FINAL

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

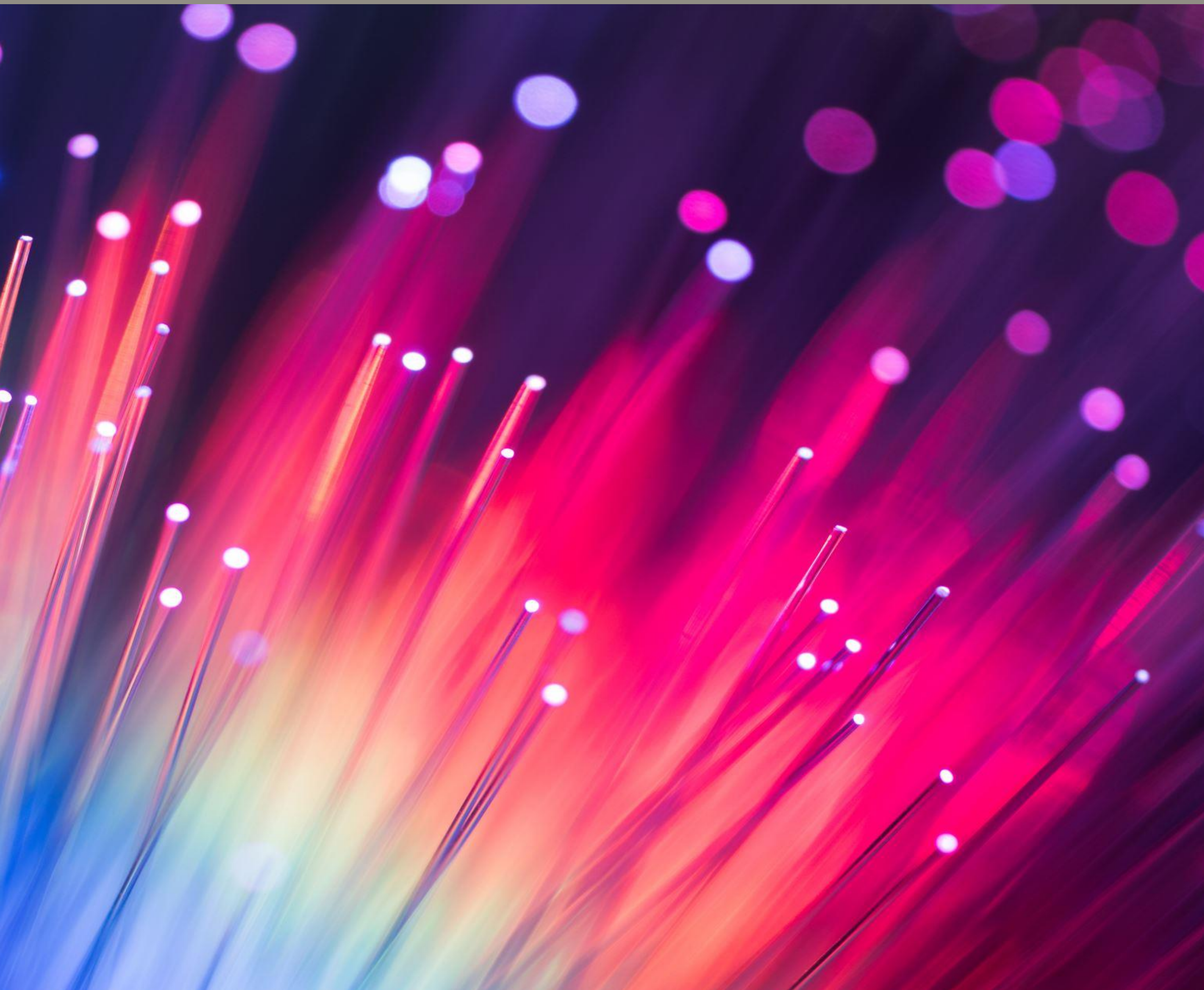
ISBN: 978-1-997321-69-9

Fibre input methodologies review (Tranche 1)

Final decision reasons paper

The Commission: Tristan Gilbertson
Nathan Strong
Loretta Lovell

Date: 25 August 2026



Associated documents

Publication date	Reference	Title
25 August 2026	ISSN 1178-2560	Fibre Input Methodologies (IM Review) Amendment Determination 2026
17 March 2026	ISBN 978-1-991414-79-3	Fibre input methodologies review 2027 (Tranche 1) draft decision reasons paper
17 March 2026	ISBN 978-1-991414-77-9	[DRAFT] Fibre Input Methodologies (IM Review) Amendment Determination 2026
10 March 2026	ISBN 978-1-991414-73-1	[DRAFT] Fibre Input Methodologies (TAMRP methodology) Amendment Determination 2026
10 March 2026	ISBN 978-1-991414-70-0	Fibre Input Methodologies – Decision-making framework paper
10 March 2026	ISBN 978-1-991414-78-6	Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) draft decision reasons paper
27 March 2025		Open Letter on Fibre Input Methodologies Review
27 March 2025		Notice of Intention – Cost of Capital Review for Electricity Lines Services, Gas Pipeline Services, and Specified Airport Services
27 March 2025		Notice of Intention – Fibre Input Methodologies Review 2027

Table of Contents

Executive summary

Final decision for Tranche 1 of the Fibre Input Methodologies Review

X1 This paper sets out the Commerce Commission's final decision on Tranche 1 of the Fibre Input Methodologies **(IM)** Review.

X2 IMs establish the key rules, processes and requirements that apply to the regulation of fibre services under Part 6 of the Telecommunications Act 2001 (**the Act**). They provide certainty to regulated suppliers, access seekers, and end-users about how the regulatory regime will operate.

X3 We are required to review the fibre IMs at least every seven years. This is the first review since the IMs were determined in 2020. We are conducting this review in two phases:

X3.1 Tranche 1 focuses on issues relevant to Chorus preparing and submitting its proposal for a price-quality path reset (alongside a parallel process on cross-sector cost of capital matters); and

X3.2 Tranche 2 will cover any matters not addressed in Tranche 1, including fibre-specific cost of capital matters.

X4 The telecommunications sector continues to evolve rapidly, with increasing demand for high-capacity digital infrastructure and ongoing technological change. It is therefore important that the regulatory framework keeps pace with developments in the market and remains fit for purpose over time.

X5 This review has focused on targeted improvements to the framework, drawing on lessons from the early years of the fibre regulatory regime and our experience applying the IMs during the second price-quality path reset (**PQP2**). In particular, we have sought to simplify and streamline elements of the framework to remove unnecessary cost and complexity while maintaining strong protections for consumers.

X6 Our final decision has been made having regard to stakeholder views. We have retained our draft decision for the majority of issues. In other cases, we have altered our draft decision in response to submitter views. We highlight these changes in table X1 below.

Our view remains that the fibre input methodologies are largely fit for purpose

X7 Our overall view remains that the fibre IMs are generally working well and remain largely fit for purpose.

X8 The framework established in 2020 has supported efficient investment in fibre infrastructure while protecting the long-term interests of end-users in terms of price and quality. The fibre IMs are based largely on the input methodologies used for other regulated infrastructure sectors under Part 4 of the Commerce Act, which have been tested over multiple regulatory cycles, appeals, and reviews.

X9 For this reason, we have prioritised improving how the regime operates in practice, rather than on questions of fundamental design.

X10 In particular, we focused on areas where targeted amendments could:

X10.1 improve regulatory certainty;

X10.2 simplify processes and reduce unnecessary complexity;

X10.3 clarify expectations for capital expenditure proposals; and

X10.4 incorporate lessons learned from PQP2 and other regulated sectors.

Overview of our decision

X11 Most of the changes we are making in Tranche 1 relate to the framework for assessing capital expenditure proposals and the treatment of insurance and self-insurance entitlements.

X12 The key elements of our decision are summarised below.

Introducing an investment test for network expansion capital expenditure

X13 We are introducing a defined investment test for network expansion capital expenditure above specified thresholds.

X14 The investment test requires Chorus to demonstrate that a proposed expansion generates a positive net benefit for fibre fixed line access services (**FFLAS**) end-users. The investment test does not replace the existing capex approval framework; it provides a structured analytical approach to assessing expansion proposals within the wider framework. The Commission will need to be satisfied that the test is met, and will consider the result of the investment test, as well as the other assessment factors in coming to a decision. In applying for network expansion capex, Chorus will tell us whether the proposed network expansion capex meets the investment test as described in the IMs, and a summary of how it has calculated the benefit.

X15 The IMs have also been amended to specify key parameters and information requirements for Chorus to provide to us when seeking network expansion capital expenditure (**capex**) through the investment test. For example, the IMs require the provision of the methodology used to determine the end-user willingness to pay for fibre (**WTPF**) to value the notional revenue.[1]

X16 We consider the introduction of a structured test will provide greater transparency around how major expansion proposals will be assessed and when applied in practice it should result in more efficient investment.

Improvements to the capital expenditure proposal and assessment process

X17 We are making several changes to improve the efficiency and workability of the capex proposal process ahead of future price-quality resets.

X18 These include:

X18.1 adjusting timeframes for expenditure proposals and Commission decisions;

X18.2 introducing a two-tier information framework distinguishing between priority and non-priority programmes; and

X18.3 formalising the role of the independent verifier through a tripartite verification deed.

X19 These changes reflect lessons learned during the PQP2 reset and are intended to improve regulatory certainty while maintaining flexibility in the framework.

Refinements to connection capital expenditure

X20 We retain the connection capex category, while making several targeted refinements.

X21 These include:

X21.1 expanding the definition of connection capex to include certain customer upgrades;

X21.2 simplifying reporting requirements;

X21.3 introducing an annual calculation of the connection capex wash-up balance; and

X21.4 aligning the reporting dates for the connection capex report with that for the wash-up report.

---

[1] The WTPF is the wholesale FFLAS component of the retail price that end-users of FFLAS in the expansion area would reasonably be expected to pay in the absence of price regulation (including the geographically consistent pricing (**GCP**) requirement in s 201 of the Act), taking in to account the available alternative services that are not regulated FFLAS in the expansion area.

X22 These changes aim to ensure that the regulatory framework remains proportionate while continuing to manage risks associated with forecast connection expenditure.

Changes to the treatment of insurance

X23 We are making changes to the treatment of insurance and self-insurance entitlements.

X24 These changes align the fibre IMs more closely with amendments made to Part 4 input methodologies in 2024, while clarifying how insurance recoveries should be treated for both capital and operating expenditure.

What these changes are intended to achieve

X25 Taken together, these changes are intended to:

X25.1 ensure the regulatory framework remains fit for purpose as the fibre market evolves;

X25.2 increase clarity and transparency around how major investment proposals will be assessed;

X25.3 ensure the Commission receives robust and proportionate information when evaluating expenditure proposals;

X25.4 simplify and streamline regulatory processes, reducing unnecessary complexity and compliance costs; and

X25.5 maintain incentives for efficient investment and innovation in fibre infrastructure.

Relationship with the cross-sector cost of capital review

X26 We are currently reviewing the cost of capital input methodologies that apply across both fibre services and infrastructure services regulated under Part 4 of the Commerce Act.

X27 Our final decision on those common cost of capital IMs will be published in a separate final decision package.

X28 The outcome of the final decision on the common cost of capital IMs may inform the fibre-specific cost of capital parameters, which will be considered as part of Tranche 2 of the Fibre IM Review.

Tranche structure of the Fibre IM Review

X29 We are conducting the Fibre IM Review in two tranches.

X30 Tranche 1 (this paper) focuses on issues relevant to Chorus preparing and submitting its proposal for the third price-quality path reset (**PQP3**).

X31 Tranche 2 will address remaining issues that do not need to be resolved before the PQP3 process begins. This includes:

X31.1 fibre-specific cost of capital parameters;

X31.2 information disclosure IM matters; and

X31.3 other price-quality framework issues.

X32 We published the Tranche 2 issues paper on 4 August 2026.[2]

[2] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 2)" (4 August 2026).

Table X1 Fibre IM Review (Tranche 1) final decision at a glance

Change relative to the draft decision	Unchanged from draft	Minor amendment to draft	New or change in policy

Code	Change	Final decision
		PROPOSING AND ASSESSING CAPITAL EXPENDITURE
		Timelines for setting expenditure allowances
C01	Unchanged from draft	**Amend** the dates in the IMs so that: • Chorus and the Commission agree to the form and content of the regulatory templates at least 24 months before the start of the regulatory period (instead of 22 months); • the Commission issues the base capex and connection capex information request at least 24 months before the start of the regulatory period (instead of 22 months); • Chorus submits its base capex and connection capex baseline proposal 16 months before the start of the regulatory period (instead of 14 months); and • the Commission determines the base capex and connection capex baseline allowances no later than four months before the start of the regulatory period (instead of six months).
		Independent verification process
C02	Unchanged from draft	**Amend** the independent verification requirements within the capex IM to require Chorus, the independent verifier (**verifier**), and the Commission to enter a tripartite deed, where the deed: • sets out terms of reference for the verifier; • imposes an overriding duty on the verifier to assist the Commission as an independent expert on relevant matters within the verifier's area of technical expertise; • requires the verifier to answer any questions posed by the Commission on the verification report; • requires the verifier to keep records of all communication between the verifier and Chorus; • sets out any additional communication protocols necessary to keep the Commission informed of progress on the verification and to assist the Commission's planning for how it will evaluate the Verification Report and Chorus' related Expenditure Proposals; and • includes any other provisions necessary for business efficacy agreed by the Commission.
C03	Unchanged from draft	**Introduce** a requirement that the independent verifier provides a signed certificate certifying that: • the relevant parts of the proposal that Chorus is submitting to the Commission have been verified; and • the verification report was prepared in accordance with the deed.
C04	Unchanged from draft	**Introduce** a requirement that Chorus provides information relevant to the proposal for the verifier to conduct the verification in a timely manner.

Code		Final decision
		Information requirements
C05		**Amend** the capex IMs to differentiate between two levels of information requirements when issuing information requests: • 'priority projects or programmes', where more information will be required; and • 'non-priority projects or programmes', where less information will be required.
C06		**Introduce** a requirement for Chorus and the Commission to agree the criteria to be used to select the priority programmes 24 months prior to the start of the upcoming regulatory period.
C07		**Introduce** operating expenditure (**opex**) information requirements into the IMs, applying the priority and non-priority distinction.
C08		**Maintain** the level of prescription for the information requirement areas for all expenditure as specified in clauses 3.7.9 (base capex) and 3.7.15 (connection capex).
C09		**Maintain** the requirement for the Commission to issue an information request prior to Chorus submitting its capex proposals (noting the amendment to the existing timeline proposed in C01).
		Evaluation Criteria
C10		**Maintain** the evaluation criteria in the capex IM that applies to all types of capital expenditure.
		INVESTMENT TEST
		Form and scope of the investment test
T01		**Introduce** an investment test that: • applies to our evaluation of network expansion capex; and • has a $15 million threshold for the individual capex proposal (**ICP**) mechanism and an aggregate $5 million threshold for the base capex mechanism and the connection capex mechanism.
		Process and consultation requirements
T02		**Use** the existing capex proposal mechanisms, processes and timelines set out in the IMs for base capex and ICPs, namely the: • process and timeframes for applying the test; • consultation requirements and processes; and • independent verification requirements and processes.
		Information requirements and key test assumptions
T03		**Amend** the IMs to introduce a requirement for Chorus to undertake sensitivity analysis on key parameters (except where such analysis is not reasonably practicable and/or not reasonably necessary). This should include: • the discount rate; • the uptake rate; • the end-user willingness to pay for fibre (WTPF); and • the portfolio mix.
T04		**Require** Chorus to provide any evidence supporting its forecast uptake rate assumptions applied to the test. The forecast uptake rate is defined as the portion of end-users expected to take-up a FFLAS over the length of the project (as specified by Chorus) as a result of the network expansion capex, given the WTPF.
T05		**Set** a specific pre-tax real discount rate of 5% in the IMs for Chorus to use when calculating the net present value (**NPV**) of proposed costs and benefits.
T06		**Require** Chorus to calculate the forecast payback period, provide reasons for why it considers the forecast payback period reasonable and identify any risks and uncertainty that may affect the proposed payback period.

Code	Final decision
T07	**Require** Chorus to specify a forecast fibre broadband service portfolio mix that underlies the forecast uptake and provides evidence supporting the proposed portfolio mix.
T08	**Require** Chorus to provide information about the cost to connect to the premises (**CTTP**) and cost per premises passed (**CPPP**) based on its proposed investment.
T09	**Require** Chorus to specify the pricing implications for its existing and future end-user base from its proposed investments.
T10	**Allow** Chorus to provide alternative values to the discount rate with evidence supporting its proposed alternatives.
	Costs and benefits
T11	**Amend** the capex IM to specify the relevant costs and benefits that Chorus must set out for our evaluation.[3]
	Evaluation criteria
T12	**Specify** that a network expansion capex proposal will be approved where: • the investment test results in a positive net fibre fixed line access services (FFLAS) market benefit (ie, the proposed investment is net present value (NPV) > 0); • it is sufficiently robust under sensitivity analysis; and • it meets the expenditure objective and reflects good telecommunications industry practice as currently set out in clause 3.8.5 of the fibre IMs.
	Risk sharing mechanism
T13	**Not to introduce** any additional IM changes to the investment test to address potential forecast connection uptake risk, and to retain the ex-ante assessment approach presented in the draft decision reasons paper.
	CAPITAL EXPENDITURE FLEXIBILITY MEASURES
	Connection capital expenditure
F01	**Maintain** the requirement for a connection capex allowance that is separate to base capex and a wash-up of connection capex as part of the overall capex allowance.
F02	**Amend** the connection capex IM to calculate and report the connection capex variable adjustment wash-up balance annually, rather than performing the calculation only once per regulatory period. (The determination drafting has been altered in response to submissions on the draft decision)
F03	**Amend** the connection capex IM to include capex required for service upgrades where Chorus will receive increased wholesale revenue from the upgrade (eg, Hyperfibre) in the connection capex definition.
F04	**Amend** the connection capex IM to simplify the reporting requirements to ensure the effort required is proportionate to the risks of misstatement of the wash-up allowance by: • removing the requirement to report actual unit costs; • removing the requirement to update forecast connection costs; and • only requiring independent assurance for the final two years of a regulatory period, while requiring the assurance engagement to consider the relevant figures for all of the preceding regulatory periods that were not previously subject to independent assurance.
F04a	**Amend** the due date for the connection capex report from three months to five months after the end of the regulatory year.

