs expressed that they have done initial analysis, but it is still early in the process.
2	Information requirements	Commission staff asked whether the other LFCs have core fibre assets that were employed in the provision of ID FFLAS on 1 January 2022 that were not UFB assets during the financial loss period. It did not appear that this was an issue for the other LFCs.
3	Assurance considerations	Commission staff asked about initial engagement with auditors. Some other LFCs have had initial engagement with auditors.
4	Alternative Methodologies for determining financial losses (clause B1.1.14 of Schedule B of the fibre IMs)	The other LFCs expressed that there were some issues to work through in determining financial losses. Chorus indicated it could provide assistance in calculating capital contributions.
5	Cost allocation	The other LFCs indicated that they did not expect there to be issues with cost allocation.
6	Commission demonstration model	The other LFCs indicated that the Commission demonstration model would be useful to have alongside their existing modelling capabilities.
7	Questions	See paragraphs 41-44 for questions and answers.