Submission on Fibre Input Methodologies Review Issues Paper (Tranche 2)

1 September 2026

CHORUS

Executive summary

1. This is Chorus' submission on the Commerce Commission's (**Commission's**) Issues Paper for Tranche 2 of the Fibre Input Methodologies (**IM**) Review (**Issues Paper**), which focuses on targeted improvements to the framework to apply from the third PQ path (**PQP3**) onwards. Accompanying this submission is an expert report from Sapere entitled *Major transaction reopener – Fibre input methodology review*.

2. This submission is not confidential and may be published on the Commission's website.

3. The Issues Paper revisits the cost of capital and a number of related regulatory settings. Chorus' interest is in a framework that is transparent and grounded in sound economic, legal and financial principle, and that gives proper effect to the purpose of Part 6.

Cost of capital

4. Chorus' principal concerns relate to the asset beta. The Commission's preliminary analysis suggests a marked fall in fibre risk that Chorus considers reflects methodological choices and unusual market conditions rather than a genuine change in systematic risk. The Commission should:

   4.1 disclose its comparator-selection criteria in full and apply them consistently;

   4.2 not apply the proposed "very high leverage" exclusion, since leverage is already removed when equity betas are de-levered; and

   4.3 not treat recent post-Covid data as a superior guide to forward-looking risk.

5. The decline in measured betas is concentrated in US and European firms and reflects market-weighting effects associated with the rising dominance of technology stocks. A longer estimation window spanning the pre-Covid, Covid and post-Covid periods would reduce estimation error and produce a more reliable estimate.

6. On the remaining topics, Chorus supports retaining much of the current framework: the leverage methodology, the notional BBB credit rating, and the updated spread premium and term credit spread differential (**TCSD**). However, the Commission should re-examine the WACC percentile, given the widening asymmetry between the costs of under-investment and modest over-recovery, as fibre is critical infrastructure with heightened resilience expectations. Chorus supports retaining existing asset stranding tools while updating the forward-looking assessment. We also consider the reasonableness checks should not be relied upon until the methodological concerns previously raised by Incenta are resolved.

Reopeners and capital expenditure

7. Chorus supports clarifying the reopener provisions and aligning them with the recent Part 4 changes. These include an 18-month lead time and a uniform $5 million materiality threshold (excluding major transactions and individual capex). Chorus recommends reducing the major transaction threshold from 10% of RAB (~$600m) to around 2% of RAB or $100m, to avoid consumers paying for assets no longer in use, or Chorus earning no return on significant investment, until the next reset. On individual capex, Chorus cautions against imposing disproportionate compliance

obligations where the Commission has not clearly identified the problem to be addressed.

Other matters

8. Chorus supports aligning the fibre IMs with the Part 4 changes on commissioned assets and related party transactions, agrees no change is required for Crown financing, and supports a low-cost approach to the wash-up balance following deregulation or sale.

9. Chorus also identifies two gaps in the IMs that warrant resolution. Firstly, we and Sapere support developing the major transaction provisions to clarify the treatment of efficiency gains following a major transaction. Secondly, we suggest a new asset life wash-up is created, to avoid unintended consequences when accounting asset lives change mid-period.

Fibre-specific Cost of Capital IMs

10. Chorus supports a robust, transparent and enduring cost of capital methodology. The weighted average cost of capital (**WACC**) is a central input to the price-quality path and to information disclosure regulation, and its accurate estimation is essential to promoting the long-term benefit of end-users under section 162 of the Telecommunications Act 2001 (**the Act**).

11. The methodology should therefore be designed to produce the best, most stable and least biased estimate of each parameter. Chorus assesses each of the Commission's initial views against these principles in the sections that follow.

12. Chorus' principal concerns relate to the estimation of the asset beta. In summary:

    12.1 **Transparency of the comparator set.** The Issues Paper does not fully explain the criteria used to include or exclude individual firms. The Commission should set out its selection criteria explicitly and apply them consistently, so that stakeholders can test the resulting sample and the estimate can be replicated.

    12.2 **The "very high leverage" exclusion.** The Commission has applied an undefined and apparently inconsistently applied exclusion for firms with "very high leverage" without defining the threshold nor providing a principled basis for it. A firm's leverage is already removed when the equity beta is de-levered to an asset beta. Excluding firms on the basis of leverage lacks a sound analytical foundation and should not be applied.

