

ID working group sessions

18 June 2021



Expenditure working group session

Introduction

Wendy MacLucas



Purpose and scope

- Discuss practical implementation of our proposed ID requirements for expenditure to help ensure that these requirements are workable and cost-effective
- Today's focus is the 'how' – the 'why' is set out in our reasons paper accompanying our ID draft decisions.
- Discussions today should not be taken as pre-determining the decisions. Practical implementation matters will form part of our considerations when making our final decisions.
- Any substantive points raised should be included in submissions due on 8 July.
- We intend to publish workshop materials and any key matters arising.

Welcome



- Introductions
- Remote attendance
 - Raised hand
 - Team chat

Process outline

Timeline

Date	Item	Author	
27 May 2020	Draft ID Decisions	Commerce Commission	✓
18 June 2021	Working group	Commerce Commission	Today
8 July 2021	Submissions	Industry	
22 July 2021	Cross Submissions	Industry	
Q4 2021	Final Decisions	Commerce Commission	

Today's agenda

Time	Agenda
9:15 am	Welcome, introduction
9:30 am	Capex discussion
11:00 am	Break – Tea/Coffee
11:15 am	Opex discussion
12:15 pm	Asset register discussion
12:45 pm	Wrap-up, final discussions, questions
1:00 pm	Close

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Capital Expenditure

Paolo Caccioppoli



Capex – Documents

- Schedule 6: Capital Expenditure
- Schedule 7: Actual vs Forecast
- Schedule 9: Related Party Transactions
- Schedule 11: Capex Forecast
- Capex Definitions

Capex - Subcategory Definitions	
Regulatory	Anything that is required under the Telecommunications Act 2001 or other legislation to be done in order to provide the services.
Network IT	Capital expenditure on IT systems and software used in the network, including but not limited to, network monitoring, network management, network security, and network optimization.
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Capex - Category Definitions	
Extending the network	Capital expenditure to extend the network to new areas, including but not limited to, network expansion, network optimization, and network security.
Network capacity	Capital expenditure to increase the capacity of the network, including but not limited to, network expansion, network optimization, and network security.
Network capacity & enhance	Capital expenditure to increase the capacity of the network, including but not limited to, network expansion, network optimization, and network security.
Network & customer IT	Capital expenditure on IT systems and software used in the network, including but not limited to, network monitoring, network management, network security, and network optimization.
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Capex – Key questions to consider

- Are there boundary issues in respect of the categories such that a single item capex may be classified under different categories?
 - For example: A cable is to be laid between joining two central offices (CO) in different POI areas. Some fibres in the sheath will be dropped off to connect to another CO on the route. Fibres in the sheath will also be used to serve end-users in all 3 CO areas.
- Are the technical terms used unambiguous, would all users understand the same thing by these terms?
- Do the first-level categories reasonably align with drivers or purpose of expenditure that might be disclosed in an asset management plan?
- Are there authoritative points of reference (eg, industry guides) that could provide the basis for common understanding of terms?
- Are there any significant barriers to implementing the categories as proposed (eg, data collection constraints or financial system configuration)?
- Can the categories be equally applied to actual and forecast expenditure?
- Are there subcomponent categories other than research and development and insurance?

Capex - Category Definitions

Extending the Network	Capital expenditure to extend communal infrastructure to new streets or developments, and to infill the network to accommodate address growth.
Installations	Capital expenditure to establish a physical link between the fibre network and an ONT at an end point, and includes associated provisioning and incentive costs
Network & customer IT	Capital expenditure on systems and platforms across IT domains that support fibre network and customer activities, including product development, customer experience and optimisation, lifecycle, and compliance;
Network Capacity	Capital expenditure on network electronics and associated systems to optimise for capacity growth and lifecycle requirements. Network Sustain and Enhance capex to sustain or enhance physical network performance, manage risk or satisfy compliance requirements. It includes replacing end of life assets, ensuring compliance to health and safety regulations, adding resilience to the network, reducing its risk profile and developing new products.
Network sustain & enhance	Capital expenditure to sustain or enhance physical fibre network performance, manage risk or satisfy compliance requirements, including replacing end-of-life assets, ensuring compliance with health and safety regulations, adding resilience to the fibre network, reducing the risk profile of the fibre network, and developing new products for the provision of regulated FFLAS;
Non-network IT	Capital expenditure on information technology systems and corporate support

