From: Eric Hansen, Regulatory Rules Manager, Infrastructure Regulation, Commerce Commission
Sent: 23 September 2026
To: Airports, Electricity, Gas, Fibre, and Telecommunications stakeholders
Subject: Commerce Commission – Notices of Intention revised and re-issued.

Update on Common cost of capital IM review for Fibre and Part 4 sectors

Tēnā koutou,

Today we have published updated Notices of Intention relating to our review of the input methodologies (IMs) for Fibre and Part 4 sectors (electricity, gas, and airports). The revised notices set out updated timeframes for reaching a final decision on the common cost of capital where we now intend to adopt a different approach to our draft decision.

Final view to adopt the trailing average approach
In response to submissions on the draft decision, we have reached a final view that adopting a trailing average approach to estimating the real risk-free rate for the cost of debt will be to the long-term benefit of consumers.

We have also reached final views that:

- the length of the trailing average will be five years;
- the trailing average will be calculated as a simple (equally weighted) average;
- the term credit spread differential allowance currently provided for will be amended to provide for the necessary hedging costs of the suppliers who issue longer-term debt; and
- the three-month averaging period currently used for the prevailing approach will be maintained for the trailing average approach.

Using a trailing average approach to the cost of debt means our regulatory settings will be less sensitive to interest rates at a single point in time. This reduces the risk of a short-term spike or dip in interest rates occurring in the lead up to setting a price-quality path and being locked in for the regulatory period.

We expect that informing stakeholders of the above views will assist regulated suppliers to decide their debt management strategy in the lead up to implementation. We will publish a final determination alongside the reasons paper in Q4 2026.

Consultation on other design and implementation matters
To implement a trailing average approach, there are some additional matters on which we intend to consult stakeholders via a draft decision in Q4 2026. In consulting on these matters, we are not consulting on our final view to adopt a trailing average approach and the high-level design parameters as outlined above.

The matters that we will consult further on in Q4 2026 are:

- transitional arrangements; and
- design and implementation matters other than those set out above.

Our provisional view is to implement the trailing average with no transitional arrangements specified in the IM determination.

The trailing average will come into force before the commencement of the next regulatory period for EDBs, GPBs, Transpower and Chorus. For EDBs that apply for a CPP during DPP4, this will mean the current IMs (and therefore the prevailing approach) will apply, with appropriate reopener provisions for when DPP5 begins. For Watercare, which is preparing for its first PQP, the timing for implementing the trailing average will be subject to a separate communication and consultation process with the water sector.

We consider that this will provide an appropriate lead time for regulated suppliers to implement any change in their debt management strategy.

Wider IM review context
In March 2025 we initiated a statutory review of the Fibre IM to be undertaken in two phases (known as Tranche 1 and Tranche 2) and a parallel process on the Common cost of capital IM matters applicable to fibre and the Part 4 sectors (electricity, gas, and airports).

On 25 August 2026 we published our Final Decision on the Tranche 1 Fibre IM review. Most of these decisions related to the framework for assessing Chorus's capital expenditure proposals and the treatment of insurance and self-insurance entitlements. The Fibre IM Tranche 2 review covers matters not addressed in either the Fibre Tranche 1 or Common cost of capital IM reviews, including fibre-specific cost of capital maters. The Fibre IM Tranche 2 issues paper closed for cross submissions on 22 September 2026.

As noted above, we will publish Common cost of capital IM decisions in Q4 2026. These will include a final decision on all Common cost of capital matters excluding some aspects of the cost of debt and an additional consultation document on transitional and other design and implementation matters relating to the trailing average cost of debt.

The revised Notices of Intention can be found on our website here.

Ngā mihi nui

Eric Hansen
Regulatory Rules Manager