

Chorus submission on PQP2 proposal

14 December 2023

C H ● R U S

Introduction

1. This is Chorus' response to the Commerce Commission's (**Commission**) consultation paper which seeks stakeholder feedback on Chorus' expenditure proposal for the second regulatory period (**PQP2**).¹ This submission is not confidential.
2. This submission:
 - 2.1 comments on selected points in the consultation paper; and
 - 2.2 provides an update on a recent network event that is relevant to Chorus' performance quality standard for PQP2.

Verification of opex sub-categories

3. Paragraph 2.23 of the consultation paper states the independent verifier (**IV**) was unable to verify most opex sub-categories. We disagree with this interpretation of the IV's findings. While there were difficulties associated with estimating elasticities, this does not mean the entirety of opex sub-categories are not verified. Our view is that the independent verifier (**IV**) has fully verified opex sub-categories subject to the Commission reviewing our use of elasticities in the calculation of the trend. The IV took this approach because it did not view itself as an expert in this area. The IV considered the Commission was better placed to assess the use of elasticities given we have based our approach on the Commission's base step trend (**BST**) methodology for regulated electricity businesses.²
4. Of particular importance in our choice of methodology is the relationship between elasticity and productivity. We adopted a BST methodology which uses an estimate of elasticity to take into account economies of scale/scope (ie the assumption that opex will grow more slowly than output) in calculating the output trend because that is what aligns with Commission precedent and experience.
5. An economically equivalent alternative is a methodology aligned to that which Australian regulators are familiar with. Their method does not include an estimate of elasticity, but rather uses the productivity factor to capture all sources of productivity (of which the effects of economies of scale/scope are one). This methodology has the benefit of removing the difficulties associated with 'what' estimate of elasticity to use.
6. Related to this is our proposed capex/opex trade-offs regarding selected IT projects and solar panel installations. The expected benefits (in terms of opex reduction) from these is also a source of productivity which we have separately identified. When assessing our opex methodology, the Commission should not consider these components in isolation.
7. For future regulatory periods we should have more Chorus-specific FFLAS data available and should not need to rely on elasticities from other sectors.

Base year

8. We welcome the Commission's intention to use the 2022 calendar year as the base year for PQP2 expenditure allowances. We agree it may be appropriate to consider 2023 actuals, when available, and update cost escalators to reflect up-to-date values during the decision-making process in 2024.³

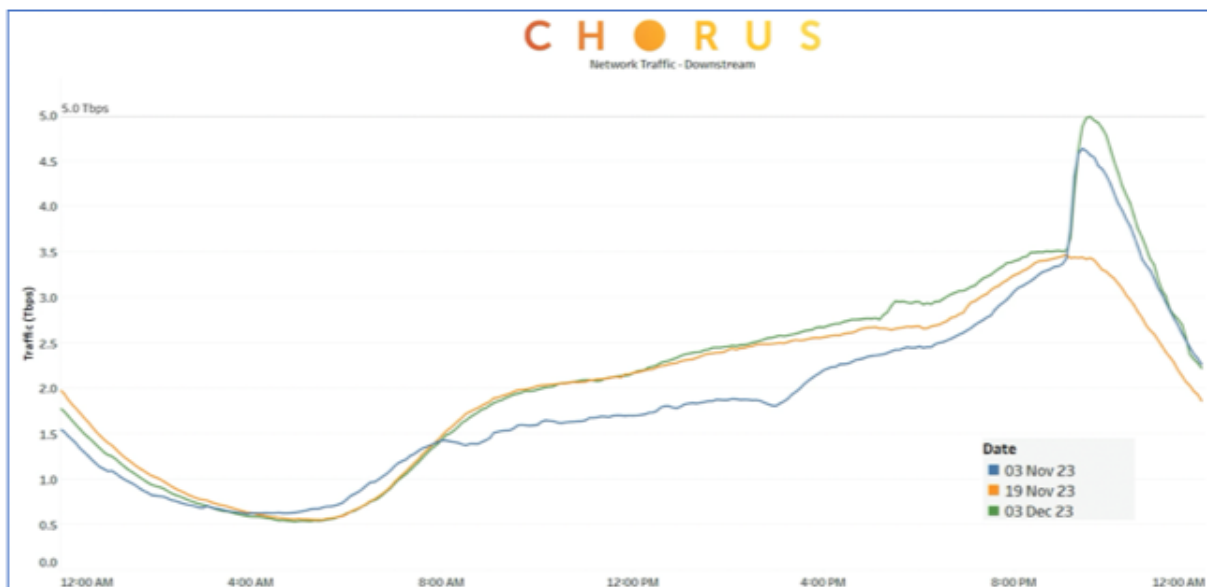
¹ Commerce Commission, *Chorus' price-quality path for the 2025-2028 regulatory period: Consultation on Chorus' proposed expenditure for PQP2*, 16 November 2023.

² Synergies Economic Consulting, *Independent verification report – Chorus' PAP2 expenditure proposal (CY2025-2028)*, October 2023, page 218-219

³ Commerce Commission, *Chorus' price-quality path for the 2025-2028 regulatory period: Consultation on Chorus' proposed expenditure for PQP2*, 16 November 2023, paragraph 1.20. Also, as per our previous submission, 2023 actual data should be available and used for inputs to the PQP2 revenue decision such as opening RAB and opening tax values.

Performance standard update

9. Paragraph 2.49 of the consultation paper noted, as a key topic of interest, Chorus’ proposed changes to the performance quality standard. In our PQP2 proposal and our submission on the Process and Approach consultation we noted that “unpredictable and unforeseeable demand spikes are an issue, as they are likely to become more common and more material. While our bandwidth forecasting methodology is sound and subject to global benchmarking, we have no visibility as to when these spikes will incur and how material they will be.”⁴
10. Recent network events have provided further evidence of this issue. On Sunday 3 December, Fortnite Chapter 5 Season 1 was released. As with previous Fortnite releases, this coincided with our network peak. The result was a new record network traffic peak on the fibre network of 5.0Tbps. This was 40% higher than a “normal” day (eg Sunday 19 November in graph below) and 400Gbps higher than the previous record peak (4.6Tbps, on 3 November) when Fortnite Chapter 4 Season 4 was released.



11. The fibre network remained congestion free during the event. All fibre network ports remained below 90% utilisation.
12. This is further evidence of the concern we have raised with the Commission that the biggest spikes in peak traffic we have seen on our network are not a guide to the extent of events we could see in future. Importantly, this event drove a peak traffic level that was higher than our bandwidth forecast. We had sufficient capacity in this instance to remain within the regulated performance standard, due to proactive planning and investment and the additional headroom we secure through lifecycle replacements. However, if a future event involved a larger or more concentrated impact we could exceed the performance standard because of an event that was impossible to forecast.
13. It is also notable that RSPs do not operate to the same standard as Chorus. 82 handover ports (5.9% of total handover ports) saw utilisation of over 90% during this event. For Chorus, if 5 ports in our network exceed 90% we would breach the 0.12% allowance within the performance standard.
14. We look forward to discussing a workable performance quality standard for PQP2.

⁴ For example, Chorus submission, *PQP2 Process and Approach*, 28 September 2023, paragraph 86a.