

Cost of capital determination for disclosure year 2026 for information disclosure regulation

For Chorus Limited

[2026] NZCC 1

The Commission: Tristan Gilbertson

Nathan Strong

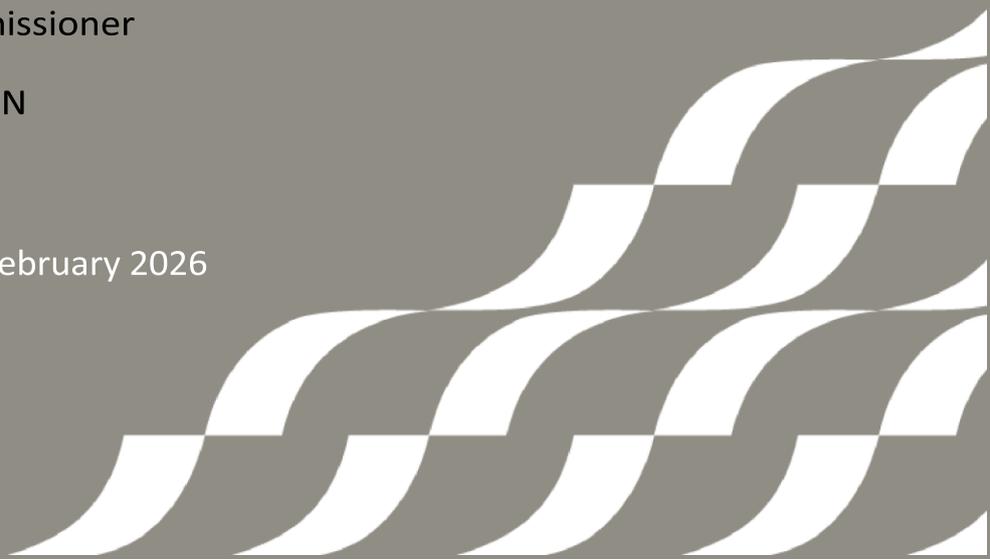
Loretta Lovell



Tristan Gilbertson, Commissioner

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Associated documents

Publication date	Reference	Title
3 September 2025	ISBN 978-1-991414-02-1	Fibre Input Methodologies Determination 2020 (consolidated version).
5 February 2025	ISSN 1178-2560	Cost of capital determination for disclosure year 2025 for information disclosure regulation - For Chorus Limited [2025] NZCC 2
1 July 2024	ISSN 1178-2560	Cost of capital determination for Chorus' price quality path for PQP2 [2024] NZCC 12
27 June 2024	ISBN 978-1-869457-90-7	Guidelines for WACC determinations under the cost of capital input methodologies - Regulation under Part 4 of the Commerce Act 1986 and Part 6 of the Telecommunications Act 2001 (Post-IM review version)
7 February 2024	ISSN 1178-2560	Cost of capital determination for disclosure year 2024 for information disclosure regulation – For Chorus Limited [2024] NZCC 1
1 February 2023	ISSN 1178-2560	Cost of capital determination disclosure year 2023 for information disclosure regulation – For Chorus Limited [2023] NZCC 1
1 February 2022	ISSN 1178-2560	Cost of capital determination for Chorus, Enable, Tuatahi, and Northpower Fibre ID [2022] NZCC 1
30 November 2021	ISSN 1178-2560	Fibre Information Disclosure Determination 2021 [2021] NZCC 24, as amended
1 July 2021	ISSN 1178-2560	Cost of capital determination for Chorus' price quality path for PQP1 [2021] NZCC 8
13 October 2020	ISSN 1178-2560	Fibre Input Methodologies Determination 2020 [2020] NZCC 21, as amended

WACC ID estimates for disclosure year 2026 for Chorus Limited

1. This cost of capital determination has been made under the Cost of Capital Input Methodologies (IMs).¹
2. This determination specifies the weighted average cost of capital (WACC) estimates that will apply for information disclosure (ID) regulation for disclosure year 2026 for Chorus Limited (Chorus).
3. The timing of our WACC determinations for Fibre ID regulation differs depending on the disclosure year of the regulated companies. We determine an ID WACC for Chorus in January or February each year as its disclosure year is 1 January to 31 December, with disclosure year 2026 being the year ending 31 December 2026.²
4. The vanilla and post-tax WACC estimates for disclosure year 2026 for Chorus are summarised in Table 1 below.

Table 1: Vanilla and post-tax WACC estimates

	Mid-point
Vanilla WACC	6.59%
Post-tax WACC	6.20%
Standard error	0.0131

5. The WACC estimates have been calculated as at 1 January 2026, which is the first day of disclosure year 2026 for Chorus.
6. The IMs set out the methodology for determining an estimate of WACC, including:
 - 6.1. the formulas used;
 - 6.2. the values for WACC parameters which are fixed under the IMs; and
 - 6.3. our methodology for estimating the risk-free rate and average debt premium.

¹ Commerce Commission, [Fibre Input Methodologies Determination 2020](#) [2020] NZCC 21 (as amended). An unofficial consolidated version incorporating amendments to the determination, as of 3 September 2025, is available on the Commerce Commission website.