    12.3 **The estimation window and post-Covid data.** The sharp fall in the estimated asset beta is driven disproportionately by United States and European firms. The fall derives from a period affected by the Covid-19 pandemic and by a structural shift in United States market weightings towards information technology. Neither the pre-Covid, Covid, nor post-Covid sub-periods provides a "normal" window. A longer estimation period would produce a more reliable, less error-prone estimate than the average of the last two five-year periods alone.

13. On the remaining cost of capital topics Chorus' positions are set out in paragraphs 14 to 40. In several of these areas Chorus supports retaining the current settings; in others (notably the WACC percentile and the reasonableness checks) Chorus considers the evidence warrants further work by the Commission before its draft decision.

Summary of Chorus' positions

Topic	Commission's initial view	Chorus' position
Comparator set	Retain 2020 set (48 firms after delistings); criteria and adjustments remain appropriate	Publish full selection criteria; apply consistently; do not exclude firms for "very high leverage"
Structural change / sample period	Retain standard approach (average of last two five-year periods)	Use a longer estimation window across pre-Covid, Covid and post-Covid data; do not treat post-Covid data as preferable
Leverage anomaly	Retain average comparator leverage with zero debt beta	Support retaining current approach (produces same WACC under consistent assumptions)
Credit rating	Retain notional BBB	Support retaining notional BBB
WACC percentile	Retain mid-point	Commission should re-examine the asymmetric cost analysis for fibre in light of updated evidence
Asset stranding	Retain existing tools and 10bp allowance	Update forward-looking stranding assessment; account for deregulation
Spread premium / TCSD	Update using Part 4 (2023) approach	Support updating with latest data; retain TCSD under hybrid or five-year approach
Reasonableness checks	Retain, with review of Incenta's points	Resolve the methodological inconsistencies Incenta identified before relying on the checks

Beta sub-issue #1 – selection of the comparator set

The Commission should disclose and consistently apply its selection criteria

14. The Issues Paper explains that the Commission has taken the 56-firm comparator set used in 2020 as its starting point and removed delisted firms to arrive at a preliminary set of 48 firms. However, the Issues Paper only hints at why particular firms have been included or excluded, and it does not fully set out the criteria the Commission has applied in reaching the current sample.

15. Chorus' own reconstruction of the Commission's process suggests that the 56 firms used in 2020 were drawn from a wider "refined sample" of 83 firms, with 27 excluded on

data-availability or other grounds. In this review the Commission appears to have asked, in effect, two questions: whether any of the 56 firms used last time should now be removed, and whether any of the 27 previously excluded firms can now be included.

16. Chorus' concern is that the process is unclear. An undisclosed and potentially inconsistent selection method is difficult for stakeholders to test, reduces the replicability of the estimate, and leaves the outcome open to challenge. The Commission should therefore set out its selection criteria explicitly, explain how each has been applied to individual firms, and apply the criteria consistently across the sample.

The "very high leverage" exclusion has no principled basis

17. The Issues Paper records that firms with "very high leverage" were excluded from the sample. However, it does not define what constitutes very high leverage, and it is not clear whether the filter has been applied consistently. Chorus opposes the use of leverage as a screening criterion for the following reasons:

    17.1 First, the six-step beta methodology already removes the effect of each firm's leverage. At Step 3 the equity beta of each firm is de-levered to an asset beta precisely so that differences in financial structure across the sample are stripped out before averaging. Excluding a firm because its leverage is high therefore addresses a factor the methodology has already neutralised, and risks discarding otherwise relevant market evidence for no analytical gain.

    17.2 Second, the threshold is unstated. A filter that turns on "very high" leverage, without a defined boundary, is inherently arbitrary and cannot be applied consistently or tested by submitters. If the Commission considers that extreme leverage distorts the de-levering calculation in particular cases, the appropriate response is to examine those specific firms and explain the concern, not to apply an undefined class exclusion.

    17.3 Third, applying the filter removes relevant comparators. For example, Lumen Technologies Inc appears to have been excluded, notwithstanding that it is liquid and satisfies the other criteria. Lumen's gearing was around 82% over 2023–2025 and its asset beta is approximately 0.49. United Internet AG (good liquidity, moderate gearing of around 30%, asset beta around 0.47) also appears to have been excluded without a clearly stated reason. Charter Communications, a large and liquid United States operator, may likewise have been excluded on leverage grounds. Each of these firms is a legitimate comparator whose exclusion narrows the sample without improving it.