Capex - Subcategory Definitions

Extending the network	Augmentation	Creating a new address within the existing footprint of a network (infill) and extension work to extend coverage to communities outside the UFB contracts
	New Property Developments	Capital expenditure on work with developers to extend the fibre network into new developments, such as residential subdivisions or office parks
	UFB Communal	An ID regulated provider's contracted commitments with the government under the UFB initiative
Installations	Complex Installations	Design and build of installations for specific business requirements.
	Standard Installations	Installations that are not complex installations, and associated investment in incentives
Network & customer IT	Network & Customer IT	Capital expenditure on systems and platforms across IT domains that support network or customer activities, including product development, customer experience and optimisation, lifecycle, and compliance
Network capacity	Access	Relating to access network (a network that enables end-user connections to the fibre network and includes ONTs, OLTs, and 'Element Management Platform' software which manages network configuration and alarms) activities
	Aggregation	Relating to aggregation network (a network that links access networks to RSP POI, and consists of switches (rack-mounted equipment with interface cards) and the links between them) activities
	Transport	Capital expenditure on the transport network (the fibre network, or part of the fibre network, which provides high-capacity connectivity over long distances between aggregation nodes and OLT, consisting of equipment supporting transmission links over core, transport and access cables)
Network sustain & enhance	Field Sustain	Capital expenditure on physical network assets outside of network sites, such as poles, fibre, and terminators.
	Relocations	Capital expenditure in relation to relocation of network assets arising from roading authority work programmes, undergrounding (overhead to underground programmes), and third-party requests
	Resilience	The ability to keep the network running through adverse events (diversity, robustness or contingency)
	Site Sustain	Capital expenditure in relation to network buildings and their power, cooling, and management services
Non-network IT	Business IT	Systems and applications across IT domains that support business activities.
	Corporate	Sundry business capital expenditure in relation to corporate functional units
Subcomponents of Expenditure on Assets	Research and development	<p>Expenditure on assets, or operating expenditure where the primary driver for the expenditure relates to increasing the efficient provision of regulated FFLAS through implementing an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge or understanding; or</p> <p>Applying research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.</p>

Break time
11:00 am – 11:15 am

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Operating Expenditure

Walter Lubberink



Opex – Key questions to consider

- Are the technical terms used unambiguous, would all users understand the same thing by these terms?
- Do the first-level categories reasonably align with drivers or purpose of expenditure that might be disclosed in an asset management plan?
- Are there authoritative points of reference (eg, industry guides) that could provide the basis for common understanding of terms?
- Are there any significant barriers to implementing the categories as proposed (eg, data collection constraints or financial system configuration)?
- Can the categories be equally applied to actual and forecast expenditure?
- Are there subcomponent categories other than research and development and insurance?

Opex - Subcategory Definitions

Network opex	Customer operations	Operating expenditure in relation to the teams that connect consumers by managing installations and provisioning network services including higher-volume demand-driven activity (such as call centres), lower-volume demand driven activity (such as coordinating complex installations and multi-unit extensions) and project work (such as managed migrations programmes)
	Maintenance	Network operating expenditure relating to reactive work (work to address an issue identified through a fault, alarm or inspection) recoverable work (work for which all or part of the cost can be recovered from another party) and preventative work (routine inspection works, including testing and survey)
	Network operating costs	Costs arising from leases, electricity, security operations, and fire protection and building compliance;
	Network operations	Operating expenditure in respect of network operations and associated support resources, including management of network electronics alarms, technical support and configuration services, and provision of network electronics equipment repair and return
	Other network costs	Costs that relate to network opex which are not included in: (a) customer operations (b) product, sales & marketing (c) maintenance (d) network operations and (e) network operating costs
	Product, Sales & Marketing	Operating expenditure directed at attracting and retaining access seekers, managing RSP relationships, and evolving the regulated provider's product suite
Non-network opex	Asset Management	Activities such as strategic planning, investment management and technology operations for the fibre network and supporting IT systems, and activities such as programme management, contract management, property operations, consent acquisition, network scoping, health, safety and environment, and process optimisation
	Corporate	Sundry business operating expenditure in relation to corporate functional units including accommodation, insurance, and professional services
	Technology	The non-capitalised costs of operating business IT and network & customer IT systems – including licences, support and maintenance;
Subcomponents of Operating Expenditure	Insurance	Expenditure in relation to a 'contract of insurance' as defined in the Insurance (Prudential Supervision) Act 2010
	Network expenditure	Operating expenditure on outsourced physical network maintenance activities, physical network operating costs (such as power and leases), and outsourced costs of network and security operating centres
	Research and development	Expenditure on assets, or operating expenditure where the primary driver for the expenditure relates to increasing the efficient provision of regulated FFLAS through implementing an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge or understanding; or Applying research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

