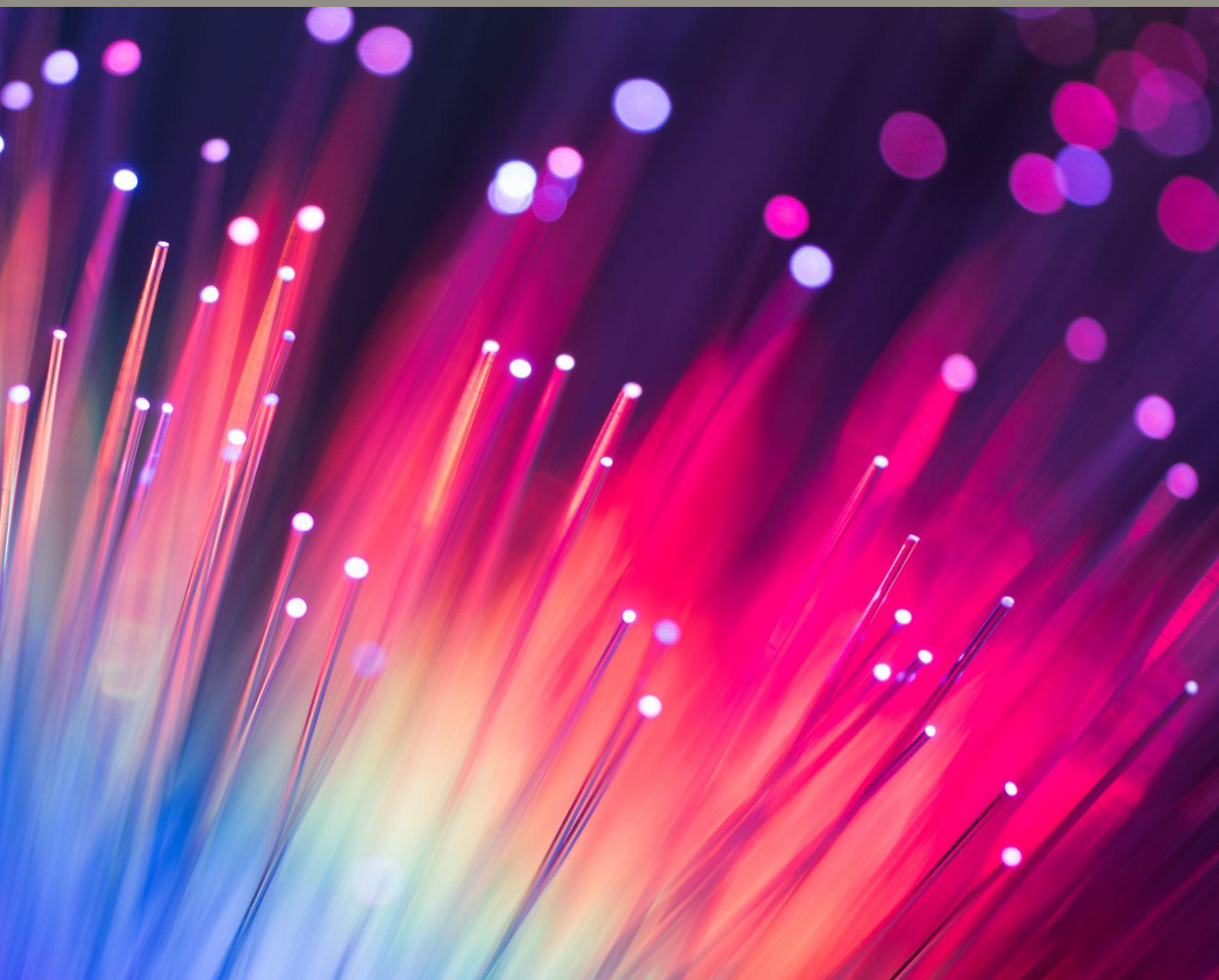


Duration of the third regulatory period for Chorus' price-quality path

Final decision reasons paper

The Commission: Tristan Gilbertson
 Nathan Strong
 Loretta Lovell

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Associated documents

Publication date	Reference	Title
30 June 2026	ISSN 1178-2560	Determination of the duration of the third regulatory period for Fibre Price-Quality Path Determination 2026
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Executive Summary

- X1 We are required to determine the duration of the regulatory period for Chorus Limited (**Chorus**)’s third price-quality path (**PQP3**).¹
- X2 Our final decision is to set the regulatory period for PQP3 at five years.² This means the regulatory period will start on 1 January 2029 and end on 31 December 2033. This represents an increase in the length of the regulatory period from the second price-quality path (**PQP2**), which was four years.
- X3 We consider that a five-year regulatory period will best balance efficiency incentives and risk allocation between Chorus and end-users promoting the purpose of Part 6 of the Telecommunications Act. Our view is that this decision also reflects the increased maturity of the fibre regulatory regime and the availability of mechanisms to manage any forecasting risk.
- X4 We have come to a final decision on the length of the third regulatory period well in advance of the beginning of the period. This is because setting the regulatory period well in advance of PQP3 will provide Chorus with certainty in preparing its expenditure proposals for PQP3.
- X5 We sought stakeholder views on the draft decision and the associated draft Determination.^{3, 4, 5} We received one submission from Chorus supporting the draft decision and welcoming the timing of this decision being made.⁶

¹ [Telecommunications Act 2001](#), s 207.