[3] Chorus must use the WTPF and forecast uptake rate that aligns with this price to value the notional revenue.

Code	Final decision
	Individual capex proposals
F05	**Maintain** the ICP mechanism in the IMs with some amendments.
F06	**Amend** the ICP threshold from $5 million over the life of the project or programme to at least $15 million over the life of the project or programme.
F07	**Amend** the ICP notification stage to introduce a simpler design proposal process for projects or programmes originally considered as part of the assessment of a base capex proposal and for which the Commission indicated a future ICP may be appropriate, once uncertainty regarding the need for the project has reduced. The subsequent information required at the design proposal stage for a project/programme within this category will be reduced to details of the capex need and timing.
F08	**Amend** the ICP notification stage by reducing the description of key parameters to: • need, timing, and the extent of any related uncertainty; • brief details of any proposed independent verification; • expected costs, benefits and risks; and • any previous or planned consultation undertaken.
F09	**Amend** the IMs to require that Chorus provide, commensurate with the estimated expenditure and complexity of the design proposal, any other key information relevant to supporting the design proposal.
F10	**Amend** the IMs to allow the Commission to waive/amend conditions set at the design proposal stage of the process, ahead of submission of the proposal.
	TREATMENT OF INSURANCE
	Licensed insurance entitlements
I01	**Amend** the asset valuation IM to allow regulated FFLAS providers an option to treat capex insurance entitlements and capex compensatory entitlements in respect of damaged or destroyed assets: • like capital contributions, and net them off the cost of assets where Chorus are applied to the remediation of assets; or • as currently, as actual "total FFLAS revenue", to be included in the revenue wash-up for Chorus (other local fibre companies (**LFCs**) do not have wash-up accounts).
I02	**Amend** the asset valuation IM to require that, if netting entitlements off the cost of assets, any subsequent adjustments to the value of entitlements after the asset's commissioning date are recorded as separate assets or negative assets, present valued as at the same commissioning date.
I03	**Amend** the definition of operating costs (opex) to allow an option for regulated providers to: • net off opex insurance entitlements, opex compensatory entitlements and third-party liability entitlements against the corresponding operating expenditure in the year or years of remediation or third-party liability compensation spend; or • treat opex insurance entitlements, opex compensatory entitlements and third-party liability entitlements as actual "total FFLAS revenue".
I04	**Amend** the threshold for a catastrophic event reopener to measure the costs and impact of an event before the recognition of any insurance and other compensatory entitlements.

Code	Final decision
	Self-insurance entitlements
I05	*Self-insurance – below deductibles limit costs* For the costs of any loss or damage up to the value of the deductible's limits: • **Amend** the asset valuation IMs to treat capex self-insurance entitlements like a capital contribution and net them off the costs of the assets' remediation; and • **Amend** the definition of operating costs to net off opex self-insurance entitlements against the corresponding additional operating expenditure in the year or years of remediation.
I06	*Self-insurance – uninsured asset costs* For the costs of any loss or damage on uninsured assets: • **Amend** the asset valuation IM to treat the capex self-insurance entitlements like a capital contribution and net them off the costs of the asset's remediation; and • **Amend** the definition of opex to require netting off opex self-insurance entitlements against the corresponding additional operating expenditure in the year or years of remediation.
	OTHER AMENDMENTS
	Efficiency and effectiveness
E01	**Amend** the specification of price and revenues IM clause 3.1.1(11)(b) to use the costs of debt and equity for the regulatory period rather than using the costs of equity and debt for the disclosure year in question.
E02	**Maintain** the current depreciation IM – no change to clause 2.2.8.
E03	**Maintain** the current definition (interpretation IM clause 1.1.4) to subtract rebates in general.
E04	**Maintain** the taxation IM clause to define notional deductible interest as opening regulated asset base (**RAB**) values less the outstanding Crown financing multiplied by the leveraged cost of debt.
E05	**Maintain** the depreciation IM clause to allow the use of a depreciation method consistent with generally accepted accounting principles (**GAAP**) or any other method.
E06	**Maintain** the current cost allocation IM.
E07	**Maintain** Commission oversight of price-quality (**PQ**) cost allocators.

Chapter 1 Overview of the fibre input methodologies review 2027

Input methodologies review

1.1 Input methodologies (**IMs**) are the upfront rules, processes and requirements of regulation set under Part 6 of the Telecommunications Act (**Part 6**) and apply to:

1.1.1 Chorus, which is subject to price-quality and information disclosure regulation under Part 6; and

1.1.2 the other local fibre companies: Enable, Northpower, and Tuatahi which are subject to information disclosure regulation only.

1.2 IMs for suppliers of electricity lines services, gas pipeline services, and specified airport services – which are also subject to price-quality and/or information disclosure regulation – are set under Part 4 of the Commerce Act (**Part 4**).

1.3 The purpose of IMs, set out in s 174 of the Telecommunications Act (**the Act**) is to promote certainty for suppliers and consumers in relation to the rules, requirements, and processes applying to regulation.

1.4 Section 182(1) of the Act requires us to review the IMs no later than seven years after their date of publication, and after that, at intervals of no more than seven years. This is the first review of the fibre IMs.

1.5 As part of this IM Review, we separately consulted on specific amendments to the common cost of capital IMs (ie, common to both Part 4 and Part 6).[4] We continue to work through those issues and updates will be provided on our webpage.

What we are aiming to achieve

Our view remains that the input methodologies are largely fit for purpose

1.6 The fibre IMs are based largely on the Part 4 sector IMs. The fundamentals of the IMs have been tested over multiple rounds of initial setting, appeals, and review across the Part 4 sectors. The benefits of these previous reviews have been incorporated into the design of the fibre IMs. Therefore, the fibre IMs are relatively mature compared to the Part 4 IMs at the same point in their development.

---

[4] Commerce Commission "Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) Draft decision reasons paper" (10 March 2026).

1.7 Our view remains that they are generally working well and that the fibre regime is encouraging fibre providers to innovate and invest efficiently in critical national infrastructure while protecting the interests of consumers in terms of price and quality. We have focused our review on the areas of highest value to end-users of fibre services and where we see that the IMs provide the best option for addressing issues identified.

Application of our decision-making framework and overarching objectives

1.8 In reaching our decision we have applied the Fibre IM Review decision-making framework. Our decision-making framework for reviews of the fibre IMs is not mechanistic. Rather, it is a conceptual framework to guide and explain our decision-making. We consider this strikes the right balance between prescription and flexibility. The framework is deliberately framed at a general level. This is to provide guidance in as many situations as possible and because we cannot foresee all situations and potential changes.

1.9 In coming to our decision, we have been guided by the three overarching objectives set out in the Decision-making framework paper:[5]

1.9.1 promoting the considerations in s 166(2) more effectively;

1.9.2 promoting the IM purpose in s 174 more effectively (without detrimentally affecting the promotion of the s 166(2) considerations); and

1.9.3 significantly reducing compliance costs, other regulatory costs or complexity (without detrimentally affecting the promotion of the s 166(2) considerations).

1.10 We have set out in our analysis below how we have considered these objectives in coming to our final decisions

Structure of this paper

1.11 This paper follows the chapter structure of the draft decision paper.

1.12 Where our draft decision was supported and the reasons for our final decision are the same as our draft decision or not challenged, we are confirming these as final and presenting them in summary tables with direct reference to the relevant sections of the draft decision paper.

1.13 On some issues, submitter feedback prompted further analysis before the final decision could be reached. These issues are discussed more fully. We incorporate discussion from the draft decision reasons paper where useful to help the reader.

[5] Commerce Commission "Fibre input methodologies – Decision-making framework paper" (10 March 2026), at [3.6].

Determination published alongside this paper

1.14 We have published the Fibre Input Methodologies (IM Review) Amendment Determination 2026 that sets out the drafting of new clauses, or amendments to existing clauses to give effect to the decision.

Fibre Input Methodologies Review project

1.15 We commenced this review on 27 March 2025.[6] We issued two notices of intention alongside an Open Letter on the Fibre IM Review:

1.15.1 one notice stated our intention to begin work on the Fibre IM Review; and

1.15.2 the other notice stated our intention to begin work on reviewing the cost of capital IMs that are common between services regulated under Part 6 (fibre) and Part 4 (for airport services, electricity lines, and gas pipelines).

1.16 In July 2025 we published an issues paper setting out the key topics we proposed to consider as part of the IM Review.[7] We also set out that the Fibre IM Review will be conducted in two tranches. Tranche 1 focuses on issues relevant to Chorus preparing and submitting its proposal for a price-quality path reset. Tranche 2 covers any matters not addressed in Tranche 1, including fibre-specific cost of capital matters. These are set out in a separate issues paper and will have a separate draft decision.[8]

1.17 We received stakeholder submissions and cross submissions on our Tranche 1 issues paper and our Tranche 1 draft decision package. Having considered those submissions, and applying our decision-making framework, we have reached the final decision on Tranche 1 issues as set out in this paper.

What we are consulting on in Tranche 2

1.18 Tranche 2 will focus on issues that do not need to be resolved before we commence the process for setting the Price-Quality Path 3 (**PQP3**). This includes the IMs for Information Disclosure (**ID**) regulation (Part 2 of the IMs) and any price-quality (**PQ**) (Part 3 of the IMs) issues not addressed in Tranche 1.

1.19 At this stage, specific issues identified for consideration in Tranche 2 are:

1.19.1 revenue-linking for individual capital expenditure (**capex**) conditions and capex ringfencing;

1.19.2 value of commissioned assets and related party transactions;

---

6 Commerce Commission "Notice of Intention – Fibre Input Methodologies Review 2027" (27 March 2025); and Commerce Commission "Notice of Intention – Cost of Capital Review for Electricity Lines Services, Gas Pipeline Services, and Specified Airport Services" (27 March 2025).

7 Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025).

8 Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 2)" (4 August 2026).

1.19.3 treatment of fibre fixed line access service (**FFLAS**) wash-up account balance following deregulation or sale;

1.19.4 benefit of Crown financing (if a sale of government securities occurs);

1.19.5 PQ path reopener for approved individual capex proposals (**ICPs**);

1.19.6 reopener events including definitions, time limits, thresholds and expenditure eligibility; and

1.19.7 fibre-specific cost of capital IM matters.[9]

1.20 The issues paper on key topics for Tranche 2 was published on 4 August 2026 and parties have an opportunity to comment and identify any further issues.[10]

Next steps

1.21 The details of the IM Review process were outlined in our Tranche 1 issues paper and key dates are presented in Table 1.1.[11] This process provides transparency on the Commission's IM Review decisions in time for the PQP3 reset. Interested parties have opportunities to participate at each stage of our process. However, as with all processes we run, we are prepared to add further process steps, if necessary, due to a material change in our draft decision or reasons.

---

[9] Commerce Commission "Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) Draft decision reasons paper" (10 March 2026), at [1.23].

[10] Quarters in the calendar year, ie. Q1 means January – March.

[11] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at Table 1.1 and [1.19].

Table 1.1 Indicative timeline for the Fibre IM Review project

Date	Key process or publication
27 March 2025	Open Letter and Notice of intention (**NOI**)
10 July 2025	Issues paper on Tranche 1 issues Draft Fibre IM Review decision-making framework paper
10 March 2026	Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) draft decision package Fibre IM Review decision-making framework paper
17 March 2026	Fibre input methodologies review 2027 (Tranche 1) draft decision package
16 April 2026	Submissions on Tranche 1 draft decision closed
6 May 2026	Cross submissions on Tranche 1 draft decision closed
4 August 2026	Tranche 2 issues paper published for consultation
25 August 2026	Final decision on Fibre input methodologies review (Tranche 1) issues
Q3 2026	Final decision on Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4)
Q1 2027	Draft decision on Tranche 2 issues published for consultation
By 13 October 2027	Final decision on Tranche 2 issues published

Chapter 2 Proposing and assessing capital expenditure

Overview of the capital expenditure input methodologies

2.1 The capital expenditure (capex) IM prescribes the processes and rules, including requirements on Chorus, that we apply to scrutinise and determine Chorus' forecast capex allowance when setting the price-quality path. This includes the information we require Chorus to provide in its expenditure proposal, as well as the evaluation criteria we must apply to determine expenditure allowances that are used in the calculation of Chorus' allowable revenue.

2.2 As the capex allowance we approve is a forecast, there is a risk that we under- or over forecast Chorus' capex allowance. The capex IM therefore plays an important role in mitigating risks of over- or under- forecasting. The Chorus capex IM rules contribute to achieving Part 6 purposes in s 162 by:

2.2.1 safeguarding Chorus' incentives to invest and innovate (s 162(a)) eg, by specifying in-period mechanisms that allow for the approval of larger projects or programmes that could not have been foreseen prior to the start of the regulatory period;

2.2.2 providing incentives to improve efficiency (s 162(b)) eg, the Chorus capex IM specifies a review of capex allowances at each regulatory reset and any proposed capex allowed into the maximum allowable revenue (**MAR**) would be assessed to ensure it reflects efficient and prudent forecast costs;

2.2.3 sharing any efficiency gains realised by Chorus with end-users (s 162(c)) eg, scrutiny of Chorus' expenditure proposals help identify and remove inefficient expenditure from allowances and ensure observed past efficiency gains are flowed through into future prices, where appropriate;[12] and

2.2.4 limiting Chorus' ability to extract excessive profits (s 162(d)) eg, the rules set by the Chorus capex IM seek to identify instances of inflated capex forecasts and adjust the capex allowances accordingly.

[12] The design of the ex-ante price path and ex-ante capex allowance provides an efficiency incentive to outperform the allowance, as Chorus will get to keep any savings it can achieve. This results in potential for under-investment, which may result in a risk to the quality of services provided to access seekers and end-users.

2.3 The capex IM can also support promotion of workable competition in the telecommunications sector (s 166(2)(b)). In particular, the evaluation criteria enable the Commission to take into account the effects of Chorus's proposed capex on competition, including through the competition assessment factor,[13] when assessing expenditure proposals. In making decisions under the capex IM, the Commission must also have regard to s 166(2)(b), including the impacts of Chorus's capex decisions on the promotion of workable competition in telecommunications markets.

Final decision

2.4 Our final decision on capex IM amendments relate to:

2.4.1 timeframes for setting capex allowances;

2.4.2 independent verification process;

2.4.3 information requirements; and

2.4.4 evaluation criteria.

2.5 Our experience implementing and administering the fibre regulatory regime during the first and second regulatory periods (**PQP1** and **PQP2**) and submitter feedback highlighted opportunities to improve the workability of the capital expenditure proposal and assessment process.

2.6 As a result of this review, we have amended the IMs to refine the capex proposal framework to streamline processes and provide greater predictability for both Chorus and stakeholders. By clarifying information requirements and establishing proportionate processes our final decision improves transparency and reduces unnecessary complexity, while still enabling the Commission to assess proposed investments robustly.

Reasons for our final decision

Final decision on issues supported by submitters

2.7 Our final decision on issues where stakeholders supported, did not oppose, or did not provide additional reasons for a different decision to those considered in our draft decision are set out in Table 2.1. The reasons for our final decision on these issues are the same as our draft decision.

[13] *Fibre Input Methodologies Determination 2020, as consolidated on 3 September 2025*, clause 3.8.6(1)(g) of the capex IM.

Table 2.1 Final decision - reasons are the same as for the draft decision

Final decision	Reasons and submissions
Timeframes for setting capex allowances	
C01: **Amend** the dates in the IMs as follows. • Chorus and the Commission agree to the form and content of the regulatory templates at least 24 months before the start of the regulatory period (instead of 22 months). • The Commission issues the base capex and connection capex information request at least 24 months before the start of the regulatory period (instead of 22 months). • Chorus submits its base capex and connection capex baseline proposal 16 months before the start of the regulatory period (instead of 14 months). • The Commission determines the base capex and connection capex baseline allowances no later than four months before the start of the regulatory period (instead of six months).	Chorus supported our draft decision.[14] Other stakeholders did not oppose our draft decision. See paragraphs 3.10 to 3.15 of the draft decision reasons paper.[15] In summary our final decision: • ensures that we have sufficient time to make robust decisions that promote s 162 of the Act; and • improves the workability of processes for ourselves and Chorus, while maintaining the certainty provided in the IMs.
Independent verification process	
C02: **Amend** the independent verification requirements within the capex IM to require Chorus, the independent verifier (verifier), and the Commission to enter a tripartite deed, where the deed: • sets out terms of reference for the verifier; • imposes an overriding duty on the verifier to assist the Commission as an independent expert on relevant matters within the verifier's area of technical expertise; • requires the verifier to answer any questions posed by the Commission on the verification report; • requires the verifier to keep records of all communication between the verifier and Chorus; • sets out any additional communication protocols necessary to keep the Commission informed of progress on the verification and to assist the Commission's planning for how it will	Chorus supported introducing more detail on the independent verification process but proposed it does not take effect until the fourth regulatory period, to avoid disrupting the appointment of the PQP3 verifier.[16] We disagree with Chorus's view on this amendment. We consider there is sufficient time between publication of our Tranche 1 final decisions and the execution of the tripartite deed to accommodate the start of the verification work. See paragraphs 3.23 to 3.26.7 of the draft decision reasons paper. In summary our final decision: • strengthens the management of the independent verifier process and ensures accountability; • reduces the risk of misunderstanding or incomplete analysis; and

---

[14] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 7.

[15] The reasons for our draft decisions can be found here: Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026).

[16] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 2-3 and 7.

