

Decisions on fibre information disclosure and Chorus price-quality path from 1 January 2022

Stakeholder briefing

16 December 2021

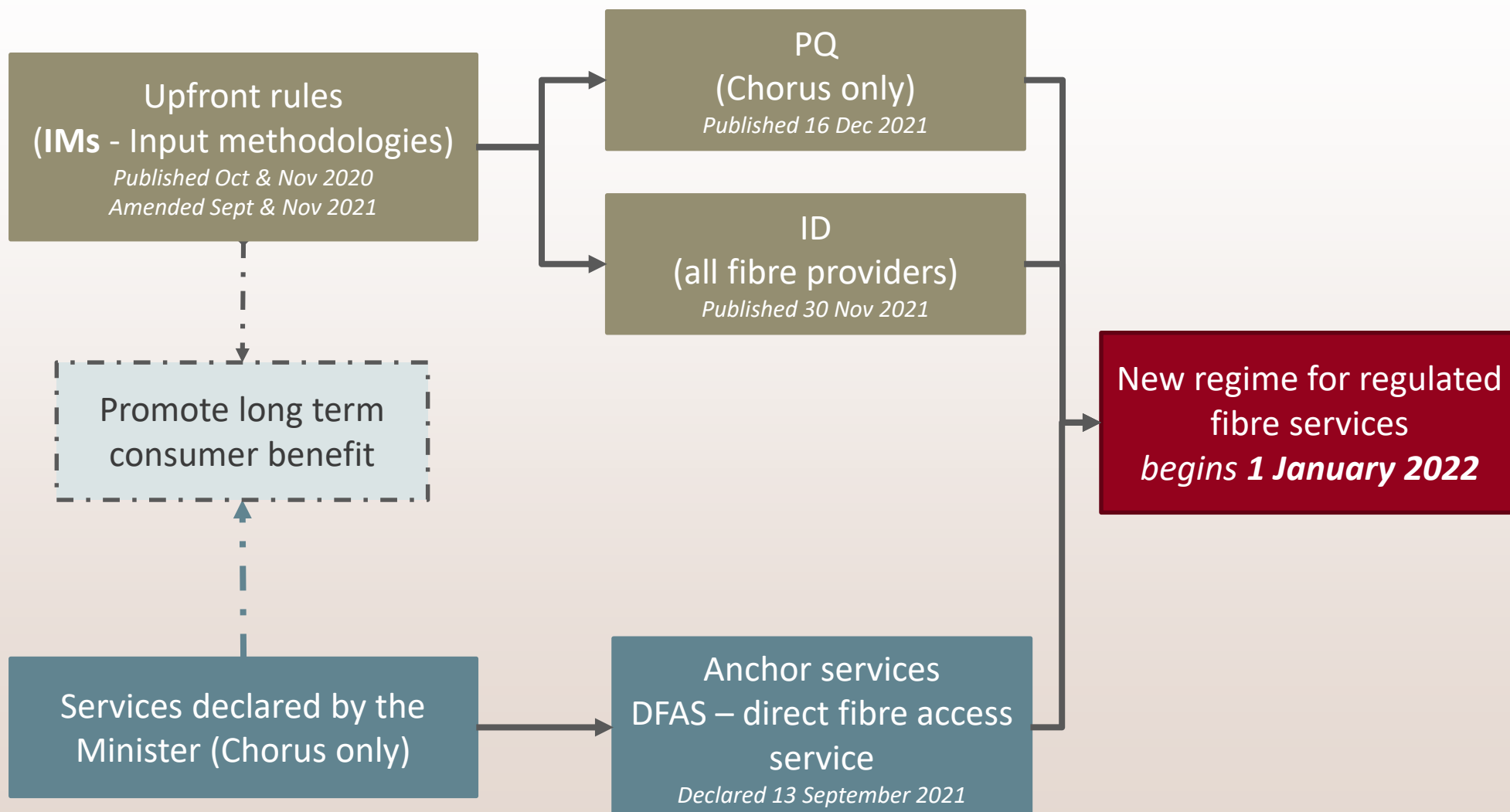
Tristan Gilbertson
Telecommunications Commissioner



