PUBLIC

COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

ISBN:: 978-1-991414-79-3

Fibre input methodologies review (Tranche 1)

Draft decision reasons paper

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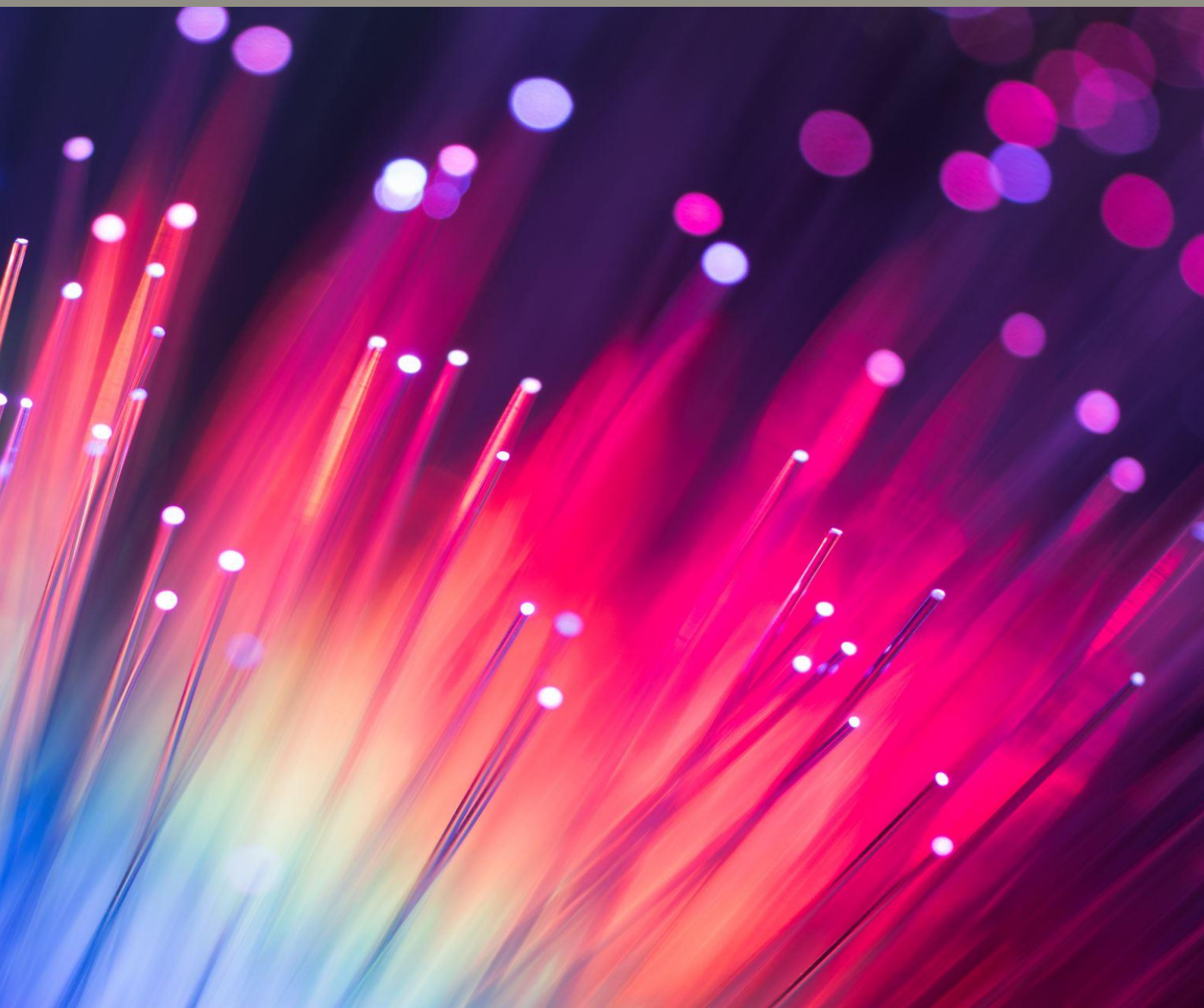
Date 17 March 2026



Associated documents

Publication date	Reference	Title
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 [ADD LINK to final]
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

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Executive summary

We are consulting on our draft decision for Tranche 1 of the Fibre IM Review

X1 This paper sets out the Commerce Commission's draft decision for 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).

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 focuses 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 In making these draft decisions, we have applied the purpose of Part 6 of the Act (s 162) and the purpose of input methodologies (s 174) and are satisfied that the proposed amendments better promote the long-term benefit of end-users (that is, consumers of fibre fixed line access services).

X7 We invite submissions on our draft decision by **5pm on 16 April 2026**. We will publish public versions of submissions and invite cross submissions by **5pm on 6 May 2026**.

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

X8 Our overall view is that the fibre IMs are generally working well and remain largely fit for purpose.

X9 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.

X10 For this reason, we have prioritised improving how the regime operates in practice, rather than on questions of fundamental design.

X11 In particular, we have focused on areas where targeted amendments could:

X11.1 improve regulatory certainty;

X11.2 simplify processes and reduce unnecessary complexity;

X11.3 clarify expectations for capital expenditure proposals; and

X11.4 incorporate lessons learned from PQP2 and other regulated sectors.

Overview of our draft decision

X12 The most of the amendments we propose relate to the framework for assessing capital expenditure proposals, particularly for network expansion.

X13 The key elements of our draft decision are summarised below.

Introducing an investment test for network expansion capex

X14 We propose to introduce a defined investment test for network expansion capital expenditure above specified thresholds.

X15 The investment test would take the form of a cost-benefit analysis, requiring Chorus to demonstrate that a proposed expansion generates a positive net benefit for the fibre fixed line access services (FFLAS) market. The proposed investment test does not replace the existing capex approval framework, it provides a structured analytical approach to assessing expansion proposals within the wider framework.

X16 The IMs would specify key parameters and information requirements for this analysis, including the use of willingness-to-pay measures to value end-user benefits.

X17 We consider that introducing a structured test will provide for more efficient investment and greater transparency around how major expansion proposals will be assessed.

Improvements to the capex proposal and assessment process

X18 We propose several amendments to improve the efficiency and workability of the capex proposal process ahead of future price-quality resets.

X19 These include:

X19.1 adjusting timeframes for expenditure proposals and Commission decisions;

X19.2 introducing a two-tier information framework distinguishing between priority and non-priority programmes; and

X19.3 formalising the role of the independent verifier through a tripartite verification deed.

X20 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

X21 We propose to retain the connection capex category, while making several targeted refinements.

X22 These include:

X22.1 expanding the definition of connection capex to include certain customer upgrades

X22.2 simplifying reporting requirements

X22.3 introducing an annual calculation of the connection capex wash-up balance

X23 These amendments 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

X24 We also propose amendments to the treatment of insurance and self-insurance entitlements.

X25 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

X26 Taken together, these amendments are intended to:

X26.1 ensure the regulatory framework remains fit for purpose as the fibre market evolves

X26.2 increase clarity and transparency around how major investment proposals will be assessed

X26.3 ensure the Commission receives robust and proportionate information when evaluating expenditure proposals

X26.4 simplify and streamline regulatory processes, reducing unnecessary complexity and compliance costs

X26.5 maintain incentives for efficient investment and innovation in fibre infrastructure.

Relationship with the cross-sector cost of capital review

X27 The Commission is also 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.

X28 Our draft decision on those common cost of capital IMs has been published in a separate draft decision reasons paper.

X29 The outcome of that process will 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

X30 We are conducting the Fibre IM Review in two tranches.

X31 Tranche 1 (this paper) focuses on issues relevant to Chorus preparing and submitting its proposal for the third price-quality path reset (PQP3).

X32 Tranche 2 will address remaining issues that do not need to be resolved before the PQP3 process begins. This includes:

X32.1 fibre-specific cost of capital parameters;

X32.2 information disclosure IM matters;

X32.3 other price-quality framework issues.

Detailed draft decision

X33 The detailed draft decision proposed in this review are summarised in Table X1.

Table X1 Overview of the Tranche 1 draft decision

Code	Draft decision
	PROPOSING AND ASSESSING CAPITAL EXPENDITURE
	Timelines for setting expenditure allowances
C01	**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). • 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	**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	**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	**Introduce** a requirement that Chorus provides information relevant to the proposal for the verifier to conduct the verification in a timely manner.

Code	Draft 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; • takes the form of a cost benefit analysis (**CBA**); and • has a $30 million threshold for the individual capex proposal (**ICP**) mechanism and a $5 million threshold for the base capex mechanism and the connection capex mechanism.
	Process and consultation requirements
T02	**Maintain** 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.
	Information requirements and key test assumptions
T03	**Amend** the IMs to introduce a requirement for Chorus to undertake sensitivity analysis on key parameters. This should include but is not limited to: • the discount rate; • the uptake rate; • the willingness to pay; and • the portfolio mix.

Code	Draft decision
T04	**Require** Chorus to provide detailed evidence supporting its forecast uptake rate assumptions applied to the test.
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 with the proposed payback period.
T07	**Require** Chorus to specify a forecast fibre broadband service portfolio mix for the forecast areas 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**) in 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 (and any other parameters we specify in the IMs) with detailed 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 as outlined in 4.37 to 4.40.
	Evaluation criteria
T12	Specify that a network expansion capex proposal will be approved where: • the investment test results in a positive fibre fixed line access services (**FFLAS**) market net 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.
	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.
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.

Code	Draft Decision
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.
	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 $30 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).

Code	Draft Decision
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.
	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 are the upfront rules designed to promote certainty about how we regulate

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.

We are required to review the input methodologies every seven years

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 We completed our second review of the Part 4 IMs in December 2023. However, as part of the current IM Review, we are reviewing elements of the cost of capital fibre IM alongside the relevant Part 4 cost of capital IMs, so that our approach is aligned as far as possible. Our draft decision on the cost of capital IMs is set out in a separate reasons paper.[1]

[1] Commerce Commission "Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) draft decision reasons paper" (10 March 2026). This reasons paper can be found here.

Status of this Fibre Input Methodologies Review

1.6 We commenced this review on 27 March 2025.[2] We issued two notices of intention alongside an Open Letter on the Fibre IM Review:

1.6.1 One notice stated our intention to begin work on the Fibre IM Review.

1.6.2 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).

1.7 In July 2025 we published an issues paper setting out the key topics we proposed to consider as part of the IM Review.[3] 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 will be set out in a separate issues paper and draft decision.

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

1.9 Further details on the Tranche 2 topics we intend to consider in the next stage of our process and the indicative timeline for that consultation can be found in paragraphs 1.21 and 1.22.

What we are aiming to achieve

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

1.10 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.

1.11 Our view is that they are generally working well and that the fibre regime is doing its job of 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.

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[2] 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).

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

Application of our decision-making framework and overarching objectives

1.12 In reaching our draft decision we have applied the Fibre IM Review decision-making framework. This framework is largely the same as the framework we applied for the 2023 Part 4 IM Review.

1.13 It is an enduring frame of reference for engaging with our processes and considering our decisions in the current and future Fibre IM Reviews.

1.14 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.

1.15 In coming to our draft decision, we have been guided by the three overarching objectives set out in the Decision-making Framework paper:[4]

1.15.1 promoting the considerations in section 166(2) more effectively;

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

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

1.16 These overarching objectives are further explained in the Fibre IM Review decision-making framework paper.

What we are consulting on

Seeking views on our draft decision (Tranche 1)

1.17 The focus of this Tranche 1 draft decision is issues relevant to Chorus preparing and submitting its proposal for the third price-quality path reset (**PQP3**). The draft decision is summarised in Table X1 and the reasons for the draft decision are set out in this paper. We seek views on this draft decision.

1.18 Where the draft decision introduces new or amends existing clauses within determination, they are marked as tracked changes in the [DRAFT] Fibre Input Methodologies (IM Review) Amendment Determination 2026 published alongside this paper.[5]

1.19 We published the common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) draft decision reasons paper on 10 March 2026.

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[4] Commerce Commission "Fibre input methodologies – Decision-making framework paper" (10 March 2026), at [3.6]. The decision-making framework paper can be found here.

[5] *[DRAFT] Fibre Input Methodologies (IM Review) Amendment Determination 2026* [2026] NZCC xx. This draft amendment determination has been published alongside this draft decision and can be found here.

Table 1.1 Structure of this draft decision reasons paper (Tranche 1)

Chapter	Chapter name	Chapter topics
1	Overview of the Fibre Input Methodologies Review	Scope of this Fibre Input M Review Where we are in this Fibre IM Review What we are aiming to achieve What we are consulting on What we are not consulting on in Tranche 1 Next steps
2	Submission process	How you can make a submission
3	Proposing and assessing capital expenditure	Capital expenditure input methodologies overview Time frames for setting allowances Independent verification process Information requirements Evaluation criteria
4	Investment test for network expansion capital expenditure	Form and scope of the investment test Process and consultation requirements Information requirements and key test assumptions Costs and benefits Evaluation criteria
5	Capital expenditure flexibility measures	Approach to sharing forecast connection uptake risk between Chorus and end-users Connection capital expenditure Individual capital expenditure proposals
6	Cost of capital	Links to the Review of Cost of Capital IM for fibre and Part 4 regulated suppliers
7	Treatment of insurance	Licensed insurance entitlements Self-insurance entitlements
8	Other amendments	Our response to stakeholder comments on topics that have not been addressed in the main body of this draft decision paper.
9	Other matters raised	Our responses to stakeholder comments and views on the cost of capital topics that have not been addressed in the main body of this draft decision paper.
A	Attachment A	Using willingness to pay to value end-user benefit from network expansion

Material published alongside this paper

1.20 A summary of the material published alongside this paper is provided in Table 1.2.

Table 1.2 Additional material in the fibre IM draft decision package (Tranche 1)

Document	Brief description of document
[DRAFT] Fibre Input Methodologies (IM Review) Amendment Determination 2026	Sets out the proposed drafting of new or amendments to existing clauses within determination to give effect to the draft decision
Richard Feasey 'A short response to the Frontier's Economics paper 'Response to Feasey Report' (16 September 2025) provided as part of Chorus' submission	Richard Feasey response to Frontier's report as part of Chorus' submission on the Fibre IM Review issues paper (Tranche 1)
Chorus letter 'Timing of fibre expenditure proposals' (23 September 2025)	Chorus' response to follow up questions on the timing of future fibre expenditure proposals
Chorus' response to Commerce Commission request for more information regarding insurance (21 January 2026)	Chorus' response to our request 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.

What we are not consulting in Tranche 1

1.21 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 will include 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.

1.22 At this point, specific issues identified for consideration in Tranche 2 are:

1.22.1 Revenue-linking for individual capex conditions and capex ringfencing;

1.22.2 Value of commissioned assets and related party transactions;

1.22.3 Definition of a reopener event (lead time);

1.22.4 Reopener events (time limits and expenditure eligibility);

1.22.5 Definition of a reopener event (definition of additional net costs);

1.22.6 Reopener thresholds; and

1.22.7 fibre-specific cost of capital IM matters.[6]

[6] 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]. This reasons paper can be found here.

1.23 We are not seeking submissions on Tranche 2 topics at this stage. We will publish an issues paper on key topics for Tranche 2 in Q3 2026 and parties will be given an opportunity to comment and identify any further issues.[7]

Next steps

1.24 The details of the IM Review process were outlined in our issues paper and key dates are presented in Table 1.3.[8] This process provides transparency on the Commission 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.

Table 1.3 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 close
6 May 2026	Cross submissions on Tranche 1 draft decision close
Q3 2026	Final decision on Tranche 1 issues
Q3 2026	Issues paper on Tranche 2 issues Consultation on Tranche 2 issues paper
Q1 2027	Draft decision on Tranche 2 issues
	Consultation on Tranche 2 draft decision
October 2027	Final decision on Tranche 2 issues

7 Quarters in the calendar year, ie. Q1 means January – March.

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

Chapter 2 Submission process

How you can make a submission

2.1 There are opportunities for interested parties to participate at each stage of the Fibre IM Review process. We are now seeking feedback on the Tranche 1 draft decision set out in Table X1.

2.2 In providing feedback it would be helpful for stakeholders to:

2.2.1 consider our decision-making framework objectives, including the requirement on the Commission to promote the Part 6 purposes and other statutory decision-making considerations, when preparing their submissions;

2.2.2 consider and provide feedback on the proposed drafting set out in the amendment determinations; and

2.2.3 provide details of alternative approaches to resolve any issues raised with the draft decision along with supporting evidence of why those alternatives should be preferred.

2.3 We published a separate draft decision package covering the common cost of capital input methodologies review for fibre and regulated suppliers under Part 4 on 10 March 2026.

Key dates

2.4 We welcome your views on this paper and the amendment determination by **5pm on 16 April 2026**. We will publish public versions of submissions we receive by 22 April 2026 and invite cross submissions by **5pm on 6 May 2026**.

Address for submissions

2.5 Please email your submissions to infrastructure.regulation@comcom.govt.nz with "Fibre IM Review draft decision paper (Tranche 1) submission – [your submitter name]" in the subject line of your email.

2.6 You can submit by emailing your submission in both a format suitable for word processing (such as a Microsoft Word document), as well as a 'locked' format (such as a PDF) for publication on our website.

Identifying and managing confidential information

2.7 The protection of confidential information is something we take seriously. If you need to include commercially sensitive or confidential information in your submission or cross-submission, you must provide us with both a confidential and non-confidential/public version of your submission that clearly identify the confidential and non-confidential/public versions.

2.8 When including commercially sensitive or confidential information in your submission, we offer the following guidance.

2.8.1 Please provide a clearly labelled confidential version and public version. We intend to publish all public versions on our website.

2.8.2 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

2.8.3 All submissions and cross submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reason existed under the Official Information Act 1982 to withhold it. We would normally consult with the party that provided the information before we disclose it to a requestor.

Chapter 3 Proposing and assessing capital expenditure

Introduction

3.1 This chapter provides an overview of the capital expenditure input methodologies and sets out our draft decision on fibre IM amendments that affects the process for Chorus to make and how we assess a capex proposal. This includes our draft decision on the:

3.1.1 timeframes for setting capex allowances;

3.1.2 independent verification process;

3.1.3 information requirements; and

3.1.4 evaluation criteria.

3.2 Our experience implementing the fibre regulatory regime during PQP1 and PQP2 has highlighted opportunities to improve the workability of the capital expenditure proposal and assessment process. In particular, stakeholders have identified areas where clearer information requirements and more proportionate processes could improve transparency and reduce unnecessary complexity, while still enabling the Commission to assess proposed investments robustly. We therefore propose a number of refinements to the capex proposal framework to streamline processes and provide greater predictability for both Chorus and stakeholders

Capital expenditure input methodologies overview

3.3 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.

3.4 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:

3.4.1 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;

3.4.2 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;

3.4.3 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;[9] and

3.4.4 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.

3.5 The capex IM can also support promotion of workable competition in the telecommunications sector (s 166(2)(b)) by considering and addressing the impacts of Chorus capex decisions on competition in downstream telecommunications markets and competition for the provision of alternatives to fibre fixed line access services (**FFLAS**).

Timeframes for setting capital expenditure allowances

3.6 The Commission is required to consider Chorus's capex proposal and make expenditure and price-quality decisions in advance of the start of a regulatory period. Timeframes are specified in the IMs for when:

3.6.1 key information requirements for Chorus' proposal are determined and issued to Chorus;[10]

3.6.2 Chorus must submit its base capex and connection capex baseline proposals;[11] and

3.6.3 we make our base and connection capex allowance decisions and determinations for each regulatory period.[12]

3.7 Chorus sent us a letter on the timing of our fibre expenditure proposals in addition to its submission on our Tranche 1 issues paper.[13] This letter is published alongside this draft decision reasons paper. Our draft decision on the timeframes for setting capex allowances have regard to Chorus' letter and submission.

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[9] 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.

[10] *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, clauses 3.7.8(5)(b), 3.7.8(9)(b), 3.7.14(5)(b) and 3.7.14(7)(b).

[11] Ibid, clause 3.7.8(1)(b).

[12] Ibid, clauses 3.7.12(1)(b) and 3.7.20(1)(b).

[13] Letter from Ian Ferguson (Head of Economic Regulation, Chorus) to Keston Ruxton (Fibre Manager, Commerce Commission) on the timing of fibre expenditure proposals (23 September 2025), at 1. This letter has been published alongside this draft decision and can be found here.