Final decision	Reasons and submissions
evaluate the Verification Report and Chorus' related Expenditure Proposals; and • includes any other provisions necessary for business efficacy agreed by the Commission.	• provides greater certainty to Chorus and potential verifiers on how the verification process will be governed.
C03: **Introduce** a requirement that the independent verifier provides a signed certificate certifying that: • the relevant parts of the proposal that Chorus is submitting to the Commission have been verified; and • the verification report was prepared in accordance with the deed.	Chorus supported our draft decision.[17] Other stakeholders did not oppose our draft decision. See paragraphs 3.27 to 3.29 of the draft decision reasons paper. In summary our final decision: • Strengthens confidence among stakeholders that the verification was conducted in accordance with the deed. • It aligns with best practice in governance and verification frameworks, offering assurance that the report is not merely an informal opinion but a fully endorsed document. • Signed certification mitigates risk by creating a clear record of responsibility.
C04: **Introduce** a requirement that Chorus provides information relevant to the proposal for the verifier to conduct the verification in a timely manner.	Chorus supported our draft decision.[18] See paragraphs 3.30 to 3.33 of the draft decision reasons paper. In summary our final decision: • ensures the verifier can conduct a thorough and accurate assessment; and • aligns with good regulatory practice and supports confidence in the outcomes.
Information requirements and evaluation criteria	
C05: **Amend** the capex IMs to differentiate between two levels of information requirements when issuing information requests: • 'priority projects or programmes', where more information will be required; and • 'non-priority projects or programmes', where less information will be required.	Chorus supported our draft decision.[19] Other stakeholders did not oppose our draft decision. See paragraphs 3.50 to 3.58 of the draft decision reasons paper. In summary our final decision: • promotes s 174 of the Act by providing greater certainty to Chorus on the information that will be required in an expenditure proposal and how the information requirements relate to the evaluation criteria; and

17 Ibid, at 7.
18 Ibid.
19 Ibid, at 7-8.

Final decision	Reasons and submissions
	• reduces regulatory cost and complexity, without detrimentally affecting the promotion of the Part 6 purpose.
C06: **Introduce** a requirement for Chorus and the Commission to agree the criteria to be used to select the priority programmes 24 months prior to the start of the upcoming regulatory period.	Chorus supported our draft decision.[20] Other stakeholders did not oppose our draft decision. See paragraph 3.52 of the draft decisions reasons paper. In summary our reasons for the final decision are the same as that set out in C05 above.
C07: **Introduce** operating expenditure (opex) information requirements into the IMs, applying the priority and non-priority distinction.	Chorus supported our draft decision.[21] Other stakeholders did not oppose our draft decision. See paragraphs 3.62 to 3.64.2 of the draft decisions reasons paper. In summary our final decision is the same as that set out in C05 above.
C09: **Maintain** the requirement for the Commission to issue an information request prior to Chorus submitting its capex proposals (noting the amendment to the existing timeline proposed in C01).	Chorus supported our draft decision.[22] Other stakeholders did not oppose our draft decision. See paragraphs 3.70 to 3.71 of the draft decisions reasons paper. In summary our final decision: • ensures information requirements are tailored and fit-for-purpose; • adapt to changes in the sector; and • align with statutory goals.

[20] Ibid, at 8.
[21] Ibid.
[22] Ibid.

Final decision on issues where submitter views varied

2.8 This section addresses decisions where we received substantive submissions from stakeholders on our draft decision (decision reference: C08 in Table X1). It sets out our final decision on:

2.8.1 the information requirements for base capex and connection capex proposals; and

2.8.2 the evaluation criteria to be specified in the capex IM for use in evaluating Chorus' expenditure proposals.

Information Requirements

Final decision

2.9 Our final decision is to maintain the existing level of prescription for expenditure information requirements as specified in clauses 3.7.9 (base capex) and 3.7.15 (connection capex in the current input methodologies (C08)). The reasons for this decision are the same as for our draft decision.

Current IM settings

2.10 The IMs specify base capex information requirements at a principles-based level, leaving the detailed requirements to be provided in an information request prior to a price quality path reset. Clauses 3.7.9 (base capex) and 3.7.15 (connection capex) of the IMs list the types of information we may seek in an information request. This information relates to the assessment factors relevant to the evaluation of Chorus' capex proposals.

2.11 The IMs do not differentiate between different types of capex or when we might need more detailed information for our assessment. Instead, when we issue information requests and determine regulatory templates, we do this in a way that reflects the level of detail we consider we need to appropriately assess the capex proposal.

Submissions on our draft decision

2.12 Chorus submitted that that it supports the draft decision, but that the capex IM lacks sufficient detail, resulting in overly broad and sometimes duplicative information requests.[23] Chorus notes that other regimes (e.g. Transpower and electricity distribution business (**EDB**) IMs) include more specific schedules, which reduce uncertainty and compliance costs. Without similar specificity in the capex IM, Chorus expects ongoing inefficiency and unnecessary complexity.

[23] Ibid, at [6]-[8].

Reasons for our final decision

2.13 We consider our decision to set information requirements at a principle-based level balances flexibility with appropriate certainty for assessing expenditure proposals. Our decision:

2.13.1 promotes s 174 of the Act by giving Chorus clearer expectations about the information required in expenditure proposals and its link to the evaluation criteria; and

2.13.2 reduces regulatory cost and complexity, without undermining the Part 6 purpose, by ensuring information requests remain proportionate to the assessment of capex proposals.

2.14 We acknowledge Chorus's concern that a principle-based approach may, in some circumstances, result in information requests that are broader than under a more prescriptive regime. However, we consider that this risk is outweighed by the benefits of being able to tailor information requests to the circumstances of individual expenditure proposals. Further, our final decision avoids the provision of a list of prescribed information that in some cases may not be relevant to a particular assessment.

2.15 We also acknowledge Chorus' concerns around the risks of complexity and inefficiency in the way the IMs are drafted. However, we consider our final decision to be more effective as it allows us to tailor information requirements to each request rather than embed fixed lists in the capex IM (which could result in unnecessary information being provided to us for some projects). Given the sector's dynamic nature, our view is that decision-specific and flexible information requirements better support efficient assessment processes and higher-quality decision-making as our final decision allows the Commission to seek information that is proportionate and relevant to the circumstances of each expenditure proposal. This will assist the Commission in assessing proposals against the applicable evaluation criteria and to exercise its functions under Part 6 effectively.

2.16 We note that Chorus has been through two price-quality resets to date, and has been issued information requests required for expenditure proposals. These requests along with the assessment factors provide direction to Chorus on the information requirements needed to support its expenditure proposal. We also stated in our draft decision reasons paper that there may be alternative ways to provide greater certainty to Chorus on information requirements rather than locking in prescriptive information requirements in the IMs.

2.17 As noted in our draft decision reasons paper, we expect as Chorus develops its asset management capabilities and improves its proposal setting processes, we can reduce the information requirements included in an information request. We therefore consider our decision provides benefits to Chorus that would not exist if we were to 'lock -in' more prescriptive information requirements in the IMs.

Evaluation Criteria

Final decision

2.18 Our final decision is to maintain the existing evaluation criteria in the capex IM that applies to all types of capital expenditure in the current input methodologies (decision reference: C10 in table X1). The reasons for this decision are the same as for our draft decision.

Current IM settings

2.19 The current IMs set out at clause 3.8.5 that the Commission must evaluate a capex proposal by:

2.19.1 considering whether the proposed capex meets the capital expenditure objective and reflects good telecommunications industry practice; and

2.19.2 having regard to the assessment factors in clause 3.8.6 when considering whether a capex proposal has met the capital expenditure objective.

2.20 Our view is that setting out in the IMs the specific factors to which we must have regard (to the extent they are relevant) provides clarity and consistency for how we will assess expenditure proposals. The information requirements in the capex IM describe the information areas that we may include in the information request. The information requirements are aligned with the assessment factors to provide clarity to Chorus and stakeholders on the information requirements for capex proposals and how we asses these proposals.

2.21 One of the assessment factors requires the Commission to have regard, where relevant, to competition effects, including specific information for subcategories of expenditure that have potential impacts on competition in PQ FFLAS and other telecommunication markets. We discuss this point further below.

Submissions on our draft decision

2.22 Chorus and Spark submitted on this aspect of the draft decision.

2.23 Chorus notes our draft decision to retain the current capex evaluation criteria and supports the two-tier information requirements approach.[24] Chorus states that the Commission has not addressed the core issue of overlapping criteria in the capex IM and statutory notices. Chorus argues that this creates confusion, an excessive evidentiary burden, and uncertainty about what matters most. Chorus submits that no additional criteria should be added via statutory notices (the information request), supports lower scrutiny for stable, low-risk expenditure through an indexation approach, and opposes further consultation on guidance as unnecessary.

---

[24] Ibid, at [9]-[14].

2.24 Spark agrees with our assessment that competition considerations are relevant to capex assessments, particularly given the potential impact on wider telecommunications market dynamics.[25] However, Spark argues that without clarity on the medium-term competition outcomes the Commission is aiming for, the input methodologies cannot provide regulatory certainty.

Reasons for our final decision

2.25 The current evaluation criteria are principles-based. We see this as a key strength of the framework. This approach allows us to tailor our assessment to the specific characteristics of each proposal, rather than being constrained by prescriptive rules. Greater prescription would reduce our ability to respond to evolving sector conditions, technologies, and demand.

2.26 The IM criteria clearly set out the core assessment factors we must consider (where relevant), providing Chorus with guidance on both the types of evidence required (in the information requirements) and how proposals will be assessed (in the evaluation criteria). This establishes a predictable starting point for expenditure proposals. We consider this provides sufficient certainty to stakeholders in line with s 174 of the Act.

2.27 While there is some overlap between the IM criteria and information requests we issue under s 221 of the Act, we consider this appropriate given the different roles of each. The IM criteria set out the overarching framework for assessment, while the information request (the s 221 request) applies that framework. A s 221 information request does not introduce additional assessment criteria. Rather, it specifies the information we require to assess a particular proposal against the criteria set out in the IM. The content of an information request may vary between regulatory periods, but the underlying assessment criteria remain those prescribed in the IM. A degree of overlap is therefore expected and helps ensure all relevant matters are considered.

2.28 The existing framework along with our proposed amendments support a proportionate approach to assessment. Not all criteria require the same level of evidence in every case, allowing routine or lower-risk expenditure to be assessed with less intensity. This helps manage regulatory burden without reducing scrutiny where it matters.

2.29 The introduction of two-tier information requirements further addresses concerns about regulatory burden by enabling a more targeted and efficient approach to information requests and the information required to assess different types of expenditure. This allows greater focus on material expenditure while maintaining the same overarching evaluation criteria.

---

[25] Spark "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (16 April 2026), at [4]-[5].

2.30 Indexation and other lower-scrutiny approaches can already be accommodated within the current regulatory framework. Our view is that there is no need to amend the assessment factors to specifically accommodate these approaches. This is because the IMs already allow Chorus to propose such approaches and we can assess them within the existing IM settings.

2.31 We acknowledge Spark's points around competition when assessing expenditure proposals. As noted in our draft decision, we consider we currently have the right settings in the capex IM to sufficiently consider competition issues in Chorus expenditure proposals in accordance with s 166(2)(b). Broader consideration of competition settings across the regime is beyond the scope of this decision. However, this is something we may consider ahead of more directly relevant decisions, such as future deregulation reviews or declared service reviews.

2.32 Overall, we consider the current framework strikes an appropriate balance between certainty and flexibility. It supports proportionate, robust decision-making and remains well suited to promoting the long-term benefit of end-users.

Chapter 3 Investment test for network expansion capital expenditure

3.1 Our experience of the fibre regulatory regime during PQP1 and PQP2 has highlighted that the current framework provides limited guidance on how large network expansion proposals should be assessed. While the existing IM framework allows these proposals to be evaluated, we consider that introducing a structured investment test will provide greater clarity around the analytical approach used to assess them. This refinement is intended to improve predictability for stakeholders within the existing regulatory framework.

3.2 Our final decision introduces an investment test in the capex IM. This will formalise our assessment of network expansion capex proposals. The proposed investment test does not replace the existing capex evaluation framework. Rather, it provides a structured analytical approach for assessing large expansion proposals within that framework.

3.3 We have set out our final decision on how the proposed investment test will operate in terms of:

3.3.1 form and scope – what the test would apply to and the general framework;

3.3.2 process and consultation requirements – key processes including time frames;

3.3.3 information requirements and key test assumptions – key parameters of the test including the discount rate;

3.3.4 costs and benefits - how we propose to value benefits and costs, and which benefits and costs to include; and

3.3.5 evaluation criteria – the proposed criteria for evaluating whether to approve the capex.

3.4 We have considered relevant stakeholder submissions on our draft decision.

Current IM settings

3.5 Under the current IM settings, we assess network expansion capex as part of a base capex proposal (or as an individual capex proposal, if required). While there is not a specified investment test for network expansion capex, we apply the evaluation criteria and information requirements to assessing network expansion capex.

3.6 Clause 3.8.5(1) of the current fibre IMs states that the Commission must evaluate a capex proposal by:

> (a) considering whether the proposed capex meets the capital expenditure objective and reflects good telecommunications industry practice; and
>
> (b) having regard to the assessment factors in clause 3.8.6 when considering whether a capex proposal has met the capital expenditure objective.

Summary of our final decision

3.7 Table 3.1 below summarises our final decision on the investment test to assess network expansion capex.

Table 3.1 Summary of our investment test final decision

Final decision	Summary
Form and scope of the investment test	
T01: **Introduce** an investment test that: • applies to our evaluation of network expansion capex; and • has a $15 million threshold for the individual capex proposal (ICP) mechanism and an aggregate $5 million threshold for the base capex mechanism and the connection capex mechanism.	Our final decision is different to our draft decision. Our final decision is to set the threshold for ICP mechanism to $15 million because of the change to decision F06. Our final decision and reasons are discussed from paragraphs 3.9 to 3.25.
Process and consultation requirements	
T02: **Use** the existing capex proposal mechanisms, processes and timelines set out in the IMs for base capex and ICPs to the investment test, namely the: • process and timeframes for applying the test; • consultation requirements and processes; and • independent verification requirements and processes.	Our final decision is the same as our draft decision. Our final decision and reasons are discussed from paragraphs 3.27 to 3.34.
Information requirements and key test assumptions	
T03: **Amend** the IMs to introduce a requirement for Chorus to undertake sensitivity analysis on key parameters (except where such analysis is not reasonably practicable and/or not reasonably necessary). This should include: • the discount rate; • the uptake rate; • the end-user willingness to pay for fibre (**WTPF**); and • the portfolio mix.	Our final decision is the same as our draft decision. Our final decision and reasons are discussed from paragraphs 3.36 to 3.57.

Final decision	Summary
T04: **Require** Chorus to provide any evidence supporting its forecast uptake rate assumptions applied to the test. The forecast uptake rate is defined as the portion of end-users expected to take-up a FFLAS over the length of the project (as specified by Chorus) as a result of the network expansion capex expansion, given the WTPF.	Our final decision is different to our draft decision. Our final decision is to require Chorus to base the uptake rate on the WTPF. Our final decision and reasons are discussed from paragraphs 3.36 to 3.57.
T05: **Set** a specific pre-tax real discount rate of 5% in the IMs for Chorus to use when calculating the net present value (**NPV**) of proposed costs and benefits.	Our final decisions are the same as our draft decisions. Our final decisions and reasons are discussed from paragraphs 3.36 to 3.57.
T06: **Require** Chorus to calculate the forecast payback period, provide reasons for why it considers the forecast payback period reasonable and identify any risks and uncertainties with the proposed payback period.	
T07: **Require** Chorus to specify a forecast fibre broadband service portfolio mix that underlies the forecast uptake and provides evidence supporting the proposed portfolio mix.	
T08: **Require** Chorus to provide information about the cost to connect to the premises (CTTP) and cost per premises passed (CPPP) based on its proposed investment.	
T09: **Require** Chorus to specify the pricing implications for its existing and future end-user base from its proposed investments.	
T10: **Allow** Chorus to provide alternative values to the discount rate with evidence supporting its proposed alternatives.	
Cost and benefits	
T11: **Amend** the capex IM to specify the relevant costs and benefits that Chorus must set out for our evaluation as outlined in paragraphs 3.59 and 3.61.[26]	Our final decision is different to our draft decision. Our final decision is to clarify the price used in valuing the notional revenue to be the WTPF. We have also removed competition effects from the costs and benefits. Our final decision and reasons are discussed from paragraphs 3.59 to 3.80.

[26] Chorus must use the WTPF and forecast uptake rate that aligns with this price to value the notional revenue.

Final Decision	Summary
Evaluation criteria	
T12: **Specify** that a network expansion capex proposal will be approved where: • the investment test results in a positive net fibre fixed line access services (FFLAS) market benefit (ie, the proposed investment is net present value (NPV) > 0); • it is sufficiently robust under sensitivity analysis; and • it meets the expenditure objective and reflects good telecommunications industry practice as currently set out in clause 3.8.5 of the fibre IMs.	Our final decision is the same as our draft decision. Our final decision and reasons are discussed from paragraphs 3.83 to 3.90.
Risk sharing mechanism	
T13: **Not to introduce** any additional IM changes to the investment test to address potential forecast connection uptake risk, and to retain the ex-ante assessment approach presented in the draft decision reasons paper.	Our final decision is the same as our draft decision. Our final decision and reasons are discussed from paragraphs 3.95 to 3.101.

Form and scope of the investment test

3.8 This section sets out the form and scope of the investment test that we are introducing in the fibre IMs. This includes what expenditure areas the investment test will apply to, the framework it will take, and the thresholds that need to be met for the test to apply.

Our final decision

3.9 Our final decision is to amend the fibre IMs to:

3.9.1 introduce an investment test that applies to our evaluation of network expansion capex; and

3.9.2 set a $15 million threshold for applying the test to network expansion capex in the individual capex proposal (ICP) mechanism and an aggregate $5 million threshold for applying the test in the base capex and connection capex mechanisms.[27]

3.10 We have defined network expansion capex in the final IM amendment determination to mean 'capex to expand the FFLAS network to a geographic area in which Chorus does not provide FFLAS and to connect end-users in the area'. The definition excludes capex in relation to infill development in geographic areas where Chorus' already provides FFLAS or development in geographic areas that are adjacent to the existing communal fibre network.[28]

Submissions on our draft decision

3.11 We received submissions from Chorus and Spark as well as a cross submission from Chorus on our draft decision relating to the form and scope of the investment test.

3.12 Chorus support the introduction of an investment test for network expansion capex.[29] Its preferred test is a willingness to pay (**WTP**) test as it believes this most closely aligns to the Part 6 purpose.

---

[27] If Chorus submits a proposal for network expansion capex through the ICP mechanism, the proposal will need to include the whole scope of relevant base and connection capex for us to apply and evaluate the test. However, the allowance we determine for an ICP will not include any connection capex because connection capex does not meet the definition of ICP capex (see clause 3.7.22(3)(b) of the fibre IMs). Any connection capex that Chorus spends during the period that comes from the approved ICP proposal will be accounted for via the connection capex variable adjustment and wash-up mechanism (see clauses 3.1.1(9) and 3.7.21). *Fibre Input Methodologies Determination 2020, as consolidated on 3 September 2025*.

[28] See clause 1.1.4(2) of the Fibre Input Methodologies Amendment Determination published alongside this paper. We have excluded infill developments and new property developments because these have the same or similar cost characteristics as the existing footprint so will not add cost or risk to existing consumers and is not affected by GCP.

[29] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [15].