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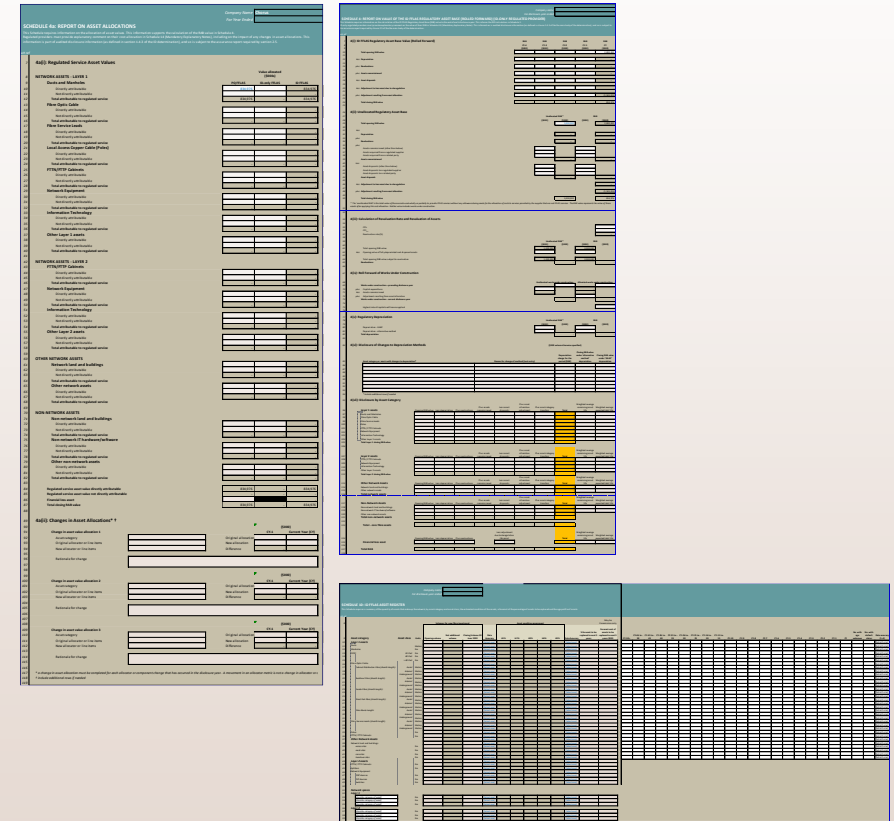
Asset Register

John Gandy



Asset Register – Documents

- Schedule 4: RAB Value Rolled Forward
- Schedule 4a: Asset Allocations
- Schedule 4b: ID RAB Value Rolled Forward (Chorus)
- Schedule 4c: PQ RAB Value Rolled Forward (Chorus)
- Schedule 4d: ID-Only RAB Value Rolled Forward (Chorus)
- Schedule 10: Asset Register
- Schedule 10a: PQ Asset Register (Chorus)
- Schedule 10b: ID-only Asset Register (Chorus)



Asset Register – Key questions to consider

- Are the key asset categories all captured?
- Are the descriptions sufficiently clear for consistent reporting across regulated providers?
- Is there any reason that disclosures split between Layer 1 and Layer 2 would not be feasible?
- Can asset classes be reported at the proposed level of granularity?
- Are the units for the proposed asset classes easily quantifiable?
- Can the split between PQ and ID only assets be reported at the proposed level of granularity?
- Can asset age and condition be reported at the proposed level of granularity?
- Does the categorisation of assets in the register clearly align to the categorisation in the RAB roll-forward schedules?

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Wrap-up, Questions, Next Steps

Wendy MacLucas



End of Session Thank you



Materials relevant to this session

Materials relevant to this session:

- [Project Overview: Fibre price-quality path and information disclosure](#)
- [Draft ID Determination - Chorus templates for financial information - 27 May 2021](#)
- [Draft ID Determination - ID-only regulated providers templates for financial information - 27 May 2021](#)
- [Draft Fibre Information Disclosure Determination 2021 – 27 May 2021](#)

Related Materials

- [Fibre ID - Draft Decisions - Reasons Paper - 27 May 2021](#)