Our draft decision

3.8 Our draft decision is to amend the dates in fibre IMs as set out in Table 3.1.

Table 3.1 Capex allowance timeframes in the fibre IMs (relative to the start of the upcoming regulatory period)

Component	Description	Current IM	Draft decision
Agreement of regulatory templates[14]	Chorus and the Commission must agree the form and content of the regulatory templates for the base capex and connection capex baseline proposals.	At least 22 months	At least 24 months
Sending information request[15]	The Commission is required to issue a base capex and connection capex information request.	At least 22 months	At least 24 months
Submission of expenditure proposal[16]	Chorus is required to submit its base capex proposal.	At least 14 months	At least 16 months
Final decision on expenditure allowances[17]	The Commission is required to determine a base capex and connection capex baseline allowances.	No later than six months	No later than four months

3.9 We are not proposing to introduce additional process steps into the IMs. We will consider submitter feedback for planning the processes ahead of each reset. For example, for PQP3, we intend to publish expenditure, quality, and revenue decisions at the same time. However, we do not propose to amend the IMs to stipulate this. We consider these changes will enable combined decisions without compromising Chorus' preparation, our assessment, or stakeholders' ability to engage.

Our reasoning

3.10 Our draft decision to amend the capex allowance timeframes are to:

3.10.1 ensure that we have sufficient time to make robust decisions that promote s 162 of the Act by being in the long-term benefit of end-users in the market for FFLAS; and

3.10.2 improve the workability of processes for ourselves and Chorus, while maintaining the certainty provided in the IMs.

[14] Ibid, clauses 3.7.8(5)(b) and 3.7.14(5)(b).
[15] Ibid, clauses 3.7.8(9)(b) and 3.7.14(7)(b).
[16] Ibid, clause 3.7.8(1)(b).
[17] Ibid, clauses 3.7.12(1)(b) and 3.7.20(1)(b).

3.11 By bringing forward the date of submission for the proposal and by pushing back the date we make a final decision, we extend the time period between when Chorus submits its expenditure proposal and when we need to make a final decision on the expenditure allowances from eight to 12 months.[18] This gives us more time to:

3.11.1 scrutinise Chorus' expenditure proposal and to make robust decisions;

3.11.2 ensure alignment with our other PQ decisions; and

3.11.3 improve:

3.11.3.1 the efficiency incentives the price path creates, by ensuring expenditure is approved with sufficient scrutiny; and

3.11.3.2 Chorus' investment incentives where expenditure is approved that would not have been able to be justified in a shorter process.

3.12 We recognise that moving the timeframes for our decision could affect the time Chorus has to prepare its proposal and seek stakeholder input. As such, our draft decision amends timeframes to maintain the amount of time Chorus has to prepare its expenditure for future resets by bringing forward the date we need to agree to the form and content of the regulatory templates and send the information request to Chorus.[19]

3.13 Our draft decision on the capex allowance timeframes, as well as publishing the expenditure, quality, and revenue decision simultaneously for future resets, address Chorus' concerns with the overall reset process. In Chorus' submission on our issues paper, Chorus highlighted that the current reset process is problematic, as it does not give it sufficient time to comply with the determinations and final PQ decision that we make.[20] We intend to publish the decision around expenditure, quality and revenue together, which would give Chorus four months to implement our final decision and determinations rather than one.[21]

3.14 Chorus submitted that quality decision being made after the expenditure decision is conceptually flawed as the process does not allow the Commission to determine an expenditure level that is commensurate with the required service level.[22] Publishing our expenditure and PQ decision at the same time, would allow us to better take into account any linkages between the quality standards and expenditure areas.

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[18] Note that we consult on our draft decision within this eight-month timeframe.

[19] On the timing of expenditure proposals Chorus stated in their letter that the PQP3 expenditure proposal on business plans would be developed in calendar year 2026 rather than 2027. Therefore, the information Chorus will use to underpin its proposal will be less recent. Our draft decision does not affect this issue and we do not believe that it is a problem. Chorus notes their business is becoming more stable as fibre uptake matures, decreasing the risk of material changes in spending forecasts from year to year.

[20] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [69].

[21] We note that this is the same as the statutory lead-time provided for providers subject to price-quality regulation under Part 4 of the Commerce Act. Commerce Act 1986, s 53M(7).

[22] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [70.1].

3.15 However, we are not proposing to amend the IMs to require us to publish a decision for PQ and expenditure at the same time for future resets. This is because we want to retain the flexibility to separate out the elements of the decision in the future should that be necessary. For example, if there was a quality or revenue issue that required more consultation or information from Chorus, we may need to delay the final PQ decision and determination.

Independent verification process

3.16 An independent verifier strengthens Chorus' base capex and baseline connection proposals by providing an impartial view that expenditure forecasts are efficient, prudent, and aligned with industry standards.

3.17 A tripartite deed and terms of reference were established with the Commission, Chorus, and Synergy as the independent verifier early in the second price-quality path reset (**PQP2**) process.[23] Chorus submitted the independent verification report as part of its PQP2 proposal.

3.18 For PQP2, Synergy verified Chorus' proposed expenditure against the evaluation criteria and relevant assessment factors from Section 2 of Subpart 8 of the Commission's Fibre Input Methodologies Determination 2020 (Fibre Input Methodologies (fibre IMs)) and produced a report covering all PQP2 forecast expenditure.

3.19 In response to submissions advocating for a clearer and more consistent approach than we adopted in PQP2, we considered adding greater prescription into the capex IM regarding process and requirements for the independent verification of capex proposals. This included whether we should formalise the engagement process through a tripartite deed within the IMs.

Draft decision

3.20 Our draft decision, wherever an independent verifier is used, is to:

3.20.1 amend the current independent verification requirements within the capex IMs to require Chorus, the independent verifier, and the Commerce Commission to enter a tripartite deed, where the deed:

3.20.1.1 sets out terms of reference for the verifier;

3.20.1.2 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;

3.20.1.3 requires the verifier answer any questions posed by the Commission on the verification report;

[23] Commerce Commission "Deed Relating to PQP2 Independent Verification" (May 2023).

3.20.1.4 requires the verifier keeps records of all communication between the verifier and Chorus;

3.20.1.5 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

3.20.1.6 includes any other provisions necessary for business efficacy agreed by the Commission.

3.20.1.7 requires the independent verifier provide a signed certificate certifying that:

3.20.1.7.1 the relevant parts of the proposal that Chorus is submitting to the Commission have been verified;

3.20.1.7.2 the verification report was prepared in accordance with the deed; and

3.20.1.8 requires Chorus to provide information relevant to the proposal for the verifier to conduct the verification in a timely manner.

Current IM setting

3.21 The IM requires the base capex, connection capex, and individual capex proposals to be verified by an independent verifier approved by the Commission. The Commission may waive the requirement for an independent verification report to be included as part of an individual capex proposal if it is satisfied that the information and reasons provided by Chorus justifies the waiver.

3.22 The current IM settings specify a high-level process for approving the use of a verifier (the verifier must be independent and capable), the scope of the report, and the terms of the engagement between the verifier, Chorus, and the Commission.

Reasons for our draft decision

Formalising a tripartite deed

3.23 Our draft decision is to amend the independent verification requirements within the IM to formalise the practice of Chorus, the independent verifier, and the Commission entering into a tripartite deed. A requirement for a tripartite deed in the IMs provides a framework for engagement, information sharing, and accountability throughout the verification process. Our draft decision is that these decisions would apply whenever an independent verifier is used including base capex, connection capex and individual capex proposals.

3.24 The requirements in the deed collectively aim to provide regulatory certainty and reduce the time and cost of each reset. They also strengthen the management of the independent verifier process and ensure accountability of the verifier to the Commission. In addition, these requirements reduce the risk of misunderstanding or incomplete analysis and establish a duty of care from the independent verifier to the Commission.

3.25 A tripartite deed has been successfully used to support our expenditure evaluations in the energy sector and a requirement to enter into one is included in the Transpower capex IM.[24] We consider a tripartite deed is an effective way to manage the relationship between the verifier, Chorus, and the Commission that has been used previously. We consider including a requirement for a deed in the Fibre capex IM provides greater certainty to Chorus and potential verifiers on how the verification process will be governed.

3.26 We consider a tripartite deed is important because:

3.26.1 it increases regulatory certainty relating to the role of the independent verifier and the Commissions involvement;

3.26.2 it reduces regulatory burden as parties do not need to negotiate for each reset on this key aspect of the verification process;

3.26.3 it facilitates the use of specialist expertise and scrutiny brought by the verifier which resulted in Chorus providing a better PQP2 proposal and time for our evaluation of its expenditure proposal;

3.26.4 it aims to ensure the verifier operates independently from the regulated provider and the Commission, maintaining objectivity and credibility in the verification process;

3.26.5 the deed outlines each party's obligations, including the scope of the verifier's work, timelines, and the nature of engagement. This prevents misunderstandings and ensures a consistent process;

3.26.6 it enables the verifier to access necessary data from the regulated provider while protecting sensitive information and ensuring the Commission receives a thorough and impartial report; and

3.26.7 the Commission can rely on the deed to engage with the verifier post-submission, helping it interpret findings and plan its own evaluation of the PQP proposal.

[24] *Transpower Capital Expenditure Input Methodology Determination 2012*, as amended on 13 December 2023, schedule J5.

Additional requirements to improve the verification process

3.27 Our draft decision is that the independent verifier must certify and sign its report, confirming that it has been prepared in accordance with the deed.

3.28 Certification provides a formal acknowledgement that the report accurately reflects the scope and objectives agreed upon, reducing ambiguity about its reliability.

3.29 This step strengthens confidence among stakeholders that the verification was conducted in accordance with the deed. It also aligns with best practice in governance and verification frameworks, offering assurance that the report is not merely an informal opinion but a formally endorsed document. Furthermore, signed certification mitigates risk by creating a clear record of responsibility, which can be referenced if issues arise in the future.

3.30 Our draft decision is also that Chorus must provide all information relevant to its proposal to the verifier in a timely manner to enable the verification process.

3.31 The verifier's ability to conduct a thorough and accurate assessment depends on having complete and accurate information at the right time.

3.32 Delays or gaps in information can compromise the quality of the verification, lead to inefficiencies, and increase the risk of incorrect conclusions. Timely disclosure also promotes transparency and accountability, ensuring that the process remains fair and robust. This requirement aligns with good regulatory practice and supports confidence in the outcomes by reducing the likelihood of disputes or misunderstandings later in the process.

3.33 Our draft decision is that these decisions would apply whenever an independent verifier is used including for base capex, connection capex and individual capex proposals.

Submissions we received and our consideration

3.34 PwC submitted that the Commission should include verification requirements in the IMs, including terms of reference and tripartite engagement processes. This, it said, would reduce cost and complexity through simplifying processes where appropriate, and provide greater certainty, for Chorus, the Commission, and verifiers.[25]

3.35 Our draft decision is not to increase the level of specificity for the engagement and responsibilities of independent verifier such as is in the Transpower IM Determination but to include a requirement for a tripartite deed.[26]

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[25] 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 5.

[26] *Transpower Capital Expenditure Input Methodology Determination 2012*, as amended on 13 December 2023, schedules J and K.

3.36 We do not consider that additional specificity beyond what is already in the IMs and what we propose in our draft decision is required. We do not agree with PwC that the lack of specificity resulted in an inefficient and complex PQP2 process. We are comfortable that our approach gives best effect to s 162(b) by helping Chorus to improve efficiency through the rigour of an independent verification process.

3.37 Our draft decision to include a requirement for a tripartite deed helps ensure that roles, responsibilities, and expectations are transparent and well understood, reducing ambiguity and the risk of delays or miscommunication.

3.38 By embedding a tripartite deed into the process, the Commission can deliver a robust and predictable framework for future resets, improving confidence in regulatory outcomes and improved efficiency.

3.39 PwC also submitted that there is not a direct link between the information requirements within the capex IM, the verification process, the Commission's evaluation process and the evaluation criteria.[20] PwC considered that this resulted in an inefficient process and complexity as the verifier sourced information required for its assessment.[27]

3.40 We consider that the link between information requirements, the verification process, and the evaluation of proposals is achieved through the PQ processes that are required in the capex IM. For example, the Commission confirms the terms of reference for the verification report, which provides certainty on the scope and verification criteria the verifier should use.

Information requirements

3.41 We require sufficient information to assess whether Chorus' expenditure proposals comply with the evaluation criteria set out in the IMs. This information is necessary to ensure a robust assessment of the proposals against those criteria and to determine the appropriate expenditure allowance.

3.42 The information requirements applicable to base and connection capital expenditure proposals have been developed so that an information request can be made that is fit for purpose at the time of request, rather than locking in information requirements that may become outdated as the industry changes.

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[27] 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 24 and 27.

3.43 In response to submissions advocating for a more efficient and certain process, we have considered:

3.43.1 incorporating greater specificity within the IMs regarding the types of information we intend to request, rather than relying solely on separate information requests; and

3.43.2 applying proportionate scrutiny when we set information requirements for Chorus' expenditure proposals.

3.44 Our approach builds on lessons learnt in PQP2 to improve workability by codifying the information we expect. To aid this process we propose two levels of information requirements. More material or higher-risk expenditure subcategories that meet defined criteria will be subject to more detailed information requirements, while routine, less material subcategories will require less extensive disclosure.

Draft decision

3.45 Our draft decision is to:

3.45.1 amend the capex IMs to differentiate between two levels of information requirements when issuing information requests:

3.45.1.1 'priority projects or programmes', where more information will be required; and

3.45.1.2 'non-priority projects or programmes', where less information will be required.

3.45.2 amend the capex IMs to require the criteria used to select the priority programmes to be determined 24 months prior to the start of the upcoming regulatory period by agreement between Chorus and the Commission;

3.45.3 amend the IMs to introduce operating expenditure (**opex**) information requirements into the IMs, applying the priority and non-priority distinction set out in paragraph 3.45.1;[28]

3.45.4 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); and

3.45.5 maintain the requirement for the Commission to issue an information request prior to Chorus submitting its capex proposals.

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[29] Commerce Commission. Notice to supply information to the Commerce Commission under section 221 of the Telecommunications Act 2001 - Requirements for base capital expenditure, connection capex baseline expenditure an operating expenditure proposal, 28 February 2024, pages 16-17.

Current IM setting

3.46 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 information areas or topics that we may seek in an information request. These information areas are related to the assessment factors that we have regard to when evaluating Chorus' capex proposals.

3.47 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 that we consider we need to appropriately assess the capex proposal.

3.48 We adopted a two-tier approach for the PQP2 fibre information requirements for base capex and opex which applied a proportionate approach to the information we needed for the assessment of the capex. We identified larger programmes as "priority base capex subcategories" and all other programmes as "non-priority base capex subcategories" and set information requirements at a level to reflect the relevant priority.[29]

3.49 The IMs are silent on information requirements for consideration of proposed opex prior to price-quality path resets. As part of the initial information request for PQP2, we requested information on opex.

Reasons for our draft decision

Two-tier approach to our capital expenditure assessments

3.50 Our draft decision is to introduce into the IMs a two-tier approach to information requirements differentiating between priority and non-priority programmes. This would formalise the approach to setting information requirement levels we used in PQP2. We would maintain in the IMs expenditure information requirements at a principled level to ensure flexibility while providing certainty where it is possible to do so.

3.51 Our draft decision is that the Commission will determine criteria used to select the priority programmes 24 months prior to the start of the upcoming regulatory period in consultation with Chorus.[30] The criteria will be then applied to Chorus' expenditure subcategories to identify which subcategories will be classified as priority and non-priority programmes for the purposes of the proposal and subsequent capex evaluation.

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[29] Commerce Commission. Notice to supply information to the Commerce Commission under section 221 of the Telecommunications Act 2001 - Requirements for base capital expenditure, connection capex baseline expenditure an operating expenditure proposal, 28 February 2024, pages 16-17.

[30] This will be at the same time as the Commission and Chorus agree the form and content of the regulatory templates and when the Commission issues the information request for the regulated provider's expenditure proposal.

3.52 The draft decision:

3.52.1 promotes s 174 of the Act by providing greater certainty to Chorus regarding the information that will be required in an expenditure proposal and how the information requirements relate to the evaluation criteria; and

3.52.2 reduces regulatory cost and complexity, without detrimentally affecting the promotion of the Part 6 purpose, consistent with the decision-making framework, by ensuring a proportionate amount of information is sought for the assessment of capex proposals.

3.53 Priority programmes typically represent larger or more complex expenditure subcategories that meet specific criteria and where we would require more detailed information than the other more routine expenditure subcategories (non-priority programmes). This reflects the higher level of scrutiny required to manage potential risks and ensure proposed allowances meet the expenditure objective and reflect good telecommunications industry practice.

3.54 For programmes that do not fall within the priority category, we will adopt a higher level approach. Information will be requested for a limited subset of information areas, without imposing unnecessary reporting burdens.

3.55 Examples of criteria that could be used to set priority programmes include:

3.55.1 the materiality of the expenditure sub-category;

3.55.2 whether the expenditure sub-category has increased (or decreased) significantly compared with historical levels;

3.55.3 the level of risk or uncertainty in the forecasts;

3.55.4 the strategic importance of the expenditure sub-category; and

3.55.5 impact on competition across telecommunications markets.

3.56 Subcategories that are not determined as priority capex with these criteria will be determined as non-priority capex. We consider that this will likely include subcategories:

3.56.1 where expenditure falls within historical levels; and

3.56.2 for programmes where expenditure is more routine and predictable, and where expenditure drivers and forecasting methodologies are well-established and understood.

3.57 Table 3.2 sets out the proposed information area requirements for both priority programmes and non-priority programme subcategories. The intent is to ensure that regulatory oversight is proportionate to the level of risk and strategic importance associated with each programme type.

Table 3.2 Base capex information requirements

Ref	Category	Description	Priority Programmes	Non-priority Programmes
(a)	Governance	Evidence of governance policies and processes applied to proposed expenditure	✓	✓
(b)	Historic expenditure	Information on historical expenditure and investment trends	✓	✓
(c)	Forecasting Approach	Models and methodologies used to forecast capital expenditure	✓	✓
(d)(i)	Uncertainty – Need	Extent of uncertainty regarding the need for expenditure	✓	
(d)(ii)	Uncertainty – Economic Case	Extent of uncertainty regarding the economic justification for proposed expenditure	✓	
(d)(iii)	Uncertainty – Timing	Extent of uncertainty regarding the timing of proposed expenditure	✓	
(e)	Risk-Based Approach	Application of risk-based methodologies to proposed expenditure	✓	✓
(f)	Financial Information	Evidence of efficiency improvements and relevant financial data	✓	
(g)	Economic Analysis	Quantitative analysis including sensitivity and impact assessments	✓	
(h)	Alternatives Analysis	Consideration of alternatives and their impact on PQ FFLAS quality outcomes	✓	
(i)	Fibre Asset Information	Data on fibre assets and network infrastructure	✓	
(j)	Competition Effects	Information on competition impacts, especially for subcategories affecting telecommunications markets	✓	
(k)	Layer 1 Service Impact	Impact of proposed expenditure on layer 1 services in PQ FFLAS	✓	
(l)	Common Costs & Benefits	Shared costs and benefits across PQ FFLAS, ID-only FFLAS, and non-regulated services	✓	
(m)	Quality Linkages	Relationship between proposed expenditure and PQ FFLAS quality outcomes	✓	✓
(n)	Stakeholder Consultation	Extent and impact of consultation with access seekers and end-users	✓	
(o)	Non-Linear Connection Costs	Proposed non-linear connection costs	✓	✓
(p)	Procurement Resourcing & Deliverability	Information on procurement, resource, and deliverability of proposed expenditure	✓	

3.58 This tiered approach balances the need for robust regulatory oversight with the principle of proportionality, ensuring that information requirements are aligned with programme significance and risk profile.

Early engagement to set subcategories and detailed information requirements

3.59 We consider that early engagement between Chorus and the Commission and greater use of guidance could be used to facilitate a more effective and transparent price-quality path (**PQP**) reset process.

3.60 The purpose of any such engagement would be to:

3.60.1 identify key areas of focus for the upcoming regulatory period;

3.60.2 clarify the scope and nature of information expected to support capex proposals;

3.60.3 address any process or timing issues identified in previous PQP resets; and

3.60.4 set priority and other programme subcategories according to the proposed criteria.

3.61 Providing guidance early in the reset process on the information required for PQ expenditure proposals could improve clarity for Chorus and stakeholders on the information requirements and assessment criteria the Commission intends to apply. Clearer and earlier expectations may result in a higher-quality application and assessment that provides better opportunities for interested parties to engage in the process.

Requirement for operational expenditure

3.62 Our draft decision is to introduce information requirements into the IM for opex in addition to the current requirements for base and connection capex. Our draft decision is to also divide opex into Priority Programmes and Other Programmes in the same way as base capex.

3.63 Table 3.3 sets out the proposed information area requirements for both priority programmes and non-priority programme subcategories.