18. Chorus therefore submits that the "very high leverage" exclusion should not be applied. At a minimum, if the Commission retains any leverage-based screen, it must define the threshold precisely, justify it by reference to the de-levering methodology, and apply it consistently to every firm in the sample.

Consistency of criteria across firms

19. For completeness, Chorus notes several further points of consistency arising from the preliminary sample:

20. **Negative net debt.** Certain firms with consistently negative net debt (for example Sonaecom SGPS SA and Gamma Communications PLC) have been included, while the same feature was treated as a ground for exclusion in the airports IM review. Chorus does not oppose the inclusion of these firms, but the Commission should apply a consistent approach to net debt across its cost of capital work rather than different treatments in different sectors.
21. **Frontier and emerging markets.** Go PLC (Malta) is classified as a frontier market under the FTSE criteria and was excluded on that basis for airports, yet is included here. Again, Chorus does not object, but consistency of criteria should be explained.
22. **Firms previously excluded that could now be included.** Several firms excluded in 2020 for data reasons now have sufficient return history to estimate an asset beta. The Commission should include those that meet the stated criteria (and explain any it does not), rather than relying on the 2020 outcome by default.
23. The unifying theme is that the selection method should be a set of clearly stated criteria applied uniformly, with departures explained. That approach best promotes the section 174 purpose of certainty and produces an estimate that can withstand scrutiny.

Beta sub-issue #2 – the estimation window and the post-Covid period

The Commission should not treat post-Covid data as inherently preferable

24. Under its standard approach the Commission estimates the asset beta as the average of the last two five-year periods. On the updated comparator set this produces an asset beta of 0.39, compared with 0.50 in the 2020 final decision. The Commission's preliminary analysis also shows a marked fall in the post-Covid sub-period: the asset beta for the three years to 31 January 2026 is 0.31, against 0.45 pre-Covid and 0.42 during the Covid period.

The post-Covid decline is concentrated in the United States and Europe and reflects market-weighting effects

25. The decline in the overall asset beta is driven in large part by United States firms – where the asset betas of almost all firms have fallen – and by European firms. The same trend has not occurred, or not to anywhere near the same extent, in Asia or New Zealand. This geographic concentration is itself evidence that the fall is not a general repricing of fibre risk.
26. There is a well-documented explanation for the United States decline. Analysts at FTSE Russell have observed that the telecommunications industry's weighting in the United States market index fell by around 4.1 percentage points between 2010 and 2024, and that measured betas may have been materially influenced by the rising dominance of information technology stocks in the index[1]. As the information technology sector grows as a share of the market, the market return itself becomes more correlated with

[1] Marshall, R., Barnes, M., Raghavan, I. (2024), *US equity market betas – why they matter and how they are changing*, FTSE Russell (an LSEG business), p.9.

information technology, and the measured betas of non-technology sectors such as telecommunications will decline even if their underlying risk is unchanged.

27. This is not a novel phenomenon. Following the dot-com period, McKinsey & Company observed that shifts in market weightings can "distort the real change in relative risk" of a sector, and measured betas from that period were generally not relied upon in Australia[2]. The current AI-driven rise in the information technology weighting in the United States market is an analogous distortion.

No single five-year window is "normal" – a longer estimation period is more reliable

28. Each of the last two five-year periods includes some part of the Covid-affected period, and the most recent years are additionally affected by the United States market-weighting distortion described above. There is, in short, no recent "normal" period from which the beta can safely be read. In these circumstances the estimate is best stabilised by averaging over a longer horizon that spans the pre-Covid, Covid and post-Covid phases together, so that no single distortion dominates the result.

29. Chorus' primary submission is therefore that the Commission should estimate the asset beta over a longer period spanning all three phases – approximately 17 years of data – with each estimate weighted according to the length of the period it represents. A longer time series reduces estimation error and avoids anchoring the estimate to a window that is known to be distorted.

30. As an alternative, the Commission could extend its standard approach to the average of the last three five-year periods rather than the last two. This would retain the familiar five-year building blocks while diluting the influence of the most recent, distorted window. Chorus would welcome the Commission publishing an estimate on this basis so that it can be compared against the longer-horizon approach.