3.13 Chorus submitted that we should increase the threshold for the ICP mechanism to $10 million instead of the proposed $30 million in our draft decision.[30] This submission was directed to the threshold for all types of ICPs, but we have considered the threshold that should apply for ICPs that relate to network extension capex as well.

3.14 Spark submitted that the Commission:[31]

3.14.1 is making decisions relating to socially optimal investment, cross-subsidies between consumers, distributional effects and market structure. It believes these are considerations for policy makers not the Commission;

3.14.2 should postpone decisions relating to fibre expansion until the Government considers if the geographically consistent price (**GCP**) requirement is maintained in the Act, repealed, or modified;

3.14.3 should provide guidance on the incremental approach and how we expect the test to be applied; and

3.14.4 may wish to consider assessing the incremental costs and benefits through a standalone cost benefit analysis and then consider changes that would be needed to the building blocks model (BBM) inputs.

3.15 Chorus cross-submitted on the points raised by Spark and commented that:[32]

3.15.1 it does not agree that the Commission should defer decisions until the Government has reviewed the GCP requirement. It believes that we are required to set the IMs to provide certainty for the forthcoming regulatory period and assess expansion proposals under the law as it currently stands;

3.15.2 it does not consider our draft decision is an attempt to adjust for the GCP requirement. It views GCP as an existing constraint that relates to pricing not to whether proposed investments are efficient or in the best interest of end-users; and

3.15.3 it does not agree with Spark's proposal to focus on end-users' incremental benefit relative to the current broadband technology. It considers that the draft decision offers a more practical and transparent basis for assessing expansion proposals instead of focusing on the incremental quality improvements.

30 Ibid, at [29].

31 Spark "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (16 April 2026), at [11]-[13] and [17].

32 Chorus "Cross submission on draft decision for fibre input methodologies review (Tranche 1)" (6 May 2026), at [2]-[4].

Reasons for our final decision

Introduction of an investment test

3.16 Our view is that introducing a prescribed investment test for network expansion capex better promotes the purpose of the IMs under s 174 of the Act by providing greater certainty to Chorus and other stakeholders about how network expansion capex will be assessed. Our experience from evaluating PQP2 proposals suggests that more prescription for this type of capex would enhance certainty and reduce regulatory cost.

3.17 We have included further information and clarification on key assumptions such as the price and uptake to be included in the investment test. However, we consider that our IM determinations and reasons paper provide an appropriate level of guidance to balance flexibility in how the test will be applied to different expansion proposals and prescription in what is required of Chorus.

3.18 The investment test provides a robust, objective and clear framework for comparing the expected benefits and costs of an investment, supporting decisions that deliver long-term benefit to end-users. Implementing an investment test helps ensure that network expansion proposals above a certain threshold are subject to a structured and transparent assessment and provides greater certainty to Chorus and stakeholders of the test that will be applied. However, when we receive a network expansion proposal from Chorus we will still need to exercise judgement about inputs used in the test, associated information such as the impact on competition and pre-existing end-users and whether the test meets the expenditure objective and reflects good telecommunications industry practice.

3.19 Network expansion proposals extend the scope of Chorus' business, and present distinct risks and benefits when compared with other types of capex, such as replacement and refurbishment. Expansion capex increases the size of the network and the regulated asset base (**RAB**), directly impacting future revenue requirements. This type of growth capex has a degree of inherent uncertainty and creates greater risk of demand being over forecast and potential inefficiencies being retained in the RAB. This is why these proposals require heightened scrutiny. While other capex types may share some of these characteristics, the risks are more pronounced for expansion.

Threshold for applying the investment test

3.20 We have decided to set a $15 million threshold for applying the test to network expansion capex in the individual capex proposal (ICP) mechanism. We have considered Chorus' submission on this matter in chapter 4 on the ICP mechanism. Refer to paragraphs 4.37 to 4.48 for our reasons for why we have decided to amend the threshold for all ICPs including for network expansion to $15 million.

3.21 We received no submissions on our draft decision for setting the $5 million threshold for applying the test in the base capex and connection capex mechanisms. We have therefore retained our draft decision. Refer to our draft decision for detail on our reasons for setting the $5 million threshold.[33]

Interaction with geographically consistent price requirements

3.22 Spark was concerned that our draft decision sought to adjust for the GCP requirement in the Act. Our view is that our decision to use a value (price) that is not the GCP to calculate a benefit to be used in the investment test is appropriate. GCP is a requirement on Chorus under s 201 of the Act, and (absent legislative change or deregulation) continues to apply. It is a fact of the regulatory regime, with consequences for investment, pricing, and competition outcomes to which we must have regard.

3.23 The GCP requirement affects pricing decisions and arises from Government policy settings while the investment test applies to investment decisions. We consider the GCP requirement does not prevent the use of non-GCP values to assess the notional revenue in the investment test. We discuss in more detail the reasons for using a non-GCP price in Attachment A.

3.24 We disagree with Spark that we should postpone decisions until potential Governmental decisions have been made. The timing of any future Government decision on the GCP is not clear, and we consider we must take decisions with regard to the legislation that exists at this point in time. We do not agree that we should postpone making our decision on the basis that the legislative context may change at some point in the future.

3.25 We acknowledge Spark's concern about the potential for overlapping accountability for policy decisions. However, we agree with Chorus that we are required to consider this issue within the current regulatory and legislative framework.

---

33 Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [4.20].

Process and consultation requirements

3.26 This section sets out the process and consultation requirements when using the investment test. This includes the process and timeframes Chorus and the Commission will need to follow, as well as requirements relating to stakeholder engagement and independent verification.

Our final decision

3.27 Our final decision is to use the existing capex proposal mechanisms, processes and timelines set out in the IMs for base capex and ICPs, namely the:[34]

3.27.1 process and timeframes for applying the test;

3.27.2 consultation requirements and processes; and

3.27.3 independent verification requirements and processes.

3.28 Our final decision is the same as our draft decision.

Submissions on our draft decision

3.29 We received one submission from Chorus on our draft decision for the process and consultation requirements in the investment test.

3.30 Chorus agreed with our draft decision on the process and consultation requirements for the investment test.[35]

Reasons for our final decision

3.31 Aligning the investment test with the existing capex proposal mechanisms avoids adding complexity, duplicating regulation, and adding unnecessary regulatory burden on Chorus. Introducing a new mechanism that sets out different verifier requirements/processes for expansion capex would be disproportionate to the issue we are seeking to address, which is setting the way we will evaluate this specific category of investment capex.

3.32 We consider that the existing processes (timelines, information requirements and independent verification) and consultation for base capex and individual capex proposals allow for sufficient stakeholder input and scrutiny and allow for flexibility.

---

[34] *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, clauses 3.7.8 – 3.7.12 and 3.7.22 – 3.7.28.

[35] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 8.

3.33 The Commission must consult on its draft decision for base capex and ICP allowances. It is not compulsory for Chorus to consult with its stakeholders as part of its base capex and individual capex proposals. However, Chorus must develop and submit an engagement plan which is assessed as part of its base capex proposals. For an individual capex proposal, the Commission can require Chorus to consult with its stakeholders as part of the individual capex design proposal stage.

3.34 Chorus must submit an independent verifier report as part of a base capex proposal. The Commission can determine whether an independent verifier is required as part of an ICP.

Information requirements and key test assumptions

3.35 This section sets out the information requirements and test assumptions that Chorus is required to meet in its network expansion capex proposals. We have specified some parameters for the investment test (ie, the discount rate to be used) in the amendment determination and will require specific information and evidence relating to key assumptions and parameters for the test.

Our final decision

3.36 Our final decision is to:

3.36.1 amend the IMs to introduce a requirement for Chorus to undertake sensitivity analysis on key parameters (except where such analysis is not reasonably practicable and/or not reasonably necessary). This must include:

3.36.1.1 the discount rate;

3.36.1.2 the uptake rate;

3.36.1.3 the end-user willingness to pay for fibre (WTPF); and

3.36.1.4 the portfolio mix;

3.36.2 require Chorus to provide any evidence supporting its forecast uptake rate assumptions. The forecast uptake rate needs to be based on the WTPF;[36]

3.36.3 set a specific pre-tax real discount rate of 5% in the IMs for Chorus to use when calculating the net present value (NPV) of proposed costs and benefits;[37]

---

[36] The uptake rate assumption refers to the proportion of end-users expected to take up a FFLAS over the length of the project (as specified by Chorus) as a result of the proposed network expansion capex given the WTPF. It is an important parameter that can impact the result of the test. Chorus' fibre uptake is now at 75.9% across its wider network, excluding other local fibre company areas and is targeting an 80% uptake by 2030. However, the uptake rate may be different in rural areas to existing networks. See Chorus "Q4 FY26 Connections Update" (24 July 2026), at 2.

[37] The discount rate is the rate used to convert future costs and benefits into present values, reflecting the time value of money and opportunity cost of capital.

3.36.4 require Chorus to calculate the forecast payback period and provide reasons for why it considers the forecast payback period reasonable and identify any risks and uncertainty that may affect the proposed payback period;[38]

3.36.5 require Chorus to specify a forecast fibre broadband service portfolio mix that underlies the forecast uptake and provides evidence supporting the proposed portfolio mix;[39]

3.36.6 require Chorus to provide information about the cost to connect to the premises (**CTTP**) and the cost per premises passed (**CPPP**) based on its proposed investment;[40] and

3.36.7 require Chorus to specify the pricing implications for its existing and future end-user base from its proposed investments.

3.37 Our final decision is to allow Chorus to propose alternative values to the discount rate with detailed evidence supporting its proposed alternatives.

3.38 Chorus may propose qualitative costs and benefits in its proposal. Our final decision is that the Commission has discretion over the application and approval of any qualitative FFLAS market costs and benefits.[41]

3.39 Our final decision is different to our draft decision. In response to submissions, we have updated the forecast uptake rate to require Chorus to base it on the WTPF used in the investment test.

Submissions on our draft decision

3.40 We received submissions on our draft decision on information requirements and key test assumptions for the investment test from Chorus and Spark.

[38] We are requiring Chorus to calculate the payback period because it is important to show the expenditure meets the capital expenditure objective and reflects good telecommunications practice under clause 3.8.5 of the Fibre IMs. An unreasonable payback period would be unlikely to meet the expenditure objective.

[39] The proposed services portfolio parameter refers to the proportion of new users on each of Chorus' main fibre services. This is an important assumption as it can drive changes in revenue and therefore impact the results of the test.

[40] These are two values that are commonly referred to by Chorus. The CTTP is the cost to connect the premises to the communal infrastructure and the CPPP is the cost of the communal infrastructure.

[41] As discussed in paragraph 3.84 as qualitative costs and benefits these are not quantifiable, they will not be included in the calculation of the net FFLAS market benefit. However, we would consider qualitative costs and benefits in determining whether the proposal meets the expenditure objective and reflects good telecommunications industry practice in clause 3.8.5 and promotes the Part 6 purpose.

3.41 Chorus supported the individual draft decisions on information requirements but submitted that in instances where the government supports network expansion investments, we should apply the principle of proportionate scrutiny and implement a new clause in Schedule C to waive some information requirements.[42] Chorus believes that any funding agreement with the Government should be seen as clear evidence that the investment delivers long-term benefits to consumers of FFLAS services.

3.42 Spark submitted that one of the key errors we made in the investment test is that the WTP appears to be applied inconsistently in the model.[43] Spark believed that Chorus' revenue estimate is based on the higher WTP price, but the end-user demand is based on the lower BBM price. This would overstate demand and benefits and cause inefficient expansion.

Reasons for our final decision

3.43 Having specific information requirements and key test assumptions for the investment test clearly set out in the IMs will promote s 174 of the Act more effectively, by promoting certainty of the rules, requirements, and processes applying to the regulation of FFLAS without detrimentally affecting the promotion of s 166(2) considerations.

3.44 The information requirements ensure that Chorus provides consistent and sufficiently detailed evidence on the need for, costs of, and expected benefits from network expansion capex proposals. This enables us to robustly assess whether proposed investments are prudent and efficient, and whether they are likely to deliver benefits to end-users over the long term. By reducing uncertainty about the information required to support approval of network expansion investments, our final decision maintains incentives to invest under s 162(a). At the same time, the information requirements and key test assumptions support s 162(b) by enabling us to distinguish efficient investment from inefficient investment and ensuring that only expenditure that is justified by expected benefits is approved.

3.45 Our final decision requires Chorus to demonstrate the evidence required to support the key assumptions and estimates in the test around the payback period, uptake rate, service portfolio mix, the discount rate, the cost per premise, and general pricing implications for end-users. This will ensure the investment test provides:

3.45.1 certainty on how the test will be applied and assessed and reduces analysis work during the evaluation to determine key parameters;

3.45.2 flexibility to reflect project-specific circumstances while maintaining accountability through evidence-based justification;

---

[42] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [16]-[17] and 8-9.

[43] Spark "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (16 April 2026), at [15b].

3.45.3 sufficient detail as to how Chorus can demonstrate that the capex meets the expenditure objective and is in the long-term benefit of end-users in the market for FFLAS; and

3.45.4 confidence in the numbers used to apply to the investment test in the proposal:

3.45.4.1 demand forecasts that are credible and grounded in market evidence, reducing the risk of over-investment or under-utilisation; and

3.45.4.2 increased transparency on the impact of investments on prices and identifies risks to Chorus' potential investments.

Discount rate

3.46 The discount rate is an important element and is difficult to estimate. We consider it appropriate to specify a number that is based on reasonable assumptions and our view is that adopting a discount rate similar to the Transpower IMs for a major capex proposal (**MCP**) is appropriate. Setting out a discount rate to use provides certainty to Chorus and stakeholders on how investment proposals will be proposed and assessed. The pre-tax real discount rate for Transpower MCPs is currently 5%.[44] As set out in the draft, we still consider a 5% pre-tax real discount rate is appropriate for Chorus' investment test proposals.[45]

3.47 Our final decision also allows Chorus to propose alternative rates when it submits an investment test application. We believe this provides Chorus with flexibility to propose a different discount rate, if it considers 5% is not appropriate in the particular circumstance. As set out in the final IM determination, we will require that evidence is provided to support any alternative rates proposed, and the Commission will determine the final values to be used in the test.

Treatment of government support

3.48 While we agree in principle with Chorus that in evaluating network expansion capex proposals we should have regard to any government involvement, we do not consider that an amendment to the IMs to explicitly provide for this is necessary. Any government involvement (in the abstract) has uncertainties (such as the form it could take and the size of any potential funding). As such, the degree to which government involvement could impact on our evaluation of a network expansion proposal could differ greatly, and the required information we may need to consider could also vary.

---

[44] Commerce Commission "Transpower investment topic paper – Part 4 Input Methodologies Review 2023 - Final decision" (13 December 2023), at 33-40.

[45] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [4.33].

3.49 As such, our view is that government involvement in any network expansion is something we would consider when Chorus submits its proposal. The existence of government support would not replace or predetermine the Commission's assessment of the proposal under the IMs and any proposal would still need to satisfy the applicable investment test and evaluation criteria.

3.50 On the other hand, we consider that the certainty that an explicit investment test provides will assist Chorus and the Crown (or any other third-party funders) to anticipate the effect of any funding.

3.51 Our view is that amending the proposed network expansion test to explicitly exclude certain information in all proposals that have government involvement would be inappropriate. Instead, our view is that we should seek the same information, and Chorus should explain in its proposal how any government involvement impacts its proposal. This would allow us to consider the proposal with all the relevant information, and thus will improve our decision-making.

3.52 Further, it is not clear from Chorus' submission how it considers information requirements should be amended. Even where government involvement exists, we would need the information set out in the IMs on the costs and benefits of Chorus' proposal, as this will enable us to apply the investment test and the evaluation criteria. If we amended the information requirements to mean we received less information, we may not be able to apply the test.

3.53 We do not know what government support might look like in the future, and any network expansion needs to meet the expenditure objective and good telecommunications industry practice (**GTIP**), so we would want to have a full understanding of the proposal to be able to evaluate it. It is up to Chorus to set out how the proposal (including Government involvement) met the test. For example, in PQP1 we approved allowances for communal spend which had previously been part of the ultra-fast broadband (**UFB**) arrangements. We did not heavily scrutinise this part of the proposed expenditure, but we were still required to assess it against the evaluation criteria.

Change in decision on the uptake rate

3.54 We agree with Spark that our draft decision was inconsistent in applying the end-user benefit based on the end-user WTP but calculating the demand on the lower GCP. We agree that this could overstate demand and benefits and lead to inefficient expansion being approved, undermining incentives under s 162(b) of the Act.

3.55 In response, we have amended our draft decision to make it clear that the uptake rate is based on the WTPF. Chorus will be required to provide any evidence supporting the forecast uptake rate assumptions and provide sensitivity analysis on the impact on the investment test from variations in the uptake.

3.56 We expect Chorus to produce connection forecast and uptake assumptions that are consistent with the specific circumstances associated with those areas and supported by appropriate evidence. For example, there are some rural factors that Chorus needs to consider which could limit fibre uptake and average revenue per end-user:

3.56.1 rural expansion and urban expansion are starting at different points. In urban areas, end-users transitioned from copper to high-speed fibre at broadly similar prices. In contrast, many rural consumers have already adopted alternative technologies – such as low earth orbit satellite or, where available, fixed wireless access (**FWA**) – and may be satisfied with those services. The extent to which those services are available, meet end-users' needs, and are regarded by end-users as viable alternatives to fibre may affect the likelihood that end-users choose to connect to fibre following expansion;

3.56.2 perceived difficulties, lack of knowledge and bundling of services means that a significant proportion of end-users may be less likely to switch to fibre;[46] and

3.56.3 many people in rural areas have lower incomes, so may not be able to afford higher speed plans even if they choose fibre.

3.57 Chorus' uptake forecasts could be informed and supported by market data and experience of other broadband providers in rural areas. This could include evidence on the availability of, and end-user experiences with, alternative broadband services and how those factors have affected fibre take-up in comparable areas. For example, Chorus could look at the experience of wireless internet service providers (**WISPs**) and other regulated fibre providers expanding into more rural areas.

[46] Our 2025 Telecommunications Monitoring report found that only 10% of rural consumers switched broadband provider in 2025 compared to 12% of urban consumers. Of those surveyed that did not switch broadband providers in urban areas; 38% reported that they were satisfied with the service, 30% stated it would be too much effort, 28% were not sure they could get a better deal, 13% said they did not see any difference in providers and 13% cited the bundling of other services. See Commerce Commission "2025 Telecommunications Monitoring Report" (29 June 2026), at 108 and 173.