Table 3.3 Opex information requirements

Ref	Category	Description	Priority Programmes	Non-priority Programmes
(a)	Governance	Evidence of governance policies and processes applied to proposed expenditure	✓	✓
(b)	Historic expenditure	Information on historical expenditure and investment trends	✓	✓
(c)	Forecasting Approach	Models and methodologies used to forecast capital expenditure	✓	✓
(d)(i)	Uncertainty – Need	Extent of uncertainty regarding the need for expenditure	✓	
(d)(ii)	Uncertainty – Economic Case	Extent of uncertainty regarding the economic justification for proposed expenditure	✓	
(d)(iii)	Uncertainty – Timing	Extent of uncertainty regarding the timing of proposed expenditure	✓	
(e)	Risk-Based Approach	Application of risk-based methodologies to proposed expenditure	✓	✓
(f)	Financial Information	Evidence of efficiency improvements and relevant financial data	✓	
(g)	Economic Analysis	Quantitative analysis including sensitivity and impact assessments	✓	
(h)	Alternatives Analysis	Consideration of alternatives and their impact on PQ FFLAS quality outcomes	✓	
(i)	Fibre Asset Information	Data on fibre assets and network infrastructure	✓	
(j)	Competition Effects	Information on competition impacts, especially for subcategories affecting telecommunications markets	✓	
(k)	Layer 1 Service Impact	Impact of proposed expenditure on layer 1 services in PQ FFLAS	✓	
(l)	Common Costs & Benefits	Shared costs and benefits across PQ FFLAS, ID-only FFLAS, and non-regulated services	✓	
(m)	Quality Linkages	Relationship between proposed expenditure and PQ FFLAS quality outcomes	✓	✓
(n)	Stakeholder Consultation	Extent and impact of consultation with access seekers and end-users	✓	
(o)	Procurement Resourcing & Deliverability	Information on procurement, resource, and deliverability of proposed expenditure	✓	

3.64 These proposed changes will (as for the capex changes):

3.64.1 promote s 174 of the Act by providing greater certainty to Chorus regarding the information that will be required in an expenditure proposal and how the information requirements relate to the evaluation criteria; and

3.64.2 reduce regulatory cost and complexity (without detrimentally affecting the promotion of the Part 6 purpose), consistent with the decision-making framework, by ensuring a proportionate amount of information is sought for the assessment of opex proposals.

Submissions we received and our consideration

3.65 In its submission Chorus supported a two-tier approach and submitted that a priority project/identified programme process could be used to reduce the information requirements for routine and less material capex projects.[31]

3.66 We agree that this would allow some programmes to be examined more closely while applying a more appropriate level of scrutiny to other expenditure (ie, less scrutiny to projects that are not material or are more stable and predictable).

3.67 We considered Chorus' submission that where proposed expenditure for programmes falls within historical levels this should be subject to less detailed requirements to enable more focus on uncertain investment types. We agree and our proposed IM amendments will enable these programmes, where appropriate, to have the same scrutiny applied as those that fall into the "Other non-priority programmes" category.

3.68 Chorus submitted that PwC concluded that a lack of specificity in the capex IM means the Commission may be compelled to request a broad set of information, much of which may be irrelevant to the capex approval process or approval criteria.[32]

3.69 PwC submitted that schedules should be introduced which contain the specific information requirements, including for different categories of capex, retaining the core process requirements in the body of the IM.[33]

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[31] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at 11.

[32] Ibid, at [36].

[33] 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 Table 5.

3.70 Consistent with sections 162 and 166 of the Act 2001, we consider it more effective to set fit-for-purpose information requirements at the time of a request rather than embed static lists within the Chorus capex IM.[34] Given the dynamic nature of the sector, decision-specific, up-to-date information requirements ensure our evaluations remain focused on efficiency and quality outcomes and support the objectives of s162 and s166, rather than being constrained by prescriptive IM content that may become outdated.

3.71 We expect as Chorus develops its asset management capabilities and improves its proposal setting processes, we will be able to reduce the information requirements included in the information request.

Evaluation criteria

3.72 The evaluation criteria set out the expenditure objective and assessment factors prescribed in the capex IM and lay out how we will assess and approve forecast capex allowances (ie, capex proposals submitted by Chorus ahead of a regulatory period).[35]

3.73 The assessment factors help to ensure that forecasts are based on robust evidence and best practice, both domestically and internationally. The assessment factors provide clarity and certainty to Chorus and other stakeholders on the different aspects of prudence and efficiency that may be relevant when evaluating capex proposals. The assessment factors are linked to the information requirements in the capex IM, which identify the type of information necessary to assess a base capex proposal against the evaluation criteria.

3.74 In response to amendments proposed by submitters on our issues paper, we have considered amending the evaluation criteria in the fibre capex IMs to:

3.74.1 simplify the evaluation process for base capex when forecasts fall within a defined range of historical investment (adjusted for inflation); and

3.74.2 establish specific criteria and rules for assessing competition issues in Chorus's capex proposals.

Draft decision

3.75 Our draft decision is to maintain the current evaluation criteria in the capex IM that applies to all types of capital expenditure.

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[34] The purpose in s 162 is to promote the long-term benefit of end users by achieving outcomes consistent with workably competitive markets, including incentives for innovation and efficiency and quality that reflects end-user demands. Section 166 requires our decisions to best give effect to s162 and, where relevant, to promote workable competition for the long-term benefit of telecommunications end users.

[35] *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, Subpart 8, Section 2.

Current IM setting

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

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

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

3.77 We evaluate a capital proposal by considering whether the proposed capex meets the capital expenditure objective and reflects good industry practice.[36]

3.78 We must also have regard to as many of the assessment criteria we consider relevant when considering whether the proposal meets the capital expenditure objective. By setting out specific factors we must have regard to (to the extent they are relevant), the IMs provide clarity and consistency for how we will assess expenditure proposals.

3.79 Assessment factors require the Commission to have regard to, where relevant, competition effects, including specific information for subcategories of expenditure that have potential impacts on competition in PQ FFLAS and other telecommunication markets.

3.80 The current IM settings allow us to:

3.80.1 assess and consider competition issues as part of our evaluation of capex allowances, eg, base capex proposals, connection baseline capex proposals and individual capex proposals. Section 166(2)(b) requires us to make decisions that to the extent that the Commission or Minister considers it relevant, promote workable competition in telecommunications markets for the long-term benefit of end-users of telecommunications services; and

3.80.2 consider capex proposals in a proportionate way (apply proportionate scrutiny) against the evaluation criteria. While the IMs do not prescribe specific tests we must apply in the evaluation of capex proposals, for example specifying that we must use indexation in certain circumstances, we consider the IMs allow us to apply tests that are relevant to the capex proposed. We could, for example, consider indexation to support and underpin our decisions that proposed capex meets the evaluation criteria if we considered it relevant.[37]

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[36] Ibid, clause 3.8.5(1)(a).

[37] Note that we approved Chorus' use of base-step-trend (**BST**) methodology to forecast its PQP2 opex allowances. BST is a form for indexation that allows for known and acceptable step changes to be added to historical spend (base) and forecast trends.

Reasons for our draft decision

Level of prescription in expenditure evaluation

3.81 Our draft decision is to retain the current criteria for evaluating Chorus' expenditure proposals. We consider that these criteria provide sufficient flexibility to accommodate different approaches, such as the use of indexation if required, without the need for prescriptive rules. This flexibility ensures that we can respond appropriately to the circumstances of each proposal while maintaining consistency with our regulatory objectives.

3.82 We also consider that the current framework provides Chorus with the right level of certainty regarding how its proposals will be assessed. In addition, we do not see a need to prescribe a different approach for specific categories of "routine" capex. Our existing evaluation process already applies a proportionate approach, ensuring that routine and non-routine expenditure are assessed in a manner that reflects their relative significance and impact.

Submissions we received and our consideration

3.83 Chorus proposed that we reduce information requirements for certain routine capex categories.[38] A similar proposal was raised by Richard Feasey in his recent report on the regulation of fibre-based telecommunications services and networks in New Zealand. Feasey recommended that we implement lower-cost approaches to approving portions of Chorus' expenditure proposal including indexations methods.[39]

3.84 We consider that Chorus can apply for, and we can accept, indexation under the current IM settings. We acknowledge that Chorus is seeking greater prescription in how we must apply the evaluation criteria and information requirements in assessing capex proposals. We consider that retaining a degree of flexibility in the assessment of capex proposals is important and we will identify how we will have regard to the assessment factors in our evaluation process. The current IMs allow us to consider a wide range of approaches to assessing capex, and that includes indexation. This allows us to consider other issues with expenditure such as deliverability and competition effects for example. We consider that Chorus, in its capex proposal, can propose expenditure based on indexation approaches.

3.85 Our draft decision for two levels of information requirements in paragraph 3.45.1 enable Chorus to submit subcategories of spend that are more routine in nature to be subject to less stringent information requirements in future resets. The Commission could apply 'indexation' like methods to approving Chorus expenditure allowances. We consider this would partially address Chorus' concerns while providing the Commission with an appropriate degree of discretion in applying specific evaluation techniques to assessing capex allowances.

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[38] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at 11.

[39] Richard Feasey "The regulation of fibre-based telecommunications services and networks in New Zealand: a review and recommendations for the future" (report for the Commerce Commission, 20 February 2025), at footnote 137.

3.86 An alternative option to give Chorus and stakeholders greater certainty about how we assess less material or routine expenditure is to develop and consult on guidance ahead of a PQ reset. Such guidance would explain how the Commission intends to evaluate specific capex proposals when setting future price-quality paths. Preparing and publishing guidance could promote transparency and assist in ensuring Chorus provides information aligned with our approach, while still maintaining flexibility in the IMs to require different information/consider capex differently in the future. We welcome stakeholder views on this option.

Competition issues

3.87 Our draft decision is to not amend the evaluation criteria in the capex IM so that it sets out expected competition outcomes.

3.88 We consider that the current framework provides us with the necessary tools to assess and respond to competition-related issues. Our ability to assess expenditure proposals on a case-by-case basis allows us to consider the specific context and potential competitive impacts without needing to prescribe detailed rules for every situation.

3.89 By adopting this more flexible framework, we are better positioned to promote s166 of the Act. In particular, this approach supports the promotion of long-term benefits of end-users and the consideration of competitive impacts in a manner that reflects the realities of each case. Prescriptive rules, while providing certainty, risk misalignment with actual market dynamics and may lead to unintended consequences such as inefficient investment or distortion of competitive outcomes.

Submissions we received and our consideration

3.90 Spark, in its submission on our issues paper, proposed that the Commission could promote certainty and competition by:

> Setting out in more detail of the Commission competition considerations relating to expenditure proposals. This would guide Chorus in making proposals that are unlikely to result in competition concerns and provide certainty to competing providers so that they can invest with confidence. Providers are less likely to invest where any new capability is at risk of being overlaid by a competing provider backed by guaranteed building blocks model (**BBM**) returns.
>
> Considering regulated firm's incentives to include funding in expenditure proposals for capability that extends into competitive parts of the market or creates a low-cost option for later expansion. For example, the Commission could modify expenditure proposal incentives to extend the BBM to currently competitive parts of the value chain or provide a low-cost option to expand into these markets by ensuring regulated providers bear more of the risk of failure. While Chorus subsequently withdrew its residential gateway service, as we understand it the costs to develop and deploy this retail option remained in the regulated asset base (**RAB**) and BBM.[40]

[40] Spark "Fibre input methodologies review 2027" (7 August 2025), at 1.

3.91 We agree that competition considerations are relevant to our decisions, particularly where expenditure proposals may affect competitive dynamics in the wider telecommunications sector. The Commission is already required under section 166(2)(b) of the Act to, where relevant, make decisions that best give, 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. In addition, the criteria for evaluating capex proposals explicitly require us to have regard, where relevant, to any competition effects (assessment factor g). As we consult on our draft capex allowance decisions, stakeholders can submit on the way we have considered competition effects.

3.92 Competitive effects are inherently complex and highly context dependent. Applying IMs to assess expenditure on a case-by-case basis enables a more nuanced and accurate evaluation of the circumstances at hand. This approach ensures that decisions are informed by the specific facts and market conditions relevant to each situation, rather than being constrained by prescriptive rules designed for a broad range of scenarios.

Chapter 4 Investment test for network expansion capital expenditure

4.1 Our experience implementing 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 and transparency around the analytical approach used to assess them. This refinement is intended to improve predictability for stakeholders while retaining the existing overall regulatory framework.

4.2 Our draft decision is therefore to formalise our assessment of network expansion capex proposals by introducing an investment test based on a cost benefit analysis (**CBA**) to the capex IM. The proposed investment test does not replace the existing capex approval framework. Rather, it provides a structured analytical approach for assessing large expansion proposals within that framework.

4.3 In our issues paper, we highlighted that the lack of a specific investment test and specified economic analysis could create uncertainty for stakeholders on what information we may need and how we would evaluate (and approve or decline) capital expenditure proposals.[41]

4.4 In coming to our draft decision, we considered the subcategories of capex to which a specified investment test should apply, including network expansion capex and resilience capex. We also considered options for how a cost benefit analysis would be formulated including:

4.4.1 what kinds of costs and benefits would be recognised; and

4.4.2 whether to estimate end-user benefits on an incremental revenue/incremental cost (**IRIC**) or willingness to pay (**WTP**) basis. We note that Chorus is still required to comply with s 201 of the Act. We explain how the WTP interacts with the geographically consistent price (**GCP**) and the Potential issues with using WTP to support expansion capex proposals in Attachment A.

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

4.5.1 form and scope – what the test would apply to, general framework, and level of prescription in the IMs;

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

4.5.3 information requirements and key test assumptions – key parameters of the test including discount rates;

[41] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.28].

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

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

4.6 We also discuss options to share the risk from connection uptake in expanded areas between Chorus and end-users.

Current IM settings

4.7 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. As explained in our issues paper, the current information requirements and evaluation criteria are relatively principle based. This allows us to consider what specific tests (if any) should apply ahead of each reset and to consult on our approach to evaluation.

4.8 The current IMs set out at clause 3.8.5 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.

Form and scope of the investment test

4.9 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.

4.10 Currently, there is no specific investment test prescribed under the fibre IMs causing potential uncertainty around how we will evaluate certain capex subcategories. In PQP1 and PQP2 we used the incremental revenue/incremental cost (IRIC) test to evaluate incentive capex and "Augmentation – fibre frontier (network expansion)" capex.[42]

4.11 We consulted in our issues paper on whether to introduce a specific investment test including the general approach any investment test should take (ie, CBA), what capex it should apply to and potential thresholds for when the test should apply.

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[42] Commerce Commission "Chorus' expenditure allowances for the second regulatory period (2025 – 2028): Draft decision – Reasons paper" (18 April 2024), at [5.20] and [5.99]-[5.101]. The incremental revenue incremental cost test evaluates whether the expected incremental revenue exclusively from the new connections and/or upgrades caused by the investment exceeds the incremental cost of the investment. If the expected incremental revenue exceeds the incremental cost then the expenditure would be approved.

Our draft decision

4.12 Our draft decision is to amend the fibre IMs to:

4.12.1 introduce an investment test that applies to our evaluation of network expansion capex;[43]

4.12.2 have the investment test take the form of a CBA; and

4.12.3 set a $30 million threshold for applying the test to network expansion capex in the individual capex proposal (**ICP**) mechanism and $5 million for applying the test in the base capex and connection capex mechanisms.[44]

4.13 We have defined network expansion capex in the draft amendment determination to mean 'capex to expand the FFLAS network to a geographic area where FFLAS in which Chorus does not provide FFLAS and to connect end-users in the area'. We specifically exclude infill development in geographic areas where Chorus' FFLAS network already exists as well as new property developments (ie, sub-divisions) that are adjacent to an existing communal fibre network. However, we acknowledge defining boundaries between different areas can be challenging, and it is not always clear if new connections are infill, new property developments or network expansion.

4.14 We are interested in stakeholder views on the proposed definition of network expansion capex, particularly if stakeholders consider that the proposed definition is too wide/narrow or does not accurately capture the type of capex that should be assessed as part of the investment test.

Reasons for our draft decision

4.15 Our view is that introducing a prescribed investment test for network expansion capex based on a CBA framework better promotes the purpose of the IMs under section 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.

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[43] Our amendment determination includes an addition to clause 1.1.4(2) of the fibre IMs where we have defined network expansion capex as '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 but excludes capex in relation to infill development in geographic areas to which Chorus already provides FFLAS or development in geographic areas that are adjacent to the existing communal fibre network.'

[44] 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.

4.16 A CBA test provides a robust, objective 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 significant network expansion proposals are subject to a structured and transparent assessment of economic efficiency and provides greater certainty to Chorus and stakeholders. We believe that the current requirement to consider good telecommunications industry practice (**GTIP**) would imply a CBA for expansion, and having a clearly defined test provides clarity and consistency in how such proposals will be evaluated.

4.17 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 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.

Submissions on our issues paper

4.18 Submitters that commented on implementing an investment test were supportive of amending the IMs but disagreed on the approach that we should take. 2degrees and Spark supported the IRIC approach and implementing investment tests for network expansion capex, resilience capex and network capacity (enhancement capex).[45] Chorus supported the willingness to pay test but only for network expansion capex.[46]

4.19 Chorus further noted that there is a trade-off between complexity and forecasting risk.[47] Increasing the level of complexity in the investment processes would discourage investment in certain areas. We have taken this into account by only implementing an investment test for network extension capex because we consider the benefit of extra prescription for this capex area would exceed the costs of added complexity.

4.20 Further, our draft decision regarding the thresholds allows for the test to be targeted at material investments. The $30 million threshold for ICPs and $5 million threshold for base capex takes a proportionate approach, targets the test at investments where the risks and impacts justify regulatory scrutiny and burden on Chorus, while avoiding unnecessary compliance burden for smaller projects. The $30 million ICP threshold is consistent with the base capex threshold used in the major capex proposal (**MCP**) mechanism for Transpower.[48]

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[45] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 5; and Spark "Fibre input methodologies review 2027" (7 August 2025), at [25].

[46] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [43.2].

[47] Ibid, at [39].

[48] Note that we are currently considering amending the current $5m threshold for individual capex proposals and this may have implications for the eligibility criteria for the proposed investment test.

Alternatives considered

4.21 We have considered and ruled out the following alternatives:

4.21.1 **Providing application guidance and using PQ processes.** While we consider that using guidance and the current IM framework for each PQ process will enable us to assess proposed expenditure against the evaluation criteria, we think including parameters of the test in the IM will place stronger incentives on Chorus to provide robust and consistent proposals which best meet the purpose of the Act. Furthermore, we do not consider issuing guidance before each reset would better promote s 174 of the Act as guidance could change ahead of each reset. However, we acknowledge the test may have limited long term use given the finite nature of network expansion.

4.21.2 **Apply the investment test to resilience capex.** We have considered but are not currently looking to implement an investment test for resilience capex (or other types of capex) due to the challenges of quantifying the benefits of resilience capex, due to a lack of robust value of lost service measure. For this reason, we consider proposing and assessing resilience capex may be better suited to guidance, rather than a prescribed investment test.

Process and consultation requirements

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

Our draft decision

4.23 Our draft decision is to maintain the existing capex proposal mechanisms, processes and timelines set out in the IMs for base capex and ICPs, to the investment test. That is:[49]

4.23.1 process and timeframes for applying the test;

4.23.2 consultation requirements and processes; and

4.23.3 independent verification requirements and processes.

Reasons for our draft decision

4.24 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.

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[49] *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.

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

4.26 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.

4.27 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

4.28 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 draft decision

4.29 Our draft decision is to:

4.29.1 amend the IMs to introduce a requirement for Chorus to undertake sensitivity analysis on key parameters for the investment test. This must include but is not limited to:

4.29.1.1 the discount rate;

4.29.1.2 the uptake rate;

4.29.1.3 the willingness to pay; and

4.29.1.4 the portfolio mix;

4.29.2 require Chorus to provide detailed evidence supporting its forecast uptake rate assumptions;[50]

[50] The uptake rate assumption refers to the proportion of end-users expected to take up a FFLAS service over time as a result of the proposed network expansion capex. It is an important parameter that can impact the result of the test. Chorus' average uptake rate is 72% and it is targeting an 80% take up rate across its network. The uptake rate may be different in rural areas to existing networks. See Mark Aue (CEO, Chorus) and Drew Davies (COO, Chorus) "FY25 Results Presentation" (Chorus FY25 full-year results: Investor presentation, 25 August 2025), at 8 and 26.

4.29.3 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;[51]

4.29.4 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 with the proposed payback period;[52]

4.29.5 require Chorus to specify a forecast fibre broadband service portfolio mix for the forecast areas that underlies the forecast uptake and provides evidence supporting the proposed portfolio mix;[53]

4.29.6 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;[54] and

4.29.7 require Chorus to specify the pricing implications for its existing and future end-user base as a result of its proposed investments.

4.30 Our draft decision is also to allow Chorus to propose alternative values to the discount rate (and any other parameters we specify in the IMs) with detailed evidence supporting its proposed alternatives.