² Determination of the duration of the third regulatory period for Fibre Price-Quality Path Determination 2026 - available on our website [here](#).

³ [\[DRAFT\] Determination of the duration of the third regulatory period for Fibre Price-Quality Path Determination 2026](#).

⁴ [Telecommunications Act 2001](#), s 203(1) new s170 determination.

⁵ [Telecommunications Act 2001](#), s 203(2) consult with interested parties.

⁶ Chorus “Submission on PQP3 duration draft decision” (12 June 2026) - available on our website [here](#).

Our final decision

- 1.1 Our final decision is to set a regulatory period of five years for PQP3. This means the regulatory period will start on 1 January 2029 and end on 31 December 2033.

Reasons for our final decision

- 1.2 In coming to our decision, we applied the regulatory framework set out in Attachment B. In doing so, we considered what length of regulatory period would best promote s 162 of the Act⁷. This involved considering whether to retain the four-year regulatory period used for PQP2 or propose a longer five-year regulatory period, or a shorter three year one.
- 1.3 Our final decision is that a five-year regulatory period best gives effect to the purpose in s 162 because it appropriately balances efficiency incentives, end-user benefits, regulatory certainty, and limits the ability of Chorus to extract excessive profits.
- 1.4 The reasons for our final decision are the same as for our draft decision.

Efficiency and investment incentives

- 1.5 The duration of the regulatory period is one of the determinants of efficiency incentives under the price-quality framework. We consider that a longer regulatory period would strengthen incentives for Chorus to improve efficiency and deliver fibre fixed line access service (**FFLAS**) at lower cost while maintaining quality that reflects end-user demand.
- 1.6 During a regulatory period, Chorus has incentives to outperform its forecast expenditure allowances by finding efficiencies and delivering required outputs and outcomes at lower cost than forecast. A five-year regulatory period should provide Chorus with a longer timeframe to identify, implement, and embed such efficiencies, and to retain the benefits of efficiency gains for a sufficient period before the next reset. Our view is that our decision promotes s 162 by promoting investment incentives, incentivising efficiency in the supply of FFLAS, while also allowing end-users to share the benefits of efficiency gains.
- 1.7 By contrast, shorter regulatory periods may weaken these incentives by reducing the time available for Chorus to realise and benefit from efficiency gains before they are effectively returned to end users at the next reset.

⁷ As set out in the Regulatory Framework below, we do not consider s 166(2)(b) of the Act is relevant in coming to our decision. Our view is that changing the regulatory period to five years will not affect the promotion of workable competition in telecommunications markets for the long-term benefit of end-users of telecommunications services.

Risk, uncertainty, and protection against excessive profits

- 1.8 A longer regulatory period may increase the risk of both over and under-forecasting and may result in larger wash-up balances that need to be recovered in subsequent regulatory periods. This is because Chorus must forecast expenditure requirements and quality standards over a longer horizon. However, we consider that the risks of over and under-forecasting are manageable with our current regulatory tools and would not outweigh the efficiency gains and certainty benefits of a five-year period.
- 1.9 Further, we consider our regulatory regime includes a range of tools to address uncertainty and limit Chorus' ability to extract excessive profits, including scrutiny of ex-ante expenditure proposals, the individual capex proposal mechanism and mechanisms to manage wash-ups over time. Our view is that these features should help to ensure that Chorus is limited in its ability to extract excessive profits (consistent with s 162(d)) despite our proposal for a longer regulatory period.

Regulatory and market maturity

- 1.10 The maturity of the fibre market further is another factor that we consider supports our decision for a longer regulatory period. A recent report for the Commission noted that a longer review period is justified when costs are expected to be relatively stable.⁸ Fibre coverage is now largely complete, growth in new connections has stabilised, and the key drivers of costs and demand are more predictable than during the build phase. We therefore expect costs to be relatively stable going forwards.
- 1.11 Chorus has also continued to improve its asset management capability and business operations. This has improved the quality of its expenditure forecasting. At the same time, the Commission has gained increased familiarity with Chorus' business and with operating the fibre regulatory regime, including through deregulation reviews and ongoing monitoring.
- 1.12 In addition, we are currently reviewing the Fibre Input Methodologies (IM review). Our focus areas include improving requirements around flexibility measures (Tranche 1) and reopeners (Tranche 2).⁹ While we consider the existing framework sufficient to manage the additional risks associated with a proposed five-year period, the proposals under consultation in the IM review would further strengthen our ability to respond to material changes in circumstances.