Costs and benefits

3.58 This section sets out the costs and benefits that Chorus must include in the investment test to the extent they are material to calculate the NPV of the net FLASS market benefit of the proposed network expansion capex. The benefits are those that we consider could occur in the market for FFLAS as a result of the investment, and the costs are those would be incurred by Chorus in undertaking the investment.

Our final decision

Benefits to include in the investment test

3.59 Chorus must reflect the following benefits in the test to the extent they are material benefits.

3.59.1 **Notional revenue**: the incremental notional revenue that Chorus would receive from end-users for undertaking the investment, calculated based on the 'end-user willingness to pay for fibre' (WTPF). Our final decision requires Chorus to:

3.59.1.1 propose the WTPF value(s) in its investment test proposal;[47]

3.59.1.2 provide the methodology used to calculate the WTPF; and

3.59.1.3 provide evidence explaining why the methodology is robust and accurately represents the price end-users would realistically pay given available alternatives, absent regulation.[48]

3.59.2 **Efficiency benefits**: Benefits to Chorus or to end-users from greater scale and utilisation of its FFLAS network.

3.59.3 **Subsidies**: The subsidy or cost borne by the government or another third party (not Chorus and the end-user). To avoid double counting, Chorus should include all costs listed in paragraph 3.61 as costs, whether they are paid by Chorus, the end-user, or another third party. Any amount of costs borne by a third party must also be recorded as a benefit in the form of a subsidy.[49]

3.59.4 Any other benefits, the inclusion of which the Commission considers is consistent with s 166(2) of the Act.

---

[47] We would expect that Chorus would build up the calculation of the notional revenue by estimating relevant quantities and WTPF associated with different broadband plans. Given the different characteristics and speeds of the different FFLAS broadband plans, they may have different WTPF values. Chorus will need to provide the methodology used to calculate the WTPF value(s) and we would expect them to be supported by an underlying analysis that appropriately reflects the expected mix of services, prices and quantities.

[48] See attachment A for further discussion on using the WTPF in the investment test.

[49] Note that capital contributions will be netted off the proposed capex allowance in line with current capex IM requirements. Furthermore, different subsidies/contributions may be treated differently under the regulatory rules, and this may impact regulatory revenues.

3.60 Our final decision is different to our draft decision. We have removed the competition effects as a benefit in the test and clarified that we are using the WTPF to value the notional revenue.

Costs to include in the investment test

3.61 In terms of the costs, Chorus must reflect any of the following in the test to the extent they are material costs:

3.61.1 deployment costs for the proposed network expansion, including all forecast connection costs;

3.61.2 maintenance and whole of life costs including refurbishment and replacement costs over the length of the project (as specified by Chorus); and

3.61.3 any other costs the inclusion of which the Commission is consistent with s 166(2) of the Act.

3.62 Our final decision is different to our draft decision. We have removed the competition effects as a cost in the test.

General approach to costs and benefits in the investment test

3.63 We have decided to include all the costs that Chorus can be reasonably expected to incur by undertaking the investment and all the relevant benefits that could occur in the market for FFLAS.[50]

3.64 Our final decision on costs and benefits includes the components listed below.

3.64.1 Benefits that are unique to the supply of FFLAS and that require that the costs and benefits that are included in the test are those that are incurred by undertaking the investment and are above and beyond what would occur in the counterfactual case where the investment does not occur.

3.64.2 Define costs and benefits at a high level in the IMs. Our final decision is not to specify how Chorus must quantify the costs and benefits, but we will require that it provides sufficient evidence supporting the proposed costs and benefits.

Submissions on our draft decision

3.65 The submissions we received from stakeholders on our draft decision related to how we calculated the end-user benefit and are discussed in Attachment A (paragraphs A5 to A8).

---

[50] Note that we have also included the option for Chorus to include other costs and benefits in its proposal subject to Commission approval. Furthermore, Chorus does not need to propose amounts for and provide evidence supporting all of the costs and benefits that are included in the investment test, just those that are relevant to that specific network expansion capex proposal to the extent they are material.

Reasons for our final decision

Benefits to include in the investment test

3.66 We have decided that Chorus must reflect the material benefits that would accrue to FFLAS end-users from the investment, which are broader than the notional revenue of the investment.[51] We have made a final decision that efficiency benefits and subsidies are among the benefits that may be included to be considered in the assessment of the network expansion capex proposal. We also acknowledge that there may be other benefits we have not identified that could be considered for inclusion in the test.

3.67 We consider that allowing Chorus to stipulate the benefits to end-users in the investment test outlined under paragraph 3.59 best promotes ss 166(2) and 174. Including these benefits in the investment test ensures that when applied it accurately assesses the investment's economic viability, providing incentives to invest while ensuring efficient investment consistent with ss 162(a) and (b). This approach focuses on benefits that accrue directly to FFLAS end-users, rather than wider social benefits. Additionally, specifying the benefits to be included in the test provides greater certainty to Chorus and other stakeholders on how the test will be applied and what will be evaluated.

3.68 We expect the primary benefit from network expansion capex to be the notional revenue. Our final decision is that this is represented by the incremental notional revenue Chorus would receive from FFLAS end-users.[52] The notional revenue represents the value that end-users as a group would receive from having a FFLAS connection.

3.69 The notional revenue of fibre expansion needs to reflect an end-users willingness to pay for a fibre service in potential expansion zones and be conditioned by the price and characteristics of alternative services, including those provided by low earth orbit satellites (**LEO**), FWA and WISPs. We particularly note that LEO services perform highly at attractive retail price points, including "Lite" plans that still offer significant speeds. Consumers are also demonstrating that FWA services are sufficient for many situations. This would impact on willingness to pay for fibre services and cap the benefits that they would be willing to pay for above the prices of those services. Accordingly, we have determined that the notional revenue for fibre would effectively be a set of notional prices that consumers would be willing to pay for fibre services, absent GCP.

3.70 We explain our reasons for adopting the WTPF to value the notional revenue and consider other ways to potentially mitigate the competition and wealth transfer issues from using the WTPF in Attachment A.

---

[51] The investment test may include benefits that are an immediate benefit to Chorus such as efficiency gains, but we expect that in the long-run these benefits will flow through and benefit end-users through for example, lower prices for fibre broadband, promoting outcomes consistent with s 162(b) and (c).

[52] We use the term notional revenue because this assumes the notional revenue for fibre is used to calculate the revenue Chorus receives from expanding the network. However, due to s 201 of the Act, the actual revenue Chorus will receive will be based on the geographic consistent price for each specific FFLAS.

3.71 We have decided to also include other benefits in the test (such as subsidies and efficiency benefits) as, if these benefits exist, they would reflect broader benefits for FFLAS end-users. We acknowledge these benefits may be challenging to quantify, and therefore Chorus will need to present robust evidence and analysis to support their inclusion in the test. Including efficiency benefits and subsidies in the investment test promotes ss 162(a), (b) and (c) of the Act as it allows Chorus to demonstrate ways end-users can benefit from network expansion beyond the immediate value they would receive from having a FFLAS connection. Therefore, our view is that allowing these to be reflected in any proposal for network expansion would:

3.71.1 improve Chorus' incentives to invest in expanding its network; and

3.71.2 incentivise Chorus to improve the efficiency of its network and consider how the benefits of improved efficiency would be shared with end-users.

3.72 To ensure benefits are not double counted, we expect an application for other benefits outside of the main 'notional revenue' to be additional. We expect Chorus, when applying for other benefits (outside of the notional revenue) to explain what they are, why they are not captured in the notional revenue and how they are quantified.

Costs to include in the investment test

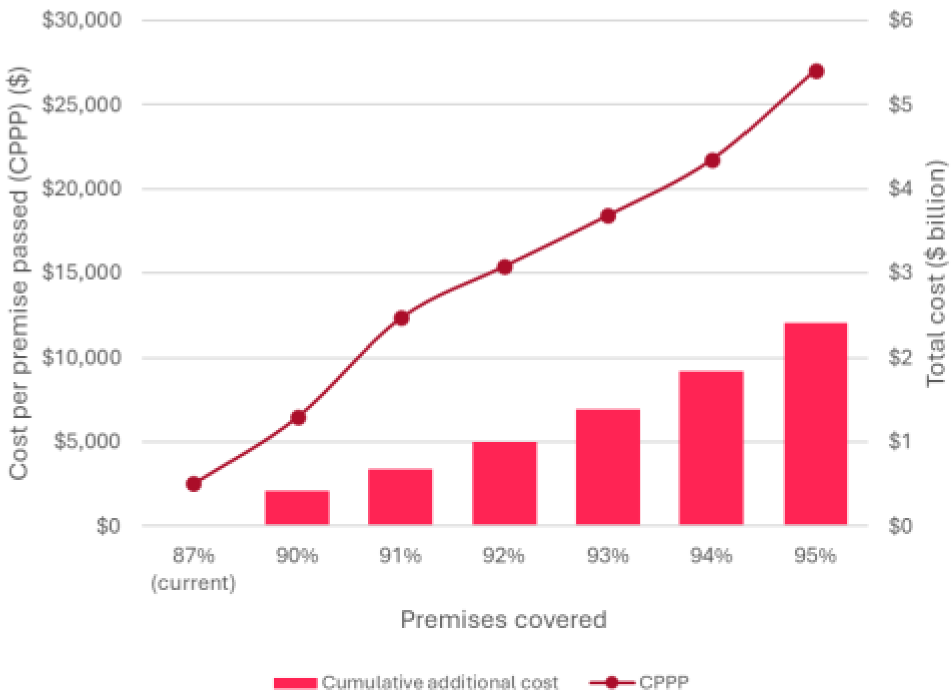
3.73 Our final decision is that Chorus must include in its capex proposal the costs it will reasonably incur over the lifetime of the assets to the extent they are material.

3.74 Further expansion of the fibre footprint is likely to be materially more expensive than the original UFB roll-out.[53] This is illustrated in Figure 3.1, which shows how the indicated costs to pass the premise increase the further the network coverage is expanded.[54] This raises questions as to how far network expansion can occur before it becomes economically unjustified.

[53] Chorus' full year result presentations for FY20 and FY19 disclosed that the cost per premises passed (CPPP) for UFB1 premises was approximately $1,558 for FY20, $1,573 for FY19 and $1,568 for FY18. JB Rousselot (CEO, Chorus) and David Collins (CFO, Chorus) "FY20 Full Year Result" (Chorus FY20 full-year results: Investor presentation, 24 August 2020), at 18; and Kate McKenzie (CEO, Chorus) and David Collins (CFO, Chorus) "FY19 Full Year Result" (Chorus FY19 full-year results: Investor presentation, 26 August 2019), at 16.

[54] The CPPP is the cost that Chorus incurs to deploy a broadband network (in this case fibre) to a particular location, whether or not anyone is subscribed to any FFLAS. It does not include the costs to connect an individual customer to that network.

Figure 3.1 Indicative costs for fibre expansion[55]



3.75 We acknowledge that Chorus' network expansion capex proposals may have contingent expenditures included. However, as with any project, these contingencies will need to be explained and well justified by Chorus.

General approach to costs and benefits in the investment test

3.76 We consider that there should be some flexibility in the types costs and benefits that Chorus can propose subject to the Commission's consideration and judgement in the investment test. Some costs and benefits may be difficult to foresee and/or quantify. Leaving flexibility for Chorus to propose different types of costs and benefits accounts for this. We consider our final decision to allow Chorus to propose any other cost or benefits to be consistent with s 166(2) of the Act.

3.77 There may be a role for Chorus to seek capital contributions from currently non-connected end-users to support further expansion. Capital contributions could reduce the financial burden on existing users, improve the efficiency of investment decisions, and address potential issues with using the WTPF to value the notional revenue. We discuss the role of capital contributions further in Attachment A.

[55] Commission analysis based on Chorus cost data. Cost for current coverage based on a CPPP estimate of $2,525 provided by Chorus and 1.8 million premises passed. Costs of future expansion sourced from Chorus "Our Fibre Assets" (31 October 2023), at Figure 15.1.

3.78 Our final decision on the inclusion of competition effects as a cost and/or benefit is a change from our draft decision, as we are removing competition effects from a specific cost/benefit to be included in the test. Our view is that, due to our decision to use the WTPF to value the notional revenue and uptake rate (instead of the WTP we used at the draft) any residual competition effects will likely be reduced as the WTPF requires Chorus to take in to account the available alternative services when determining the WTPF value(s).

3.79 Our view is that the requirement for the WTPF to take into account the available alternative services that are not regulated FFLAS in the expansion area internalises the 'competition effects' that were previously specifically listed out in the test. However, the 'catch all' discussed above, which allows the inclusion of other costs/benefits could mean that Chorus proposes to include competition costs/benefits in its proposal - and we would consider whether the inclusion of those is consistent with s 166(2) of the Act.[56]

3.80 Further, in making decisions on expansion capex, we will still have regard to the expenditure objective and the assessment factors listed in clause 3.8.6, one of which is 'competition effects'. Our view therefore is that our final decision promotes s 166(2)(b) of the Act by allowing us to consider the impacts of Chorus' expansion into the expansion area.

[56] We note that such effects may be difficult to quantify and therefore we expect to see robust evidence and analysis to support the inclusion of such effects in the test.

Evaluation criteria

3.81 This section sets out the evaluation criteria we will use when assessing a network expansion capex proposal to determine whether to approve the expenditure.

3.82 In PQP2, we evaluated the network expansion proposal (called Fibre Frontier by Chorus) in accordance with clause 3.8.5 of the fibre IMs by having regard to assessment factors in clause 3.8.6:

3.82.1 d and e (economic analysis);

3.82.2 g (competition effects);

3.82.3 i (consultation and engagement with stakeholders); and

3.82.4 o (uncertainty regarding the fibre frontier proposal).

Our final decision

3.83 Our final decision is to approve a network expansion capex proposal where:

3.83.1 the investment test results in a positive net FFLAS market benefit – ie, the proposed investment has a net present value (NPV) > 0;

3.83.2 the positive FFLAS market benefit is sufficiently robust under sensitivity analysis; and

3.83.3 the proposal meets the expenditure objective and reflects good telecommunications industry practice as currently set out in clause 3.8.5 of the fibre IMs.

3.84 The net FFLAS market benefit in respect of proposed network expansion capex in a capex proposal, is the net present value of the aggregated quantum of the benefits and costs of the investment to the market for FFLAS. We note that, as discussed in paragraph 3.38, Chorus is also able to submit qualitative costs and benefits as part of a proposal. As these are not quantifiable, they will not be included in the calculation of the net FFLAS market benefit. However, we would consider qualitative costs and benefits in determining whether the proposal meets the expenditure objective and reflects good telecommunications industry practice in clause 3.8.5 and promotes the Part 6 purpose.

3.85 Our final decision is the same as our draft decision.

Submissions on our draft decision

3.86 We received a submission from Chorus on our draft decision on the evaluation criteria used in the investment test.

3.87 Chorus agreed with the draft decision on the evaluation criteria for the investment test except for wanting proportionate scrutiny when Chorus partners with the government.[57]

Reasons for our final decision

3.88 Our final decision requires us to:

3.88.1 have regard to the outcome of the investment test; and

3.88.2 to consider whether the proposed capex:

3.88.2.1 meets the expenditure objective; and

3.88.2.2 reflects good telecommunications industry practice (under clause 3.8.5).

3.89 We consider that approving network expansion capex where the net FFLAS market benefit is forecast to be positive (and otherwise meets our evaluation criteria) promotes s 166(2) of the Act because a net market benefit will promote the long-term benefit of end-users in markets for FFLAS. This is because the test aims to ensure that we only approve network expansion proposals that are forecast to provide a net benefit, reflect good telecommunication industry practice, and are prudent and efficient.

3.90 We consider that the existing evaluation criteria set out in clauses 3.8.5 and 3.8.6 of the fibre IMs are also relevant when assessing proposed network expansion capex. Relying on the test alone would be insufficient, as the existing evaluation criteria enable us to consider the full suite of issues, such as, deliverability that would not be covered by an investment test.

---

[57] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [16] and 9. Our response to this point raised by Chorus is dealt with under the heading 'Treatment of government support' from paragraphs 3.48 to 3.53.

Approach to sharing forecast connection uptake risk between Chorus and end-users

3.91 When considering proposals for fibre expansion, there is a risk that connection uptake may fall short of forecasts. If the Commission approves expenditure ex-ante, Chorus can recover approved expenditure allowances regardless of uptake. Chorus is also likely to be better placed than end-users to manage this risk via control over network investment decisions, forecasting, and marketing activities.

3.92 Chorus may therefore not bear sufficient uptake risk and could have an incentive to overstate demand. This creates a potential misalignment between investment decisions and actual end-user connections, particularly given rural dynamics and alternative technologies such as satellite broadband.

3.93 In our draft decision, we consulted on:

3.93.1 how the uptake risk should be allocated between Chorus and end-users;

3.93.2 preferred options (or combination of options) for managing this risk; and

3.93.3 practical considerations for implementing these approaches within the existing IM framework.

3.94 We raised three potential options to address this issue.

3.94.1 **Option 1: Staged Investment.** This option would involve approving smaller portions of expenditure initially, with further approvals contingent on uptake milestones.

3.94.2 **Option 2: Ex-Ante Assessment.** This option applies scrutiny of connection uptake assumptions during proposal evaluation. Our draft decision was to use this approach.

3.94.3 **Option 3: Risk-Sharing Mechanism.** Introduce mechanisms that adjust recovery based on actual uptake (e.g. through a wash-up mechanism).

Our final decision

3.95 Our final decision is not to introduce any additional IM changes to the investment test to address potential forecast connection uptake risk, and to retain the ex-ante assessment approach presented in the draft decision reasons paper.

3.96 Our final decision is the same as our draft decision.

Submissions on our draft decision

3.97 We received a submission from Chorus on our draft decision relating to options to forecast connection uptake risk between Chorus and end-users.

3.98 Chorus supported our draft decision to introduce option 2 for an ex-ante assessment of uptake risk during proposal evaluation.[58] Chorus believes it is a proportionate, practical, and efficient approach that aligns the incentive to investment with end-user interests.

3.99 While Chorus acknowledges uptake risk is an important consideration for future expansion, it believes it is important that the regulatory framework does not create strong disincentives for investment.[59]

3.100 In terms of the alternative options discussed in the draft decision reasons paper:[60]

3.100.1 staged investment: Chorus agrees that sequencing deployment over time would create unnecessary administrative burden on it and the Commission, slowing down investment unnecessarily.

