

Draft decisions on information disclosure for fibre and key elements of the price-quality path for Chorus

Stakeholder briefing

27 May 2021

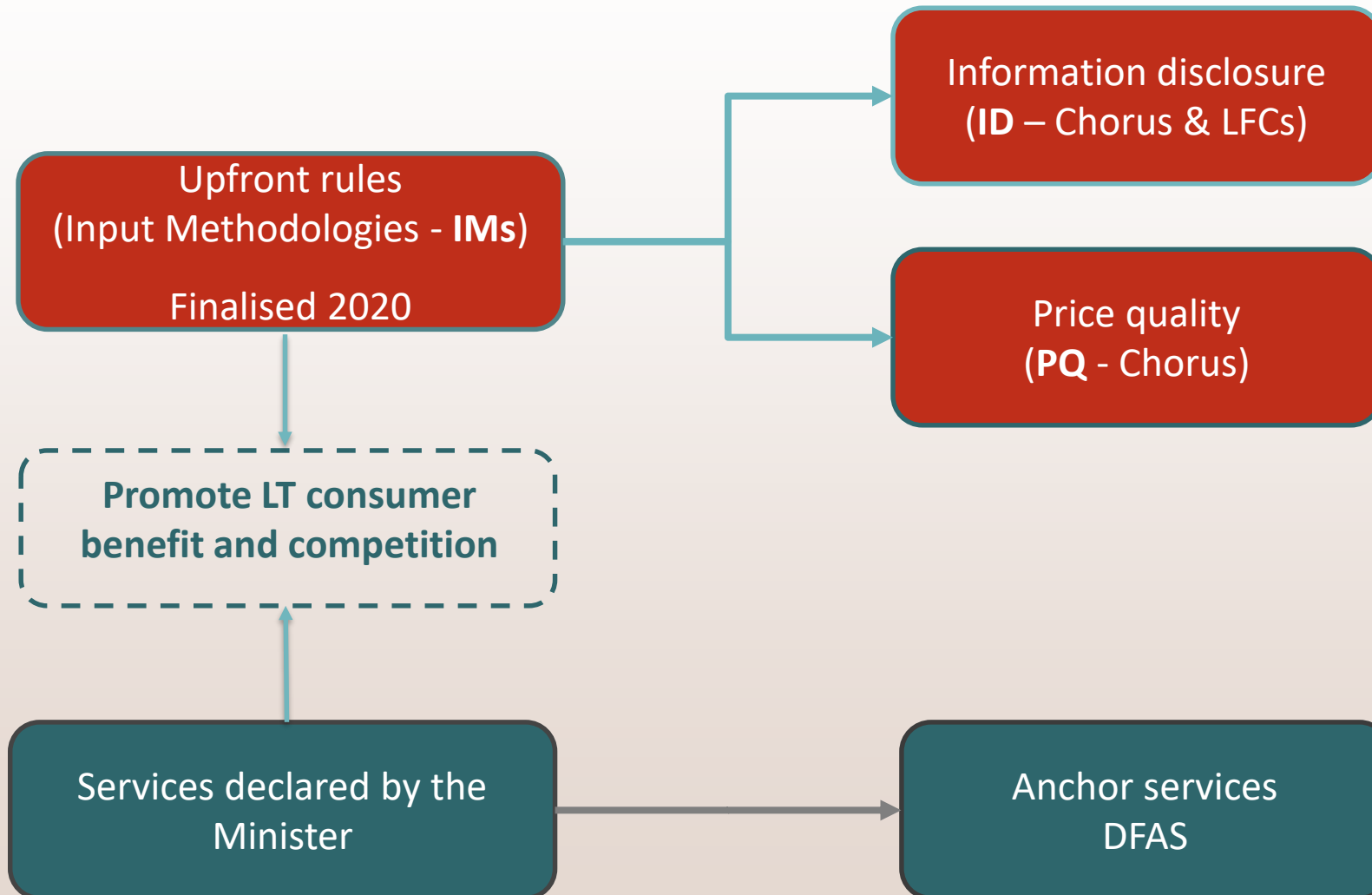
Tristan Gilbertson
Telecommunications Commissioner



Outline

- Context
- Draft decisions:
 - Information disclosure (ID)
 - Price quality (PQ)
 - Quality standards
 - Depreciation
 - Expenditure
- Preliminary view of allowable revenue
- Process and next steps

Implementing the new fibre regime




May publications for consultation

Focus of today's briefing

1. Draft ID requirements for all regulated fibre providers
2. Draft decisions on Chorus' PQ path for 2022-2024 (preliminary view)
3. Proposed amendments to the Input Methodologies (limited)
4. Draft guidelines on Chorus' geographically consistent pricing obligations

