CHORUS

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Information provided by Chorus Limited in the context of the 2027 Fibre Input Methodologies Review

The Commerce Commission has requested further information from Chorus, in response to information provided in the context of the 2027 Fibre Input Methodologies Review.

Chorus' submission on the Fibre IM review Issues paper was supported by an expert report from Incenta[1] which argued in favour of a trailing average approach to the cost of debt, and stated:

> *… an additional benefit arises in Chorus's case, since its size in the New Zealand market means that it cannot practically hedge the risk free rate component via swaps, as assumed implicitly by the Commission's current method.*

The Commission asked:

> *Given the recent hedging window that was associated with the setting of PQP2, would you be able to provide any further information that indicates an inability to hedge at the risk-free rate allowed for under our current approach*

Chorus' response is as follows:

Noting that the statement in question was made by our advisor rather than by Chorus, we understand the point being made was that, while Chorus likely technically could 'hedge the risk-free rate component via swaps', it would not be efficient to do so as there would be significant costs associated with 'fully' eliminating interest rate risk. We note this is consistent with the Commission's view, as expressed at paragraph 6.100 of the *Fibre input methodologies: Main final decisions – reasons paper* (13 October 2020).

Also, in the relatively small NZD swap market, we understand that Chorus' hedging demand at times could be large enough to affect market pricing and push against liquidity limits.

We note our treasury strategy is publicly disclosed in our annual reports.

[1] Incenta Economic Consulting, *Memorandum: Issues relating to common WACC elements*, 24 July 2025