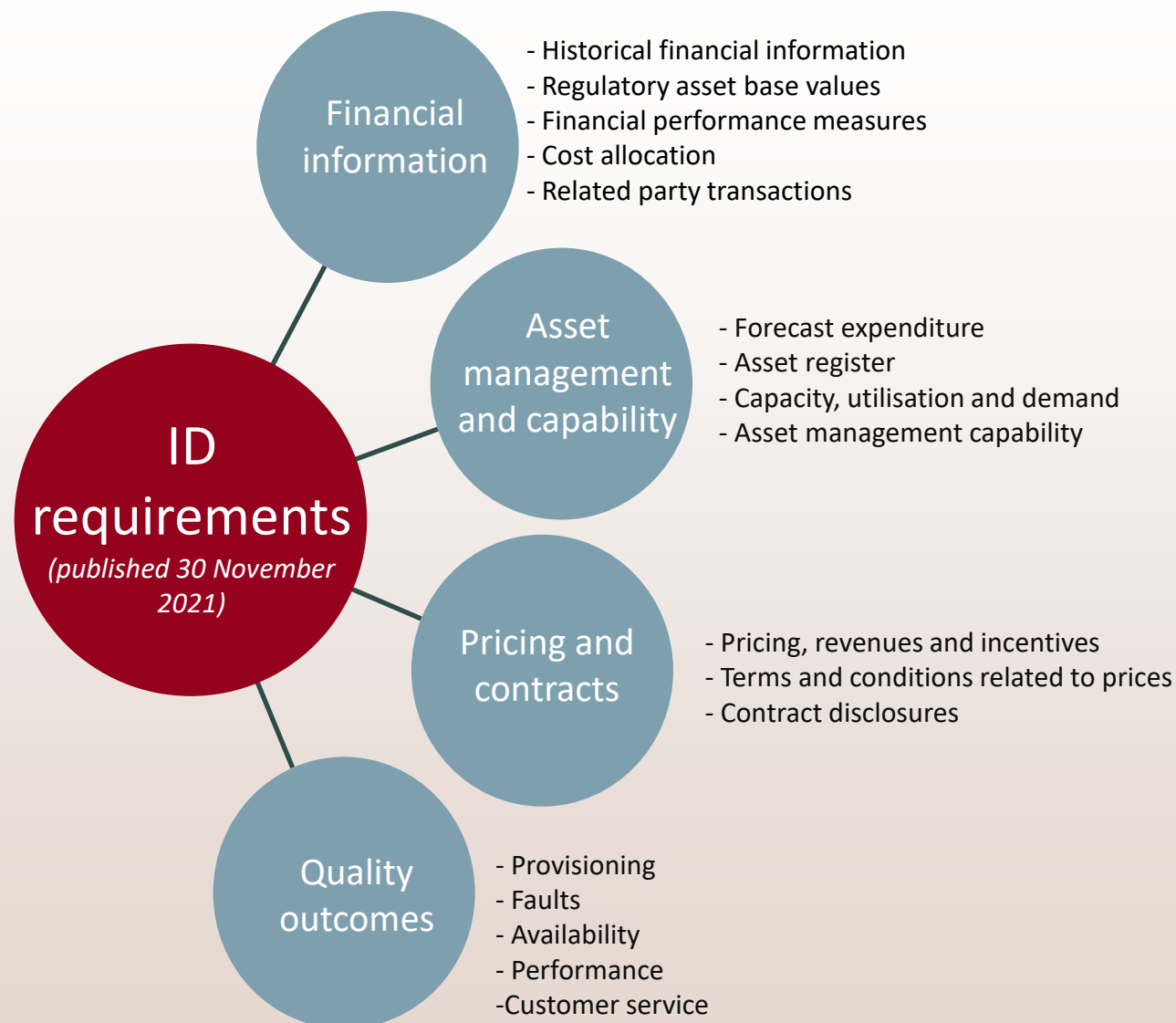
Outline

- The new fibre regime
- Decisions on information disclosures (ID) for all fibre providers
- Decisions on price-quality (PQ) path for Chorus
 - Allowable revenue
 - Transitional initial regulatory asset base (RAB)
 - Depreciation
 - Expenditure
 - Weighted Average Cost of Capital (WACC)
 - Quality standards
- Next steps