² The IMs require us to make the determinations for Chorus (as its disclosure year starts on 1 January) within two months of the start of the disclosure year. [Fibre Input Methodologies Determination 2020](#), clause 2.4.1(1)(b)

7. This determination applies the Fibre Input Methodologies (tax-adjusted market risk premium) Amendment Determination 2024 [2024] NZCC 11.³ This amendment to the IM determination applies for ID regulation from 3 March 2025, and this is the first instance of the amendment being applied to a Chorus cost of capital determination.^{4 5}

Further details regarding WACC estimates

WACC parameter values for Chorus

8. The parameter values used to generate the mid-point WACC estimates for Chorus are summarised in Table 2 below.⁶

Table 2: Values used to calculate WACC estimates*

Parameter	Estimate
Risk-free rate	3.37%
Average debt premium	1.15%
Leverage	29%
Asset beta	0.50
Equity beta	0.70
Tax adjusted market risk premium	7.0%
Average corporate tax rate	28%
Average investor tax rate	28%
Debt issuance costs	0.25%
Cost of debt	4.77%
Cost of equity	7.33%
Standard error of midpoint WACC estimate	0.0131
Mid-point vanilla WACC	6.59%
Mid-point post-tax WACC	6.20%

³ [Fibre Input Methodologies \(tax-adjusted market risk premium\) Amendment Determination 2024](#) [2024] NZCC 11 (28 May 2024).

⁴ See Commerce Commission, [Fibre Input Methodologies Determination 2020](#) (consolidated 3 September 2025) and Commerce Commission, [Guidelines for WACC determinations under the cost of capital input methodologies \(post-IM review\)](#) (27 June 2024).

⁵ See Commerce Commission, [Fibre Input Methodologies \(tax-adjusted market risk premium\) Amendment Determination 2024](#) [2024] NZCC 11 (28 May 2024), clause 3.2.1. which amended this value from 7.5% to 7.0%.

⁶ All parameter values except the asset beta, estimate of the risk-free rate and the average debt premium are specified in the Fibre IMs. It should be noted, however, that the equity beta is calculated using the values of the asset beta and leverage, so this value of the asset beta is implicitly defined in the Fibre IMs. See Commerce Commission, [Fibre input methodologies: Main final decisions – reasons paper](#) (13 October 2020), para 6.411.

*IM-specified values are exact, no decimals; calculated and estimated values are rounded to two decimal points, except tax adjusted market risk premium and standard error of the mid-point WACC estimate

Risk-free rate

9. The timing of our WACC determinations for Fibre ID regulation differs depending on the disclosure year of the regulated companies. We determine an ID WACC for Chorus in January or February each year as its disclosure year is 1 January to 31 December, with disclosure year 2026 being the year ending 31 December 2026.
10. Our estimate of the four-year risk-free rate is based on data reported by Bloomberg for the three-month period ending 31 December 2025 in respect of the April 2029 and May 2030 maturity bonds.
11. The daily data reported by Bloomberg is linearly interpolated, annualised (to reflect the six-monthly payment of interest) and averaged to produce the estimate of a 3.37% interest rate on New Zealand government bonds with a four-year term to maturity, as estimated at 1 January 2026.⁷

Average debt premium

12. The average debt premium of 1.15% is the average of the debt premium values for the current debt premium reference year (DPRY) and the four previous DPRYs,⁸ as shown in Table 3 below. DPRY 2026 is the current debt premium reference year.

Table 3: Average debt premium for Chorus (%)

	DPRY 2022	DPRY 2023	DPRY 2024	DPRY 2025	DPRY 2026	AVERAGE
Debt premium	1.30	1.15	1.40	1.10	0.80	1.15

13. The DPRYs for all regulated fibre service providers start on 1 September and end on 31 August.⁹ DPRY 2026 (the DPRY ending 31 August 2026), is the current DPRY for Chorus as it contains the start of disclosure year 2026 (1 January 2026). The Fibre IMs¹⁰ state that the calculation of the debt premium for a DPRY is estimated for each business day in the 12

⁷ Note that the target term to maturity for the risk-free rate is different than that for the first regulatory period (the risk-free rate has a term equal to the length of the regulatory period, i.e., three years for the first regulatory period, and four years for the second regulatory period). See Commerce Commission, [Fibre input methodologies: Main final decisions – Reasons paper](#) (13 October 2020), paras 6.81 to 6.264.

⁸ [Fibre Input Methodologies Determination 2020](#), clause 2.4.4(2).

⁹ [Fibre input methodologies: Main final decisions – reasons paper 2020](#) [2020] NZCC 21 (13 October 2020) (as amended), clause 1.1.4.

¹⁰ [Fibre Input Methodologies Determination 2020](#), clause 2.4.4(5)(b).

months preceding the start of the DPRY. This means that for all the DPRYs we have used bond data starting on 1 September and ending on 31 August.

