

Capex IM workshop clarification questions regarding our draft decisions and our responses

This document records our responses to clarification questions we received from stakeholders regarding the draft decisions at the capex IM workshop held in Wellington, New Zealand on 12 December 2019.

We did not record every clarification question and response verbatim. The clarification questions and responses have been paraphrased.

#	Clarification Question	Commission response
1	Why are the assessment factors discretionary for the Commission to consider?	The assessment factors in our draft decision help clarify how the Commission will apply the expenditure objective. We intend to consider all factors, but they may not all be relevant to all capex subcategories.
2	Why are the assessment factors only for the Commission to consider and not for Chorus to provide information on?	The Commission will clarify the information it requires from Chorus in order to evaluate its capex proposal through the regulatory templates and information request. The minimum information requirements are set out in the draft determination. Our evaluation criteria will help determine what information requirements we set for a base capex proposal information request in addition to the minimum requirements set out in the Chorus capex IM. The type of information required to assess different types of capex against the evaluation criteria may vary.
3	What would be the test for uneconomic expansion of the network?	Our draft decision is that our assessment will be based on the expenditure objective, good industry practice and the clarifying assessment factors. The regulatory templates and information request will clarify what information is required to determine whether network expansion expenditure is prudent and efficient and represents "good telecommunications industry practice". When we issue an information request, we will consider the information we need to assess this type of capex against the expenditure objective. This may include requesting evidence of economic analysis relating to the proposed capex.
4	Do we define 'prudent' for the purposes of the expenditure objective?	We do not define the term prudent in our draft determination. In applying this concept under our evaluation criteria however, we consider that a 'prudent supplier' is a supplier whose planning and performance standards reflect "good telecommunications industry practice" (in accordance with the definition of this concept in the draft determination).
5	Why does individual capex have a threshold of \$5m?	In our draft decision, we have set \$5M as the materiality threshold for the individual capex category to cover larger projects and programmes. The threshold needs to be set within the context of the expenditure requirements within the telecommunications industry, and in combination with other relevant factors such as the mandatory nature of the threshold, and the purpose of the expenditure categorisation for managing uncertainty. However, the threshold may evolve over time to reflect an appropriate level of materiality.
6	Who writes the Terms of Reference for the independent verifier and who is the budget holder?	Under our draft decision, the independent verification obligation rests with Chorus. However, Chorus must submit information to the Commission for approval prior to the start of the verification process. The verification information submitted to the Commission must include sufficient detail for the Commission to be satisfied that: (a) the verifier is independent and capable of undertaking the verification; and (b) the terms and conditions of engagement and the scope of the independent verification report will provide the appropriate assurance needed for the Commission to be able to assess the capex proposal.
7	Is the cost of a verifier not just passed through anyway?	The scope of pass-through costs will be specified in the regulatory rules and processes Input Methodology. The Commission will consult with stakeholders on this draft document in the new year.
8	Does the process imply that after the IM phase, the next time end-users will get to see capex proposals is when the draft decision is published?	The degree of consultation and engagement with access seekers and end-users is an information requirement for Chorus and a factor that the Commission will consider in assessing capex proposals. Chorus are also required to provide an engagement plan as part of the integrated fibre plan. Chorus indicated at the workshop that they are currently considering engaging with stakeholders prior to submitting its capex proposals.
9	How prescriptive is the investment report in the integrated fibre plan?	The requirements for the integrated fibre plan (IFP) in the draft IM are high-level rather than prescriptive, given the IM needs to be enduring. We expect that information developed by Chorus to meet the information requirements for a base capex proposal will also be relevant for the IFP and vice versa.

10	How does the one-month timeframe for individual capex allow for consultation, and why is Commission consultation on the project or programme expenditure increase discretionary?	The one-month timeframe prescribed in our draft decision relates only to the design proposal or notification phase, not to the individual capex proposal itself. Chorus must provide information on any consultation it has undertaken on the individual capex project or programme. The Commission may choose to consult on an individual capex proposal if it considers it is in the long-term interests of end-users.
11	How would you ensure that individual capex is not also in base capex ie, that there was no double recovery?	Our draft decision provides that the individual capex proposal must include a statement from an auditor on whether the proposed individual capex is additional to and not a substitute for the determined base capex allowance.
12	How will the Commission be satisfied that going through the individual capex process will be worth it?	Our draft decision provides that Chorus is required to submit a design proposal ahead of its final proposal. The design proposal must provide enough information on the key parameters of an individual capex project or programme to enable the Commission to assess whether the final proposal is likely to contain sufficient information to enable the Commission to assess the proposal against the capital expenditure objective.
13	Can individual and base capex proposals happen at the same time?	Our draft decision provides that a base capex proposal must be provided prior to the regulatory period. An individual capex proposal can be submitted at any time.
14	Have we considered running a process for end-users to be involved from the very beginning of the process, like a consumer engagement panel?	The IM does not prescribe the form that any consultation or engagement must take.
15	Has the Commission considered a partial independent verification rather than a full independent verification of the base capex proposal for the first regulatory period?	We reserve the right to seek our own external expert opinion of Chorus' base capex proposal for the first regulatory period. This may help address concerns about not having an independent verification report for the first regulatory period.