3.100.2 risk sharing mechanism: Chorus considers that introducing new mechanisms to adjust recovery based on actual uptake would add unnecessary complexity to the IMs and does not promote incentives for Chorus to invest further in the fibre footprint.

Reasons for our final decision

3.101 We consider our final decision helps reduce end-user exposure to connection uptake risk through robust testing and avoids adding complex mechanisms to the IMs. We acknowledge there may be some remaining exposure to end-users from connection demand uncertainty. However, additional scrutiny and prescription brought about from the staged investment and risk sharing mechanisms could lead to a higher administrative burden on Chorus and the Commission, and forecasts may nonetheless remain inherently uncertain. See our draft decision for further assessment of the options we considered for addressing uptake risk.[61]

---

58 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [19].

59 Ibid, at [18].

60 Ibid, at [20].

61 Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [4.62]-[4.66].

Chapter 4 Capital expenditure flexibility measures

Overview of the connection capital expenditure input methodologies

4.1 There are two existing IM mechanisms that provide flexibility regarding capital expenditure:

4.1.1 a connection capex allowance that is subject to a wash-up based on the actual volume of connections; and

4.1.2 an individual capex proposal mechanism, which allows for an application to be made for capex in addition to the base allowance before or during the regulatory period, with a minimum threshold of $5 million.

4.2 The fibre IMs have a ‘connection capex’ category that covers capital expenditure for connecting new end-user premises, buildings, or other access points where the communal fibre network already exists or will exist at the time of connection. Connection capex is separate from, and additional to, base capex. Any capital costs associated with upgrading the service to an existing end-user connection are not currently covered by the connection capex definition.

4.3 Our draft decision was to amend the connection capex definition to include upgrades for new services (eg, Hyperfibre). This was to take account of the short-term cost impacts of demand being higher or lower than forecast.

4.4 Following consultation, we have also made targeted amendments to improve the effectiveness and proportionality of the flexibility mechanisms to clarify or simplify their operation while maintaining appropriate regulatory oversight.

Connection capex allowance

Final decision

4.5 Our final decision:

4.5.1 maintains the requirement for connection capex;

4.5.2 introduces a requirement to include service upgrades in the wash-up;

4.5.3 makes changes to improve and simplify its operation; and

4.5.4 in response to Chorus’ submission aligns the date that the connection capex report is required with the deadline for submission of the wash-up report.

Current IM settings

4.6 The capex IM specifies a volumetric wash-up for variations in the number of actual connections from the baseline allowance – forecast at the time the allowance is first set – for connection capex.[62]

4.7 This is essentially a 'ringfenced' capex allowance.[63]

4.8 The capex IM specifies that the Commission will determine two components for the connection capex allowance:

4.8.1 a connection capex baseline allowance prior to the regulatory period; and then

4.8.2 a connection capex variable adjustment at the end of the regulatory period.[64, 65]

Reasons for our final decision

4.9 Our final decision on issues where stakeholders supported, did not oppose, or did not provide additional reasons for a different decision to those considered in our draft decision are set out in Table 4.1. The reasons for our final decision on these issues are the same as our draft decision.

[62] *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, clauses 3.1.1(11)(g) and 3.7.21.

[63] Note that the term 'ringfenced' does not appear in the IMs and is a term we have used in reasons papers to mean capex that is not substitutable to be spent on base capex or other projects.

[64] *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, clause 3.7.13(1).

[65] A connection capex annual report is required that sets out actual volumes and costs by connection type, accompanied by assurance encompassing director certification and a reasonable assurance report prepared by an auditor.

Table 4.1 Final decision - reasons are the same as for the draft decision

Final decision	Reasons and submissions
Connection capex	
F01: **Maintain** the requirement for a connection capex allowance that is separate to base capex and a wash-up of connection capex as part of the overall capex allowance.	Chorus disagreed with our draft decision and provided an alternative solution.[66] Chorus' submission on our draft decision was that it would prefer to combine connection capex and base capex. This reiterated its original submission on our 27 August 2025 Issues Paper.[67] We have previously responded to points raised in that submission and our view remains the same as set out in paragraphs 5.16 to 5.22 of our 17 March 2026 draft decision reasons paper.[68] Chorus has previously made the statement that there is a need for it to carry the unit cost of installation risk, but that the mechanism is appropriate to mitigate the installation volume risk, which is demand dependent and outside of Chorus' control.[69] See paragraphs 5.14 to 5.22 of the draft decision reasons paper. In summary our final decision: • accounts for the trade-offs between promoting incentives to innovate and invest and supporting improving efficiency and limiting excessive profits; and • recognises the risk involved in forecasting connection volumes should not be borne by Chorus.
F02: **Amend** the connection capex IM to calculate and report the connection capex variable adjustment wash-up balance annually, rather than performing the calculation only once per regulatory period.[70]	Chorus supported our draft decision with a proposed change to the IM drafting to implement the amendment (discussed in paragraphs 4.10 to 4.12 below).[71]

66 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [2.5], [21] and 9.

67 Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [32]-[33].

68 The reasons for our draft decisions can be found here: Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026).

69 Chorus "Our Fibre Assets" (31 October 2023), at [10.1].

70 We note that the final determination of the connection capex variable adjustment will continue to occur once the regulatory period has finished.

71 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [22.1], [25] and 9.

Final decision	Reasons and submissions
(F02 continued)	See paragraphs 5.24 to 5.28 of the draft decision reasons paper. In summary our final decision: • enables annual rather than just end of regulatory period monitoring of the connection capex wash-up; and • aligns the connection approach to the general wash-up approach.
F03: **Amend** the connection capex IM to include capex required for service upgrades where Chorus will receive increased wholesale revenue from the upgrade (eg, Hyperfibre) in the connection capex definition.	Chorus supported our draft decision.[72] See paragraphs 5.30 to 5.36 of the draft decision reasons paper. In summary our final decision recognises that upgrades: • are expected to increase, requiring higher more material amounts of capex; and • are challenging to forecast and should be funded by connection capex, with a volume wash-up, funding Chorus for actual upgrade volumes, supporting investment incentives.
F04: **Amend** the connection capex IM to simplify the reporting requirements to ensure the effort required is proportionate to the risks of misstatement of the wash-up allowance by: • removing the requirement to report actual unit costs; • removing the requirement to update forecast connection costs; and • only requiring independent assurance for the final two years of a regulatory period, while requiring the assurance engagement to consider the relevant figures for all of the preceding regulatory periods that were not previously subject to independent assurance.	Chorus supported our draft decision to simplify reporting requirements. See paragraphs 5.38 to 5.42 of the draft decision reasons paper. Chorus proposed a further change to merge the wash-up and connection capex adjustment reports into a single report, due five months after the end of the regulatory year.[73] This proposal is discussed below at paragraphs 4.14 to 4.16. In summary our final decision: • reduces compliance costs, other regulatory costs, or complexity; and • does not detrimentally affect the promotion of the s 166(2) considerations.

[72] Ibid, at 9.
[73] Ibid, at [22.2]-[22.3] and 9.

Final decision on issues requiring a response to submissions

Calculation of the connection capex variable adjustment balance

Final decision

4.10 Our final decision is to further refine the drafting of clause 3.7.21 to ensure that the overall wash-up can be adjusted to recognise the impacts of in-period smoothing. We have therefore amended the drafting to set out that a connection capex variable adjustment for the regulatory period will be determined at the end of the regulatory period by the Commission by summing the adjustments for each regulatory year of the regulatory period with any adjustments the Commission considers appropriate such as in-period smoothing. This ensures the determination gives effect to the approach to the wash-up, rather than being an amendment to the underlying policy

Submissions on our draft decision

4.11 Chorus in its submission didn't consider that the amendments proposed in the draft dealt with in-period smoothing and proposed some alternative drafting.[74]

4.12 Chorus proposed a drafting change as follows:[75]

> *(1) **A connection capex variable adjustment** for the **regulatory period** will be determined at the end of the **regulatory period** by the **Commission** ~~by summing the **connection capex variable adjustments**~~ for each **regulatory year** of the regulatory period.*

Simplifying the reporting requirements

Final decision

4.13 Our final decision is to align the dates that the connection capex annual report and wash-up report are due to both be five months after the end of the relevant regulatory year. (Refer to decision F04a in Table X1)

Submissions on our draft decision

4.14 Chorus supports simplifying the connection capex reporting requirements and sees an opportunity to simplify by including connection capex in the annual wash-up calculation and report.[76]

---

74 The change to the wording of the determination relates to decision F02 in Table 4.1 above.

75 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [25].

76 Ibid, at [22.1].

4.15 Chorus proposed a further change that it sees as further streamlining the IM and removing unnecessary cost. Its proposed change is that:[77]

> the Commission merge the wash-up and connection capex adjustment reports into a single report that is due within five months after the end of a regulatory year (rather than within three months).
>
> .... A second-best option would be to at least require the connection capex adjustment report to be provided within five months of the end of a regulatory year.

4.16 The benefit Chorus sees from this change is that combining all wash-up related information in a single report will reduce complexity and audit fees. It avoids the need for Chorus to prepare, approve and in some years audit the connection capex report for submission in March, while information disclosure (ID) and the wash-up report are prepared separately in May each year.[78]

Reasons for our final decision

4.17 We agree that alignment of the dates upon which the connection capex report and the wash-up report are due will improve efficiency, reduce complexity and cost. There is unlikely to be a material negative impact on our ability to monitor connection capex from a delay of two months before we receive it. It is also more efficient to consider the connection capex report along with our consideration of the wash-up report.

4.18 However, we do not consider it feasible or efficient to combine these reports into one report, so our final decision is to align the reporting dates only. As such, the connection capex variable adjustment annual report will now be due five months (instead of three) after the end of the relevant regulatory period, to align with the due date of the wash-up report.

4.19 Our view is that combining the reports would not promote the IM purpose in s 174 more effectively and would increase the complexity of the IMs. This is because each report serves a different purpose. The wash-up report summarises, by category, the overall wash-up for the regulatory year, while the connection capex report provides a more detailed breakdown of the actual and revised forecast connection volumes by type. As such we still require both the information required in the connection capex report, and the wash-up information required in our separate s 221 notice.

4.20 The two reports have different aims and are only linked by the fact that the connection capex report will have an annual wash-up amount that is reflected in the wash-up report.

[77] Ibid, at [24].
[78] Ibid, at [23]-[24].

Individual capital expenditure proposals

Final decision

4.21 Our final decision confirms our draft decision to maintain the individual capex proposal (ICP) mechanism with amendments to make improvements to the process of determining an ICP.

4.22 Submitter feedback on the proposed amendment for the level of the ICP threshold (decision ref: F06 in table X1) prompted further analysis before the final decision could be reached. Our final decision is to set the threshold at $15 million. This is discussed in paragraphs 4.25 to 4.46 below. We also note a consequential impact on the investment test to align with the new threshold.

Current IM settings

4.23 Under the current IM settings:[79]

4.23.1 The fibre IMs have a mechanism that allows Chorus to apply for an individual capex allowance, additional to base capex, for a project or programme forecast to cost over $5 million over the life of the project or programme via an individual capex proposal.[80] ICPs are intended to address capex requirements where the need, economic case, and/or timing is uncertain or not foreseen at the time of submitting the base capex proposal.

4.23.2 Chorus may apply to the Commission to determine an individual capex allowance before or during a regulatory period by submitting an individual capex proposal in accordance with the staged application process specified in the IMs. The IMs also allow the Commission to exclude from base capex any capex proposed by Chorus on the grounds set out in the IMs. Chorus may then submit an ICP for that expenditure (clause 3.7.12(4)) at any time during the regulatory period.

4.23.3 The current ICP mechanism in the IMs imposes a high level of scrutiny on proposals, starting with the design proposal stage of the process.

4.23.4 For smaller uncertain or unforeseen projects that fall below the ICP threshold, the regime assumes that Chorus needs to either accept the foregone return on and of capex for the remainder of the regulatory period or make a substitution within base capex.

---

[79] Further background can be found in our draft decision. See Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [5.45]-[5.46].

[80] *Fibre Input Methodologies Determination 2020, as consolidated on 3 September 2025*, clause 3.7.22(3) sets out the requirements that an individual capex proposal must meet.

Reasons for our final decision

Final decision on issues supported by submitters

4.24 Our final decision on issues where stakeholders supported or did not oppose our draft decision are set out in Table 4.2. The reasons for our final decision on these issues are the same as our draft decision.

Table 4.2 Final decision - reasons are the same as for the draft decision

Final decision	Reasons and submissions
Individual Capex Proposal (ICP)	
F05: **Maintain** the ICP mechanism in the IMs with some amendments.	Chorus supported our draft decision.[81] See paragraphs 5.48 to 5.52 of the draft decision reasons paper.[82] In summary our final decision: • maintains the existing ICP mechanism which is working; and • promotes s 162(1)(a) by allowing capex to be increased for unseen material requirements and maintains incentives to invest.
F07: **Amend** the ICP notification stage to introduce a simpler design proposal process for projects or programmes originally considered as part of the assessment of a base capex proposal and for which the Commission indicated a future ICP may be appropriate, once uncertainty regarding the need for the project has reduced. The subsequent information required at the design proposal stage for a project/programme within this category will be reduced to details of the capex need and timing.	Chorus supported our draft decision.[83] See paragraphs 5.60 to 5.66 of the draft decision reasons paper. In summary our final decision: • simplifies the process of considering and approving capex which was uncertain at the time of the base capex proposal; and • reduces compliance costs and other regulatory costs, without detrimentally affecting the promotion of the s 166(2) considerations.

81 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [2.6] and 10.

82 The reasons for our draft decisions can be found here: Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026).

83 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 10.

Final Decision	**Reasons**
F08: **Amend** the ICP notification stage by reducing the description of key parameters to: • need, timing, and the extent of any related uncertainty; • brief details of any proposed independent verification; • expected costs, benefits and risks; and • any previous or planned consultation undertaken.	Chorus supported our draft decision.[84] See paragraphs 5.67 to 5.70.2 of the draft decision reasons paper. In summary our final decision: • simplifies and streamlines the process, which reduces complexity and regulatory burden; and • reduces compliance and other regulatory costs, without detrimentally affecting the promotion of s 166(2) considerations.
F09: **Amend** the IMs to require that Chorus provide, commensurate with the estimated expenditure and complexity of the design proposal, any other key information relevant to supporting the design proposal.	Chorus supported our draft decision.[85] See paragraphs 5.72 to 5.74 of the draft decision reasons paper. In summary our final decision: • simplifies and streamlines the process, which reduces complexity and regulatory burden; and • reduces compliance and other regulatory costs, without detrimentally affecting the promotion of s 166(2) considerations.
F10: **Amend** the IMs to allow the Commission to waive/amend conditions set at the design proposal stage of the process, ahead of submission of the proposal.	Chorus supported our draft decision.[86] See paragraphs 5.75 to 5.78 of the draft decision reasons paper. In summary our final decision: • simplifies and streamlines the process, which reduces complexity and regulatory burden; and • reduces compliance and other regulatory costs, without detrimentally affecting the promotion of s 166(2) considerations.

[84] Ibid.
[85] Ibid.
[86] Ibid.

Final decision on an issue where submitter views varied

Threshold value for an individual capex proposal

4.25 Our final decision is to amend the threshold for ICPs in clause 3.7.22(3)(c) from $5 million to $15 million over the life of the project or programme. This is a change from our draft decision where we proposed raising the threshold to $30 million.

4.26 Our view remains that increasing the threshold will more clearly reflect the purpose of the mechanism which is to address projects or programmes that merit the level of effort and cost required by the process, while smaller projects continue to be accommodated within existing allowances.

Submissions on our draft decision on the threshold level

4.27 We noted in the draft decision that raising the eligibility threshold will likely reduce the number of future ICPs and will lead to a higher reliance on base capex, which PwC supports.[87] As noted above, Chorus submitted on the Issues Paper that it saw a need to retain the ICP mechanism but thinks this could be accompanied by a higher minimum investment threshold than the current $5 million.[88]

4.28 Chorus submitted on our draft decision that it disagrees with aligning the threshold to Transpower at $30 million and considered this change has not been justified in the draft decision.[89]

4.29 Chorus raised several points regarding the proposed threshold level change. It sees differences between Transpower's and its own situation. It makes a distinction that while both have similar revenues and RAB sizes, their respective investment programmes are different in scale and nature.[90]

4.30 Chorus sees differences in the focus of capex programmes that are outside base capex:[91]

> Transpower's major capex programmes focussing on large long-term investments, whereas Chorus' ICP mechanism generally applies to capex projects or programmes where there is uncertainty, making it challenging for the Commission to evaluate them at the time base capex is approved.

---

87 PricewaterhouseCoopers "Fibre Capital Expenditure Input Methodology – Recommendations for improvement" – 'submitting in relation to Issues paper (Tranche 1) and Draft decision-making framework paper' (report prepared for Chorus, 7 August 2025), at [23].

88 Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [35].

89 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [26].

90 Ibid, at [27].

91 Ibid, at [27].

4.31 It also sees a distinction in its non-base capex funding requirements that will utilise an ICP compared to those of Transpower:[92]

> Such project/programmes could include Layer 2 upgrades, IT projects, as well as network expansion or customer incentives. These types of projects would be unlikely to cost $30m. For example, if the $30m threshold was retained, Chorus would likely never be able to make an ICP for customer incentives capex, meaning the Commission would need to approve an allowance for the full regulatory period as part of the full price reset process.

4.32 Chorus says the Commission's original rationale for setting a lower threshold for Telecommunications projects compared to Part 4 continues to be relevant. That rationale was that the threshold needed to be set within the context of the expenditure requirements within the telecommunications industry, and in combination with other relevant factors such as the purpose of the expenditure categorisation for managing uncertainty.[93]

4.33 Chorus also notes that:[94]

> As well as cost uncertainty triggering the need for an ICP, there is often greater uncertainty in relation to the assessment criteria and economic case for investment. This warrants a lower threshold than that applied to Transpower.

4.34 Chorus therefore proposed that the ICP threshold be increased to $10 million.[95]

4.35 Spark says that it:[96]

> is unclear whether these new thresholds will apply to Chorus expenditure that has proven controversial, such as Chorus' connection incentive programme. Retail service providers are concerned that Chorus uses these incentives to undermine or distort competition from alternative network providers, and Chorus incentive expenditure proposals have previously been considered by the Commission.

---

92 Ibid, at [27].
93 Ibid, at [28].
94 Ibid, at [29].
95 Ibid, at [29].
96 Spark "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (16 April 2026), at [19].