The debt premium values are taken from the following sources:

- 13.1. The debt premium value for DPRY 2022 was estimated in the ID WACC determination published on 1 February 2022 applying to Chorus, Enable, Tuatahi and Northpower Fibre.¹¹
- 13.2. The debt premium value for DPRY 2023 was estimated in the ID WACC determination published on 1 February 2023 applying to Chorus.¹²
- 13.3. The debt premium value for DPRY 2024 was estimated in the ID WACC determination published on 7 February 2024 applying to Chorus.¹³
- 13.4. The debt premium value for DPRY 2025 was estimated in the ID WACC determination published on 5 February 2025 applying to Chorus.¹⁴
14. We have estimated a debt premium of 0.80% for DPRY 2026, based on the data in Table 4 below.¹⁵
 - 14.1. We have had greatest regard to the category (a) bonds, which support a debt premium of approximately 0.80%. The Chorus bond debt premium estimate (0.79%) matches the target credit rating (BBB) and the term to maturity of five years. This is the first time we have both a credit rating and tenure for a category (a) bond being an exact match (fully straddled).
 - 14.2. The estimated debt premiums for other bonds in category (c) are not inconsistent with a debt premium around 0.80%. While some bonds in this category have slightly shorter or longer remaining terms to maturity, their estimated debt premiums are not inconsistent with our estimate when consideration is given to the different credit ratings and term to maturity.
 - 14.3. The estimated debt premiums for other bonds in categories (e) to (f) are not inconsistent with a debt premium around 0.80%, when consideration is given to the different credit ratings and terms to maturity. These bonds generally have higher or lower premiums

¹¹ Commerce Commission, [Cost of capital determination for Chorus, Enable, Tuatahi, and Northpower Fibre ID](#) [2022] NZCC 1

¹² Commerce Commission, [Cost of capital determination disclosure year 2023 for information disclosure regulation, For Chorus Limited](#) [2023] NZCC 1

¹³ Commerce Commission, [Cost of capital determination for disclosure year 2024 for information disclosure regulation, For Chorus Limited](#) [2024] NZCC 1

¹⁴ Commerce Commission, [Cost of capital determination for disclosure year 2025 for information disclosure regulation, for Chorus Limited](#) [2025] NZCC 2

¹⁵ Table 4 applies [Fibre Input Methodologies Determination 2020](#) clause 2.4.4(6).

due to differences in credit quality or remaining term, but they support our overall judgment that an estimate of 0.80% is appropriate.

14.4. The Nelson-Siegel-Svensson (NSS) debt premium estimate of 0.83% is consistent with our estimate of 0.80%.

Table 4: Debt premium estimate for Chorus DPRY 2026

Bond category	Issuer	Sector	100% Govt owned	Bond credit rating	Remaining term to maturity (years)	Debt premium (%)	Comments
a	Chorus Limited	Fibre	No	BBB	5	0.79	Credit rating and term are an exact match.
c	Contact Energy Limited	Other	No	BBB	4.1	0.61	5 year debt premium would be higher.
c	Wellington International Airport Limited	Airport	No	BBB	5	0.96	Credit rating and term are an exact match.
e	Air New Zealand Limited	Other	No	BBB+	3.2	1.16	BBB debt premium would be higher; 5 year debt premium would be higher.
e	Auckland International Airport Limited	Airport	No	A-	5	0.60	BBB debt premium would be higher.
e	Fonterra Co-operative Group Limited	Other	No	A-	4.7	0.60	BBB debt premium would be higher; 5 year debt premium would be higher.
e	Genesis Energy Limited	Other	No	BBB+	3.8	0.86	BBB debt premium would be higher; 5 year debt premium would be higher.
e	Mercury NZ Limited	Other	No	BBB+	5	0.66	BBB debt premium would be higher.
e	Meridian Energy Limited	Other	No	BBB+	5.1	0.67	BBB debt premium would be higher; 5 year debt premium would be lower.
e	Spark Finance Limited	Telco	No	A-	4.5	0.59	BBB debt premium would be higher; 5 year debt premium would be higher.
e	Vector Limited	EDB/ GPB	No	BBB+	2.7	0.64	BBB debt premium would be higher; 5 year debt premium would be higher.
f	Christchurch International Airport Limited	Airport	Yes	A-	5	0.61	BBB debt premium would be higher.
F	Transpower New Zealand Limited	EDB/ GPB	Yes	AA-	3	0.31	BBB debt premium would be higher; 5 year debt premium would be higher.

Changes in the risk-free rate and debt premium over time

15. The risk-free rate and the debt premium on bonds change over time. Changes in the risk-free rate and debt premium estimates are illustrated below. Figure 1 shows, as at 1 January 2026, the average debt premium, and changes over time in the:

- 15.1. five-year risk-free rate from our historical determinations in other regulated sectors;
- 15.2. four-year risk-free rate as the second regulatory period for Chorus is four years;
- 15.3. three-year risk-free rate as the first regulatory period for Chorus was three years; and
- 15.4. the estimated debt premium on bonds rated BBB with a remaining term to maturity of five years.

Figure 1: Changes in the risk-free rates and estimated debt premiums over time