31. The Commission should not treat the post-Covid data as a superior guide to forward-looking risk. The evidence indicates that the recent fall in measured betas reflects transitory and region-specific market conditions including benchmark composition effects associated with the growing weight of technology firms in US equity indices,[3] rather than a durable reduction in the systematic risk of providing fibre services.

Beta sub-issue #3 – average leverage of the comparator set

32. The Commission proposes to retain its current approach of using the average leverage of the comparator set to re-lever the average asset beta, together with a zero debt beta, rather than adopting a notional leverage with a non-zero debt beta as most overseas regulators do.

33. Chorus supports retaining the current approach. As the Commission notes, provided a single debt beta is assumed to apply across all firms, using the average comparator leverage with a zero debt beta produces the same WACC as using a notional leverage

[2] Annema, A., & Goedhart, M. H. (2003). *A Better Beta*. The McKinsey Quarterly, No. 1, pp. 6–9.
[3] Marshall, R., Barnes, M., Raghavan, I. (2024), *US equity market betas – why they matter and how they are changing*, FTSE Russell (an LSEG business), pp. 5-6.

with a non-zero debt beta. The choice is therefore one of presentation rather than substance, and the current approach has the advantage of being grounded directly in observed market evidence rather than a regulatory judgment about notional gearing.

34. Chorus notes that the average leverage of the updated comparator set has risen from 29% to 33% over the last two five-year periods, and from 29% (pre-Covid) to 39% (post-Covid). The leverage estimate, like the beta estimate, should be drawn from a period that is representative rather than distorted, and the two parameters should be estimated over a consistent window so that the re-levering calculation is internally coherent.

Credit rating

35. The Commission's initial view is that the notional service-wide benchmark credit rating of BBB remains appropriate. Chorus supports retaining a notional BBB rating and is not aware of evidence that would justify departing from BBB.

WACC percentile

36. The Commission proposes to retain the mid-point WACC for both price-quality and information disclosure regulation of fibre, on the basis that the reasons for not providing an uplift in 2020 still hold. Chorus has previously submitted that the appropriate percentile should be reviewed, and it maintains that position.

37. The case for an uplift rests on the asymmetry between the long-term costs of under-estimating the WACC and those of over-estimating it. Where the expected costs to end-users of under-investment exceed the costs of a modest over-return, an uplift above the mid-point better balances the s 162(a) and s 162(d) outcomes. The Commission recognised this logic in the 2023 Part 4 review when it set the WACC for electricity distribution businesses and Transpower at the 65th percentile to mitigate the risk of under-investment in service quality and resilience.

38. Chorus submits that the Commission should re-examine the percentile. Relevant current evidence specific to fibre indicates the asymmetry of costs has changed since 2020. For example, in light of the maturing of the network, the resilience expectations now placed on fibre as critical national infrastructure, and the consequences of a sustained under-recovery of the cost of capital for long-lived assets.

39. The evidence since 2020 points to a widening, not a narrowing, of the relevant asymmetry. When the Commission last updated its cost–benefit quantification for the 2023 Part 4 review, its adviser found that the value of network reliability had increased, supporting a higher percentile. Fibre has since become more essential. It is the default access technology for households, businesses, public services and emergency response. This implies the cost of under-investment relative to a modest over-return has risen. On the Commission's own logic, that strengthens the case for an uplift above the mid-point.

40. An uplift would also be consistent with the Commission's treatment of comparable infrastructure. In the 2023 Part 4 review it set the WACC at the 65th percentile for electricity distribution businesses and Transpower to guard against under-investment in quality and resilience. Fibre is no less critical, and the Commission's draft Resilience

Principles guidance expressly expects material, forward-looking resilience investment from fibre providers. It would be inconsistent to require Chorus to invest as critical infrastructure while denying it the asymmetric protection afforded to electricity networks.

Asset stranding risk

41. The Commission's initial view is that the existing tools for addressing asset stranding risk remain appropriate (i.e. retaining assets in the regulated asset base, allowing alternative depreciation profiles, and a modest ex-ante allowance of ten basis points). Chorus agrees that these tools remain necessary. However, the Commission should update its assessment of stranding risk on a forward-looking basis rather than assume that the 2020 settings continue to be adequate. We will provide further detail in response to the draft decision.