Reasons for our draft decision

4.31 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. Our draft decision ensures we get the information we need to robustly evaluate Chorus' network expansion capex proposals, ensuring that we make decisions that are for the long-term benefit of end-users, promoting s 162 of the Act.

4.32 Our draft decision puts key requirements on Chorus to ensure it provides evidence to support the key assumptions and estimates in the test around the payback period, uptake rate, service portfolio mix, the discount rate, and the cost per premise, and general pricing implications for end-users. This will ensure the investment test provides:

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

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[51] 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.

[52] An unreasonable payback period would be unlikely to meet the expenditure objective.

[53] 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.

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

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

4.32.3 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

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

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

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

4.33 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 similar to the Transpower IMs for an MCP. This will provide 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%. Treasury advice for projects that are difficult to categorise, including regulatory proposals, and most social sector projects is to use a discount rate of 5%.[55] We therefore consider a 5% discount rate is appropriate for Chorus' investment test proposals.

4.34 We have also decided to set out in the IMs that Chorus may propose alternative rates when it submits an investment test application. As set out in the draft 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.

Alternatives considered

4.35 We considered and ruled out the following alternatives:

4.35.1 **Using alternative discount rates**. We considered:

4.35.1.1 using a dynamic discount rate based on current or historical rates;

4.35.1.2 using the weighted average cost of capital (**WACC**);

4.35.1.3 allowing the Commission more discretion to set a discount rate when Chorus is going through the process of proposing network expansion capex;

4.35.1.4 setting a higher rate (such as 7%); and

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

4.35.1.5 using a tiered approach where different rates are used over different points of the calculation period.

4.35.2 We are interested in stakeholder's views on whether there is evidence that the discount rate for fibre expansion investments is different than the discount rate for transmission investments.

4.35.3 **Requiring Chorus to undertake a feasibility report**. We consider that requiring a feasibility report is unnecessary given the nature of the investment and known solutions for extending the networks. A feasibility report is more appropriate in the context of Transpower's MCP projects where there may be some risk and uncertainty on the technical solutions proposed by the investment.

4.35.4 **Setting a specified project length of 20 years such as with Transpower MCP requirements.** The case for specifying a project length may be different for Chorus than it is for Transpower. For Chorus, the timing of benefits is influenced by customer uptake (ie, revenues build gradually as connections grow). If the horizon is too short, the investment test may capture most costs but not the full benefits of fibre uptake, even though discounting reduces the weight of later years.

4.35.5 **Setting a specified payback period**. We consider the NPV>0 requirement removes the need to specify a payback period. However, a long payback period introduces potential risks and uncertainty on some of the inputs and assumptions in the test. We have therefore introduced a requirement on Chorus to provide information on the payback period to understand those risks and to consider whether the investment proposed meets the capital expenditure objective as part of the investment test, rather than setting a specified payback period.

Costs and benefits

4.36 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 effect of the proposed network expansion capex. The benefits are those that we consider could occur in the market for FFLAS when undertaking the investment, and the costs are those that we consider could be incurred by Chorus.

Our draft decision

Benefits to include in the investment test

4.37 Chorus must reflect the following benefits in the test to the extent they are material benefits:

4.37.1 **End-user benefit**: The incremental notional revenue that Chorus would receive from end-users for undertaking the investment based on end-user WTP. The draft decision is also to require Chorus to:

4.37.1.1 propose the WTP value(s) in its investment test proposal;[56]

4.37.1.2 provide the methodology used to calculate the WTP; and

4.37.1.3 provide evidence explaining why the methodology is robust and accurately represents future end-user WTP.[57]

4.37.2 **Competition effects**: Positive impacts that the investment has on competition in the telecommunication sector.

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

4.37.4 **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 4.38 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.[58]

4.37.5 Any other benefits, where the Commission considers they are consistent with section 166(2) of the Act.

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[56] We note that there may be different WTP values for different FFLAS broadband plans, given the different characteristics and speeds of the plans and different recovery rates. However, using an average WTP 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 WTP are correct. It will be to Chorus' discretion whether it submits a single WTP price or multiple prices for different connection types or FFLAS broadband plans. However, in any case Chorus will need to provide the methodology used to calculate the WTP.

[57] See attachment A for further discussion on using the WTP price in the investment test.

[58] 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.

Costs to include in the investment test

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

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

4.38.2 maintenance and whole of life costs including refurbishment and replacement costs for the period covered by the CBA;

4.38.3 competition effects: negative impacts that the investment has on competition in the telecommunication sector; and

4.38.4 any other costs, where the Commission considers they are consistent with section 166(2) of the Act.

General approach to costs and benefits in the investment test

4.39 Our draft decision is to include all of 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.[59]

4.40 Our draft decision is also to:

4.40.1 Only include benefits that are unique to fibre and 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.

4.40.2 Allow Chorus to propose qualitative costs and benefits in its proposal. Our draft decision is that the Commission has discretion over the application and approval of any qualitative costs and benefits.

4.40.3 Define costs and benefits at a high level in the IMs. Our draft 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.

[59] 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 draft decision

Benefits to include in the investment test

4.41 Our draft decision is that in submitting its capex proposal, Chorus must reflect the material benefits that accrue to Chorus and FFLAS end-users, which are broader than the incremental revenue of the investment. We have made a draft decision that competition effects, 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.

4.42 We consider that allowing Chorus to stipulate all the benefits in the investment test best promotes ss 166 and 174. Including these benefits in the investment test ensures the cost-benefit analysis accurately assesses the investment's economic viability, providing incentives to invest while ensuring efficient investment consistent with the Act's purpose. This approach focuses on benefits that accrue directly to Chorus or 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.

4.43 We expect the primary benefit from network expansion capex to be the end-user benefit, represented by the notional revenue Chorus would receive from FFLAS end-users.[60] We note that this notional revenue includes the end-users' surplus from receiving FFLAS because our draft decision is to allow Chorus to use WTP to calculate the notional revenue. However, to provide a comprehensive assessment of the potential relevant benefits, we have also included competition effects, subsidies, and efficiency gains. These benefits reflect broader outcomes to FFLAS end-users such as improved consumer choice and lower long-term costs. We acknowledge these benefits may be challenging to quantify, and therefore the onus will be on Chorus to present robust evidence and analysis to support their inclusion in the test.

4.44 We consider that the investment test acknowledges the difference between fibre and other (existing) access technologies. This is because if end-users are willing to pay the price for fibre and they switch from an existing service to a fibre broadband service, then this reflects the benefit over other services. The uptake rate assumption will incorporate what proportion of end-users in the proposed area are expected to switch to fibre. It is important that the uptake rate is robust and sufficiently tested.

4.45 We discuss the reasons for using end-user willingness to pay to value the benefits in the investment test in Attachment A.

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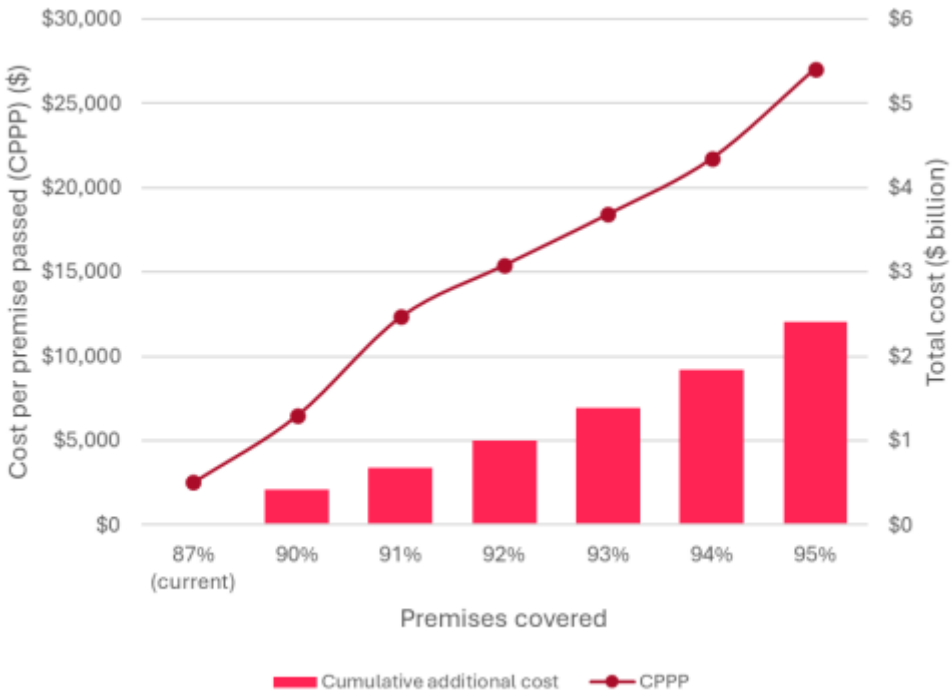
[60] We use the term notional revenue because this assumes WTP is used to calculate the revenue Chorus receives from expanding the network. However, due to s 201 of the Act, the actual Chorus will receive will be based on the geographic consistent price for each specific FFLAS.

Costs to include in the investment test

4.46 Our draft decision is that Chorus should include in its capex proposal costs it will reasonably incur over the lifetime of the assets.

4.47 Further expansion of the fibre footprint is likely to be materially more expensive than the original ultra fibre broadband (**UFB**) roll-out.[61] This is illustrated in Figure 4.1, which shows how the indicated costs to pass the premise increase the further the network coverage is expanded.[62] This raises questions as to how far network expansion can occur before it becomes economically unjustified.

Figure 4.1 Indicative costs for fibre expansion[63]



4.48 We also 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.

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61 Chorus' full year result presentations for FY20 and FY19 disclosed that the cost per premises past (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.

62 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.

63 Commission analysis based on Chorus cost data. Cost for current coverage based on an 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.

4.49 We have included negative competition effects as a potential cost. The test recognises that fibre competes with other access technologies in some areas (especially those with low connection density), including fixed wireless and emerging LEO satellite services. Incorporating this context into the cost-benefit analysis helps ensure expansion decisions reflect the full range of consumer options.

4.50 We acknowledge that competition effects may be challenging to quantify and expect to see robust evidence and analysis to support their inclusion in the test. We have explicitly excluded negative competition effects (on providers using alternative technologies) that arise from using WTP to value end-user benefits in place of using the geographic consistent price. This is because including those costs would negate the purpose of using WTP. However, there may be other longer-term competition effects that should be accounted for in any decision to approve network expansion. We explain our reasons for adopting WTP to value the end-user benefit and consider other ways to potentially mitigate the competition and wealth transfer issues from using WTP in Attachment A.

General approach to costs and benefits in the investment test

4.51 We consider that there should be some flexibility in the types of costs and benefits that Chorus can propose subject to the Commission's consideration and judgement. 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. In effect we have proposed specifying the minimum content an application must include, with the option to include more where justified.

4.52 There may be a role for Chorus to seek capital contributions from current 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 willingness to pay to value end-user benefits. We discuss the role of capital contributions further in Attachment A covering the reasons for our draft decision to use willingness to pay to value end-user benefits.

4.53 We have a statutory obligation to make decisions that, to the extent we consider relevant, promote workable competition in telecommunications markets for the long-term benefit of end-users of telecommunications services under s 166(2)(b) of the Act. We therefore consider it appropriate to consider positive (described above as benefits) and negative (described above as costs) competition effects in the application of the investment test.

Alternatives considered

4.54 We considered and ruled out the following alternatives:

4.54.1 **Cross-subsidisation transfers**. We consider that cross subsidisation transfers should not be included in the investment test because it is a transfer between consumers and its inclusion would negate the use of the WTP (which we consider best meets s 162 of the Act). We discuss this issue in more detail in Attachment A.

4.54.2 **Geographically consistent pricing to value end-user benefits.** We considered including the GCP as the price to be used to value the end-user benefit in the investment test:

4.54.2.1 Section 201 of the Act requires that Chorus, being subject to price-quality regulation, must, regardless of geographic location of the end-user, charge the same price for providing FFLAS that are in all material respects the same.

4.54.2.2 2degrees and Spark submitted on our Tranche 1 issues paper in support of using the GCP to value benefits in the investment test.[64] 2degrees and Spark believe that:

4.54.2.2.1 a cross-subsidy from regulated revenue will inevitably suppress competition as – in the long run – no firm can compete against regulated returns; and

4.54.2.2.2 there could be very large costs in extending the network which would require large cross-subsidies from existing customers.

4.54.2.3 However, our view is that using WTP instead of the current GCP to value benefits better promotes the purpose of part 6 of the Act and is in the long-term benefit of end-users. As discussed in Attachment A using the WTP will incentivise the amount of investment that maximises overall consumer welfare.

Evaluation criteria

4.55 This section sets out the evaluation criteria we will use when assessing a network expansion capex proposal to determine whether or not to approve the expenditure.

4.56 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: d and e (economic analysis), g (competition effects), i (consultation and engagement with stakeholders), and o (uncertainty regarding the fibre frontier proposal) (clause 3.8.6).

Our draft decision

4.57 Our draft decision is to approve a network expansion capex proposal where:

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

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

[64] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 5; and Spark "Fibre input methodologies review 2027" (7 August 2025), at [21]-[24].

4.57.3 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.

Reasons for our draft decision

4.58 Our draft decision requires us to:

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

4.58.2 to consider whether the proposed capex:

4.58.2.1 meets the expenditure objective; and

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

4.59 We consider that approving network capex where the FFLAS market net 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.

4.60 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 investment test. 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 a CBA test.

Alternatives considered

4.61 We considered and ruled out applying Chorus' current proposal to amend the existing evaluation criteria applied to the investment test.[65,66]

[65] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [41]-[44.2].

[66] We have considered Chorus proposals to amend the evaluation criteria in the fibre capex IM. See Chapter 9 where we address other matters raised on our Fibre IM Review (Tranche 1) issues paper.

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

4.62 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 be better placed than end-users to manage this risk via control over network investment decisions, forecasting, and marketing activities.

4.63 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.

4.64 We are interested in stakeholder views on:

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

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

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

4.65 We consider there are three potential options to address this issue including:

4.65.1 **Option 1: Staged Investment.** This option would involve approving smaller portions of expenditure initially, with further approvals contingent on uptake milestones. We consider this option reduces end-user exposure to uptake risk by limiting upfront investment however there may remain some exposure to end-users from connection uptake uncertainty. This option also avoids complex mechanisms; and retains investment efficiency. However, it could lead to a slower roll-out and higher administrative burden for the Commission and Chorus and greater investment costs for Chorus (ultimately borne by consumers).

4.65.2 **Option 2: Ex-Ante Assessment.** This option applies scrutiny of connection uptake assumptions during proposal evaluation. Our draft decision is to use this approach. We consider this helps reduce end-user exposure to connection uptake risk through robust testing and avoids including complex mechanisms in the IMs. However, there is likely to remain some exposure to end-users from connection demand uncertainty. We acknowledge that there is potentially further scrutiny or specificity we could introduce into the test and we seek stakeholder feedback on this point. However, additional scrutiny and prescription could lead to a higher administrative burden on Chorus, and the Commission and forecasts may nonetheless remain inherently uncertain.

4.65.3 **Option 3: Risk-Sharing Mechanism.** Introduce mechanisms that adjust recovery based on actual uptake (e.g. through a wash-up mechanism). While the connection capex mechanism helps mitigate some of the risk to end-users by removing the demand risk for connections, additional mechanisms could apply to other components of network expansion expenditure. This option alters the balance of risk between Chorus and end-users and incentivises accurate forecasting and uptake. However, it may be complex to design, implement, and monitor; and may deter investment if Chorus perceives excessive investment risk.

4.66 We are interested in whether stakeholders consider option 2 sufficiently addresses the risk identified or whether alternative options would better address the risks (and why). If we were to implement an alternative option in our final decision, we consider that the underlying investment test would not change but how the allowance impacts revenue paths would. Implementing an alternative option may also require amendments to the draft IMs.

Chapter 5 Capital expenditure flexibility measures

5.1 Our experience applying the flexibility tools within the fibre IMs has highlighted opportunities to refine how these mechanisms operate in practice. These tools are intended to allow the regulatory framework to respond efficiently to changes in demand and technology over time. However, experience to date suggests that some aspects of the framework could be clarified or simplified to improve their operation while maintaining appropriate regulatory oversight. We therefore propose a number of targeted amendments to improve the effectiveness and proportionality of these flexibility mechanisms.

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

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

5.2.2 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.

5.3 We have considered changes to these mechanisms and considered how any changes will be aligned to our three decision-making framework objectives.

5.4 Our draft decision:

5.4.1 maintains the requirement for connection capex, introduces a requirement to include service upgrades in the wash-up and makes changes to improve and simplify its operation; and

5.4.2 maintains the individual capex proposal mechanism, raises the threshold to $30 million and makes other changes to improve and simplify the operation of the mechanism.

Connection capital expenditure

5.5 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.

5.6 The issues paper proposed amending the connection capex mechanism to include upgrades for new services (eg, Hyperfibre). This could take account of the short-term cost impacts of demand being higher or lower than forecast.

Draft decision

5.7 Our draft decision is to maintain the capex IM requirement for a connection capex allowance. This allowance is separate to base capex and there will remain a wash-up of connection capex as part of the overall capex allowance.

5.8 Our draft decision is to amend the connection capex IM to:

5.8.1 calculate and report the connection capex variable adjustment wash-up balance annually, rather than performing the calculation only once per regulatory period;

5.8.2 change the definition of connection capex to include capex required for service upgrades where Chorus will receive increased wholesale revenue from the upgrade (eg, Hyperfibre) in the connection capex definition; and

5.8.3 simplify the reporting requirements to ensure the effort required is proportionate to the risks of misstatement of the wash-up allowance by:

5.8.3.1 removing the requirement to report actual unit costs;

5.8.3.2 removing the requirement to update forecast connection costs; and

5.8.3.3 only requiring independent assurance reporting 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 period that were not previously subject to independent assurance.

Current IM setting

5.9 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.[67]

5.10 This is essentially a 'ringfenced' capex allowance.[68]

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

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

5.11.2 a connection capex variable adjustment at the end of the regulatory period.[69]

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

[68] 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.

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

5.12 The baseline allowance is set before the regulatory period begins via defining connection types, a forecast of units by type, and an associated forecast unit cost by type. The connection capex variable adjustment is determined at the end of the regulatory period. It is the difference between actual volumes for the period multiplied by the unit costs originally determined and the baseline allowance, based on forecast volumes and costs by connection type. The wash-up adjustment only accounts for variations in the volume of connections, not the unit cost of the connections.

5.13 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.

Reasons for our draft decision

Maintaining the requirement for a connection capex baseline allowance and wash-up

5.14 Our draft decision is to maintain the requirement for a connection capex baseline allowance and a subsequent connection capex variable adjustment wash-up. Chorus suggested combining the base capex and connection capex categories to simplify the capex IM. It stated that the current connection capex approach is unnecessarily complicated.[70]

5.15 In terms of the separate connection capex category:

5.15.1 Chorus considers it is complicated as it is required to disaggregate connection types and regroup them into blocks with similar unit costs that are relevant to the operation of the connection capex adjustment mechanism but not to the operations of Chorus.[71]

5.15.2 As Chorus plans to withdraw copper in fibre areas by mid-2026 and from the rest of New Zealand by 2030, it says the need for a separate connection capex category from PQP3 onwards is no longer justifiable. It suggests that uptake rates will not justify a separate connection capex category from PQP3 onwards.

5.16 The connection capex mechanism does involve some complexity, but we consider we should continue to require this breakdown of connection types in order to assess a capex request. It seems likely that, even if we assessed and then approved this capex under base capex, the regulatory burden would be similar even if we removed the connection capex category.[72]

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

[71] Ibid, at [32.1].

[72] We might require more in-depth information regarding the forecast volumes if we did not wash-up, as the risk of overproviding capex and not meeting s162(d) would be heightened.

5.17 We consider that the connection capex expenditure, including the cost of certain service upgrades, is likely to remain a material part of Chorus' capex investment. While total new connections are declining,[73] Chorus is clear that Hyperfibre services are where it sees its business expanding (through customers migrating to Hyperfibre over time) and this will require capex that is likely to vary year on year.[74] There are potentially very large volumes of existing customers that might migrate to Hyperfibre, given it currently has a low penetration of Chorus' over 1 million current FFLAS connections.[75,76] Our draft decision is therefore to maintain the separate category of connection capex, so a wash-up for volume variance can be undertaken.

5.18 Maintaining a separate capex category for connection capex recognises the trade-offs between promoting incentives to innovate and invest (as required by s 162(a)) and supporting improving efficiency and limiting Chorus' ability to earn excessive profits as required by s 162(b) and (d). If capex forecasts are too low and the ex-ante capex allowance is too small, Chorus may need to invest anyway to comply with quality standards. On the other hand, if forecasts are too high, we risk excessive profits via an inflated capex allowance.

