

Cancellation Charging Methodology February 2020

1. Introduction

This document provides more detail about:

- the methodology we will use to calculate cancellation charges in accordance with the cancellation charging policy; and
- cancellation charge reporting .

The most recent version of this document is available on the [Chorus website](#). We may update this document from time to time if required (e.g. to implement improvements to reporting identified by us or raised by service providers) but we will let you notice if we do adopt any updates.

2. Reporting

2.1. Start date

The interim reporting has been available upon request from 1 November 2019. The reporting indicates the level of charging you would incur under our cancellation charging policy and provides insight into how the policy will be applied in practice from 1 March 2020. You can request your report through your Chorus account teams.

2.2. Content

The cancellation charging report will include the following information:

- Cancellation Threshold for the relevant calendar month;
- Total orders received and cancelled in the month
- Total orders in WIP
- Total orders from WIP cancelled in the month
- Monthly Cancellation Rate (as a percentage) for the relevant calendar month;
- Number of Qualifying Cancellations for the relevant calendar month; and
- Cancellation charge (if applicable) for the relevant calendar month.

2.3. Existing cancellation reporting

Currently, we provide information about cancellations via a number of other reports:

- COR report – this report provides information on cancelled orders (New orders only) to some service providers; and
- Cancellation report – this report provides a detailed breakdown of cancelled orders (New orders only) to some service providers.

The data in the cancellation charging report varies from that provided to service providers under these existing reports for the following reasons:

- Aggregation of orders and cancellations into different categories; or
- Aggregation of connections from all areas versus just UFB areas; or
- Inclusion of all orders versus just new connection orders.

3. Methodology

3.1. Overview

The methodology features a charging relief threshold which is designed to encourage service providers to focus on tackling overall cancellation rate reductions rather than on charging to consumers (which we acknowledge had its challenges under the original policy).

Under the cancellation charging policy, charges may be payable only where the Monthly Cancellation Rate is above the Cancellation Threshold. We'll measure this on a monthly basis and by reference to a service providers overall cancellation rate. In calculating a service provider's overall cancellation rate we will take into account all cancellation types, not just cancellation types we will be charged for. If a service provider's monthly cancellation rate:

- meets or is below this threshold, there will be no cancellation charges for the month; or
- is above this threshold, there may be cancellation charges for the month, calculated by reference to the extent to which the service provider missed the target threshold and the Qualifying Cancellations for a month.

Where the Monthly Cancellation Rate is above the Cancellation Threshold, we'll need to use the formula set out in the cancellation charging policy (and replicated below in section 4) to calculate what charges are payable for the relevant month.

The key variable components of the formula are the Monthly Cancellation Rate and the number of Qualifying Cancellations for a month. The fixed components of the formula are the charging rate and Cancellation Threshold, which we've identified already in this paper and the underlying policy.

We've provided more information about how we calculate the variable components of the formula below. For completeness, we've set out the details of the fixed components also.

3.2. Monthly Cancellation Rate

In analysing whether a cancellation charge is payable for a month, the first thing we need to do is consider a service provider's Monthly Cancellation Rate and whether it is above or below the Cancellation Threshold.

$$\text{Monthly Cancellation Rate} = \left(\frac{\text{all orders cancelled in month}}{\text{orders received in month} + \text{orders in WIP}} \% \right)$$

where:

All orders cancelled in the month = Orders received and cancelled in the month + Orders in WIP cancelled in the month, where:

Orders received and cancelled in the month = The new connect, transfer and change orders received and accepted for that service provider within the calendar month of calculation subsequently cancelled in the same calendar month.

Orders in WIP cancelled in the month = The new connect, transfer and change orders received and accepted for that service provider in previous months subsequently cancelled within the calendar month of calculation.

Orders received in the month = The new connect, transfer and change orders received and accepted for that service provider within the calendar month of calculation.

Orders in WIP = The new connect, transfer and change orders received and accepted for that service provider in previous months that are open on the first day of the calendar month of calculation.

The inclusion of cancellations for orders in WIP (as well as orders received in the month) will mean the Monthly Cancellation Rate encompasses a longer time period than just a month. The intention being to reduce any possible volatility of order to cancellation ratios within a given month.

3.3. Cancellation Threshold

The Cancellation Threshold is:

- from 1 March 2020, 10%;
- from 1 July 2020, 9%;
- from 1 November 2020, 8%; and
- from 1 March 2021, 7%.

We've adopted a reducing threshold rate over time in recognition of the time required to implement initiatives of this nature and a possible lag between initiative implementation and measureable cancellation rate impact.

3.4 Qualifying Cancellations

We'll need to identify which cancellations are Qualifying Cancellations in a month for the purposes of the cancellation charging policy. To do this, we'll look at all cancellations (with all relevant cancellation types identified in Appendix 1) and filter out those cancellations in a month which:

1. resulted in a service company billing Chorus, either wholly or partially, for installation work (including any applicable truck rolls); and
2. were cancelled more than 2 days after either:
 - a. receipt of order by Chorus or
 - b. Chorus has rescheduled the order for a Chorus reason (ie not a customer reschedule); and
3. were cancelled by either:
 - the service provider or their end customer; or
 - Chorus on behalf of the service provider after waiting the agreed time period for additional information or action from the service provider or their end customer (see clause 9.16 of the Operations Manual for Bitstream Services).

