Asset valuation

- To determine which assets should be included in the regulated asset base (RAB) we propose to use a high-level approach. Like our approach under Part 4 of the Commerce Act 1986 (Part 4) and our current fibre ID we do not propose to determine an exhaustive or prescriptive list of types of assets to be included in the RAB. Fibre networks have been constructed relatively recently and accounting records and asset registers exist.
- We will consider the appropriate degree of granularity that should apply in relation to RAB assets, for both information disclosure and price-quality regulation. We will also need to consider how assets enter and exit the RAB due to changes in the scope of regulated services.

In the invitation to comment on our proposed approach, we asked:

Q15 What are your views on our proposal to use a high-level approach consistent with Part 4 for the asset valuation IM? Please note that we have not yet set out our views on the treatment of depreciation or asset revaluations.

Q16 What are your views on our proposed approach to adopt cost as the measure of asset value for assets constructed or acquired after implementation date?

Q17 What specific rules or approaches (if any) are needed for the treatment of particular types of assets, or to deal with practical aspects of asset valuation?

What value should assets in the RAB be given?

- We need to set a value for assets in the RAB. Section 177(1) of the Telecommunications Act 2001 (Act) specifies the “initial value” of a fibre asset as the cost incurred by a regulated provider in constructing or acquiring the asset. Adjustments will be made for depreciation and impairment losses (if any) up to the implementation date.
- For assets constructed or acquired on or after the implementation date, our preliminary view is the initial value of those assets in the RAB should equal their construction or acquisition cost under generally accepted accounting practices (NZ GAAP), unless a specific regulatory reason exists to modify GAAP application.

Calculation of initial losses and Crown financing

- It is understood that UFB suppliers will likely incur financial losses during the initial period of operation of the UFB network. Initial revenue is unlikely to cover the fixed and/or variable costs incurred during that period.
- The Act requires us to **capitalise suppliers’ financial losses** at the implementation date and treat them as an asset to be included in the RAB. We anticipate needing to consider the method for calculating the financial losses and the treatment of Crown financing.
- We interpret the direction to calculate “accumulated unrecovered returns” on investment in the Act to be premised on the use of a building blocks approach. Assumptions could be used to allocate capital and operating expenditure costs for assets shared between Part 6 regulated UFB services and non-UFB (eg, copper) services (which will not be regulated under Part 6).

Treatment of Crown financing

- As part of the UFB initiative the New Zealand government provided debt and equity financing on a concessional basis to the UFB providers or related parties.
- We have assumed that the actual financing costs to the UFB providers or related parties of the concessional funding during the loss period will be nil. This is because no interest or dividends are payable by providers on the debt or equity instruments.

In the invitation to comment on our proposed approach, we briefly describe two methods by which actual costs for Crown financing (ie, nil) could be reflected in calculating financial losses. Although these two methods may be expected to produce the same net effect in present value terms, they could have different conceptual or practical advantages. If the cost of UFB assets includes a capitalised cost of finance under generally accepted accounting practice, then this also may require adjusting to arrive at the correct economic result. We would also need to consider the treatment of any direct or indirect transaction costs (eg, fees or charges) associated with the Crown financing.