

Tristan Gilbertson
Telecommunications Commissioner
Telecommunications, Regulation
PO Box 2351
Wellington 6140

By email: regulation.branch@comcom.govt.nz

9 June 2022

Dear Tristan

Response to the Commerce Commission's 16 May 2022 section 221 notice - finalising Chorus' initial Price-Quality regulatory asset base and initial Information Disclosure regulatory asset base.

1. This letter and the accompanying documentation forms Chorus' response (**Response**) to the following parts of the Commerce Commission's (**Commission**) 16 May 2022 notice issued under section 221 of the Telecommunications Act 2001 (**Notice**):
 - 1.1. A3 which is a summary document;
 - 1.2. A4 which asks for two updated versions of the Chorus BBM CRM IAV model;
 - 1.3. A5 which asks for confirmation no other changes have been made to model inputs except for changing forecast values to actual values for the period 1 July 2020 to 31 December 2021 and any necessary structural changes to the model;
 - 1.4. A6 which asks for final versions of at least 3 models which contribute to the calculation of the final initial PQ RAB and initial ID RAB value; and
 - 1.5. A7 which asks for final versions of all model documentation that supports the model calculations previously supplied by Chorus to the Commission in relation to its determination of Chorus' transitional initial PQ RAB.
2. We note for completeness that we are due to respond to A8 – A10 on Monday 20 June 2022 and will provide the MAR component of our Response on Thursday 7 July 2022.¹
3. If additional context would be useful in relation to any of the information provided in the Response, we would be happy to respond to further questions and/or hold a workshop with relevant Commission and Chorus staff and representatives from Analysys Mason.

¹ In accordance with extensions granted by the Commission on 1 June and 9 June 2022.

4. We have appreciated the engagement of Commission staff during the preparation of our Response.

Context

5. You will note that 'truing up' the interim starting RAB and FLA to account for actual expenditure and revenue for the 18 months to December 2021 has reduced the core RAB and FLA by \$65m and \$14m respectively.
6. The reductions to the core RAB reflect difficult operating conditions where Covid restrictions have slowed our fibre installation programme and other expected network projects. These restrictions have not impacted projected fibre connection volumes in the medium term.
7. Reductions to the FLA reflect lower than expected operating expenditure as we adapted to difficult operating conditions, reduced discretionary expenditure and accelerated cost reduction initiatives.

Property Model

8. In response to the Commission's RFI on Chorus Floor Space Model Assurance, Chorus engaged Deloitte to review the Property Model, in particular:
 - 8.1. Model integrity – testing the mathematical integrity of the model; and
 - 8.2. Model documentation – consistency of the model logic to the documentation.
9. The key issue that was identified and subsequently fixed is a formulae error in allocation of Chorus and Spark owned exchanges, where the Chorus calculation picked up the full exchange listing including Spark sites.
10. Other fixes related to modelling best practice, with no impact on the result, and/or changes to the model documentation to better reflect the model logic.

Yours sincerely

Julian Kersey
Head of Regulatory and Policy Affairs
Chorus