42. Fibre services are exposed to material asymmetric (Type II) stranding risk arising from technological change and potential overbuild or competition between contiguous fibre networks. The scope for competition is expressly contemplated in the Act, which requires the Commission to consider before each regulatory period whether to review how fibre is regulated.

43. Chorus supports a review of the current level of asset stranding risk, for reasons including the fact the Commission is already considering the deregulation of certain services, and its consideration of deregulation in future. Deregulation would change the remaining level of stranding risk, and how that risk is shared between services that remain regulated and those that don't.

Spread premium and term credit spread differential

44. The Commission proposes to update the spread premium (TCSD) for fibre using the same approach it adopted in the 2023 Part 4 review. It also proposes to retain the TCSD allowance provided it maintains the current hybrid approach to the cost of debt or moves to a five-year trailing average. Chorus supports updating the spread premium using the latest available data and supports retaining the TCSD allowance on either of those bases.

45. Chorus notes that the spread premium depends on the benchmark credit rating, which Chorus submits should remain BBB (section 35). The two parameters should be estimated on a consistent basis. Chorus would be concerned if a move to a ten-year trailing average cost of debt were used as a basis to automatically remove the TCSD. Qualifying providers should remain appropriately compensated for prudent long-term debt issuance, whatever cost-of-debt approach is ultimately adopted.

Reasonableness checks

46. The Commission proposes to undertake reasonableness checks in Tranche 2 similar to those it has used previously, while acknowledging the concerns raised by Incenta on behalf of Chorus[4]. Chorus' position is that the reasonableness checks should not be relied upon unless and until the methodological problems Incenta identified are resolved.

[4] Incenta (April 2026), *Estimating the TAMRP – weight to apply to the Siegel 2 and Siegel 1 methods*.

47. Incenta identified three difficulties. First, the checks rely on an assumption – that the WACC for an infrastructure service should be lower than that of a "market average" firm – rather than evidence. Second, historical returns to New Zealand firms from 1990 to the present are of limited relevance to a forward-looking regulatory WACC, because what matters to investors today is the expected future return on assets of equivalent risk. Third, some of the assumptions used in the checks are internally inconsistent or out of date. For example, the inconsistent use of geometric and arithmetic averages across different decisions, and the application of different market leverage ratios in different decisions.

48. These are not reasons to abandon the concept of a cross-check, but they are reasons not to give weight to a check that is methodologically unsound. Before undertaking or relying on reasonableness checks in Tranche 2, the Commission should resolve the inconsistencies Incenta identified. This should be done by settling on a single, clearly justified treatment of averaging and leverage assumptions. The Commission should also be explicit about the weight, if any, that any check will carry in the ultimate estimate. This approach should also be subject to consultation as part of the draft decision. Chorus supports the Commission's recognition that the greatest weight should attach to New Zealand-sourced WACC evidence, provided that evidence is assembled on a consistent and current basis.

Reopening the price path

49. Chorus agrees that it is useful to provide additional clarity in the fibre IMs on reopeners and we agree the amendments made to reopeners in the recent Part 4 IM review should be considered for fibre. We discuss each of the reopener topics below.

Reopener thresholds

50. The suggested amendments to reopener thresholds in the Issues Paper are individually reasonable but would deliver outcomes that seem incoherent. On the one hand, there is a plan to equalise reopeners excluding major transactions and ICPs at a single level, perhaps $5m. Meanwhile there is a suggestion that the threshold for ICP reopeners should be set higher than $15m while the major transaction reopener could remain substantially higher.

51. Reopening a price path carries cost that would preferably be incurred only where the reopener has a material effect on the revenue cap and/or quality standards. We suggest an approach where reopener applications can be made at the thresholds specified, but the price path is only reopened above a higher materiality level. Where a reopener is above the threshold but below the materiality level, the approved value would be included in the wash-up balance rather than incurring reopener costs within a regulatory period.