ID: Proposed disclosure requirements

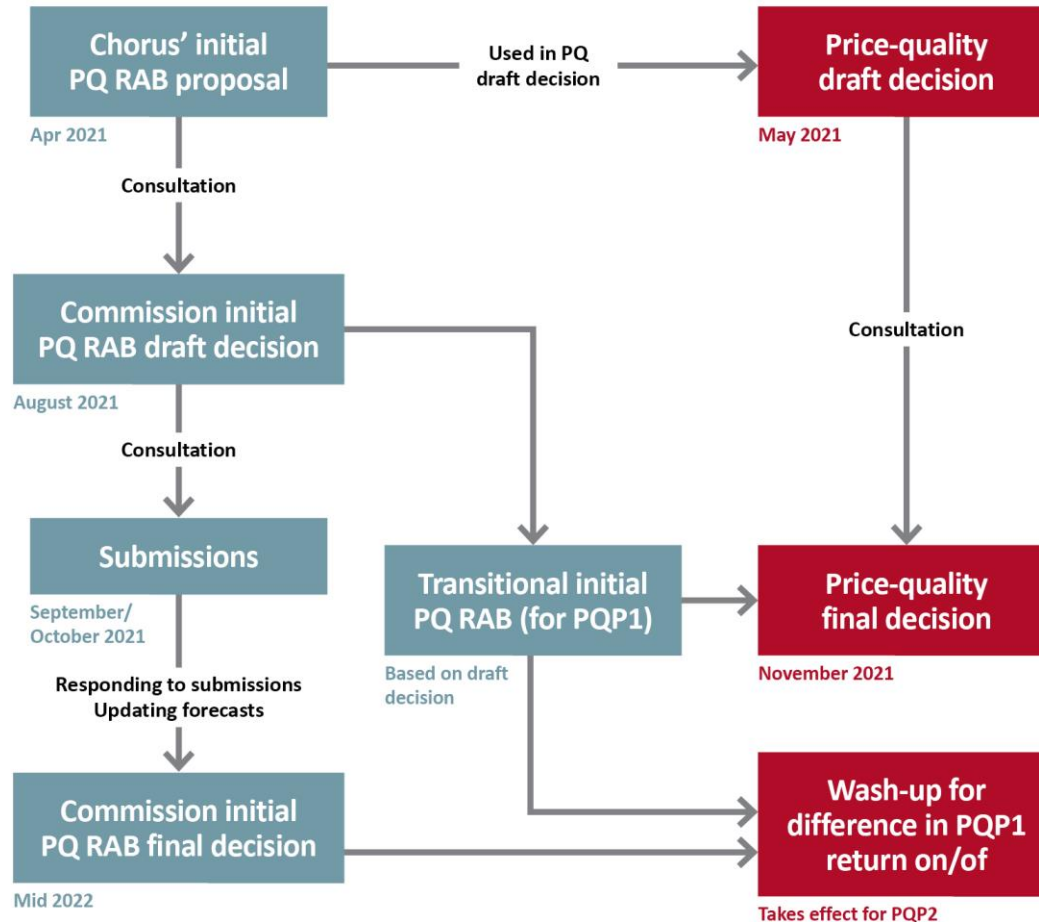
Financial information	Asset management and network characteristics	Pricing, contracts, and stakeholders	Quality
Historical financial information	Network assets and their characteristics	Prices	Quality performance measures and statistics (historical)
Projected financial information	Asset management strategies and plans	Terms and conditions related to prices	Planned quality and service levels
Regulatory asset base and asset values	Planned investment	Pricing methodologies	
Financial performance measures (eg, profitability)	Demand and capacity (historical and forecast)	Contracts	
Cost allocation	Asset management capability	Related party transactions	
Consolidated information that includes information about non-FFLAS services		Stakeholder engagement	

 Information not incorporated into our draft ID requirements at this time.

Process: Two track process

Initial RAB process (including cost allocation)

Price-quality process



PQ: Draft decisions – quality standards

Quality Dimension	Quality Metric	Proposed Standard
Availability	Average downtime (by POI area)	The average unplanned downtime for PQ FFLAS layer 1 must not exceed 15 minutes in one or more month in one or more POI area in each regulatory year.
		The average unplanned downtime for PQ FFLAS layer 2 must not exceed 3 minutes in one or more month in one or more POI area in each regulatory year.
Performance	Port utilisation	The percentage of posts with port utilisation equal to or above 90% in any five-minute interval must not exceed 0.1% in any calendar month.
Complemented by ID baseline, anchor services and DFAS		

PQ: Draft PQ Inputs - Depreciation

Asset Type	Proposed Approach
Core Fibre Assets	Default straight-line depreciation method
Financial Loss Asset (FLA)	Alternative diminishing value depreciation method, with a reduced asset life of 14 years



Better promotes purpose of Part 6 of Telco Act

PQ: Draft PQ Inputs - Expenditure

Summary of expenditure allowance draft decisions (in real \$)