4.36 Spark recommends that any amendments preserve:[97]

> the ability to require individual capex proposals for a class or nature of expenditure where there are specific concerns (for example, the competition concerns relating to connection incentives).

Reasons for our final decision

4.37 To date, Chorus has only applied for one ICP which was for incentive capex and was approved during the first regulatory period (PQP1).[98] In coming to our final decision, we have considered Chorus' submission that a $30 million threshold is too high, given the nature of its capital programme and how that programme may differ from Transpower's.

4.38 The draft decision to raise the threshold to $30 million was aligned with the current base capex threshold for Transpower of $30 million. Transpower has similar revenues and a similar sized RAB to Chorus. A Transpower major capex project must have aggregate forecast capital expenditure that exceeds the base capex threshold.[99] We set out our reasons for increasing the threshold to apply for an ICP in the draft decision.[100]

4.39 In our final decision for the fibre IMs in 2020 we noted that the options for establishing the capex threshold for individual capex applications at that time ranged from $2 million to $20 million.[101] As Chorus notes, we did recognise that the context of the requirements of the telecommunications industry had to be considered when setting the threshold.

4.40 In considering the context of Chorus' investment programme, we acknowledge that the individual capex category is primarily to mitigate the risks associated with the uncertainty of the economic case for, or timing of, large investments.[102] In terms of the size of the investment, Chorus says projects or programmes that might be the subject of an ICP are unlikely to cost $30 million.

4.41 We have considered Chorus' examples of projects/programmes that it says are likely to be the subject of an ICP. We have also reviewed the capex we excluded from base capex for PQP2. We consider that Chorus is correct that very few potential projects or programmes that might seek capex via an ICP would exceed a $30 million threshold.[103]

---

97 Ibid, at [20].

98 Commerce Commission "Chorus' individual capex proposal for customer incentives 2023 – Final Decision – Reasons Paper" (13 December 2022).

99 Definitions of base capex threshold and major capex are defined in *Transpower Capital Expenditure Input Methodology Determination 2012*, as amended on 13 December 2023, clause 1.1.5(2).

100 Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [5.55].

101 Commerce Commission "Fibre input methodologies: Main final decisions – reasons paper" (13 October 2020), at [7.468.2].

102 Ibid, at [7.468.3].

103 For example, the reductions in final approved expenditure versus Chorus' proposed expenditure for PQP2 in various expenditure categories tend to be below the $30 million level. See Commerce Commission "Chorus' expenditure allowance for the second regulatory period (2025 - 2028) – Final decision – reasons paper" (22 August 2024), Table X2.

4.42 We consider that our final decision to increase the threshold to $15 million (lowered from the draft of $30 million) addresses our key concerns but remains at a reasonable level to allow Chorus to seek additional in-period capex. We consider an increased threshold better supports Chorus' incentives to invest while continuing to improve the ICP mechanism by:

4.42.1 more clearly reflecting the purpose of the mechanism to address projects or programmes that merit the level of effort and cost required by the process, while smaller projects are accommodated within existing allowances;

4.42.2 improving incentives to manage investment efficiently. This reinforces the need to carefully manage trade-offs and prioritise the use of base capex;

4.42.3 recognising that Chorus may need to use its fungible base capex allowance to undertake other capex investment where it considers this necessary;

4.42.4 encouraging proportionate scrutiny and reduced regulatory costs; and

4.42.5 focussing any work to reopen the capex allowance during the regulatory period on more material projects and avoid applying resources to lower value projects that should reasonably be expected to be accommodated from base capex.

4.43 These benefits of setting the ICP threshold at $15 million will promote incentives for Chorus to innovate and invest,[104] while ensuring end-users have the opportunity to share in the benefits of capex efficiency via lower prices.[105]

4.44 We consider a $15 million threshold level strikes the right balance between the intent of our draft decision and the issues raised in Chorus' submission. This level will allow Chorus to, for example, apply for customer incentive capex, though it may require an application for a longer period than say 12 months.

4.45 With respect to Spark's submission as to whether these new thresholds will apply to Chorus expenditure that has proven controversial (eg, connection incentives), we note that the new threshold will apply to all capex that is eligible to be applied for under the ICP mechanism. The $15 million threshold should enable us to address some of the types of capex that Spark is concerned about within the ICP mechanism. As noted above, this threshold should allow Chorus to seek out incentive capex via an ICP, and it reduces the need to include it in base capex. We remain able to consider relevant issues, such as competition issues, when making assessments under base capex or for an ICP.

4.46 Any consideration of issues with the capex applied for will be considered as part of the assessment of any future ICP. We would expect to seek submissions on an ICP application and that process will allow for stakeholders to raise any concerns at that time.

---

[104] Telecommunications Act 2001, s 162(a).
[105] Ibid, s 162(b) and (c).

Consequential impact on the investment test

4.47 The ICP threshold of $15 million will also apply to the investment test (see IM clause 3.8.7(2)). This will continue to ensure that the test is targeted at investments where the risks and impacts justify the regulatory scrutiny and burden on Chorus, while avoiding the unnecessary compliance burden for smaller projects.

4.48 The reasons for reducing the threshold for the investment test are the same as those outlined above for the ICP mechanism. We do not consider there are compelling reasons to have a different threshold for network expansion capex compared with other types of capex that are assessed in an ICP.

Chapter 5 Cost of Capital

5.1 Parts of the cost of capital IM are common for infrastructure services regulated by the Commission under Part 6 (fibre) and Part 4 (for airport services, electricity lines, and gas pipelines). We consider that it is important to apply a consistent approach to parameters that are common across these sectors.

5.2 We instituted a process to review these common parameters together – as noted in the Tranche 1 issues paper – and received cross-sector input through submissions on that paper.

5.3 Our draft decision on cost of capital issues (common to Part 6 fibre and Part 4 regulated services) was published on 10 March 2026.[106] Alongside that paper we published an explanatory overview on our approach to the cost of capital to assist with stakeholder understanding of this topic and engagement with the process.

5.4 We have received a number of submissions on the common cost of capital IMs draft decision that we are working through. A final decision will be made in due course.

5.5 Parameters that are specific to fibre, including asset beta and leverage, will be addressed in Tranche 2 of the current Fibre IM Review.[107] A Tranche 2 issues paper including these fibre specific matters was published on 4 August 2026.[108]

[106] Commerce Commission "Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) Draft decision reasons paper" (10 March 2026).

[107] Ibid, at [1.23].

[108] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 2)" (4 August 2026)

Chapter 6 Treatment of Insurance

6.1 The PQP2 operational expenditure (**opex**) allowance approved for Chorus provides for two types of insurance costs to be recovered from end-users:

6.1.1 an allowance for the costs of insurance placed with a licensed insurer; and

6.1.2 a self-insurance allowance.

6.2 The Part 6 IMs did not specify how insurance entitlements arising from an insurance event (and covered by these allowances) are to be accounted for and so, our view was that it was not clear how the benefits of these costs could be shared with end-users.

6.3 Our final decision is the same as our draft decision. Our final decision:

6.3.1 aligns the accounting treatment of licensed insurance entitlements with recent changes made under the Part 4 IMs; and

6.3.2 introduces a new mechanism to account for self-insurance entitlements.

Licensed insurance entitlements

Our final decision

6.4 Our final decision is the same as our draft decision and is to make amendments to:

6.4.1 provide a new option to treat capex insurance or compensatory entitlements as capital contributions, along with the current treatment as revenue;

6.4.2 make consequential amendments to the treatment of subsequent adjustments to the value of entitlements after the asset's commissioning date;

6.4.3 amend the definition of operating costs (opex); and

6.4.4 amend the threshold for a catastrophic event reopener.

Current IM settings

6.5 Currently, insurance entitlements from licensed insurers are treated as revenue that falls within the definition of actual "total FFLAS revenue" in the fibre IMs.[109] In our draft decision we explained that:[110]

6.5.1 insurance entitlements from licensed insurers do not meet the definition of capital contributions and they must be accounted for by Chorus in its revenue wash-up;

6.5.2 for ID-only regulated FFLAS providers, the requirement under ID rules is to treat insurance entitlements as 'other regulated income'. This may mean that the benefits of insurance are not directly shared with end-users; and

6.5.3 finally, in the case of reopeners, the measure of costs for the 'catastrophic event' threshold is expressed net of any insurance or compensatory entitlements.[111] This could lead to uncertainty about whether the threshold set out in the IMs is met, and therefore whether a 'reopener' is available.

6.6 The changes made in our final decision align the fibre IMs more closely with amendments made to Part 4 input methodologies in 2024, while clarifying how insurance recoveries should be treated for both capital and operating expenditure.[112]

Final decision on issues supported by submitters

6.7 Our final decision on issues where stakeholders supported or did not oppose our draft decision are set out in Table 6.1. The reasons for our final decision on these issues are the same as our draft decision.

6.8 To achieve the above proposed amendments, our final decision includes inserting new definitions of insurance entitlements (from licensed insurers), compensatory entitlements, and third-party liability entitlements consistent with the definitions used in the Part 4 insurance amendments.

---

[109] Under ID, they are classified as other regulated income.

[110] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [7.6]-[7.8].

[111] *Fibre Input Methodologies Determination 2020, as consolidated on 3 September 2025*, clause 3.9.3(1)(c)(i).

[112] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [7.9]-[7.11].

Table 6.1 Final decision - reasons are the same as for the draft decision

Final decision	Reasons and submissions
Treatment of Insurance – Licensed Insurers	
I01: **Amend** the Asset Valuation IM to allow regulated FFLAS providers an option to treat capex insurance entitlements and capex compensatory entitlements in respect of damaged or destroyed assets: • like capital contributions, and net them off the cost of assets where Chorus are applied to the remediation of assets; or • as currently, as actual "total FFLAS revenue", to be included in the revenue wash-up for Chorus (other local fibre companies (**LFC**s) do not have wash-up accounts).	Chorus supported our draft decision.[113] See paragraphs 7.12 to 7.18 of the draft decision reasons paper.[114] In summary our final decision: • best promotes s 162(a) of the Act by improving incentives to innovate and invest; • promotes s 162(d) by helping to ensure that providers are limited in their ability to extract excessive profits; and • promotes s 174 by giving clarity about what is meant by insurance entitlements and third-party liability entitlements consistent with the definitions used in Part 4.
I02: **Amend** the Asset Valuation IM to require that, if netting entitlements off the cost of assets, any subsequent adjustments to the value of entitlements after the asset's commissioning date are recorded as separate assets or negative assets, present valued as at the same commissioning date.	
I03: **Amend** the definition of operating costs (opex) to allow an option for regulated providers to: • net off opex insurance entitlements, opex compensatory entitlements and third-party liability entitlements against the corresponding operating expenditure in the year or years of remediation or third-party liability compensation spend; or • treat opex insurance entitlements, opex compensatory entitlements and third-party liability entitlements as actual "total FFLAS revenue".	
I04: **Amend** the threshold for a catastrophic event reopener to measure the costs and impact of an event before the recognition of any insurance and other compensatory entitlements.	

[113] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 10-11.

[114] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026).

Self-insurance entitlements

6.9 Chorus self-insures part of its asset base for remediation costs:

6.9.1 below the deductibles limits on its insurance policies held with licensed insurers; and

6.9.2 for remediation costs for assets in respect of which it cannot obtain external business insurance (uninsured assets).

6.10 In PQP2, we approved a total $5.4 million for Chorus' self-insurance opex allowance.[115]

6.11 Our final decision confirms our self-insurance entitlement definition which reflects a "notional entitlement" that is provided from shareholders, reserves, or additional debt financing reflecting the benefits to end-users from an identified self-insurance arrangement, for which they are paying a self-insurance "premium" included in regulated revenues.

Current IM settings

6.12 The current definition of actual total FFLAS revenue under the fibre IMs does not apply to Chorus' self-insurance. This is because self-insurance funds to cover remediation costs represent an internal transfer from reserves or equity rather than payments from a third party. Consequently, the fibre IMs are silent on how to account for this type of self-insurance arrangement, so the treatment of costs associated with remediation in a self-insured event is left to Chorus' discretion.

6.13 This means that if an insurable event were to occur, it could lead to the cost of insurance having been charged to end-users without the benefits being shared, which is not consistent with the long-term benefit of end-users (s 162 of the Act).

Final decision on issues supported by submitters

6.14 Our final decision on issues where stakeholders supported or did not oppose our draft decision are set out in Table 6.2. The reasons for our final decision on these issues are the same as our draft decision.

[115] Commerce Commission "Chorus' expenditure allowance for the second regulatory period (2025 - 2028) – Final decision – reasons paper" (22 August 2024), at [6.71]

Table 6.2 Final decision - reasons are the same as for the draft decision

Final decision	Reasons and submissions
Treatment of Insurance – Self-Insurance	
I05: *Self-insurance – below deductibles limit costs*[116] For the costs of any loss or damage up to the value of the deductible's limits: • **amend** the Asset Valuation IMs to treat capex self-insurance entitlements like a capital contribution and net them off the costs of the assets' remediation; and • **amend** the definition of operating costs to net off opex self-insurance entitlements against the corresponding additional operating expenditure in the year or years of remediation. I06: *Self-insurance – uninsured asset costs* For the costs of any loss or damage on uninsured assets: • **amend** the Asset Valuation IM to treat the capex self-insurance entitlements like a capital contribution and net them off the costs of the asset's remediation; and • **amend** the definition of opex to require netting off opex self-insurance entitlements against the corresponding additional operating expenditure in the year or years of remediation.	Chorus supported our draft decision.[117] See paragraphs 7.26 to 7.44 of the draft decision reasons paper.[118] In summary our final decision: • promotes the long-term benefit of end-users in accordance with the s 162 purpose of the Act by prescribing how the benefits of the self-insurance allowance must be shared with end-users; and • promotes s 174 of the Act by giving clarity about what is meant by self-insurance entitlements and how they should be accounted for.

[116] In our draft decision, we set out that we asked Chorus for further information to clarify how the benefits of the actual costs charged to end-users through the self-insurance allowance would be shared with them this, and how it calculated its self-insurance allowance with reference to the Aon Actuarial report it provided to us ahead of PQP2 to quantify its self-insurance uplift. We have published Chorus' response to that request for more information, alongside the draft decision. See Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [7.29]-[7.32].

[117] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 11.

[118] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026).

Chapter 7 Other amendments considered

7.1 This first tranche of the IM Review also considered other potential changes to the fibre IMs, such as:

7.1.1 matters already identified by the Commission and stakeholders as part of previous fibre processes (such as the PQP2 process and related targeted IM amendments);

7.1.2 submissions on our Open Letter from March 2025;

7.1.3 targeted improvements identified that could be made to reduce complexity and compliance costs where appropriate and, where possible without detrimentally affecting the promotion of the s 162 purpose;

7.1.4 consistency changes to align with other sectors, where relevant;

7.1.5 corrections for technical and editorial errors; and

7.1.6 clarifications where appropriate and improvements to the workability of the IMs.

Final decision

7.2 Our final decision is to amend the fibre IMs in relation to Crown financing. The change is to use the cost of debt and cost of equity for the regulatory period rather than for the disclosure year in question.

7.3 Our final decision on the issues discussed in Chapter 8 of the draft decision reasons paper are set out in Table 7.1. Stakeholders supported or did not oppose our draft decision therefore the reasons for our final decision on these issues are the same as our draft decision.

Table 7.1 Final decision – reasons are the same as for the draft decision

Final decision	Summary and reasons
E01: **Amend** the specification of price and revenues IM clause 3.1.1(11)(b) to use the cost of debt and cost of equity for the regulatory period rather than using the costs of equity and debt for the disclosure year in question. Currently clause 3.1.1(11)(b) says: the difference between: (i) the 'annual benefit of Crown financing building block' for that regulatory year, as determined under clause 3.5.11; and (ii) the 'annual benefit of Crown financing building block' for the disclosure year that corresponds with that regulatory year, as determined under clause 2.4.10.	Chorus supported our draft decision.[119] See Table 8.1 of the draft decision reasons paper.[120] In summary our final decision: • implements the original policy position, which was to wash-up in respect of actual Crown financing balances only, not actual regulatory year debt or equity costs; and • ensures that the original financing rate, determined when the price path was set, is applied to the wash-up calculation.
E02: **Maintain** the current depreciation IM	Chorus and Enable supported our draft decision.[121] See Table 8.1 of the draft decision reasons paper. In summary our final decision: • avoids increased costs from changing from the current approach; and • acknowledges that benefits from the change would not outweigh the costs, given depreciation profiles have already been set based on the current rules.
E03: **Maintain** the current definition (interpretation IM clause 1.1.4) to subtract rebates in general.	Chorus and Enable supported our draft decision.[122] Spark asks for monitoring and action if performance declines.[123] See Table 8.1 of the draft decision reasons paper. We confirm that we will monitor penalty rebate levels and consider introducing changes, should the level of rebates of this nature reach a level where the impact of a change would be such that the benefits are likely to outweigh the costs of special rules for contractual penalties.

[119] Ibid, at 11.
[120] Our draft decisions reasons paper can be found here: Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026).
[121] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 11; and Enable "Enable submission to the Fibre Draft decision reasons paper: Fibre input methodologies review (Tranche 1)" (16 April 2026), at 1.
[122] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 11; and Enable "Enable submission to the Fibre Draft decision reasons paper: Fibre input methodologies review (Tranche 1)" (16 April 2026), at 1.
[123] Spark "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (16 April 2026), at [23].

Final decision	Summary and reasons
(E03 continued.)	Chorus' cross-submission reiterates the rebate treatment is normal business practice, aligned with s 162 requirements and that there are a number of incentives to promote service quality. Rebates, it says, do not have a material incentive effect.[124] In summary our final decision accepts that: • firms set prices that account for the costs of rebates at normal levels and doing so is seen as part of the cost of doing business; • current levels of this type of rebate are low; and • the costs of making the change would likely outweigh any benefits.
E04: **Maintain** the taxation IM clause to define notional deductible interest as opening regulated asset base (RAB) values less the outstanding Crown financing multiplied by the leveraged cost of debt.	Chorus disagreed with our draft decision but provided no new alternative solution.[125] It reiterated its original submission on our April 2025 Open Letter. We have previously responded to points raised in that submission, and our view remains the same.[126] See Table 8.1 of the draft decision reasons paper. In summary our final decision: • maintains the status quo as we do not agree with Chorus that there is an error in the definition; and • is better aligned to the way the interest tax deduction is calculated for tax purposes.
E05: **Maintain** the depreciation IM clause to allow the use of a depreciation method consistent with generally accepted accounting principles (**GAAP**) or any other method.	Chorus and Enable supported our draft decision.[127] See Table 8.1 of the draft decision reasons paper. Our final decision to maintain the draft decision does not address the stranding risk previously raised by stakeholders as a reason to review the depreciation IM. However, as noted in our draft decision, the IMs already provide options to address issues related to economic stranding by accelerating the depreciation of assets.