5.19 While upgrade costs are not currently included in connection capex mechanism, we have made a draft decision to amend the IMs to include such costs (see below).

5.20 2degrees did not support Chorus' proposals to 'water down' the capex IM, including by removal of the connection capex mechanism.[77]

5.21 PwC (who produced a report for Chorus) also supported including connection capex in base capex and/or removing the variable wash-up component and associated reporting, thereby simplifying the determination of connection capex.[78] It noted that connection capex can be expected to fall and stabilise, and expansion capex will be relatively modest.[79]

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[73] If future expansion of Chorus' fibre network beyond the current footprint occurs, as has previously been proposed, this may also see higher new connections than currently expected.

[74] Chorus has also proposed extending the network footprint, which could drive increased new connections in the future.

[75] Noting some connections are inactive, total active connections are in excess of one million. See Mark Aue (CEO, Chorus) and Drew Davies (COO, Chorus) "FY25 Results Presentation" (Chorus FY25 full-year results: Investor presentation, 25 August 2025), at 8.

[76] Mark Aue (CEO, Chorus) and Drew Davies (COO, Chorus) "FY25 Results Presentation" (Chorus FY25 full-year results: Investor presentation, 25 August 2025), at 7 notes that "demand for 1Gbps+ stable; 25% of residential connections on 1Gbps or faster with ~5k on Hyperfibre 2Gbps+ plans."

[77] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 3.

[78] 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 13.

[79] Ibid, at [15].

5.22 Despite this, our view is that the existing wash-up mechanism works as intended to deal with the risk of variation from forecast. This is because general growth and upgrades can be challenging to forecast,[80] and we consider the 'ringfencing' and wash-up of connection capex to ensure actual, not forecast, connection volumes are funded reduces the risk of over- or under-forecasting capex thereby promoting the purposes in s162 (a) and (d) of the Act.

Amending the wash-up process for the connection capex variable adjustment to allow annual amounts to be calculated and reported

5.23 Our draft decision is to amend clause 3.1.1(11)(g) to allow annual reporting of the connection capex variable adjustment wash-up figures, though we note that the final determination of the connection capex variable adjustment will continue to occur once the regulatory period has finished. We signalled that we were considering clarifying the timing of this adjustment from once per regulatory period to once per regulatory year in the issues paper.[81]

5.24 Clause 3.1.1(11)(g) of the fibre IMs currently requires that the impacts of changes for which we wash-up are determined for the connection capex variable adjustment for the regulatory period.

5.25 Given clause 3.1.1(11) generally requires wash-up calculations to be done on an annual basis, the reference in (g) to determining an adjustment for the regulatory period is a departure from the general approach and is therefore only applicable when:

5.25.1 the forecast wash-up account balance is being calculated to be used when setting the PQ path for the following regulatory period; and

5.25.2 the final actual wash-up adjustment for the regulatory period is calculated following the end of that period.

5.26 The current wording of clause 3.1.1(11)(g) appears to strictly reflect the requirement in clause 3.7.21(1) that a connection capex variable adjustment will be determined at the end of the regulatory period after the Commission receives the connection capex annual report for the last regulatory year of the regulatory period.

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[80] We note the challenges identified as part of our review of PQP2 capex. See Commerce Commission "Chorus' expenditure allowance for the second regulatory period (2025 - 2028) – Final decision – reasons paper" (22 August 2024), at [X14.2].

[81] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at 54.

5.27 While it is correct that the total connection capex variable adjustment for a specific regulatory period is only determined after the end of the period, this is also the case for all the other wash-up amounts. However, we still require ongoing yearly monitoring of the other wash-up amounts and impacts.[82]

5.28 We propose to amend the IMs to provide yearly wash-up calculations.

5.29 We did not receive any specific submissions on this topic.

Amending the allowance to include capex required for service upgrades

5.30 We have made a draft decision to amend the definition of connection capex in the fibre IMs to include capex required for service upgrades.

5.31 We raised this in the issues paper, noting that amending the connection capex mechanism to include upgrades for new services (eg, Hyperfibre) could take account of the short-term cost impacts of demand forecasts being higher or lower.[83]

5.32 Chorus' submission set out that it does not support this proposal, given it views the connection capex variable adjustment as overly complicated and unnecessary for new connections. It agreed that a volume wash-up for products would be sensible, but it considered this should be created as a new wash-up, not bolted on to the existing connection capex adjustment.[84]

5.33 Our reasons for the draft decision to amend the definition of connection capex to include capex required for service upgrades are as follows.

5.33.1 As explained above, we view the mechanism generally as working effectively and do not consider removing it will materially reduce the upfront work required to justify connection capex.

5.33.2 As Chorus achieves a high penetration of homes passed by communal infrastructure, that is the proportion of actual to potential connections reaches maturity, a higher proportion of capex is likely to be required to fund service upgrades requested by end-users (for example, Hyperfibre), rather than new connections.[85]

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[82] Note that we require submission of a connection capex annual report, as detailed below. However, the annual wash-up amount that results from any annual variance to the original volume forecast is not included in our annual wash-up information report. Under a s221 Notice Chorus must provide the values of actual allowable revenue and actual total FFLAS revenue and associated wash-up information report for that regulatory year, but currently the impact of the connection capex wash-up is only provided at the end of the regulatory period.

[83] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.39].

[84] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [34].

[85] Connection capex currently applies to new connections and not for upgrades to services that require additional hardware where there is an existing connection. Note: the connection capex mechanism currently applies to Hyperfibre ONTs for new connections.

5.33.3 Upgrades requiring capex are currently funded by base capex, outside the ringfenced connection capex and are not washed-up.

5.33.4 Forecasting upgrades is challenging. Changing the connection capex definition to allow funding these types of upgrades via connection capex, which has a volume wash-up mechanism (whereas base capex does not), is also expected to reduce the effort required to scrutinise connection related capex, given the materially reduced level of risk from over or under-forecasting volumes. The unit costs for connection types are not washed-up, meaning there remains an incentive on Chorus to find cost efficiencies and these will be shared with end-users.

5.33.5 There may be some minor additional costs to record and report on end-user requested upgrades requiring additional capex. However, the benefits to end-users are likely to justify the costs.

5.33.6 We consider this change will better promote the purpose of Part 6 by ensuring Chorus is funded for actual upgraded connection volumes better promoting incentives to invest efficiently under s 162(a) while limiting Chorus' ability to extract excess profits, consistent with s 162 (d), by over-forecasting upgrade volumes.

5.34 Supplying an upgraded service for an existing customer may require a change in the premises optical network termination (**ONT**) device to one that is capable of delivering the upgraded service (e.g. Hyperfibre).[86] Chorus may have other reasons, apart from a direct order for an upgrade, to replace an existing non-Hyperfibre capable ONT, such as failure of the existing device or for lifecycle replacement. It may choose to replace the ONT with a Hyperfibre capable ONT at a higher capital cost than a like-for-like replacement, funded via base capex. This change will not impact Chorus' ability to undertake equipment upgrades not driven by a customer order via base capex, which is not subject to a volume wash-up.[87]

5.35 There may also be non-linear costs that must be funded as part of changing ONTs, which will be met from either connection capex or base capex, depending on the driver of the change.[88]

5.36 The draft decision, as set out in the draft determination, involves a change to the IM definition of connection capex. It requires that the driver of the upgrade is an end-user request for a better FFLAS service to clearly delineate upgrades driven by customer requests that are to be funded via connection capex.[89] We seek feedback on the draft definition included in the determination, including the use of 'better' regarding the service provision in the definition.

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[86] If a new customer connection requires a Hyperfibre connection, that is currently funded from connection capex.

[87] For example, Chorus may consider it is more efficient to deploy the higher function and cost device now, even if Hypefibre service is not supplied to the customer premises in question.

[88] Definitions of a non-linear connection cost and the associated non-linear connection cost function are provided in clause 1.1.4 of the fibre IMs.

[89] There is an implicit assumption that the service upgraded to requires further capex expenditure <u>and</u> will deliver a higher wholesale revenue than the service the user was previously enjoying.

Amending the IMs to simplify the reporting requirements

5.37 We have made a draft decision to simplify the reporting requirements in clause 3.7.18(2) of the fibre IMs.

5.38 Given we now have experience with assessing the connection capex annual report from PQP1, we consider some of the information currently required by the IM is not essential.

5.39 Our draft decision is not to require the actual connection costs during the regulatory period, as the ex-ante agreed connection costs are the only relevant factor for the PQ revenue allowance. We have taken a proportionate approach to annual reporting requirements, and our draft decision means we avoid requiring low value information, which can still be accessed in future if required. For example, we could request it when assessing future connection capex allowances if we saw a need for it.

5.40 The draft decision will reduce the frequency of independent assurance reporting for connection capex. We can rely on independent assurance reporting for the final two years of a regulatory period, which are figures that impact the setting of the next period's price path via a forecast of the period-end balance and the final determination of the period's wash-up balance, following the end of the period.

5.41 The final wash-up forecast that impacts the revenue allowance for the next PQ regulatory period is made following the submission of the wash-up report for the second to last year of the regulatory period, while the final actual wash-up amount for the regulatory period that updates the wash-up account balance is made following the submission of the wash-up report for the last year of the current regulatory period.

5.42 We consider these changes will reduce compliance costs, other regulatory costs, or complexity without detrimentally affecting the promotion of the section 166(2) considerations.[90]

[90] See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6].

Individual capital expenditure proposals

5.43 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 (ICP).[91] 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.[92]

5.44 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.[93] Chorus may then submit an ICP for that expenditure (clause 3.7.12(4)).

5.45 The current ICP mechanism in the IMs imposes a high level of scrutiny on proposals, starting with the design proposal stage of the process. The design proposal stage involves a relatively time-consuming approval process to be followed and requires a high degree of detail, regardless of the type of capex and its materiality. For capex projects that are relatively less material, the effort required by Chorus in preparing the proposal, and the Commission in considering the proposal, may be less than the benefit. That is, the foregone return on and of capex before the next reset may be relatively low, unless the asset has a relatively short asset life.

5.46 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. The potential foregone returns on projects funded outside the capex allowance decline over the regulatory period, and any commissioned assets created by these projects will enter the RAB at the next reset. Given 'overs and unders' that may occur with capex forecasts, substitution is expected to be a viable solution to deal with uncertain projects while maintaining ex-ante financial capital maintenance (**FCM**). This could lead to potentially deferring or cancelling other projects.

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

[92] Ibid, clause 3.7.22(4).

[93] Ibid, clause 3.7.12(3).

Draft decision

5.47 Our draft decision is to maintain the ICP mechanism in the IMs with the following amendments to specific parts of the mechanism.

5.47.1 Amend the ICP threshold from $5 million over the life of the project or programme to at least $30 million over the life of the project or programme.[94]

5.47.2 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.[95] 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.

5.47.3 Amend the ICP notification stage reducing the description of key parameters to:[96]

5.47.3.1 need, timing and the extent of any related uncertainty;

5.47.3.2 brief details any proposed independent verification;

5.47.3.3 expected costs, benefits and risks; and

5.47.3.4 any previous or planned consultation undertaken.

5.47.4 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.

5.47.5 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.[97]

Reasons for our draft decision

Retaining the ICP mechanism

5.48 Our reasons for retaining the ICP mechanism are that:

5.48.1 the existing mechanism is working and, although reopeners were proposed as an alternative, we do not consider there is a material difference between a proportionate ICP process and a reopener – nor have we identified other options that better promote the statutory purposes;

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[94] Ibid, clause 3.7.22(3)(c).
[95] Ibid, clause 3.7.23.
[96] Ibid, clause 3.7.23(3).
[97] Ibid, clause 3.7.25(2).

5.48.2 Chorus still sees a need for ICPs for larger investments, as does the Commission, although we consider it should have a higher entry threshold;

5.48.3 it promotes s 162(1)(a) by allowing capex to be increased for unforeseen material requirements and maintains incentives to invest;[98]

5.48.4 the ongoing possibility of unforeseen or uncertain material capex projects or programmes when the capex allowance is set;

5.48.5 other changes proposed to the ICP mechanism will streamline the process and reduce regulatory burden;[99] and

5.48.6 a lack of practical alternative options, given the increased regulatory burden that would be likely to accompany a reopener.

Submissions on this issue

5.49 We received a submission calling for withdrawal of the ICP mechanism. PwC (who produced a report for Chorus) proposed removal of the ICP mechanism. It submitted that:[100]

> all capex could be included in the base capex proposal, removing the opportunity to submit individual capex proposals within a regulatory period. Reopeners may be sufficient, given the status of the fibre network, the ability to forecast with certainty and the predominance of base capex. There is little revenue at risk, given the small impact that changes in individual capex projects have on revenue within a regulatory period.

5.50 Chorus noted that PwC suggests, in the medium term, replacing individual capex proposals with reopeners. In principle Chorus agreed with this because the cost and effort involved in an ICP can outweigh the size of the resulting revenue allowance. However, it preferred to rely on more streamlined reopeners which can be applied reasonably quickly.[101]

5.51 Chorus still sees a need for retaining the ICP mechanism for material new investments that are unsuited to reopeners. It said this could be accompanied by a higher minimum investment threshold than the current $5 million.[102]

5.52 While these submissions refer to reopeners, it is not clear what form such reopeners would take and how they would differ in substance from an ICP.

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98 See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6.1].

99 Ibid, at [3.6.3].

100 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].

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

102 Ibid, at [35].

Threshold change

5.53 Our draft decision is to amend the threshold for ICPs in clause 3.7.22(3)(c) from $5 million to $30 million over the life of the project or programme. Our view is that this change will more clearly reflect 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. To date, we have only dealt with one ICP for incentive capex, which we approved during PQP1.[103]

5.54 The new threshold level is 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.[104]

5.55 Increasing the threshold to apply for an ICP:

5.55.1 improves incentives to manage investment efficiently. This reinforces the need to carefully manage trade-offs and prioritise the use of base capex to address uncertain projects requiring more minor capex levels and end-users share in the benefits of capex efficiency via lower prices (162(b) and (c));[105]

5.55.2 when setting base capex reinforces that the Commission recognises that Chorus may need to use the fungible base capex allowance to undertake other capex investment where it considers this necessary. This promotes incentives on Chorus to innovate and invest (s 162(a)), improve efficiency and supply fibre fixed line access services of a quality that reflects end-user demands (s 162(b));

5.55.3 encourages proportionate scrutiny and reduced regulatory costs. Projects below the new threshold, if undertaken, will have the majority of their cost funded via entering the RAB at the next reset, even if they are not able to be fully funded from base capex;[106] and

5.55.4 focusses any work to reopen the capex allowance during the regulatory period on more material projects and avoids applying resources to lower value projects that should reasonably be expected to be accommodated from base capex.[107]

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

[104] See the definitions of base capex threshold and major capex in *Transpower Capital Expenditure Input Methodology Determination 2012, as amended on 13 December 2023*, clause 1.1.5(2).

[105] See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6.1].

[106] Ibid, at [3.6.3].

[107] Ibid, at [3.6.3].

Submissions on this issue

5.56 While PwC called for removal of the ICP mechanism, we note that raising the eligibility threshold will be likely to reduce the number of future ICPs and will lead to a higher reliance on base capex, which PwC supports.[108] As noted above, Chorus sees a need to retain the ICP mechanism but thinks this could be accompanied by a higher minimum investment threshold than the current $5 million.[109]

Alternatives considered

5.57 We also considered, but decided against, introducing an option in the IMs for Chorus to be able to seek approval of a bundle of projects, where the individual projects do not individually meet the $30 million ICP threshold. For example, we considered setting a requirement for at least three projects forecast collectively to require $60 million capex or more, but with no projects forecast to cost less than $20 million.

5.58 We considered this bundled ICP mechanism could also be restricted to a specific period, such as in a mid-regulatory period. Our view was that would allow Chorus and the Commission to plan to have the necessary resources available to undertake the work.

5.59 While we considered if this type of approach could provide a more streamlined flexibility mechanism which could be applied reasonably quickly for lower materiality projects, we concluded the disadvantages outweighed the advantages. Specifically, we concluded that particular problems with this option are:

5.59.1 setting the total threshold to trigger the mechanism and the individual project threshold at these levels does not appear to offer sufficient additional benefit as it is unlikely to be triggered, but it does add complexity and we considered would likely increase regulatory burden;[110]

5.59.2 setting lower thresholds could simply move back to the existing situation, where the benefits do not outweigh the costs, increasing regulatory costs and reducing certainty regarding how particular projects are funded, which detracts from setting clear expectations on Chorus to effectively manage its capital budget;[111] and

5.59.3 we consider the existing ICP (with the revised threshold), base capex allowance, and existing reopeners are sufficient to address Chorus investment needs and deal with uncertainty, so this option does not add a material benefit.

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[108] 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].

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

[110] Commerce Commission "Fibre input methodologies – Decision-making framework paper" (10 March 2026), at [3.6.3]. The decision-making framework paper can be found here.

[111] Ibid, at [3.6.2]-[3.6.3].

Simplifying the ICP process for projects assessed with the base capex proposal

5.60 While an individual capex allowance, additional to base capex (where the amount exceeds the $30 million ICP threshold), can be applied for before or during a regulatory period, the IMs set out that the Commission may determine that capex proposed in a base capex proposal must be excluded from the base capex allowance based on its:[112]

5.60.1 size and complexity;

5.60.2 degree of uncertainty related to the need, timing or economic case; or

5.60.3 potential need for ringfencing and/or separate reporting.

5.61 If the Commission makes such a determination, Chorus may submit an individual capex proposal for that capex (where it exceeds the $30 million ICP threshold) using the ICP mechanism.[113]

5.62 In such a situation - when capex has been assessed but excluded and Chorus subsequently submits an individual capex proposal - we do not consider the full individual capex design proposal stage should be required.

5.63 Given an initial assessment would already have been undertaken as part of the base capex proposal our draft decision is to amend the IMs to require a simple design proposal for these projects or programmes. The IMs will require that the simple design proposal be submitted once uncertainty regarding the need for the project has reduced or to meet the separate reporting requirement now included. Our draft decision will avoid repeating initial assessment work already undertaken as part of the base capex proposal assessment. This in turn will reduce regulatory burden on Chorus and other parties engaging in consultation processes, and lead to a faster more streamlined ICP process.

5.64 The amended IM requires that any projects or programmes that fall into this category within the expenditure decision are set out in the subsequent PQP determination. The existing requirements in clause 3.7.23(1) and (2)(b), (c) and (d) will remain. However, the information required relating to key parameters, referred to in clause 3.7.23(2)(a) and set out in 3.7.23(3), at the design proposal stage for a project/programme within this category would be reduced to:

5.64.1 the estimated capex value of the project;

5.64.2 brief details of the need for the capex;

5.64.3 any update to any information previously assessed as part of the base capex proposal; and

5.64.4 timing.

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[112] See *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, clause 3.7.12(3).

[113] Ibid, clause 3.7.12(4).

5.65 This draft decision seeks to simplify the process of considering and approving capex which was uncertain at the time of the base capex proposal. Simplifying the ICP process was a common theme of both PwC's and Chorus' submissions.[114]

5.66 Our draft decision will significantly reduce compliance costs, other regulatory costs, and complexity, without detrimentally affecting the promotion of the section 166(2) considerations, when major projects previously considered as part of the capex proposal evaluation are subsequently submitted for approval via ICP.[115, 116]

Simplifying the ICP notification stage

5.67 We have reviewed the current requirements for the ICP notification stage, where Chorus notifies the Commission that it intends to submit an individual capex proposal via an individual capex design proposal. The process in the IMs requires that the design proposal includes a description of ten key parameters (clause 3.7.23(3)). These parameters cover a range of detail including need, technical details, costs and benefits, impacts on previously determined forecast capex or opex and verification.

Submissions on this issue

5.68 Submissions from Chorus and PwC (who produced a report for Chorus) sought for the Commission to consider simplifying processes in the capex IM, to reduce cost and complexity and to provide more certainty.

5.69 Chorus:

5.69.1 noted, discussing the PwC report, that there are opportunities for IM amendments to provide more certainty for stakeholders as to how the Commission will assess efficient expenditure, and to streamline and simplify the requirements to make the process less complex and onerous;[117]

5.69.2 noted an opportunity now exists to simplify the capex IM to acknowledge a shared understanding between Chorus and the Commission that did not exist when Chorus first entered the fibre regulatory regime;[118] and

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[114] For example, PwC called for simplification of the processes for determining base and connection capex. See 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 3 and 4. Chorus recommended simplifying processes in the capex IM, to reduce cost and complexity. See Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at 3.

[115] See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6].

[116] Ibid, at [3.6].

[117] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [25].

[118] Ibid, at [26].