The new fibre regime

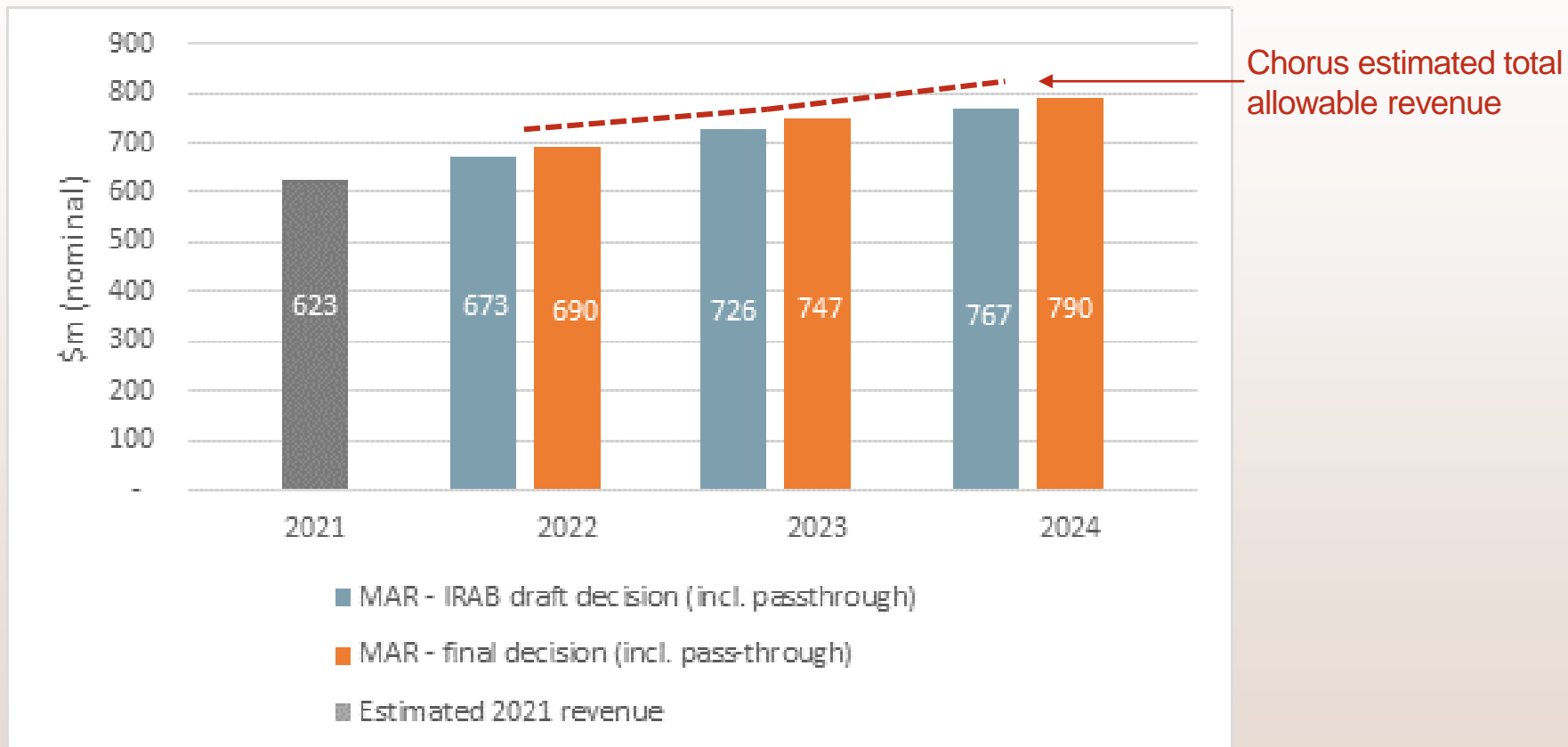


Information disclosure requirements



Implemented
through a staged
transition.