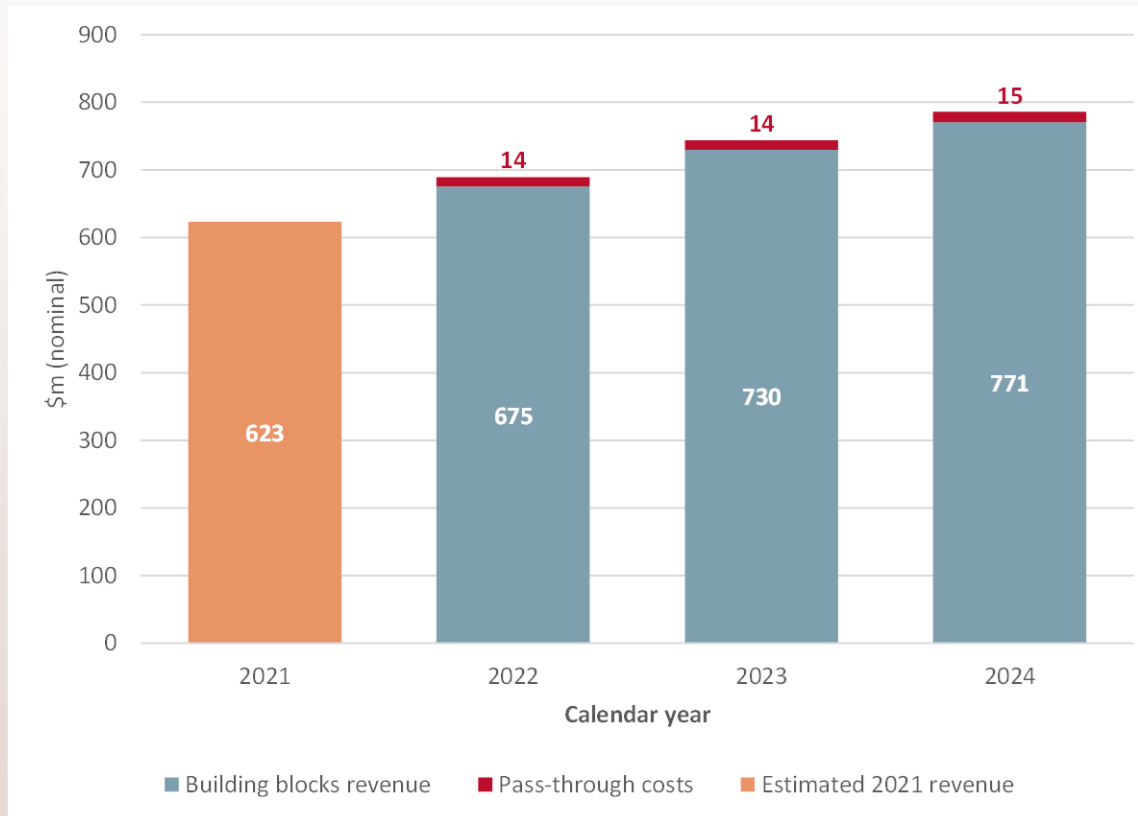
	Base Capex (\$m)	Baseline Connection Capex (\$m)	Opex (\$m)	Totex
Chorus proposal	642.1	335.4	487.8	1465.3
Proposed draft decision	535.2	284.0	435.6	1254.9
Difference	(106.9)	(51.4)	(52.2)	(210.4)
Potential Chorus Individual Capex proposals				79.9
Adjusted difference				130.5

Summary of expenditure allowance draft decisions (in nominal commissioned \$)

	Base Capex (\$m)	Baseline Connection Capex (\$m)	Opex (\$m)	Totex
Chorus proposal (nominal)	673.8	349.2	509.9	1532.9
Proposed draft decision, with alternative escalation	555.6	295.3	453.8	1304.6
Difference	(118.2)	(53.9)	(56.1)	(228.3)

PQ: Preliminary view of revenue path

Preliminary view of allowable revenue PQP1 2022-2024 (in-period smoothing applied)



Total allowable revenue of \$2.061b (present value).

PQ: Key IM Inputs

- Weighted Average Cost of Capital (**WACC**) as calculated 1 April 2022:

Parameter	Mid-point
Vanilla WACC	4.66
Post-tax WACC	4.46
Standard error	1.31

- Return on capital*, Term Credit Spread Differential (**TCSD**) allowance, tax allowance through the period:

Component	2022	2023	2024
Total return on capital	139.8	115.1	100.8
<i>Return on assets (RAB x WACC)</i>	260.0	257.3	253.9
<i>Revaluations</i>	-78.7	-99.2	-109.5
<i>Ex-ante stranding allowance</i>	5.5	5.4	5.4
<i>Benefit of Crown finance</i>	-48.9	-50.4	-50.8
<i>TCSD allowance</i>	1.9	1.9	1.9
Tax allowance	0.0	0.0	0.0

Process: Next steps

Todays' draft decisions on PQ, ID and IM amendments – future milestones	Date
Draft decision	27 May 2021
Fibre PQ model briefing	11 June 2021
Submissions due	8 July 2021
Cross-submissions due	22 July 2021

Milestones for PQ and ID decisions	Date
PQP1 weighted average cost of capital (WACC) determination	By 31 July 2021
Draft decisions on cost and asset allocations (for expenditure)	By 31 August 2021
Final PQ and ID decisions (Including expenditure allowances for PQ)	November 2021

Milestones for IM amendments	Date
Final decisions – Process amendments	By 31 August 2021
Final decisions – Other amendments	November 2021