5.69.3 submitted that the cost and effort (for Chorus and the Commission) in managing an ICP application is substantial compared to what can be a relatively small resultant revenue allowance.[119]

5.70 PwC:

5.70.1 referred to reducing the cost and complexity to deliver the capex IM for both the Commission as well as Chorus, via simplifying both the information requirements on Chorus and the nature of the Commission's assessment.[120] While this comment was not directed at the simplification of the ICP process per se, it does acknowledge that reducing complexity, where appropriate, should be considered.

5.70.2 saw opportunities to better target the capex IM requirements, including simplifying the evaluation process for individual projects or programmes which are of lower value, given the individual capex category threshold is relatively low.[121]

Our draft decision

5.71 Our draft decision is to reduce the list of parameters to factors that are proportionate to the purpose of the design proposal. The description of key parameters will be reduced to:

5.71.1 the need for investment and the timing of the individual capex project or individual capex programme and the extent of any related uncertainty;

5.71.2 brief details of whether it proposes to undertake for independent verification and how the independent verification or lack of it is commensurate with the size and complexity of the individual capex proposal;

5.71.3 the expected costs, benefits and risks associated with the individual capex project or individual capex programme; and

5.71.4 any previous or planned consultation undertaken.

5.72 We have also added a requirement that Chorus provide, commensurate with the estimated expenditure and complexity of the proposal, any other key information that Chorus considers relevant to the design proposal.

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[119] Ibid, at [35].

[120] 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 [28].

[121] Ibid, at [14].

5.73 This change will simplify and streamline the process, as requested by Chorus, and reduce complexity and regulatory burden. We consider these changes will reduce compliance costs, other regulatory costs, and complexity (without detrimentally affecting the promotion of the section 166(2) considerations).[122] [123]

5.74 We consider the proposed amendments will be sufficient to enable the Commission to approve design proposals and ensure the final individual capex proposals are robust and enable our assessment against the evaluation criteria.

Ability to amend conditions at the final individual capex proposal stage

5.75 The IMs currently require that an individual capex proposal must be consistent with, among other things, any conditions approved by the Commission in relation to the individual capex design proposal (clause 3.7.25(2)).

5.76 We acknowledge that in approving the design proposal we may include conditions that subsequently prove impractical for Chorus to achieve. As the IMs are currently drafted, this would result in Chorus needing to withdraw the proposal and begin the process again. We consider that introducing an ability for the Commission to amend or waive conditions between the design and proposal stage would streamline and improve the process, avoiding potentially unnecessary rework.

5.77 Allowing for conditions set at the design proposal stage to be amended or waived when the ICP is received, at the Commission's discretion and based on supporting evidence from Chorus, may avoid unnecessary rework. As Chorus noted: [124]

> where the Commission applies conditions to an Individual Capex Proposal (ICP), those conditions should be able to be amended. At present if the Commission – at the point of approving a Design Proposal – requires conditions that Chorus is unable to achieve, Chorus would be required to withdraw the Design Proposal and start again. An ability to amend conditions would streamline and improve this process for both the Commission and Chorus. Alternatively, the IMs could clarify that the Commission may, at its discretion, approve an ICP that does not meet all of the requisite conditions.

5.78 We have therefore made an amendment to clause 3.7.25. This draft decision provides the ability for the Commission to waive or amend conditions set at the design proposal stage, if information and reasons provided by Chorus with its ICP, that the Commission considers justifies a change or waiver of the original conditions. This is a relatively simple change and will avoid repeating the design proposal stage should, in the Commission's opinion, a condition set at the design stage prove to no longer be required.[125]

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[122] See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6].

[123] Ibid, at [3.6].

[124] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [104].

[125] We are only making an amendment in relation to potentially waiving conditions attached to approval of the Design Proposal, not to any conditions that may be attached to the final ICP approval.

Chapter 6 Cost of capital

6.1 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.

6.2 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.

6.3 Our draft decision on cost of capital issues (common to Part 6 fibre and Part 4 regulated services) was published on 10 March 2026.[126] 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.

6.4 We have aligned the closing date for submissions on the Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) draft decision reasons paper and this Tranche 1 issues draft decision reasons paper so that submitters can consider them together.

6.5 Parameters that are specific to fibre including asset beta and leverage will be addressed in Tranche 2 of the current Fibre IM Review.[127]

[126] Commerce Commission "Common cost of capital input methodologies review (fibre and regulated suppliers under Part 4) draft decision reasons paper" (10 March 2026). This reasons paper can be found here.

[127] Ibid, at [1.23].

Chapter 7 Treatment of insurance

7.1 The PQP2 opex allowance approved for Chorus provides for two types of insurance costs to be recovered from end-users:

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

7.1.2 a self-insurance allowance.

7.2 The Part 6 IMs do not specify how insurance entitlements arising from an insurance event (and covered by these allowances) are to be accounted for and so, currently, it is not clear how the benefits of these costs should be shared with end-users.

7.3 Our draft decision:

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

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

Licensed insurance entitlements

Our draft decision

7.4 Our draft decision is to:

7.4.1 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:

7.4.1.1 like capital contributions, and net them off the cost of assets where they are applied to the remediation of assets; or

7.4.1.2 as currently, as actual "total FFLAS revenue", [128] to be included in the revenue wash-up for Chorus (other LFCs do not have wash-up accounts);

[128] For Chorus, actual "total FFLAS revenue" will flow into the wash-up account; for other LFCs, it is treated in ID as other regulated income. For all LFCs, it will be reflected as "other regulated income" under ID. There is no "other regulated income" term within the Fibre IMs, that is why we refer it to actual "total FFLAS revenue" in the IMs. This is different from Part 4 which has "other regulated income" defined in the IMs.

7.4.2 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;[129]

7.4.3 amend the definition of operating costs (opex) to allow an option for regulated providers to:

7.4.3.1 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

7.4.3.2 treat opex insurance entitlements, opex compensatory entitlements and third-party liability entitlements as actual "total FFLAS revenue"; and

7.4.4 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.

Current IM settings

7.5 Currently, insurance entitlements from licensed insurers are treated as revenue that falls within the definition of actual "total FFLAS revenue" in the fibre IMs.[130]

7.6 Insurance entitlements from licensed insurers do not meet the definition of capital contributions, because insurance entitlements from licensed insurers are typically compensatory rather than being payments for the purpose of asset construction, acquisition, or enhancement. This means that Chorus cannot retain and use the cash proceeds from insurance and similar entitlements as they must be accounted for in its revenue wash-up.

7.7 For ID-only regulated FFLAS providers, the requirement under ID rules is to treat insurance entitlements as 'other regulated income' may mean that the benefits of insurance are not directly shared with end-users, through a reduction in asset remediation costs or opex.

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[129] The entitlements, when first recognised, may be estimates subject to later revision on final settlement with the insurer. See Commerce Commission "Amendments to input methodologies for electricity distribution businesses, gas pipeline businesses and Transpower relating to insurance entitlements, compensatory entitlements, third-party liability entitlements and other regulated income: Final decision and reasons paper" (11 December 2024), at [3.48.9].

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

7.8 Finally, in the case of reopeners, the measure of costs for the 'catastrophic event' threshold is expressed net of any insurance or compensatory entitlements.[131] At the time of an event the value of entitlements may not have been agreed with the insurer or other party, this could lead to uncertainty about whether the threshold set out in the IMs is met, and therefore whether a 'reopener' is available.

Part 4 changes

7.9 In 2024, we amended the Part 4 IM in respect of:

7.9.1 the treatment of insurance entitlements from licensed insurers, and other compensatory entitlements;[132] and

7.9.2 the recognition of insurance and other compensatory entitlements in the threshold for the catastrophic event reopener.[133]

7.10 The changes made to the Part 4 IMs now require insurance entitlements from licensed insurers to be offset against asset costs and opex or recognised as other regulated income.[134]

7.11 In terms of reopeners, the catastrophic event threshold has been changed. It now measures the costs and impact of an event before the recognition of insurance and other compensatory entitlements.

Reasons for our draft decision

7.12 Our draft decision is to allow insurance and other compensatory entitlements to be offset against asset costs and opex as an option, this means Chorus gets the cashflow benefits of the entitlements to spend on remediation of assets and/or opex, sharing them with end-users through lower costs, rather than returning them through the wash-up account. The ability for Chorus to choose between methods also means that the payment of compensatory entitlements by other parties is not disincentivised because of accounting outcomes.

7.13 The catastrophic event threshold change will enable Chorus to better determine whether it is eligible for a reopener at the time of an event.

7.14 These changes will best promote s 162(a) of the Part 6 purpose by improving incentives to innovate and to invest, including in replacement, upgraded, and new assets.

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[131] *Fibre Input Methodologies Determination 2020*, as consolidated on 3 September 2025, clause 3.9.3(1)(c)(i).
[132] *Electricity Distribution Services Input Methodologies Determination 2012*, as amended on 27 March 2025.
[133] Ibid, clause 4.5.4(1)(c)(iii).
[134] The Part 4 IMs have a definition of 'other regulated income' which is accounted for in the revenue wash-up. This definition does not exist in the Fibre IMs, but the term 'actual total FFLAS revenue' captures insurance and other entitlements for wash-up purposes.

7.15 For ID-only FFLAS providers, the ability to choose between methods of recognition will promote the long-term benefit of end-users by enabling greater flexibility in sharing the benefits of insurance.[135] This also promotes s 162 (d) by helping to ensure that providers are limited in their ability to extract excessive profits, for example by using insurance entitlements to pay for the remediation of assets and then also recovering the costs of damage or loss through an uplift in the value of the RAB used to set pricing.[136]

7.16 The changes will also promote s 174 more effectively, without detrimentally affecting the promotion of the s 162 purpose, by giving clarity about what is meant by insurance entitlements, other compensatory entitlements and third-party liability entitlements and how they should be accounted for.

7.17 To achieve the above proposed amendments, our draft decision also 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.

7.18 In its submission on our issues paper Chorus supported our proposed approach to amend the fibre IMs (and thus align the fibre IMs with the changes we made in Part 4). Chorus commented that these amendments should promote the s 162 purpose more effectively.[137]

Self-insurance entitlements

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

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

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

7.20 In PQP2, we approved a total $5.4 million for Chorus' self-insurance opex allowance.

7.21 For the purpose of our self-insurance draft decision, we have created a 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.

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[135] The optional approach also enables FFLAS providers to maintain their previous treatment as "other regulated income" under ID.

[136] Our assumption is that prices are underpinned by a revenue requirement that is generated using a building blocks approach, so netting off the value of any insurance entitlements against remediation assets (or opex) will lower the costs charged to end-users.

[137] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [95]-[96].

Our draft decision

Self-insurance – below deductibles limit costs

7.22 For the costs of any loss or damage up to the value of the deductible's limits:

7.22.1 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; [138] and

7.22.2 amend the definition of operating costs to net off opex self-insurance entitlements against the corresponding additional operating expenditure in the year or years or remediation.

Self-insurance – uninsured asset costs

7.23 For the costs of any loss or damage on uninsured assets:

7.23.1 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

7.23.2 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.

Current IM settings

7.24 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.

7.25 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).

Reasons for our draft decision

7.26 We consider these proposed changes promote the long-term benefit of end-users in accordance with the s 162 purpose by prescribing how the benefits of the self-insurance allowance must be shared with end-users. It allows end-users to share the benefits of efficiency gains in the supply of fibre fixed line services, in accordance with s 162 (c).

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[138] For self-insurance entitlements, we do not consider that it is appropriate to allow an option for Chorus to treat them as actual FFLAS revenue because the self-insurance entitlements are an internal transfer from reserves or shareholders equity, not income.

7.27 The changes will also promote s 174 more effectively, without detrimentally affecting the promotion of the s 162 purpose, by giving clarity about what is meant by self-insurance entitlements and how they should be accounted for.

7.28 In our issues paper we said that we considered it necessary to amend the relevant IM and ID rules to better account for these self-insurance arrangements. We received one submission from Chorus on the issues paper. Chorus supported our proposal to consider whether amending the IMs would better account for self-insurance but submitted that the benefits of its self-insurance approach are already shared with end-users by: [139, 140]

7.28.1 avoiding paying insurer margins and administration costs;

7.28.2 resulting in less volatile pricing over time; the self-insurance programme can be funded gradually rather than paying potentially volatile market insurance premiums;[141] and

7.28.3 incentivising Chorus to reduce risks and prevent incidents as it is the one that funds any claims.

7.29 While we understand that the use of a self-insurance approach may reduce the magnitude and volatility of the insurance costs, it was not clear to us from Chorus' submission how the benefits of the actual costs charged to end-users through the self-insurance allowance would be shared with them.

7.30 We asked Chorus for further information to clarify this, as well as seeking clarity on 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 this request for more information, alongside this draft decision.[142]

7.31 After analysing Chorus' response and the Aon report, we understand that the self-insurance costs cover two classes of assets:

7.31.1 one is for currently insured assets, where Chorus retains a liability in respect of any losses that are less than the deductibles limits specified in the current Material Damage and Business Interruption (**MD/BI**) insurance policy, as well as losses in excess of policy limits; and

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[139] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [94].

[140] Ibid, at [94]-[94.3].

[141] Chorus considered that it can fund a self-insurance program gradually, with regards to the relevant insurance risks.

[142] Commerce Commission "Chorus' response to Commerce Commission request for more information regarding insurance". Chorus' response can be found here.

7.31.2 the other one is for assets that are not insured, where Chorus retains the full liability in respect of any losses on uninsured assets.[143]

7.32 The MD/BI insurance policy sets out that the deductibles limit on claims from natural disaster related to any one event to be (Commercially confidential information (**CCI**)) for an event in Wellington, and (CCI) on an event anywhere else in the country.[144]

Self-insurance – below deductible limits

7.33 Our own analysis based on the Aon report is that the 89% portion of Chorus' self-insurance allowance relates to the costs of loss or damage that fall below the deductibles limits specified in Chorus' insurance policy with its licensed insurer. The end-users pay the 'below deductibles' costs of an insurable event, through higher pricing off the remediated asset base (for capex costs) when it is rolled forward in the next regulatory period. In return they receive the benefit of a reduction in the licensed insurer premium due to the adoption of deductibles limits, but they also pay an explicit self-insurance allowance for which they receive no further benefit.

7.34 In Chorus' response to our request, Chorus set out that the total self-insurance allowance we approved for PQP2 is $5.4m.[145] Therefore, 89% of the allowance ($4.8 million) for PQP2 relates to the below deductibles costs.

7.35 We consider that the costs to remediate loss or damage below the deductibles limits, should be treated similarly to the insurance entitlements from licensed insurers. The only difference is that, for self-insurance entitlements, it is not appropriate to allow an option for Chorus (and other LFCs) to treat them as actual "total FFLAS revenue". This is because self-insurance entitlements are an internal transfer from reserves or shareholders equity, not income.

7.36 In this case any entitlements up to the value of the deductible's limits must be shared with end-users. To implement the changes, our draft decision includes inserting a new definition for self-insurance entitlements into the fibre IMs that specifies the treatment of below deductibles entitlements.

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[143] This information is based on the Aon report. Aon has noted that "the information contained and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation."

[144] This information is based on the Aon report. Aon has noted that "the information contained and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation."

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

Self-insurance – uninsured assets

7.37 The remaining 11% portion of the self-insurance allowance is used to cover the losses on uninsured assets. We consider that the general principle of self-insurance applies to these assets in that Chorus accepts the full risk of damage or loss in return for the self-insurance allowance charged to end-users.[146] Because Chorus needs to fund any claims of damage or loss that are covered by the self-insurance allowance, this incentivises Chorus to manage event risk.

7.38 To implement this, our draft decision includes specifying in a new definition for self-insurance entitlements which is that the value of entitlements on uninsured assets, to be netted off the costs of remediation, is equal to the costs of remediation, without limit.

7.39 This change would result in a nil value of remediation opex or of remediation capex where the costs are on a like-for-like basis, meaning that end-users would not bear any of the costs of damage or loss which might otherwise occur through an uplift in future opex allowances or that would occur through an increase in the value of the RAB that is rolled forward into the next price quality path reset. This is consistent with insured-parties being indemnified against the cost of damage or loss in return for an annual premium payment under an external contract of insurance.

How the benefits of self-insurance will be shared with end-users

7.40 As noted above in paragraph 7.21, we have created a definition of self-insurance entitlement that reflects a "notional entitlement".

7.41 This definition defines the self-insurance entitlement as the value of any operating costs or capex, excluding costs of remediation or replacement other than on a like-for-like basis that arise from damaged or destroyed asset for which end-users have been charged a self-insurance allowance. The self-insurance entitlement will be treated as:

7.41.1 for insured assets, the entitlement will be capped at the deductibles limit for the assets under the contract of insurance, less the cost of remediation or replacement that is not on a like-for-like basis; and

7.41.2 for uninsured assets, the entitlement will be uncapped.

7.42 We have specified the indemnification measure of costs on a like-for-like basis because it is consistent with the replacement cost assumptions that were used by Aon to estimate the self-insurance allowance.

7.43 We consider this treatment better promotes s 162 purpose as it ensures the benefits of self-insurance are shared with end-users.

[146] Chorus's submission on our issues paper at paragraph 94.3 states that "Chorus is incentivised to reduce risks and prevent incidents, as we fund any claims."

7.44 All costs on a like-for-like basis are to be recognised as self-insurance entitlement, any other costs that relate to betterment of a damaged or replaced asset may be added to the RAB. These costs may reflect efficient asset management decisions. On balance, we consider it is in the long-term interest of end-users to allow betterment costs to be added in the RAB.

Chapter 8 Other amendments

8.1 In the issues paper we identified potential changes to the fibre IMs that we would consider as a result of:

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

8.1.2 submissions on our Open Letter from March 2025;

8.1.3 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;

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

8.1.5 corrections for technical and editorial errors; and

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

Current IM setting, draft decision and reasons for our draft decision

8.2 The current IM settings and the reasons for our draft decision is set out in Table 8.1 below.

8.3 Our draft decision is to make one amendment in relation to Crown financing, which ensures the IM provides certainty, as required by s 174 and meets the purposes of s 162(d) to ensure Chorus is limited in its ability to extract excessive profits.[147] We have not made further amendments as our analysis has concluded that the potential amendments that were outlined in the issues paper would not:[148, 149]

8.3.1 promote s 166(2) more effectively, including the s 162 purpose;

8.3.2 promote the IM purpose in section 174 more effectively (without detrimentally affecting the promotion of the section 166(2) considerations); or

8.3.3 significantly reduce compliance costs, other regulatory costs, or complexity (without detrimentally affecting the promotion of the section 166(2) considerations).

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[147] See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6.1] and [3.6.2].

[148] See Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at 76 – 80.

[149] See Commerce Commission "Fibre input methodologies – DRAFT Decision-making framework paper" (10 July 2025), at [3.6.1], [3.6.2] and [3.6.3].

Table 8.1 Draft decision – Efficiency and Effectiveness (Topics 1-7)

#	Topic	Current IM setting	Our draft decision
1	**Crown financing wash-ups**	**Specification of price and revenues IM** 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	**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** This draft decision implements the original policy position. The Commission set out in the 2020 final IM decision that the wash-up should be performed in respect of actual Crown financing balances only, not actual regulatory year debt or equity costs.[150] The amendment will make this clear. Chorus previously submitted on our PQP2 process and approach paper that:[151] > Clause 3.1.1(11)(b) of the IMs implements a wash-up for actual Crown financing balances during a regulatory period. However, the current drafting can be read as also encompassing the difference in the effective financing rate calculated under ID versus that adopted at the time the PQ path was set. We note that Chorus's submission on our issues paper supported this change, and we received no other submissions in relation to it.[152]

[150] See Commerce Commission "Fibre input methodologies: Main final decisions – reasons paper" (13 October 2020). The annual benefit of crown financing is calculated as the finance rate applicable to the regulated provider multiplied by the balance of the Crown financing (page 122). The finance rate uses the cost of debt and cost of equity (page 121). For the purpose of Part 3 of the IMs, these amounts are specified in 3.5.1(3) (see 1.1.4(2) of the Fibre IMs). We note that Chorus has been calculating the benefit of Crown financing as intended.

[151] Chorus "PQP2 Process and Approach" (28 September 2023), at 46.

[152] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [102].

#	Topic	Current IM setting	Our draft decision
2	**Depreciation in the year of commissioning**	**Depreciation IM** Clause 2.2.8 sets out that depreciation commences once an asset has an opening RAB value (so depreciation commences the year following commissioning).	**Maintain the current depreciation IM – no change to clause 2.2.8.** In 2021, and again in 2023, Chorus submitted that the IMs should be amended to allow investments to be depreciated in the year of commissioning, consistent with the generally accepted accounting principles (**GAAP**) and indicated that this could improve investment incentives by mitigating the risk of asset stranding.[153] We said in the issues paper that we would consider if making a change to the depreciation IM will better promote the s 162 purposes. Submissions on the issues paper from LFCs did not support a change.[154] Submitters said that there could be increased costs from any change as LFCs are set up to implement the current IM approach. On the basis that a change would increase regulatory burden (as the LFCs would need to change the current set up), the benefits of a change (to apply depreciation in the year of commissioning) would not outweigh the costs. While any change would be NPV neutral, permitting slightly earlier timing of recovery, the additional regulatory burden from a change would be for little or no benefit, particularly where depreciation profiles had already been adjusted to delay the timing of recovery (as is the case for Chorus).