52. With that context, we support the following reopener thresholds:

    52.1 **Reopener threshold for major transactions.** Chorus recommends the threshold for the major transaction reopener is reduced. It is currently set at 10% of RAB value. 10% of Chorus' RAB is ~$600m, meaning that Chorus could undertake a transaction worth $500m and the price path would not be adjusted. Where the transaction is an asset sale, end-customers would be paying for a return on $500m of assets that are no longer being used to supply them with services, while if the transaction was a purchase, Chorus would earn no return on a material investment until the next price-quality reset. Chorus submits that a much lower threshold would better meet the purpose of Part 6 in both incentivising investment and limiting excessive profits. We suggest 2% of RAB or $100m.[5]

    52.2 **Reopener for approved individual capital expenditure allowances.** In principle, the current settings disincentivise ICPs as Chorus would incur costs of the individual capex investments but would not earn any revenues until the start of the next regulatory period. In practice, this disincentive is strongest for larger investments. We support a reopener for individual capex allowances but are comfortable that a reopener for this (rather than just recovering the costs through the individual capex wash-up) should only apply above a materiality threshold. This could be consistent with the major transaction threshold recommended above.

    52.3 **Other reopener thresholds.** We support adopting a uniform materiality threshold across other reopener categories as we agree it provides certainty, reduces compliance costs and provides incentives to invest. We consider a

[5] 2% of Chorus' RAB is slightly higher than $100m; we are suggesting a rounded target.

clear $5 million threshold, consistent with Transpower, is appropriate across all of the non-transaction or ICP reopeners.

52.4 **Reopener materiality level.** Above we suggested a materiality threshold above which the price path is reopened and below which the approved value is added to the wash-up balance. If the Commission adopts this approach, we recommend the same threshold as we suggest for major transactions; i.e. 2% of RAB or $100m.

Other reopener issues

53. **Lead time.** Chorus supports aligning the fibre IMs with the Part 4 approach by adopting an 18-month lead time for a reopener event, while retaining discretion for exceptional circumstances outside that period. We agree that fibre services would face the same lead time issues as Part 4 services.

54. **Time limits and expenditure eligibility.** Chorus agrees the fibre IMs should confirm that reopener applications can include prudent and efficient expenditure incurred in responding to reopener events prior to an application. While the current IMs allow the Commission to account for the cost impacts of a reopener event[6], they do not expressly address the treatment of expenditure incurred before a reopener application and this would be useful to clarify.

55. **Definition of additional net costs.** Chorus agrees that clarity regarding which costs are eligible for consideration after a reopener is helpful.

[6] Fibre Input Methodologies Determination 2020, 3 September 2025, clause 3.9.9(1)

Individual capital expenditure proposals – conditions and ringfencing

56. The Issues Paper suggests tighter control over expenditure that is approved through an ICP. Chorus considers that the Commission has not clearly identified the problem that it is seeking to address.

57. As the Issues Paper notes, an ICP "addresses capex requirements where the need, economic case, and/or timing is uncertain or not foreseen at the time of submitting the base capex proposal".[7] However, that uncertainty should no longer exist at the time an ICP is made and reviewed. If the need, scope, or justification remains too uncertain, the Commission can decline the application. Accordingly, there should be little distinction between expenditure approved through an ICP and expenditure approved through a base capex proposal, other than the timing of approval.

58. We note the Commission's concern in the original IM reasons paper that ICPs should not be a means of diluting efficiency incentives inherent in the price-quality path. This can be addressed by the Commission's review process of an ICP which should only approve individual capex where it is demonstrably prudent and efficient.

59. It is therefore unclear why expenditure approved through an ICP should be subject to greater oversight and compliance obligations than expenditure approved through base capex. ICPs are typically more targeted and lower in materiality than the overall base capex allowance. The Commission states the "need to have clear incentives to deliver the approved outcomes to avoid the risk of inefficient expenditure,"[8] citing resilience projects that do not have a direct or immediate link to quality standards. However, these considerations are equally relevant for resilience expenditure approved through a base capex proposal. The Issues Paper does not explain why similar expenditure should be subject to a separate compliance framework solely because it was approved through an ICP.

60. We agree with the issues noted by the Commission in paragraphs 4.11 and 4.12 regarding conditions for ICPs. We have previously suggested consultation on conditions to ensure they are workable. An output metric, as suggested in the Issues Paper, may be a better solution. However, the Commission should not impose a significant administrative and compliance burden for a relatively small amount of capex (relative to a full base capex proposal) unless there is a clear problem with individual capex, which at present we are not aware of.

[7] Fibre IM review Issues Paper Tranche 2, 4 August 2026, clause 4.2
[8] Fibre IM review Issues Paper Tranche 2, 4 August 2026, clause 4.3

Identified gaps in in the IMs

61. In addition to the matters identified by the Commission, Chorus has identified two areas where there are gaps in the IMs, which we recommend resolving to improve certainty of outcomes for end-users.