The sum of those cancellations we've filtered out as a subset of overall cancellations will be the number of Qualifying Cancellations for the relevant month. In practice, a cancellation won't be considered a Qualifying Cancellation until the month in which we are billed by a service company (which could be up to 90 days after the date of the cancellation itself).

Note: In calculating a service provider's overall cancellation rate we will take into account all the new connect, transfer and change orders received and accepted for that service provider:

- *within the calendar month of calculation subsequently cancelled in the same calendar month and*
- *in previous months that are open on the first day of the calendar month of calculation subsequently cancelled in the same calendar month.*

Whereas the charge, if any, will only be levied against a proportion of the Qualifying Cancellations.

4. Charging Calculation

If a service provider's Monthly Cancellation Rate is **above** the relevant Cancellation Threshold for a month, the cancellation charges payable for that month will be calculated as follows:

$$\text{Charge} = \left(\frac{\text{Monthly Cancellation Rate} - \text{Cancellation Threshold}}{\text{Monthly Cancellation Rate}} \right) \times \text{QC} \times 170$$

where:

Monthly Cancellation Rate = see section 3.2 above. This is a service provider's individual Monthly Cancellation Rate as identified in the Cancellation Charging Report for the month of calculation.

Cancellation Threshold = see 3.3 section above. This is the Cancellation Threshold for the month of calculation.

QC = see section 3.4 above. This is the number of Qualifying Cancellations for the month of calculation.

170 = the flat charging rate identified in the cancellation charging policy.

We've broken down the formula above into its constituent parts and explained the rationale behind them below:

Step 1 – Calculate full cancellation charge

$$\text{QC} \times 170$$

By multiplying the Qualifying Cancellations by the charging rate, we can work out the value of the cancellation charge we are contractually entitled to levy against a service provider in this context.

Step 2 – Calculate discount rate

We've not sought to recover all of these charges in recognition of the fact service providers are not able to influence every type of cancellation for which we are allowed to charge. Instead,

we've chosen to discount the cancellation charge by reference to the overall monthly cancellation rate of a service provider.

We'll calculate this discount by reference to the extent to which a service provider's Monthly Cancellation Rate is above the Cancellation Threshold as follows:

$$\left(\frac{\text{Monthly Cancellation Rate} - \text{Cancellation Threshold}}{\text{Monthly Cancellation Rate}} \right)$$

This calculation identifies what level of discount is applied to the cancellation charges (i.e. X% of that charge, with X being the difference between the Monthly Cancellation Rate and the Cancellation Threshold as a proportion of the Monthly Cancellation Rate). The higher the Monthly Cancellation Rate compared to the Cancellation Threshold, the smaller the discount (and vice versa).

Example B of the Worked Examples in Appendix 2 shows a difference of 6.73% between the Monthly Cancellation Rate and the Cancellation Threshold. So the discount rate in that example is 6.73% of 16.73% (being the Monthly Cancellation Rate), which equals 0.40 (i.e. 40%). The service provider in Example B would pay 40% of the full cancellation charge.

Step 3 – Apply the discount rate to the full cancellation charge

The final step in calculating the cancellation charge payable for a month is to apply the discount rate to the full cancellation charge as follows:

$$\left(\frac{\text{Monthly Cancellation Rate} - \text{Cancellation Threshold}}{\text{Monthly Cancellation Rate}} \right) \times \left[\text{QC} \times 170 \right]$$

Threshold Percentage Full cancellation charge

This calculation gives you the actual cancellation charge payable for a month.

Appendix 1 Order cancellation types

For the purposes of calculating the Monthly Cancellation Rate, we will consider all of the following cancellation codes:

Stage	c2
Pre-Order	Number Portability Issue
Pre-Order	Credit declined
Pre-Order	In flight change
Order Acceptance	Primary fibre service already on site (and primary requested)
Order Acceptance	Incorrect pre-qual information
Order Acceptance	Missing order information
Order Acceptance	Duplicate order removed
Order Acceptance	Incorrect Address – No new order submitted
Order Acceptance	Incorrect Address – New order submitted
Customer Cancelled	Excessive delay for RFS
Customer Cancelled	Premise not ready for fibre installation
Customer Cancelled	Fibre not requested
Customer Cancelled	Now moving address
Customer Cancelled	Landlord declined permission
Customer Cancelled	Access Denied
Customer Cancelled	Unhappy with Internal scoping options (installation)
Customer Cancelled	Unhappy with External scoping options (installation)
Customer Cancelled	Customer did not accept contribution cost
Consent not Gained	Building owner didn't respond
Consent not Gained	Neighbour declined ROW consent
Consent not Gained	Neighbour didn't respond
Consent not Gained	Building owner declined consent due to contribution costs
Consent not Gained	Building/premises under renovation
Consent not Gained	Building owner rejected design
Customer Cancelled	Changed RSP
Customer Cancelled	Competitive offer taken up by customer (same RSP)
Customer Cancelled	Building owner declined consent on reasonable grounds
LFC Cancelled	Unable to contact customer
LFC Cancelled	Incorrect pre-qual – service not available
LFC Cancelled	Security alarm not compatible
LFC Cancelled	Medical dependency issue e.g. customer hasn't checked with alarm company
RSP Cancelled	Incorrect Details
RSP Cancelled	Submitted in Error
RSP Cancelled	Feasibility/Quote rejected by customer
LFC Cancelled	Health and Safety

Appendix 2

Worked examples

Example A – No cancellation charge payable

- Monthly Cancellation Rate for the calendar month of calculation is 9.51%.
- 55 Qualifying Cancellations in the calendar month of calculation.
- Cancellation Threshold for the calendar month of calculation is 10%.