[153] Chorus "Amendments to the Input Methodologies for Fibre – November 2021 amendments" (8 July 2021) at 10; and Chorus "PQP2 Process and Approach" (28 September 2023), at 42.

[154] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [97]-[98]; Tuatahi First Fibre "Tuatahi First Fibre submission to the Fibre IM Review issues paper and Draft Fibre IM Framework submission" (7 August 2025), at 2; and Enable "Enable submission to the Fibre IM Review issues paper and Draft Fibre IM Framework submission" (7 August 2025), at 3.

#	Topic	Current IM setting	Our draft decision
3	**Treatment of rebates**	**Interpretation clause** Currently forecast or actual discounts and rebates taken up by customers are subtracted from forecast or actual revenue, adjusted in accordance with (**GAAP**). Clause 1.1.4(2) Definition of 'forecast total FFLAS revenue' and 'total FFLAS revenue'.	**Maintain the current definition (Interpretation IM clause 1.1.4 to subtract rebates in general)** In the issues paper we proposed changing the IMs so that rebates that were penalties on Chorus for failure to meet obligations under the contractual arrangements Chorus has with retail service providers (**RSPs**) could not be netted off revenue. We saw this as providing a better incentive for Chorus to manage its quality performance by ensuring it faces the costs of contractual non-compliance, rather than those costs being picked up by FFLAS customers. We now consider that there is not a compelling reason to make a distinction to exclude rebates that are penalties on Chorus for failure to meet obligations under the contractual arrangements Chorus has with RSPs from forecast or actual revenues. We consider that the costs of making this change would outweigh any benefits. 2degrees agreed with the position in the issues paper that this change could provide better incentives to Chorus and that it is a perverse outcome that consumers pay the cost of penalties for Chorus' failure to meet obligations under the contractional arrangements Chorus has with RSPs.[155] However, other submitters contend that it is an accepted practice for firms to set prices that account for additional costs such as this and doing so is seen as part of the cost of doing business.[156] It is possible that Chorus could be deducting an excessive level of rebates if, for example, fault rates are excessive, from revenue. However, we do not understand that to be the case, the total amount rebated is already relatively low, and we agree that firms will set prices to recover what would be expected to be a normal level of rebates of this nature. Given the level of rebates of this nature are low and the impact of a change would be small, costs of a change are likely to outweigh any benefits. We therefore do not consider this warrants special rules for the treatment of contractual penalties.

[155] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 6.

[156] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [99]-[101]; and Enable "Enable submission to the Fibre IM Review issues paper and Draft Fibre IM Framework submission" (7 August 2025), at 3.

#	Topic	Current IM setting	Our draft decision
4	**Notional deductible interest definition**	**Taxation IM** Clause 2.3.1(7) 'notional deductible interest' means the value determined in accordance with the following formula: (sum of all **opening RAB values** – Crown financing outstanding) x **leverage** x **cost of debt**	**Maintain the Taxation IM clause to define notional deductible interest as opening RAB values less the outstanding Crown financing multiplied by the leveraged cost of debt.** Chorus has previously proposed a change to the definition of notional deductible interest that it states, "removes a technical error in the IM determination, ensuring taxation IM is consistent with primary regulatory legislation". [157] Chorus also raised this proposal in its submission on the Open Letter on the Fibre IM Review.[158] As we set out in our issues paper[159], we do not agree that there is an error in the definition, so our draft decision is to maintain the status quo. The existing formula in the IM is better aligned to the way the interest tax deduction is calculated for tax purposes. If the leverage and cost of debt were applied to the entire RAB before deducting the specific costs associated with debt financing, as in Chorus's proposal, this would imply that the Crown funded RAB generates an interest tax deduction. This is not the case, as the avoided interest costs associated with Crown financing are never incurred for tax purposes. As such, we consider it appropriate to maintain the status quo. We did not receive any further submissions on the issue of the notional deductible interest definition in response to our issues paper.

[157] Chorus "PQP2 Process and Approach" (28 September 2023), at 43-44.
[158] Chorus "Submission on Open Letter on Fibre Input Methodologies Review" (29 April 2025), at 10.
[159] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at 80.

#	Topic	Current IM setting	Our draft decision
5	**General depreciation rules**	**Depreciation IM** Clause 2.2.7 Depreciation for regulated providers subject only to information disclosure regulation	**Maintain the depreciation IM clause to allow the use of a depreciation method consistent with GAAP or any other method.** The depreciation IM provides options to address issues related to economic stranding leading to a swifter depreciation of assets. Submissions on our Open Letter addressed the issue of the Commission undertaking a more comprehensive review of the depreciation input methodology. The issue of depreciation was specifically raised by both Tuatahi and Enable, with addressing stranding risk specifically raised as a reason to review the depreciation IM.[160] As we set out in the issues paper,[161] the IMs already provide options to address issues related to economic stranding by accelerating the depreciation of assets. For example, clause 2.2.7 of the IMs allows a regulated provider to apply a depreciation method consistent with GAAP or any other method. Regulated providers have wide scope to apply alternative depreciation methods if they are justified.[162] No specific proposals to amend the existing depreciation IM requirements to address stranding risk have been received in response to the issues paper. In relation to asset stranding risk and the depreciation IM, Enable noted that the Commission has stated it will consider the ex-ante asset stranding allowance in Tranche 2 of the IM Review, which Enable supports.[163] Tuatahi also noted that it expects asset stranding and depreciation issues to be covered in Tranche 2.[164]

[160] Enable "Enable's feedback on the Open Letter on the Fibre Input Methodology Review" (29 April 2025), at 1; and Tuatahi First Fibre "Tuatahi First Fibre Limited feedback to the Open Letter on Fibre Input Methodologies Review" (29 April 2025), at 1.

[161] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [5.16]-[5.20].

[162] Noting that the depreciation must be determined consistently with the expected time profile of revenue recovery that the regulated provider applies for the disclosure year (clause 2.2.7(3) of the fibre IMs).

[163] Enable "Enable's feedback on the Open Letter on the Fibre Input Methodology Review" (29 April 2025), at 2.

[164] Tuatahi First Fibre "Tuatahi First Fibre submission to the Fibre IM Review issues paper and Draft Fibre IM Framework submission" (7 August 2025), at 2.

#	Topic	Current IM setting	Our draft decision
6	**Cost allocation – address any issues around service deregulation**	**Cost allocation IM** Sets out the rules for the allocation of costs between FFLAS and non-FFLAS services	**Maintain the current Cost allocation IM** In its submission on our Open Letter, Chorus stated that there would be value in reviewing the cost allocation IM to ensure it is not unduly preventing the deregulation of competitive services.[165] In our issues paper we invited specific proposals as to how the cost allocation IM should be amended to facilitate deregulation.[166] Submissions on the issues paper did not contain any proposals on this topic. Our draft decision is to maintain the current drafting of the IMs, and for issues to be addressed through the deregulation review. We consider that the best approach to any cost allocation changes will emerge during our deregulation work. No clear rules as to how shared costs, for example, will be allocated across services are apparent at this time. Given the limited information and uncertainty about these issues, there is a high risk that changes made based on our current level of knowledge will not prove to best meet the needs identified as part of a deregulation review. Any changes must be to promote s 166(2) more effectively than the status quo, and we will need to base changes on clear evidence that will only become available as we undertake the deregulation work. Chorus submitted that it agrees with our position that issues could be addressed through the deregulation review.[167]

[165] Chorus "Submission on Open Letter on Fibre Input Methodologies Review" (29 April 2025), at [15].
[166] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [5.25].
[167] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [105].

#	Topic	Current IM setting	Our draft decision
7	**Remove approval step for allocator changes**	**Cost allocation IM** PQ Cost allocators are approved by the Commission	**Maintain Commission oversight of PQ cost allocators** In its submission on the issues paper, Chorus recommended that the approval step for allocator changes should be removed. It suggested that the regulatory approval process for allocator changes is onerous and disproportionate to the benefit given the declining value of Chorus' non-FFLAS activities.[168] Our draft decision is to not make any changes to the way cost allocation is dealt with in the IMs. We note that, while we consider that cost allocators already approved as part of the PQP2 reset are generally suitable in the longer term, conditions may change and where there are obvious material benefits from making an allocator change, we do not think having Commission oversight of any such changes as part of assessing future expenditure proposals will be too onerous. We note that Incenta on behalf of Chorus has previously argued that some allocators, such as a revenue-based allocator, were selected based on their ability to be robust to changes in how parts of Chorus choose to deliver activities over time.[169] If there are obvious material benefits from making a change, then the process for approval should not be onerous. We approved a number of changes for PQP2 without significant additional work.

[168] Ibid, at [106].

[169] Incenta Economic Consulting "Cost allocation issues for RP2" – 'submitting in relation to consultation on Chorus' expenditure proposal for PQP2' (report prepared for Chorus, October 2023), at [62] and [66].

Chapter 9 Other matters raised

9.1 Stakeholder submissions on our Fibre IM Review (Tranche 1) Issues paper included comments on a range of topics.[170] These were assessed against our decision-making framework for topic areas.[171]

9.2 This chapter provides our response to stakeholder comments on topics that have not been addressed in the main body of this draft decision paper. Tables 9.1 to 9.4 summarise those submissions and our high-level response to those submissions.

9.3 There were some issues raised in the issues paper on which we received no submissions. For those issues, we have not progressed them any further. Our reasons are set out in the issues paper.

[170] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025). Submissions and cross submissions are available on the Commission's website here.

[171] Commerce Commission "Fibre input methodologies – Decision-making framework paper" (10 March 2026), at [3.6.3]. The decision-making framework paper can be found here.

Table 9.1 Efficiency and Effectiveness

Topic	Submitters	Submission	Our responses
Cost allocation	2degrees, Spark	2degrees proposed that any requested changes to allocators is accompanied by a range of options and the quantified impacts of those options.[172] Spark submitted that any cost allocation review should consider if any changes are necessary given the shutting down of the copper network.[173]	Our draft decision is to not change our approach to considering cost allocators. We undertook evaluation of Chorus proposed allocator changes as part of setting the PQP2 expenditure allowance. We are satisfied that we have a suitable process in place to evaluate any proposed changes.

Table 9.2 Proposing and assessing capital expenditure

Topic	Submitter	Submission	Our response
Capex allowance timeframes	Chorus	The IMs should specify that the consultation process for the combined draft decision should be six weeks for submissions and three weeks for cross submissions.[174]	We do not consider it appropriate to specify consultation timeframes in the IMs. For each of our processes we will consider what we think is the appropriate amount of time for consultation. We consider that retaining flexibility to amend the timeframes for consultation is important and allows us to continue to ensure that stakeholders are able to understand and engage with any draft decision or issues paper.[175]

[172] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues paper" (August 2025), at 7.
[173] Spark "Fibre input methodologies review 2027" (7 August 2025), at [9].
[174] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [71]; and Letter from Ian Ferguson (Head of Economic Regulation, Chorus) to Keston Ruxton (Fibre Manager, Commerce Commission) on the timing of fibre expenditure proposals (23 September 2025), at 1. This letter has been published alongside this draft decision and can be found here.
[175] See chapter 3 on IM amendments for proposing and assessing capital expenditure for our draft decisions on the capex allowance timeframes.

Topic	Submitter	Submission	Our response
Capex allowance timeframes	Chorus	The IMs should specify a requirement for a short technical drafting consultation on the final PQ determination.[176]	As with prescribing consultation timeframes in the IMs, we do not consider it appropriate to set out a requirement for a technical consultation in the IMs. If we consider that a technical consultation is necessary in the circumstances, we can incorporate that step as part of our current processes. We do not consider that it is necessary to prescribe such a process step in the IMs.[177]
Capex allowance timeframes	Chorus	Amending the IMs to set our start date of the regulatory year to begin later, for example 1 July, instead of 1 January.[178] Chorus does not recommend making this change to the IMs.	We agree with Chorus that we should not amend the fibre IMs to change the start date of the regulatory period because: • This would add complexity and further work for the Commission and Chorus as we would need to change to a different regulatory year and have part year reporting and revenue allowance requirements; and • Chorus has aligned its pricing to the current start of the regulatory year, 1 January. Moving the start of the regulatory year would mean it is not aligned and would require Chorus to make further changes to its internal business processes.

[176] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [70]; and Letter from Ian Ferguson (Head of Economic Regulation, Chorus) to Keston Ruxton (Fibre Manager, Commerce Commission) on the timing of fibre expenditure proposals (23 September 2025), at 1. This letter has been published alongside this draft decision and can be found here.

[177] We encourage Chorus as part of their submission on our draft decision to raise any compliance issues so we can determine if a technical drafting consultation step may be required.

[178] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at Attachment A; and Letter from Ian Ferguson (Head of Economic Regulation, Chorus) to Keston Ruxton (Fibre Manager, Commerce Commission) on the timing of fibre expenditure proposals (23 September 2025), at 1. This letter has been published alongside this draft decision and can be found here.

Topic	Submitter	Submission	Our response
Capex evaluation criteria	PwC	PwC submitted that the linkages between the capex IM evaluation criteria, assessment factors, and the evidence relied on in reaching final decisions on the capex allowance, are difficult to follow.[179]	Our draft decision is to retain the current approach as it provides flexibility and discretion for the Commission, which can be valuable in a dynamic regulatory environment. Broad evaluation criteria and assessment factors allow us to consider a wide range of evidence and adapt our scrutiny to emerging risks or changes in Chorus' operating context. This flexibility supports a more holistic assessment of proposals, rather than constraining decisions to rigid templates that may not capture unique circumstances.
Capex Information requirements	Chorus, PwC	Submissions suggested we align IM information requirements to ID requirements including the use of similar categories and terms, and recognition of information already disclosed to improve certainty.[180]	Our draft decision is not to align input methodology (IM) information requirements directly with information disclosure (ID) requirements. We may want different information to that in ID for the purpose of setting the price quality path (up to date ID data is not available).
Capex Information requirements	Chorus, PwC	Submitters suggested replacing the Integrated Fibre Plan (**IFP**) requirement with a regulatory disclosure Asset Management Plan (**AMP**), incorporating the asset management maturity assessment tool and forecast disclosures requirements which currently apply to Chorus.[181]	Our draft decision is to retain the Integrated Fibre Plan (IFP) and not replace it with an Information Disclosure Asset Management Plan (**ID AMP**) requirement. We consider this ensures continuity, sector-specific relevance, and operational effectiveness in fibre network planning and investment.

[179] 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 15.

[180] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [36.3]; and 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 16.

[181] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [36.4]; and 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.

Topic	Submitter	Submission	Our response
Capex Information requirements	Chorus	Chorus proposed reducing the IFP requirements to focus on the most important information.[182]	The current scope of the Integrated Fibre Plan (IFP) requirements will be retained in full and not reduced to focus only on the "most important" information. We consider this ensures robust planning and regulatory oversight.
Capex Information requirements	PwC	Remove repetition in the capex IM for information requirements for different capex categories, and information requirements and assessment factors.[183]	Our draft decision is to retain the capex IM for different categories. Keeping some repetition in the capex IM can provide clarity and reduce the risk of misinterpretation. Each capex category—base, connection, and individual—has distinct characteristics and drivers, so repeating relevant requirements ensures that stakeholders understand what applies to each category without needing to cross-reference multiple sections.
Capex evaluation criteria	PwC	PwC suggested we remove the assessment factors from the evaluation criteria, and align to other capex IMs, by focusing on the purpose of regulation, IM compliance, the expenditure objective, good industry practice, stakeholder consultation and suitability of information and judgements.[184]	Our draft decision is to retain assessment factors within the evaluation criteria. We consider this ensures that the Commission's decision-making process remains comprehensive and transparent. These factors provide a structured framework for considering all relevant dimensions of a capex proposal, such as deliverability, efficiency, and alignment with good industry practice. Removing them could risk oversimplifying the evaluation process and omitting important checks that help ensure expenditure allowances reflect prudent and efficient costs.

[182] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [37].

[183] 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 24, option 13.

[184] Ibid, at 24, option 9.

Table 9.3 Investment test for network expansion capital expenditure

Topic	Submitters	Submission	Our responses
Telecommunications network optimisation (TNO) test	Chorus	Chorus provided further information on how the TNO test would work within the Part 6 purpose of the Act:[185] • The TNO test makes assumptions about the economic benefits of fibre for end-users, and the comparable economic benefits of competing technologies. • The TNO test was a viable option because it looks at the long-term benefits of FFLAS to end-users, as well as telecommunications services.	Our draft decision is to implement a CBA test that uses end-user WTP to value end-user benefits. We have not pursued the TNO test further because: • as Chorus pointed out in its submission it is challenging to implement and complete; and • the WTP approach was Chorus' preferred approach and in our view better meets the Part 6 purpose of the Act of being in the long-term benefit of end-users.

[185] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [44.1]-[44.2].

Table 9.4 Other tools

Topic	Submitter	Submission	Our responses
Conditional allowances	Chorus	Supported the use of conditional allowance tools, but only in exceptional circumstances.[186]	We have decided not to pursue the use of these types of tools (conditional allowances).[187] There was little support for them in submissions on the issues paper, and only in limited circumstances.
Contingent event reopener	Chorus	Chorus suggested contingent event reopeners, or equivalent tools, may be appropriate for strategic disruptive events.[188]	While we consider that we have sufficient existing tools to deal with this type of event via the ICP mechanism or existing reopeners, we will consider this issue further in Tranche 2 as part of our consideration of reopeners.
Form of control	2degrees, Chorus	2degrees suggested that the Commission should adopt a price cap for fibre services and considered it is most suitable for regulated services where growth in demand can be expected.[189] Chorus welcomed the Commission's statement not to conduct a s 209 review of the form of control during the IM Review.[190]	Our position, as set out in the issues paper, has not changed. We do not intend to pursue a change to the form of control.[191]

[186] Ibid, at [62].
[187] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.126]-[3.130].
[188] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [63].
[189] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 3.
[190] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [64].
[191] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.131].

Topic	Submitter	Submission	Our responses
Reopeners	Chorus	Supported the creation of a reopener where a material individual capex allowance is approved by the Commission. A materiality threshold could ensure the benefit outweighs the cost and impact to price stability of a mid-period change.[192]	We noted that we would consider a PQ path reopener for approved ICPs in the issues paper.[193] We will consider a range of issues relating to reopeners in Tranche 2. This issue will be considered along with other reopener issues.
Revenue path disaggregation	Chorus	Chorus disagreed with the Commission's proposal to disaggregate the price path.[194]	Our position, as set out in the issues paper, has not changed. We do not intend to pursue this option any further.[195]
Wash-ups	Chorus	Caps and collars will create complexity without any clear benefit. A volumetric wash-up may be suitable for new products with uncertain demand.[196]	We considered demand wash-ups and gave the example of implementing a cap and collar type of mechanism.[197] While we have made a draft decision to introduce a volumetric connection capex wash-up related to upgrades, we have not introduced a cap and collar mechanism, given the potential complexity outweighing likely benefits.

[192] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [103].
[193] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at 79.
[194] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [53].
[195] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.131].
[196] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at 3.
[197] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.122]-[3.125].

Attachment A: Using the willingness to pay to value end-user benefits from network expansion

A1 This attachment outlines our draft decision on how to value the end-user benefit in our CBA investment test set out in the fibre IMs. We discuss:

A1.1 the high-level approach to incorporating the WTP in the investment test;

A1.2 the approach to determining the WTP;

A1.3 the potential issues with using WTP to support expansion capex proposals; and

A1.4 how we could mitigate potential issues with using WTP to support expansion capex proposals.

High-level approach to incorporating WTP in the investment test

Our draft decision

A2 As discussed above in Chapter 4, paragraph 4.37.1, our draft decision is to:

A2.1 require that Chorus values end-user benefits from network expansion using the incremental notional revenue Chorus would receive based on end-users' willingness to pay (WTP); and

A2.2 require Chorus to:

A2.2.1 propose the WTP value(s) to use in its investment test proposal;[198]

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

A2.2.3 provide evidence explaining why the methodology is robust and accurately represents relevant future FFLAS end-users WTP.

[198] We note that there may be different WTP values for different FFLAS broadband plans, given the different characteristics and speeds of the plans and different recovery rates. However, using an average WTP 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 WTP are correct. It will be to Chorus' discretion whether it submits a single WTP price or multiple for different connection types or FFLAS broadband plans. However, in any case Chorus will need to provide the methodology used to calculate the WTP.