PQ: View of the revenue path

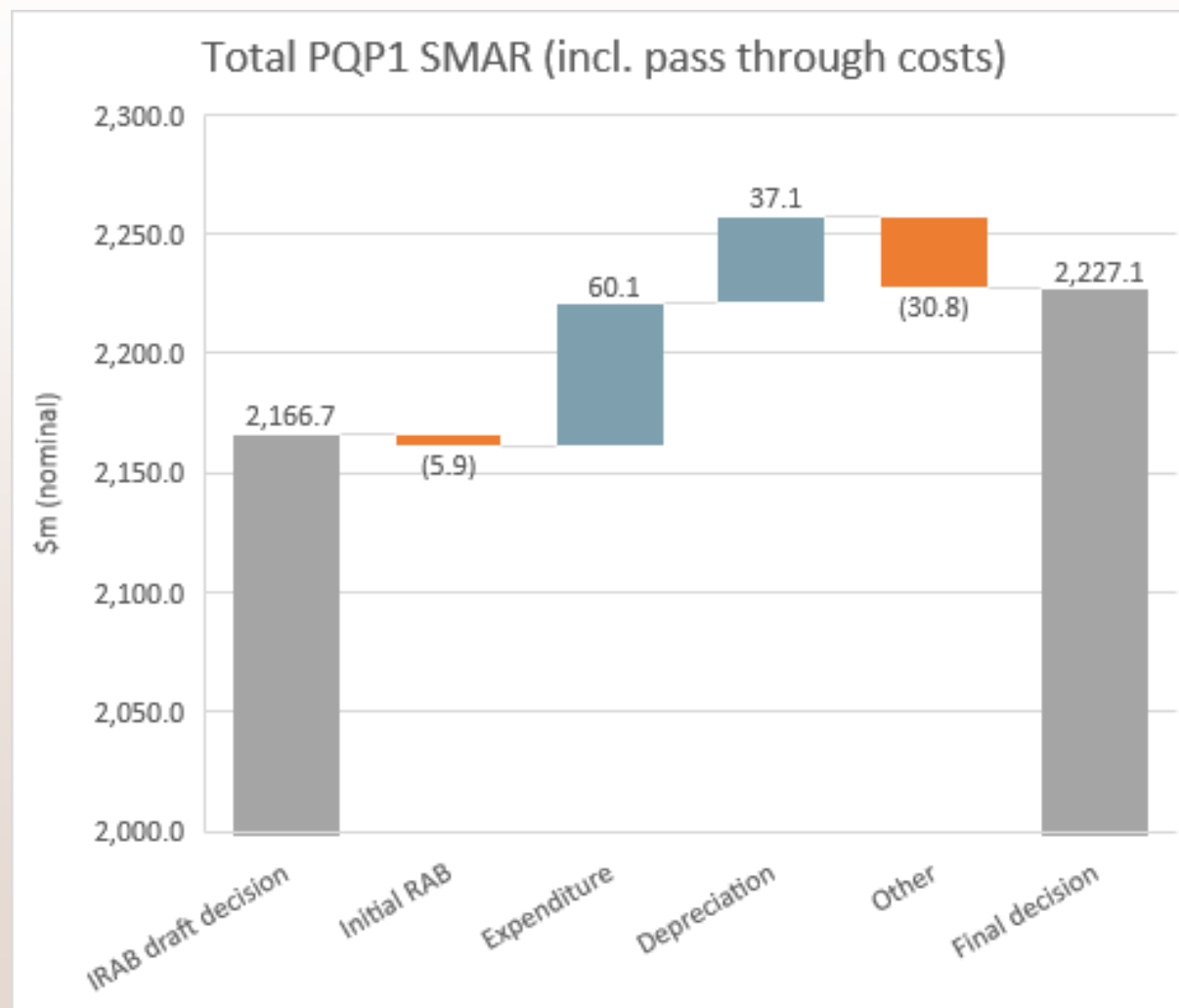


Total allowable revenue over three year period \$2.227b

Draft total allowable revenue (applying draft initial RAB) of \$2.167b

PQ: Revenue path - differences

Waterfall of difference between draft and final decision



PQ: Transitional initial RAB

RAB component				
	<i>Chorus estimate (March 2020)</i>	<i>Draft decision (August 2021)</i>	<i>Final decision</i>	<i>Difference (between August draft and final)</i>
Initial RAB (total)	\$5,507m	\$5,427m	\$5,425m	-\$2m
Core Fibre Assets	\$4,045m	\$3,980m	\$4,034m	\$53m
Financial Loss Asset (FLA)	\$1,462m	\$1,446m	\$1,391m	-\$55m

PQ: Transitional Initial RAB: Key differences

Expense or asset	Our Final Decision for Transitional	Difference (between August draft and final)
Pre-2011 central office floorspace	Not approve the use of the floorspace allocator proposed by Chorus until appropriate assurance is provided. Allocation reduced by 50% in transitional initial RAB. Opportunity for Chorus to provide further assurance prior to finalising initial PQ RAB in 2022.	-\$67m
Pre-2011 ducts	Approve the use of Chorus' proposed allocator, with a cap to limit the allocation to ducts available of 30% in 2015, increasing to 50% in 2021.	\$50m
Future benefits opex allocator	Approve the use of the future benefits allocator type to allocate joint marketing expenses. Calculate the future benefits cost allocator using a present value of forward-looking revenues over five-years.	-\$30m
UFB ducts and manholes	Directly attribute the cost of UFB ducts and manholes to the FLA.	\$18m