⁸ Richard Feasey "[Feasey – Recommendations for Telecommunication Regulation in New Zealand – 6 October 2025](#)", at [225].

⁹ Commerce Commission, [2027 Fibre Input methodologies Review](#).

Administrative and regulatory costs

- 1.13 We consider our final decision for a longer regulatory period should also reduce administrative and regulatory costs for both Chorus and the Commission. A longer time between resets should result in lower compliance and process costs, reduce regulatory burden, and improve regulatory certainty for investment and operational planning.
- 1.14 A recent report for the Commission supported a minimum regulatory period of five years on the basis that it would reduce the overall costs of applying the regime and further increase predictability for investors.¹⁰

Comparison with other regulated sectors

- 1.15 Our decision to move Chorus to a five-year regulatory period aligns the fibre regime more closely with other regulated infrastructure sectors in New Zealand, where price-quality paths and price-setting periods are currently set over five years. This includes:
- 1.15.1 Electricity Distribution Businesses Default Price-Quality Path (DPP4) – 2025 – 2030;
 - 1.15.2 Transpower’s Individual Price-Quality Path (RCP4) – 2025 – 2030; and
 - 1.15.3 Gas Pipeline Businesses Default Price-Quality Path (DPP4) – 2026 – 2031.
- 1.16 At the same time, we recognise that regulatory period length is not one-size-fits-all. Differences in regulatory frameworks, available tools, market dynamics, and the maturity of regulated providers can justify variation in period length across sectors and over time.

¹⁰ Richard Feasey “[Feasey – Recommendations for Telecommunication Regulation in New Zealand – 6 October 2025](#)”, at [225].

Attachment A – Regulatory Framework

1.17 The duration of regulatory periods must be determined by the Commission and must be between three and five years.¹¹ We must notify the duration of each new regulatory period in a s 170 determination.¹²

1.18 When making determinations we must, under s 166(2) of the Telecommunications Act 2001 (the **Act**) make the determination that we consider best gives, or is likely to best give, effect:

1.18.1 to the purpose in s 162; and

1.18.2 to the extent that we consider it relevant to the promotion of workable competition in telecommunications markets for the long-term benefit of end users of telecommunications services.¹³

1.19 The purpose of part 6 of the Act is set out in s 162 and states:

The purpose of this Part is to promote the long-term benefit of end-users in markets for fibre fixed line access services by promoting outcomes that are consistent with outcomes produced in workably competitive markets so that regulated fibre service providers-

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and

(b) have incentives to improve efficiency and supply fibre fixed line access services of a quality that reflects end-user demands; and

(c) allow end-users to share the benefits of efficiency gains in the supply of fibre fixed line access services, including through lower prices; and

(d) are limited in their ability to extract excessive profits.

1.20 We have set out above the reasons our decision best promotes s 162 of the Act.

1.21 Our view is that changing the regulatory period to five years will not affect the promotion of workable competition in telecommunications markets for the long-term benefit of end-users of telecommunications services. Therefore, we do not consider s 166(2)(b) is relevant in coming to our decision.

¹¹ [Telecommunications Act 2001](#), s 207(2).

¹² [Telecommunications Act 2001](#), s 207(3).

¹³ [Telecommunications Act 2001](#), s 166(2).

- 1.22 The determination published alongside this final decision reasons paper specifies:
- 1.22.1 an aspect of how price-quality regulation applies to Chorus under s 170(1)(b).¹⁴
 - 1.22.2 as a new s 170 determination, the duration of the third regulatory period (PQP3) under s 194(2)(a) and s 207(2).¹⁵
- 1.23 We sought views on the duration of the regulatory period for PQP3, as specified in the draft determination.¹⁶
- 1.24 Consistent with s 170(3), we intend to address other aspects of PQP3 in separate s 170 determinations that we will consult on alongside our draft decisions for other aspects of PQP3 (such as the maximum revenues and quality standards).
- 1.25 Any future s 170 determination may require Chorus to comply with requirements set out in another s 170 determination.¹⁷

¹⁴ [Telecommunications Act 2001](#), s 170(1)(b).

¹⁵ Under s 203(1), before the end of each regulatory period, we must make a new s 170 determination specifying the PQ paths that will apply for the following regulatory period. Under s 194(2)(a), a price-quality path must specify the regulatory period to which it applies. Under s 207(2), we must determine the duration of each regulatory period following the first regulatory period and those regulatory periods must be between 3 and 5 years.

¹⁶ Under s 203(2) of the Act, in making a new s 170 determination, we must consult with interested persons in relation to the requirements listed in s 194. The requirement for a price-quality path to specify the regulatory period to which it applies is set out in s 194(2)(a).

¹⁷ [Telecommunications Act 2001](#) s 170(4).