- 6117 orders in the month accepted by Chorus
- 1003 orders cancelled in the month:
 - 720 from orders received in month; and
 - 283 from orders received in previous months (WIP)
- 4430 orders in progress at beginning of the month (WIP)

How was the Monthly Cancellation Rate calculated?

$$\text{Monthly Cancellation Rate} = \left(\frac{\text{all orders cancelled in month}}{\text{orders received in month} + \text{orders in WIP}} \% \right)$$

Orders cancelled in month = 720 + 283 = 1003

Orders received in month = 6117

Orders in WIP = 4430

$$\begin{aligned} \text{Monthly Cancellation Rate} &= \left(\frac{1003}{6117+4430} \% \right) \\ &= 9.51\% \end{aligned}$$

Monthly Cancellation Rate is **below** the Cancellation Threshold of 10% so there won't be a cancellation charge for this month.

Example B – Cancellation charge payable (high order volume)

- *Monthly Cancellation Rate* for the calendar month of calculation is 16.73%.
- 105 *Qualifying Cancellations* in the calendar month of calculation.
- *Cancellation Threshold* for the calendar month of calculation is 10%.

- 6117 orders in the month accepted by Chorus
- 1724 orders cancelled in the month:
 - 955 from orders received in month; and
 - 769 from orders received in previous months (WIP)
- 4430 orders in progress at beginning of the month (WIP)

How was the Monthly Cancellation Rate calculated?

$$\text{Monthly Cancellation Rate} = \left(\frac{\text{all orders cancelled in month}}{\text{orders received in month} + \text{orders in WIP}} \% \right)$$

Orders cancelled in month = 955 + 769 = 1764

Orders received in month = 6117

Orders in WIP = 4430

$$\begin{aligned} \text{Monthly Cancellation Rate} &= \left(\frac{1764}{6117+4430} \% \right) \\ &= 16.73\% \end{aligned}$$

Monthly Cancellation Rate is **above** the Cancellation Threshold of 10% so there will be a cancellation charge for this month.

What is the cancellation charge?

$$\text{Charge} = \left(\frac{\text{Monthly Cancellation Rate} - \text{Threshold}}{\text{Monthly Cancellation Rate}} \right) \times \text{QC} \times 170$$

Monthly Cancellation Rate = 16.73%

Cancellation Threshold = 10%

Qualifying Cancellations = 105

$$\begin{aligned} \text{Charge} &= \left(\frac{16.73\% - 10\%}{16.73\%} \right) \times 105 \times 170 \\ &= 0.40 \times 105 \times 170 \end{aligned}$$

$$\text{Charge} = \$7,140.00$$

Example C – Cancellation charge payable (low order volume)

- *Monthly Cancellation Rate* for the calendar month of calculation is 25.6%.
- *2 Qualifying Cancellations* in the calendar month of calculation.
- *Cancellation Threshold* for the calendar month of calculation is 10%.

- 17 orders in the month accepted by Chorus
- 6 orders cancelled in the month:
 - 2 from orders received in month; and
 - 4 from orders received in previous months (WIP)
- 29 orders in progress at beginning of the month (WIP)

How was the Monthly Cancellation Rate calculated?

$$\text{Monthly Cancellation Rate} = \left(\frac{\text{all orders cancelled in month}}{\text{orders received in month} + \text{orders in WIP}} \% \right)$$

Orders cancelled in month = 2 + 4 = 6

Orders received in month = 17

Orders in WIP = 29

$$\begin{aligned} \text{Monthly Cancellation Rate} &= \left(\frac{6}{17+29} \% \right) \\ &= \mathbf{13.04\%} \end{aligned}$$

Monthly Cancellation Rate is **above** the Cancellation Threshold of 10% so there will be a cancellation charge for this month.

What is the cancellation charge?

$$\text{Charge} = \left(\frac{\text{Monthly Cancellation Rate} - \text{Threshold}}{\text{Monthly Cancellation Rate}} \right) \times \text{QC} \times 170$$

Monthly Cancellation Rate = 13.04%

Cancellation Threshold = 10%

Qualifying Cancellations = 2

$$\begin{aligned} \text{Charge} &= \left(\frac{13.04\% - 10\%}{13.04\%} \right) \times 2 \times 170 \\ &= \mathbf{0.23 \times 2 \times 170} \end{aligned}$$

$$\text{Charge} = \mathbf{\$78.20}$$