

**Cross submission on
Chorus' price-quality
path letter –
additional information**

16 October 2024

C H ● R U S

Submission

1. This is Chorus' cross submission on the additional information published relating to Chorus' Price-Quality Path for the Second Regulatory Period (2025 – 2028, **PQP2**) - Chorus' price-quality (**PQ**) path letter (**letter**).
2. This cross submission responds to selected points made in Spark's submission. Spark appears to have misunderstood the adjusted depreciation approach for PQP2. Spark has also conflated a process that is anticipated in the input methodologies (**IMs**) as part of setting a price path, with the potential for the Commission to consider alternative forms of control, which is a different exercise.
3. Chorus is seeking a maximum allowable revenue (**MAR**) that is sufficient to allow for revenue growth in PQP2, while avoiding an excessive wash-up balance. Spark appears to believe that Chorus is seeking *additional* revenue - above the MAR – to that which would be set in normal circumstances. This is not the case. Neither the Commission's draft PQ decision, nor our recent recommendation, advocates for a MAR that is greater than we would be allowed through the standard building blocks methodology (plus pass-throughs and wash-ups) on an unadjusted basis.
4. Spark's description of Chorus' approach to estimating the alternative depreciation methodology is incorrect. It suggests we updated our May estimate for finalised inputs such as WACC, CPI forecasts and expenditure allowance decisions and our latest fibre revenue forecast before we then added headroom to the modelled MAR.¹
5. In reality, the MAR is set using the most up to date WACC, CPI forecasts and expenditure allowances. The updated MAR (before any adjustment is applied) is significantly higher than the draft decision as a result of the final expenditure allowances and updated base year inputs. We have compared this updated MAR to the most up to date forecast of our own revenue forecasts for the period. We then determined our recommended tilt rate for the alternative depreciation approach such that there is an acceptable level of headroom between our revenue forecasts and the smoothed MAR.
6. We are seeking an optimal level of MAR given Chorus' market circumstances. Our recommended MAR is ~\$300m lower in nominal terms than the MAR would be if an alternative depreciation methodology was not applied. Our recommendation effectively defers a substantial amount of revenue (similar to the amount in the draft decision) to future pricing periods, that would otherwise be recovered during PQP2. In the absence of the alternative depreciation profile, the MAR for PQP2 would therefore be higher. We note Spark did not address the principles we put forward for applying alternative depreciation for core fibre assets in PQP2.
7. Spark stated that "the lack of transparency relating to the proposal makes it difficult to understand the implications of Chorus' proposal or provide substantive comments." Spark also noted that key financial information and commentary relating to the proposal has been redacted from the letter.²
8. We have been as transparent as possible, noting that information regarding our revenue forecasts is confidential. Our submission on the letter provided additional

¹ Spark, *Submission on Chorus' price quality path letter with revised depreciation proposal*, 7 October 2024, para 3

² Spark, *Submission on Chorus' price quality path letter with revised depreciation proposal*, 7 October 2024, para 4

information by including the tilt rate recommended by Chorus to the Commission and an indication of the quantum of depreciation that would be deferred using this rate.

9. Spark also raised concerns about the proposal coming at a late stage in the process and where the proposal sits in the regulatory framework.³ We understand concerns about the timing of certainty about key financial information such as the MAR. However, this is unavoidable because key inputs, such as the final decision on expenditure allowances and the final wash-up balance, have only become available recently.
10. The IMs allow Chorus the opportunity to propose alternative depreciation profiles for the MAR. The publication of the final expenditure decision on 22 August 2024 was Chorus' first opportunity to understand the potential MAR for PQP2 and to assess the impact of the new expenditure allowances on the profile of the MAR under the alternative depreciation approach. We took the earliest possible opportunity to provide our assessment of the impact of the Commission's decisions on the recommended tilt rate.
11. Spark has stated "the lack of transparency relating to how MAR increases translate to wholesale prices makes it difficult to predict wholesale price increases over the remainder of the regulatory period. The Commission should provide guidance on how it sees the MAR flowing through to wholesale prices over the regulatory period, and any mitigations it may apply."⁴ We refer to our previous submission on this topic.⁵
12. Spark has also suggested that rather than finalising a view on Chorus alternative depreciation and headroom proposal now, it should wait to consider it as part of a s 209 review considering the implementation of a price cap approach in early 2025.⁶
13. Chorus is currently subject to a revenue cap and is only subject to a price cap for anchor services. In suggesting the Commission delay a decision on the MAR profile to 2025, Spark fundamentally misunderstands the purpose of the s 209 review. A change to the form of control should be considered independently of any specific regulatory proposal and evaluation process. That is, the Commission should consider the appropriate form of control that should apply to a future regulatory period (i.e., from PQP3) not one that is currently under consideration.
14. The Commission must make its decision on Chorus' PQ path for PQP2 by the end of 2024. It is not consistent with the key principle of regulatory certainty for the rules of regulation to fundamentally change while a regulatory evaluation is taking place, or during the regulatory period for which key decisions have already been made.

³ Spark, *Submission on Chorus' price quality path letter with revised depreciation proposal*, 7 October 2024, paras 6 - 7

⁴ Spark, *Submission on Chorus' price quality path letter with revised depreciation proposal*, 7 October 2024, para 11

⁵ Chorus, *Submission on The PQP2 draft decision*, 5 September 2024, paras 24 - 25

⁶ Spark, *Submission on Chorus' price quality path letter with revised depreciation proposal*, 7 October 2024, paras 5, 7 - 8