Major transactions provisions

62. As described in the attached expert report from Sapere, the provisions in the fibre IMs for reopening price paths following a major transaction between regulated fibre companies are high-level and do not provide clarity on how the Commission would approach a major transaction.[9] They are notably less detailed than the equivalent provisions in the energy IMs. While there is uncertainty of how transactions would be treated under the Telecommunications (Regulated Fibre Service Providers) Regulations 2019, we still believe it is helpful for the input methodologies to clarify how transactions between firms regulated under Part 6 would be managed.

63. Sapere notes that "the incentive to achieve efficiencies relies on the provider retaining the benefit of those efficiencies for a period before allowed revenue is adjusted to reflect the improvements and the efficiencies are passed to consumers through lower prices."[10]

64. Firms considering major transactions need to be able to reasonably assess the Commission's likely approach to reopening the price path, and to setting the price path for the subsequent regulatory period, taking account of efficiencies from the transaction. The current IMs leave this to Commission discretion following a transaction, which creates uncertainty, contrary to the purpose of Input Methodologies.

65. Chorus therefore supports Sapere's conclusions that following a transaction involving a PQ regulated fibre provider and another regulated fibre provider:

    65.1 the standalone operating costs of the two entities are combined;

    65.2 any adjustment to the price path would not be net of forecast cost efficiencies; and

    65.3 efficiency benefits arising from a major transaction should be retained for the duration of the regulatory period following the period in which the transaction occurs.[11]

66. These changes to the IMs would provide clarity on how the Commission would adjust the price path following a major transaction. This is important to provide suitable incentives for PQ regulated suppliers to enter into transactions that are in the long-term interest of end-users. It would be unfortunate if a lack of clarity in the IMs impeded beneficial transactions.

[9] Fibre Input Methodologies Determination 2020, 3 September 2025, clause 3.9.8 and 3.9.9
[10] Sapere *Major transaction reopener - Fibre input methodology review*, August 2026, section 'Natural incentives in a price quality period'
[11] Sapere also discusses the potential for the IMs to specify the treatment of any capex incentives following a transaction. We agree with Sapere that this is less likely to be a material source of efficiency and are comfortable with the transaction IMs focusing on opex efficiencies only.

Asset life wash-up

67. Chorus has identified a potential gap in the current regulatory settings relating to changes in asset lives. Under clause 2.2.10(e) of the fibre IMs, the regulatory asset lives for FFLAS assets are required to align with the asset lives adopted for GAAP purposes. This means where a PQ-regulated FFLAS provider changes asset lives for accounting purposes, that change flows through immediately to regulatory reporting, with the RAB updated on the basis of the revised asset life. This has the benefit of ensuring regulatory asset lives reflect the best available and most up-to-date information.

68. However, this also means that when asset lives are changed for accounting purposes during a regulatory period the actual depreciation reported under ID, and thus actual RAB value, differs from the assumed depreciation used to set the price path. There is no wash-up or reopener available to reset PQ allowances to reflect the new asset lives. We note financial capital maintenance is still maintained on an ex-ante basis and asset lives can be increased or decreased. However, there may be value in creating a new wash-up for future changes in asset lives to avoid unexpected outcomes in future. We note section 204 of the Telecommunications Act 2001 would prevent this wash-up from applying retrospectively, which is the correct outcome in principle as retrospective application of a wash-up would undermine the purpose of input methodologies to provide certainty for regulated suppliers, access seekers and end-users.

Other issues / amendments

Value of commissioned asset and related party transactions

69. Chorus agrees with the Commission that the fibre IMs should be amended to align with the Part 4 changes relating to commissioned assets and related party transactions.

Crown Financing

70. Chorus supports the Commission’s view that no changes to the fibre IMs are required as a result of the Government's sale of Chorus securities.

Treatment of fibre fixed line access service wash-up account balance following deregulation or sale

71. In principle Chorus agrees with the Commission's proposal to align treatment of the wash-up balance with the existing treatment of the FLA following deregulation or asset sales. It is important that the regulations implement this in a low-cost way. We recommend the wash-up balance would be reduced by an amount that reflects the percentage of FFLAS revenue earned by the now-deregulated services over the time period the wash-up balance was calculated.