Chief Technology Officer (CTO) – Common costs	Approve Chorus' proposed alternative proxy allocators submitted in draft decision submission.	-\$8m

PQ: Depreciation

Asset Type	Draft decision	Final decision
Core Fibre Assets	Straight-line depreciation	Unchanged
Financial Loss Asset (FLA)	Diminishing value depreciation (asset life ~14 years)	Tilted annuity depreciation (asset life of 14.2 years and a tilt rate of -13%)

PQ: Expenditure

Values	Allowance decisions in real dollars (\$m)			
	<i>Chorus March proposal</i>	<i>Draft decision</i>	<i>Final decision</i>	<i>Difference (between draft decision and final decision)</i>
Total expenditure (Totex)	1,491	1,255	1,318	63
Base capital expenditure (Capex)	668	535	582	46
Baseline Connection Capex	335	284	303	19
Operational expenditure (Opex)	488	436	434	-2

PQ: WACC

As calculated 1 June 2021.

Parameter	Estimate for Draft decision	Final decision
Vanilla WACC	4.66%	4.72%
Post-tax WACC	4.46%	4.52%

PQ: Quality standards

Quality Dimension	Quality Metric	Standard
Availability	Average downtime (by POI area)	The average unplanned downtime for PQ FFLAS layer 1 must not exceed 160 minutes in any POI area in each regulatory year.
		The average unplanned downtime for PQ FFLAS layer 2 must not exceed 40 minutes in any POI area in each regulatory year.
Performance	Port utilisation	The percentage of ports with port utilisation equal to or above 90% in any five-minute interval must not exceed 0.12% in any calendar month.

Complemented by ID baseline, anchor services and Direct Fibre Access Service (DFAS)

Next steps

Event	Date
Start of new regulatory regime	1 January 2022
Final initial PQ RAB Transitional updated once Chorus information is available	2022

