Report for Chorus

Building Block model documentation: NON CONFIDENTIAL Demand and Revenue and Opex inputs for IAV model)
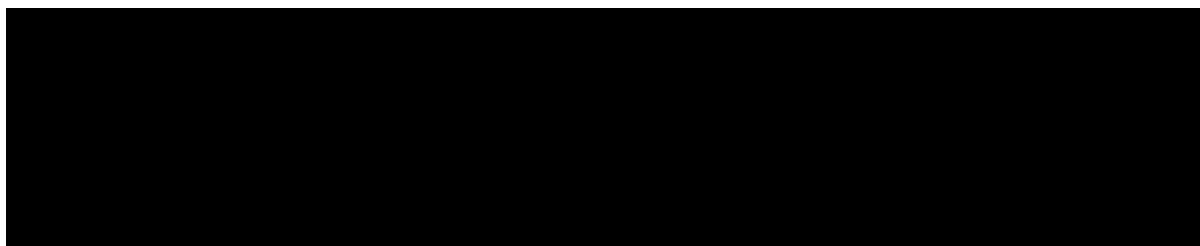
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1 Introduction

1.1 Context

The New Zealand Commerce Commission is moving to a Regulatory Asset Base (RAB) based regime for FTTP related services from 1 Jan 2022. Chorus wishes to be able to calculate the outcomes so as to be able to engage successfully with the Commission during this process.

Analysys Mason has been commissioned by Chorus to construct a model to calculate the Maximum Allowable Revenue (MAR) and Initial Asset Valuation (IAV) related to fibre to the premises (FTTP) services in New Zealand (so-called "Fibre Fixed Line Access Services", or FFLAS).

This document only relates to the non-confidential inputs used by the non-confidential version of the IAV model for:

- Opex service category by financial year
- Demand and revenue for service groups by financial

The remainder of this document is laid out as follows:

- Section 2 discusses the opex inputs
- Section 3 discusses the demand and revenue inputs

2 Opex inputs

2.1 General discussion

The opex model used by the confidential version of the IAV model contains a great deal of highly granular Chorus data which is confidential. This includes:

- Granular breakdowns of costs and forecasts for future costs to individual general ledger codes ("GL code"), and in some cases to cost centres (CC), by financial year.
- Various granular input data, in of order 30 different input files, used to generate suitable allocation drivers of those granular costs, allowing them to be put into expense categories and allocated to service categories over time. This data comes from various other Chorus systems and the demand and revenue model, and is described in the opex allocation model documentation.

Access to this granular and confidential data by Chorus competitors would be to the detriment of Chorus and to the detriment of competition as a whole.

The non-confidential IAV model does not need access to this confidential data to be useful: it only needs inputs that are of the right sort of magnitude (to exercise the model in a similar way, with values that are not grossly unrealistic) and in the same format.

Although we could in principle create a version of the opex allocation model that contained no confidential data (by overwriting the entire set of inputs with a new set of data that was not real) this would be quite time consuming to achieve.

2.2 Overall approach

Accordingly in order to create the non-confidential IAV model in an efficient way we have created a spreadsheet which contains data in the same format (and with the same defined named ranges) as the outputs sheet of the confidential opex allocation model, where the data is not confidential, but is of the same form, and does not provide any confidential view on market or operating cost evolution.

We have then linked this non-confidential data into the non-confidential model, and then "broken the link" (which means that the data is in effect pasted into the non-confidential model).

3   Demand and revenue inputs

3.1   General discussion

The demand and revenue model used by the confidential version of the IAV model contains a great deal of highly granular Chorus data which is confidential. This includes:

- granular breakdowns of historic actual demand and revenues by product and forecasts for future demand and revenues by product at the individual general ledger code level; demand data is also provided broken down by geography (distinguishing between UFB/LFC/RONZ).
- Granular data on Chorus network coverage (e.g. homes passed) by ESA over time

Access to this data by Chorus competitors would be to the detriment of Chorus and to the detriment of competition in these markets as a whole.

The non-confidential IAV model does not need access to this confidential data to be useful: it only needs inputs that are of the right sort of magnitude (to exercise the model in a similar way, with values that are not grossly unrealistic) and in the same format as the output sheet of the demand and revenue model.

Although we could in principle create a version of the demand and revenue model that contained no confidential data (by overwriting the entire set of granular inputs with a new set of data that was not real) this would be quite time consuming to achieve.

3.2   Overall approach

Accordingly in order to create the non-confidential IAV model in an efficient way we have created a spreadsheet which contains data in the same format (and with the same defined named ranges) as the outputs sheet of the confidential demand and revenue model, where the data is not confidential, but is of the same form and similar order of magnitude, without providing any confidential view on future evolution of the market.

We have then linked this non-confidential data into the non-confidential IAV model, and then "broken the link" in Excel (which means that the data is in effect pasted into the non-confidential IAV model).