124 Chorus "Cross submission on draft decision for fibre input methodologies review (Tranche 1)" (6 May 2026), at [6]-[9].

125 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 11.

126 Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at 92.

127 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 12; and Enable "Enable submission to the Fibre Draft decision reasons paper: Fibre input methodologies review (Tranche 1)" (16 April 2026), at 1.

Final decision	Summary and reasons
(E05 continued.)	In summary our final decision is that: • the IMs already provide options to address issues related to economic stranding by accelerating the depreciation of assets; • no specific proposals to amend the existing depreciation IM requirements to address stranding risk were received; and • regulated providers have wide scope to apply alternative depreciation methods if they are justified.
E06: **Maintain** the current cost allocation IM.	Chorus disagreed with our draft decision but provided no new alternative solution.[128] See Table 8.1 of the draft decision reasons paper. In summary our final decision will allow for issues with the cost allocation IM to be addressed through deregulation reviews.
E07: **Maintain** Commission oversight of price-quality (**PQ**) cost allocators.	Chorus disagreed with our draft decision but provided no new alternative solution.[129] Chorus in its submission continued to disagree with our draft decision but it raised no new evidence. It reiterated its original submission on our August 2025 Issues Paper. We have previously responded to points raised in that submission, and our view remains the same.[130] See Table 8.1 of the draft decision reasons paper. In summary our final decision is that: • we consider cost allocators already approved are generally suitable in the longer term; and • we do not think having Commission oversight of any future changes, as part of assessing future expenditure proposals, will be too onerous where there are obvious benefits of the change.

128 Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at 12.

129 Ibid, at 12.

130 Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at 95.

Attachment A: Using the end-user willingness to pay for fibre to value the notional revenue from network expansion

A1 This attachment outlines our final decision on how to value the notional revenue in our investment test set out in the fibre IMs. We discuss:

A1.1 the high-level approach to incorporating the end-user willingness to pay for fibre (WTPF) in the investment test;

A1.2 the potential issues with using the WTPF in analysing expansion capex proposals; and

A1.3 mitigating potential issues with using the WTPF in analysing expansion capex proposals.

High-level approach to incorporating the WTPF in the investment test

Our final decision

A2 As discussed in paragraph 3.59.1, our final decision is to:

A2.1 require that Chorus values the notional revenue using the WTPF. The WTPF is the wholesale FFLAS component of the retail price that end-users of FFLAS in the expansion area would reasonably be expected to pay in the absence of price regulation (including the GCP requirement in s 201 of the Act), taking into account the available alternative services that are not regulated FFLAS in the expansion area; and

A2.2 require Chorus to:

A2.2.1 propose the WTPF value(s) to use in its investment test proposal;[131]

A2.2.2 provide the methodology used to calculate the WTPF; and

A2.2.3 provide evidence explaining why the methodology is robust and accurately represents the price end-users would realistically pay given available alternatives, absent regulation.

---

[131] We note that there may be different WTPF values for different FFLAS broadband plans, given the different characteristics and speeds of the plans and different recovery rates. However, using an average WTPF across all FFLAS broadband plans should still yield the same result in the benefit calculation as long as the weightings of the different plans in calculating the average WTPF are correct. It is for Chorus to decide whether it submits a single WTPF or multiple for different connection types or FFLAS broadband plans. However, in either case, Chorus will need to provide the methodology used to calculate the WTPF.

A3 Our final decision responds to Spark's submission on our draft decision. In coming to an 'end-user willingness to pay for fibre', Chorus will need to take into account the availability of alternative services in the expansion area.

A4 This change has resulted in the following amendments to the draft determination.

A4.1 Defined the WTPF as the wholesale FFLAS component of the retail price that end-users of FFLAS in the expansion area would reasonably be expected to pay in the absence of price regulation (including the GCP requirement in s 201 of the Act), taking into account the available alternative services that are not regulated FFLAS in the expansion area. We have retained the requirement for Chorus to provide a description of the methodology used and evidence that demonstrates that the methodology is robust. We have not set out the type of evidence Chorus must provide to demonstrate this, however this could include information as to how Chorus arrived at the WTPF, or why it considers the WTPF meets the definition in the IMs; and

A4.2 amended the definition for the "uptake rate", to be the proportion of end-users expected to take up a FFLAS over the length of the project (as specified by Chorus) as a result of the proposed network expansion capex given the WTPF (ie, not demand at GCP prices).

Submissions on our draft decision

A5 As discussed in paragraph 3.65, we received submissions from Chorus and Spark on our draft decision to use the end-user WTP to calculate the end-user benefit of network expansion.

A6 Chorus agreed to the costs and benefits set out in our draft decision including the use of WTP to value the end-user benefit.[132]

A7 Spark, however, disagreed with our draft decision on the costs and benefits in the investment test. Spark submitted:[133]

A7.1 by using the notional end-user WTP we are seeking to adjust for the GCP requirement in the Act; and

A7.2 that the benefits of fibre to new end-users relates to improved service quality over their current broadband connection. It supported an incremental test where the incremental benefit (ie, incremental service quality improvements) to new end-users exceeds the incremental costs to expand the fibre network. Spark submitted that this is where investment to expand the network would be efficient and in the best interests of end-users.

[132] Chorus "Submission on draft decision for fibre input methodologies review (Tranche 1)" (16 April 2026), at [15] and 9.

[133] Spark "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (16 April 2026), at [10]-[12] and [14].

A8 Spark supported the Commission focusing on the end-user benefits using a "with and without" approach. However, it believed using the WTP approach would likely overstate the end-user benefits and we would be asking existing fibre customers to pay higher prices to fund network expansion.[134]

Reasons for our final decision

A9 In our draft decision we valued the end-user benefit in the investment test using the end-user WTP.[135] We consider that Spark's points are valid, particularly in relation to how the draft approach would have applied.

A10 In coming to our final decision, we have decided to include the consideration of the alternative non FFLAS technologies already available in the expansion areas, by accounting for those in the WTPF: "what consumers would pay given alternatives" – as opposed to a stand-alone WTP (or what consumers would pay given no alternative).

Promoting sections 162 and 166(2)(b) of the Act

A11 We consider our final decision is consistent with s 162 of the Act by promoting the long-term benefit of end-users in the market for FFLAS by producing outcomes that are consistent with outcomes produced in workably competitive markets. We note that in applying s 162 of the Act, an investment test requires consideration of future end-users of FFLAS. Our view is that end-users (in both s 162 and s 166) includes existing and future end-users. Specifically:

A11.1 Our final decision promotes s 162(a) of the Act because it does not unduly restrict Chorus from investing in expanding its network where it would otherwise efficiently and viably do so in a workably competitive market. Using the WTPF specifically values the notional revenue in the investment test at what Chorus could charge absent price-quality regulation. This means that we are not restricting Chorus from investing in expanding its network where it would otherwise do so in a workably competitive market.

A11.2 Our final decision promotes s 162(b) of the Act because it will improve allocative efficiency in FFLAS and wider telecommunications markets. Investment will be allocated more efficiently to where notional revenue is maximised. Increased competition from the introduction of fibre could result in lower quality-adjusted prices for broadband services.

[134] Ibid, at 2-3.

[135] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [4.37.1].

A12 We consider our final decision allows us to approve efficient investment where feasible, consistent with s 166(2)(b) of the Act, promoting workable competition in telecommunications markets for the long-term benefit of end-users of telecommunication services. Using the WTPF to value the notional revenue aligns the valuation approach with what end-users would realistically pay in a workably competitive market and could incentivise investment that Chorus would undertake absent price-quality regulation. Therefore, Chorus could be incentivised to expand the fibre network into rural areas it does not currently serve, competing with alternative services and likely causing them to drop their prices increasing the net benefits for end-users.

Approach to determining the WTPF and the notional revenue

A13 The core benefit in the investment test is the notional revenue. This is the incremental notional revenue that Chorus will receive from end-users for undertaking the investment calculated using the WTPF.

A14 Our final decision is to amend the IMs to require Chorus to include the proposed WTPF values(s) based on a robust methodology. It is up to Chorus to determine the WTPF and hence the methodology used to determine it and why it is robust. However, we expect Chorus to demonstrate that the WTPF is commercially achievable and accurately represents the price end-users would pay absent regulation.[136]

A15 To support the WTPF value(s) that it puts forward and the methodology it used, we expect Chorus to provide further supporting analysis. This could include:

A15.1 **Benchmarking and comparisons to alternative technologies**: Chorus could compare the characteristics of fibre technologies to alternatives technologies such as FWA, LEO and fixed wireless to justify the price that it could charge. We expect the price of these alternative technologies to act as a constraint on the WTPF Chorus could charge. We therefore believe that Chorus explaining how the service characteristics of fibre differ would be a good way to justify any differences in prices and why it believes the WTPF value(s) used is (are) appropriate.

A15.2 **Comparisons to the price that WISPs are charging for fibre**: We know that there are currently some smaller wireless internet service providers (WISPs) such as WiFiConnect that are offering fibre in rural areas. Chorus could therefore look at the prices that WISPs charge for their fibre broadband services to illustrate that the WTPF value(s) used is (are) appropriate.

[136] In determining a WTPF, Chorus will first assess a notional retail price that end-users will pay but then needs to turn this into a wholesale price for FFLAS.

Potential issues with using the WTPF in analysing expansion capital expenditure proposals

The WTPF could transfer welfare between consumers if geographically consistent price applies

A16 Using the WTPF to calculate the notional revenue while Chorus is required to charge the GCP in accordance with s 201 of the Act (assuming there is a differential between the two and that the WTPF > GCP) could transfer welfare between groups of fibre consumers arising from the fibre network expansion.

A17 Higher costs of expansion (eg, laying fibre in remote areas) might not be fully covered by the new fibre users, because they would only pay the GCP. To make the investment viable, Chorus might need to raise prices for existing users (who may not directly benefit from the expansion).[137] This means that end-users outside of the expanded footprint areas could subsidise network expansion through increases in the GCP, despite having limited or no private benefit from it.

A18 The effect of using the WTPF in the investment test, when actual prices are constrained by GCP, may increase prices paid by existing users. While we acknowledge this effect, it arises from statutory requirements rather than the choice of investment test. We therefore consider that it should not deter the use of the end-user WTPF or non-GCP values to assess the notional revenue. The primary requirement of any investment test is to promote the long-term benefits of end-users by promoting outcomes that are consistent with outcomes produced in workably competitive markets.

Adopting a WTPF assumption reduces our concerns about potential competition

A19 Section 166(2)(b) requires us, to the extent we consider relevant, to make decisions that best give effect, or are likely to best give effect, to the promotion of workable competition in telecommunications markets for the long-term benefit of end-users of telecommunications services (ie, we need to consider the impacts of our decision on the end-users of fixed wireless assets (FWA) and other broadband technologies).

A20 In our draft decision, we acknowledged concerns that the WTP assumption could lead to some detrimental impacts on competition. However, we considered that the benefits to end-users from the availability of FFLAS outweighed these concerns.[138]

[137] Note that there would likely be some distribution of costs to existing users from network expansion even with the GCP requirement.

[138] Commerce Commission "Fibre input methodologies review (Tranche 1) – Draft decision reasons paper" (17 March 2026), at [A33]-[A40].

A21 As outlined above, our final decision is to use WTPF and to adjust uptake assumptions to better incorporate these risks within the investment test. Our final decision is to assess Chorus' proposals on the basis of what it could plausibly charge end-users and the number of end-users it could acquire given the underlying performance characteristics of fibre and any alternatives. We consider this approach better reflects outcomes that would be expected in a workably competitive market and, compared with the WTP assumption used in the draft decision, reduces concerns that fibre investment could have dampened competition from alternative broadband providers.

A22 However, adopting a WTPF does not necessarily remove all potential competition effects, although the magnitude of residual effects is likely to be reduced relative to an approach based on unconstrained WTP. We nevertheless consider that these residual effects do not justify rejecting the use of WTPF in assessing the notional revenue. Where they arise, they primarily reflect the interaction between the investment assessment and the statutory GCP requirement, rather than any deficiency in using WTPF to estimate the value that end-users place on fibre services. In our view, the primary objective of the notional revenue assessment is to estimate benefits in a manner that is consistent with outcomes in a workably competitive market such that the s 162 outcomes for end-users are promoted.

A23 Consistent with this approach, we will separately consider competition effects when evaluating whether a proposal meets the expenditure objective and reflects good telecommunications industry practice under clause 3.8.5 of the Fibre IMs. Competition effects are specifically identified as an assessment factor in clause 3.8.6(g), and we will have regard to those effects when assessing individual network expansion proposals.

Mitigating potential issues with our approach to value the notional revenue

Capital contributions

A24 We expect Chorus, in developing its proposals, to explore feasible options to mitigate the degree of expected cross-subsidy from existing fibre users to end-users in expansion areas. Some of these options are listed below.

A24.1 Capital contributions from end-users in expansion areas, reflecting their WTPF, particularly where the cost of connecting them exceeds the GCP threshold. We note that the asset valuation IMs already provide for any capital contributions to be netted off the RAB,[139] and we have not identified any barriers within the IMs for further use.

[139] *Fibre Input Methodologies Determination 2020, as consolidated on 3 September 2025*, clause 2.2.12(2)(a)(i).

A24.2 Community or collective funding models, where local groups contribute towards the cost of fibre deployment in their area.[140]

A24.3 Other mechanisms that share costs between Chorus, end-users, and potentially third parties.

A25 In applying for network expansion capex, Chorus may explore the use of capital contributions to help fund the expansion before relying on cross subsidisation through GCP. In proposing network expansion, we would expect that any capital contributions should be forecast into the investment test – similar to how Chorus would currently forecast new property development into expenditure allowances. Where Chorus considers that capital contributions should be part of its proposal, it would need to design the roll-out in such a way as to be consistent with s 201 of the Act, which requires that Chorus charge end-users the same price for providing FFLAS that are in all material respects the same, regardless of the geographic location of the access seeker or end-user.[141]

Deregulation

A26 As we noted in reaching our draft decision, we consider that if Chorus expands into more rural areas, there may be a case that these areas meet the requirements for us to consider a deregulation review in accordance with s 210 of the Act. Section 210 of the Act sets out the process the Commission must undertake to consider deregulation. Deregulating FFLAS in these areas would remove the requirement on Chorus to provide these end-users with FFLAS at the GCP.[142]

A27 Submissions on our draft and the changes we have made in response reinforce this view, particularly in cases where the relative price and performance characteristics of fibre services versus alternatives do not lead to Chorus capturing a near-monopolistic share of end-users.

---

[140] We note that Chorus has an existing "Community co-funded fibre builds" programme. Find more information here.

[141] Under s 5 of the Act, FFLAS is defined as a means of telecommunications service that enables access to, and interconnection with, a regulated fibre service provider's fibre network. Therefore, there are various FFLAS. Those FFLAS subject to price-quality regulation including connections services are subject to the GCP requirement.

[142] Work on Fibre Deregulation Reviews can be found on our website here.

A28 If these areas were to be deregulated following a deregulation review in accordance with s 210 of the Act, Chorus would be subject to PQ and ID regulation in areas where Chorus' FFLAS network exists and ID regulation in areas where Chorus expands. If this were to occur (following consideration of s 210 of the Act) it would result in the costs and revenues from network expansion being excluded from future PQ paths and not subject to the same level of regulatory scrutiny from the Commission.[143] It would also mean that Chorus could charge the WTPF, or set prices that reflect costs rather than charge the GCP in areas it was no longer price-quality regulated. If this occurred, it could help alleviate the wealth transfer and competition issues raised in the previous section.

Review the geographically consistent price requirement

A29 The Ministry for Regulation (**MfR**) published its final report on the telecommunications sector regulatory review in March 2026. MfR recommended that the Ministry of Business, Innovation and Employment to consider whether GCP should be retained, repealed, or modified following our review of Anchor Services.[144] MfR recommended that we review Anchor Services in 2026.

A30 Were GCP to be modified or repealed, this would bring the actual outcomes within the market into line with the notional assessment used in the investment test, in effect removing the distinctions between the WTPF and the true incremental revenue Chorus would receive from an investment.

A31 Deregulation and reviewing the GCP requirement are both outside of the scope of this IM Review, deregulation or a removal of the GCP requirement may impact on competition and transfer of welfare issues, but they are not being relied upon in determining what the current test should be. Rather, we are setting the investment test in the IMs on the basis of the law as it currently exists.

---

[143] In a substantive consideration of deregulation, we would need to be convinced that competitive constraints (such as terrestrial wireless and satellite being competitive on a full cost recovery basis in a context of less dense demand) are strong enough to mean weaker regulatory controls would not harm end-users.

[144] Ministry for Regulation "Telecommunications Regulatory Review – Final Report" (March 2026), at 35.

Attachment B: Glossary

Table B1 Abbreviations

Abbreviation	Term
Act	Telecommunications Act 2001
BBM	Building blocks model
capex	Capital expenditure
CPPP	Cost per premises passed
CTTP	Cost to connect to the premises
FFLAS	Fibre fixed line access service
FWA	Fixed wireless access
GAAP	Generally accepted accounting principle
GCP	Geographically consistent price
GTIP	Good telecommunications industry practice
ICP	Individual capex proposal
ID	Information disclosure
IM	Input methodologies
IM Review	Fibre IM Review 2027
LEO	Low earth orbit satellites
LFC	Local Fibre Company (Chorus, Northpower, Enable and Tuatahi)
MCP	Major capex proposal
MfR	Ministry for Regulation
NOI	Notice of intention
NPV	Net present value
Opex	Operational expenditure
Part 4	Part 4 of the Commerce Act
Part 4 IM Review	2023 Part 4 Input methodologies review
Part 6	Part 6 of the Telecommunications Act
PQ	Price-quality
PQP	Price-quality path
PQP1	First regulatory period (01 January 2022 to 31 December 2024)
PQP2	Second regulatory period (01 January 2025 to 31 December 2028)
PwC	PricewaterhouseCoopers New Zealand
RAB	Regulated asset base
UFB	Ultra-fast broadband
Verifier	Independent verifier
WISPs	Wireless internet service providers
WTP	Willingness-to-pay
WTPF	Willingness-to-pay for fibre