Reasons for our draft decision

A3 Using WTP to value the end-user benefits from fibre network expansion will incentivise the amount of investment that maximises overall consumer welfare (as a proxy for the value consumers place on receiving a FFLAS), promoting the long-term benefit of end-users. We consider that fibre consumer welfare will increase for fibre network expansion when there is a positive net benefit result from the investment test. We consider fibre expansion should occur where the expected aggregate WTP for fibre end-users is at least equal to the expected costs.

A4 We consider our draft decision promotes s 162 of the Act by promoting the long-term benefit of end-users in the market for FFLAS by promoting outcomes that are consistent with outcomes produced in workably competitive markets. We note that in applying s 162 of the Act, a WTP 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 users.

A5 In our view, using WTP to value the benefits end-users of FFLAS would receive from network expansion is in their long-term benefit because:

A5.1 **WTP aligns investment with end-user preferences**. WTP reflects the utility and benefit new FFLAS end-users would derive from a fibre based broadband service. If WTP for new FFLAS end-users exceeds the cost of expanding the network, then the investment represents a net gain in welfare and better reflects the demand for infrastructure services, consistent with promoting incentives to invest under s 162(a) and incentives to provide services that consumers demand under s 162(b).

A5.2 **Improves allocative efficiency.** Investment is allocated more efficiently to where end-user benefits are maximised. By improving allocative efficiency, we consider resources are directed to areas that produce higher value for Chorus and end-users of FFLAS, consistent with s 162(c).[199]

A6 Using the WTP in an investment test would represent a notional price for valuing the benefit end-users would receive from fibre broadband in an area that is currently unserved by fibre broadband (but not necessarily unserved by broadband supplied using other technologies).

[199] Note that we raise the potential competition impacts of our draft decision later in this attachment. These competition issues may distort efficient allocative decisions in wider telecommunication markets. However, we consider our draft decision addresses these concerns as the draft decision improves the long-term benefit of end-users by maximising benefits to end-user of FFLAS.

A7 Chorus would measure the benefits from potential expansion using the WTP — which is influenced by competing service alternatives — instead of the current GCP.[200] As Chorus noted in its PQP2 proposal,[201] applying the WTP test would be similar in all respects to IRIC, except the current GCP would be substituted for a WTP price that end-users would be willing to pay (if the GCP constraint did not prevent this). However, in practice, Chorus would charge new end-users the GCP, consistent with s 201 of the Act.[202]

A8 We consider using GCP-based prices for the investment test may unduly limit Chorus from expanding into more rural areas, where it is prevented from charging WTP-based prices for its services. This is because Chorus must charge the same price to those in rural areas for providing FFLAS services that are in all material respects, the same. Other LFCs are not subject to s 201 of the Act, as they are not subject to price-quality regulation. Furthermore, other service providers such as wireless internet service providers (**WISPs**) can enter into these areas and compete with existing providers where the benefit outweighs the cost.

A9 If GCP requirements were removed, we consider Chorus may have some advantages that other providers may not, which includes:

A9.1 the ability to use existing infrastructure; and

A9.2 potentially less constrained financing that could allow for a more optimal level of expansion that would increase competition for the long-term benefit of end-users.

A10 These advantages are important because they may lead to better outcomes for end-users. Chorus' financing and size means that it could have a lower cost to expand its network which leads to more competition and more efficient investment.

Alternatives considered

A11 In our issues paper, we highlighted that we considered there are three main options for determining (and quantifying) the end-user benefits that should be included in an economic test for fibre network expansion:[203]

A11.1 A revenue-based test: benefits would be based on the incremental fibre revenue from new connections at the current GCP.[204]

A11.2 A willingness to pay test: benefits would be based on how much people in new areas are willing to pay for a fibre broadband service.

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[200] Which would represent the revenue benefits considered in our IRIC approach discussed in the issues paper and used in our PQP2 final decision for approving expansion capex. Chorus would still be required to charge the GCP in accordance with s 201 of the Act (for FFLAS that is in all material respects the same).

[201] Chorus "Our Fibre Assets" (31 October 2023), at 290.

[202] Telecommunications Act 2001, s 201.

[203] Commerce Commission "Fibre input methodologies review 2027 – Issues paper (Tranche 1)" (10 July 2025), at [3.55]-[3.55.3].

[204] This would take the form of the incremental revenue incremental cost test we used in PQP2.

A11.3 A wider economic benefit test: benefits would include wider economic benefits as well as the direct benefits to new fibre end-users.[205]

A12 Our view is that a wider economic benefits test is not viable under our current regulatory framework. It does not align with the purpose of Part 6, which is to promote the long-term benefit of end-users in fibre fixed line access markets (s 166(2)(a)). Nor do we consider it would support workable competition in telecommunications markets (s 166(2)(b)). Chorus and Spark agree a wider economic benefits test is not viable within the existing regulatory framework.[206]

Stakeholder views

A13 In respect of the remaining two options, stakeholders disagreed over the methodology we should use to determine benefits:

A13.1 Chorus believes we should use the WTP test for fibre network expansion.[207] Chorus believes that this option most closely aligns with the Part 6 purpose and is the test that a network provider in a workably competitive market would use to make decisions.

A13.2 However, other stakeholders (including 2degrees and Spark), preferred the incremental revenue incremental cost test (**IRIC**) approach and supported using the GCP.[208]

Approach to determining the WTP

Draft decision

A14 Our draft decision is to amend the IMs to require Chorus (in its capex proposal) to include a proposed WTP value based on a robust methodology. The proposed network expansion will meet the investment test if we are satisfied that the proposed capex has a positive net FFLAS market effect and is robust under sensitivity analysis.

A15 In considering the capex proposal, we will have regard to the outcome of the investment test and use the evaluation criteria to assess whether the proposed capex meets the expenditure objective of being prudent and efficient and reflecting good telecommunications industry practice. We consider that we need to have consideration of the expenditure objective to support the result of and wider investment test information because there are important considerations beyond the result of the investment test, such as the deliverability of the investment and the extent of any uncertainty relating to the proposed capex.

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[205] Note that we consider there is a distinction between efficiency benefits that Chorus could internalise and shared with end-users and wider economic efficiency benefits from network expansion capex. We have included direct efficiency benefits in the test. Refer to Chapter 5 for more detail.

[206] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [43.3]; and Spark "Fibre input methodologies review 2027" (7 August 2025), at [18].

[207] Chorus "Chorus submission on Fibre input methodologies review 2027: Issues Paper (Tranche 1)" (7 August 2025), at [43.2].

[208] 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 5; and Spark "Fibre input methodologies review 2027" (7 August 2025), at [11]-[13] and [25].

A16 We will also require Chorus to provide its methodology for calculating the WTP and evidence as to why the proposed value and methodology is appropriate and provides a fair reflection of end-users WTP.

Reasons for our draft decision

A17 We consider our draft decision on how to implement the WTP ensures a robust and transparent approach to determining the WTP while remaining practical for Chorus and the Commission to implement. We acknowledge Chorus may have an incentive to overstate the value of WTP. In assessing Chorus' network expansion proposal, it is intended that the Commission could calculate a different WTP value (if we considered that appropriate) as part of the draft decision on whether the test is met.

Stakeholder views

A18 Spark noted in that submission that using willingness to pay would:[209]

> further have significant information requirements to determine an efficient level of funding. For example, as outlined in the issues paper and in the Richard Feasey report, the Commission would need to consider and form a view on customer willingness to pay for a fibre service in the expansion areas, the impact on existing end-users, the impact on alternative network providers and services, who should fund the expansion and by how much.

A19 We acknowledge that determining a WTP could be complicated. Our draft decision, set out in paragraph 4.37.1, requires Chorus to provide its methodology and supporting evidence for the WTP estimate. We believe this strikes the right balance between complexity and flexibility. It allows Chorus, who will have a good understanding of the data required to inform a WTP, to calculate one, but also provides the Commission oversight and discretion (through the requirement on Chorus to provide supporting evidence and justification) of the WTP used in the investment test.

Potential value for the willingness to pay

A20 We have considered what a new end-user WTP could be to support our understanding of the impact of our draft decision.

A21 We expect that a fibre consumer's WTP would be constrained to some degree by the price of competing service alternatives. However, the WTP may be higher than the price for alternatives and differentials may indicate that some end-users place a higher premium on the reliability, speed, or unlimited data offered by fibre broadband compared with other broadband services.[210]

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[209] Spark "Fibre input methodologies review 2027" (7 August 2025), at [21b].

[210] Many rural consumers purchase satellite-based services at a retail price in excess of $150 per month. Along with other information, this could partly inform a wholesale WTP calculation for fibre. For example, for a cohort of consumers the satellite price may represent a cap on their retail WTP, if they are neutral between the service characteristics of fibre and satellite-based broadband, while for another (likely much smaller) cohort, they may be willing to pay even more for hyperfibre services than the satellite-based retail price. Conversely there are likely to be cohorts that would be unwilling to pay more than their current 4G fixed wireless services because they are entirely satisfied with their service levels.

A22 As set out in our draft decision, we expect Chorus to provide a WTP value that is economically defensible in light of the price and performance of alternatives and which is based on a robust and defensible methodology.

Potential issues with using WTP to support expansion capex proposals

Stakeholder views

A23 Spark submitted on our issues paper that it did not support the use of a WTP test in valuing the benefits of expansion.[211] Spark believes that WTP will not be consistent with the regulatory framework and purposes of the Act and will be difficult to apply. Spark submitted that the WTP will require current end-users to cross subsidise new end-users in areas where the network will be expanded to because of the GCP requirement.[212] However it submitted that a cross subsidy of this nature is not possible in workably competitive markets and will inevitably impact competition because in the long run no business can compete against guaranteed regulated returns. 2degrees agreed with this point and submitted that it is critical that we do not incentivise inefficient investment or distort the market in favour of fibre in areas where other technology can be used more efficiently.[213]

A24 Spark also noted that "Demand for fibre services is moderately price elastic and higher prices will inevitably reduce fibre take up in existing coverage areas."[214] We consider that our draft decision has addressed this by proposing that Chorus quantifies the impact on pricing from any network expansion and impacts on uptake of its existing end-user base.

A25 2degrees also submitted on the investment test topic in its submission on our issues paper. 2degrees did not explicitly discuss the WTP issue but raised the following points which we consider are related to using WTP to value the benefits of expansion:[215]

A25.1 The large costs for extending fibre further would require large cross-subsidies from existing customers:

A25.1.1 To what extent enabling uneconomic investment and increasing cross-subsidisation fits with workably competitive market outcomes, incentives for efficient investment and/or limiting Chorus' ability to earn excessive profits.

A25.1.2 Expansion of fibre could crowd out lower cost and more efficient alternative service options.

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211 Spark "Fibre input methodologies review 2027" (7 August 2025), at [21]-[24].
212 Ibid, at [21a] and [21b].
213 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 5.
214 Spark "Fibre input methodologies review 2027" (7 August 2025), at [21a].
215 2degrees "2degrees response to Commerce Commission Fibre input methodologies review: Issues Paper" (August 2025), at 5.

WTP transfer welfare between consumers if GCP applies

A26 Using the WTP to calculate the end-user benefit while Chorus is required to charge geographically consistent pricing in accordance with s 201 of the Act (assuming there is a differential between the two and that WTP > GCP) would transfer welfare between groups of fibre consumers arising from the fibre network expansion.

A27 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).[216] This means that end-users outside of the expanded footprint areas could subsidise network expansion (ie, in more rural areas), despite having limited or no private benefit from it.

A28 In our issues paper we raised that using the WTP would likely require Chorus to increase the current access price (the GCP) for providing FFLAS services that are in all material respects the same.

A29 We acknowledge that using WTP in the investment test may increase the prices existing end-users are paying for the FFLAS service, and this does not represent cost-reflective pricing. However, s 201 of the Act creates limitations on efficient investment by constraining the use of cost-reflective pricing. The GCP requirement potentially prevents efficient discovery of network expansion opportunities that need to be priced at GCP rather than at the level that end-users would be willing to pay.

A30 One of the trade-offs of our draft decision is that existing end-users pay a proportion of the expansion. While existing end-users of FFLAS are net worse off, the total welfare of existing plus new end-users of FFLAS will still be larger than prior to the expansion. This is because the welfare gained by new end-users of FFLAS is larger than the welfare lost by existing end-users as end-user WTP is greater than the GCP.[217] We consider that this promotes the long-term benefit of end-users of FFLAS as a whole.

A31 In our view, our draft decision to use WTP to value the end-user benefits better promotes the Part 6 purpose than using the GCP. This is because we consider the Act requires us to promote the long-term benefit of end-users in markets for FFLAS by promoting outcomes consistent with those in a workably competitive market. In a workably competitive market, we would expect FFLAS to be delivered where the willingness to pay exceeds the costs of provision. We consider we better promote the part 6 purposes by using WTP even though there are welfare distribution implications of our draft decision. We note that there already exists different distribution of costs due to the different costs to serve. This is illustrated by the different costs to connect households to the fibre network over the different roll-out periods (UFB1, UFB2 and UFB2+).

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

[217] This assumes that a change in the GCP does not materially impact the number of existing end-users or cause existing end-users to downgrade to a lower cost service. We have introduced information requirements to understand the impact of pricing changes from any network expansion capex on access prices.

A32 Based on Chorus' original proposal in PQP2 to expand the fibre network to 89.3% of the country, Chorus noted it would bring an additional cost per premise per month of $0.98, which increased to $1.35 for expanding the fibre network to 89.7% of the country.[218]

WTP could distort competition in the market for non-fibre broadband technologies

A33 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).

A34 Competition effects from this decision arise because, if Chorus must provide FFLAS services at a geographically consistent price — meaning the same price for end-users or access seekers regardless of location — this price could be below the cost to serve in some areas. This is because the basis for the investment in network expansion will have been based on the WTP of end-users and not the GCP, meaning that a greater level of network expansion may have occurred than if the investment was based on the GCP. As a result, more end-users in those areas, where WTP was greater than the GCP, may adopt FFLAS services than would occur if Chorus priced based on a more cost-reflective level (ie, willingness to pay). Over the longer term, this could reduce competitive pressure, as alternative technologies may be priced out of the market.

A35 The potential detrimental impacts include potential long-term dampening of competitive pressure from alternative technologies in expanded areas, due to reduced revenue to providers using competing access technologies, loss of market share and potential exit from the market. The reduced revenue (negative competition effect) would only occur in areas where the network was expanded where the WTP was greater than the GCP and would arise from end-users switching and choosing fibre over alternative technologies.

A36 We note that it is difficult to predict the long-term impact on competition. LEO providers (who operate in global markets) for example, are unlikely to materially alter their operations based on the (comparatively small) New Zealand market. However, we consider it possible that expansion of the fibre network could change the competition dynamics in that area especially for WISPs and other rural fibre providers that could be displaced. We note in paragraphs A44 to A45 that fibre expansion could mean that we would consider a deregulation review in accordance with s 210 of the Act.

A37 We consider that open access LFC fibre is not the only wired connectivity option for rural areas. We are aware of WISPs and others deploying fibre in some areas. We would expect Chorus to understand the areas it is moving into, and to avoid uneconomic duplication of assets.

[218] Chorus "Our Fibre Assets" (31 October 2023), at table 15.4.

A38 Our draft decision is that the investment test in the IMs accounts for negative competition effects as a cost to be calculated and included in the test. This will allow us to account for appropriate negative competition effects in the investment test and ultimately whether to approve the proposed network expansion investment. We do not intend that this requirement should offset the costs that arise to alternative technologies from using WTP to value end-user benefits in place of using the geographic consistent price (as discussed in paragraph A34). Doing so would negate the purpose of using WTP and we consider other ways to mitigate the competition and wealth transfer issues in the following section. However, there may be other longer-term competition effects that should be accounted for in the investment test.

A39 We acknowledge that competition effects may be challenging to quantify and expect to see robust evidence and analysis to support its inclusion in the test.

A40 We consider that excluding negative competition effects arising from using WTP instead of GCP is consistent with our obligations under s 162 and 166(2)(b) of the Act. We consider our draft decision results in favouring the long-term benefit of end-users in markets for FFLAS by promoting outcomes consistent with workably competitive markets (s 162 of the Act) over promoting competition in markets for telecommunications services as per s 166(2)(b) of the Act. We consider this is a situation where the best blend of the objectives in s 166(2) is achieved by making a decision that promotes the outcomes in s 162 to a greater extent but may not enhance competition in one or more telecommunications services markets (s 166(2)(b)).

How we could mitigate potential issues with using WTP to support expansion capex proposals

Capital contributions

A41 We expect Chorus, in developing its proposals to explore feasible options to mitigate the degree of expected cross-subsidy from existing fibre users to expansion areas. These options include:

A41.1 Capital contributions from end-users, reflecting their willingness to pay, 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,[219] and have not identified any barriers within the IMs for further use.

A41.2 Community or collective funding models, where local groups contribute towards the cost of fibre deployment in their area.[220]

A41.3 Other mechanisms that share costs between Chorus, end-users, and potentially third parties.

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

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

A42 We would expect Chorus to explore the use of capital contributions to help fund future expansion before relying on cross subsidisation through the GCP. We acknowledge that Chorus may receive excessive profits if it receives capital contributions for network expansion costs that have already been included in the forecast allowance. Capital contributions should be forecast as part of the investment test and network expansion expenditure proposal, similar to how Chorus currently forecasts new property development expenditure allowances.

A43 We support the use of capital contributions where Chorus considers appropriate, but we note that Chorus would need to design any approach to be consistent with the GCP requirement in s 201 of the Act. Section 201 of the Act requires Chorus, as it is subject to PQ regulation, to charge end-users the same price for providing FFLAS that are in all material respects, the same.[221]

Deregulation

A44 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 geographically consistent price.[222]

A45 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 Chorus expands in to. 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.[223] It would also mean that Chorus could charge the WTP, or set prices that reflect costs rather than charge the GCP in areas Chorus was no longer price-quality regulated. If this occurred, it could help alleviate the wealth transfer and competition issues raised in the previous section.

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[221] 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.

[222] Our work on Fibre Deregulation Reviews can be found here. In late 2024 we considered whether there are reasonable grounds to start a FFLAS deregulation review under s 210(3) of the Act. We found that there are reasonable grounds to review four services which includes voice services, transport services, point-to-point services and co-location and interconnected services. We are currently conducting the deregulation review into voice services where we made the draft recommendation to the Minister for Media and Communications that voice services remain regulated. Commerce Commission "Fibre Deregulation Review under section 210 of the Telecommunications Act – Draft recommendation to the Minister for Media and Communications on fibre Voice services" (30 October 2025).

[223] 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.

Review the GCP requirement

A46 The Ministry for Regulation (**MfR**) recently completed a review of the regulations that apply to the telecommunications sector. As part of its review the MfR consulted on an option to amend the Act to require the Commerce Commission to review GCP as part of our next regulatory reset in 2027 and consider whether existing or alternative regulatory tools better achieve the GCP's dual objectives.[224] The MfR is yet to deliver its final report of findings and recommendations to the Ministers for Regulation and Media and Communications for their consideration, however we are keeping a watching brief.

[224] We expect that publicly available material will be available on the Ministry for Regulation's website.

Attachment B: Glossary

Table B1 Abbreviations

Abbreviation	Term
Act	Telecommunications Act 2001
AMP	Asset Management Plan
BBM	Building blocks model
BST	Base-step-trend
capex	Capital expenditure
CBA	Cost benefit analysis
CCI	Commercially confidential information
CPPP	Cost per premises passed
CTTP	Cost to connect to the premises
FCM	Financial capital maintenance
FFLAS	Fibre fixed line access service
FWA	Fixed wireless assets
GAAP	Generally accepted accounting principle
GCP	Geographically consistent price
GTIP	Good telecommunications industry practice
ICP	Individual capex proposal
ID	Information disclosure
IFP	Integrated Fibre Plan
IM	Input methodologies
IM Review	Fibre IM Review 2027
IRIC	Incremental revenue/incremental cost
LEO	Low earth orbit satellites
LFC	Local Fibre Company (Chorus, Northpower, Enable and Tuatahi)
MAR	Maximum allowable revenue
MCP	Major capex proposal
MD/BI	Material Damage and Business Interruption
MfR	Ministry for Regulation
NOI	Notice of intention
NPV	Net present value
ONT	Optical Network Terminal
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)

Abbreviation	Term
PwC	PricewaterhouseCoopers New Zealand
RAB	Regulated asset base
RSP	Retail service provider
TNO	Telecommunications network optimisation
UFB	Ultra-fast broadband
Verifier	Independent verifier
WACC	Weighted average cost of capital
WISPs	Wireless internet service providers
WTP	Willingness-to-pay