1 September 2026

Commerce Commission
Level 9
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Submitted by email to: infrastructure.regulation@comcom.govt.nz

Submission on Fibre Input Methodologies Review 2027 Issues Paper (Tranche 2) Consultation

1. Enable welcomes the opportunity to comment on the Fibre input methodologies review 2027 Issues paper (Tranche 2) ("Issues Paper").

Summary

2. Enable supports the Commerce Commission's ("Commission") proposed focus in the Tranche 2 IM Review on fibre-specific cost of capital matters, rather than reopening the broader framework where the fundamentals have already been tested through previous IM processes.

3. The cost of capital is a critical component of the fibre regulatory framework because it affects both customer prices and incentives for efficient, long-term investment in resilient and reliable fibre infrastructure. Enable therefore welcomes the Commission's early release of its thinking and supporting dataset, and considers that particular care is required in assessing whether updated market data should be reflected in the beta estimate, especially given the complexity of interpreting pre-Covid, Covid-affected and post-Covid evidence.

4. Enable agrees that the comparator set, the choice of data period, leverage, credit rating, reasonableness checks and spread premium are appropriate matters for review, and asks the Commission to provide greater transparency on the methodology and weightings it has used to include or exclude comparator firms.

5. For ID-only regulated LFCs, Enable supports the continued discretion to disclose how WACC, asset stranding risk and depreciation have been accounted for.

Introduction

Matters to be included in the Tranche 2 review

6. The Issues Paper describes the key issues identified for consideration in Tranche 2 of the Fibre Input Methodologies ("IMs") Review, describes the issues the Commerce

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Commission has identified to date and provides an opportunity for stakeholders to provide input. The Commission has asked for feedback on:

- The priority to be given to Tranche 2 topics; and
- Any new issues identified.

7. The Commission has also asked for alternative approaches to resolve issues raised, along with supporting evidence of why those alternatives should be preferred. [1]

8. The Commission notes that the fundamentals of the IMs have been tested over multiple rounds of initial setting, appeals and reviews across the Part 4 sectors. It also notes that the fibre IMs were relatively mature when they were first set, given the debates and developments from the Part 4 Input Methodologies. [2]

9. Enable generally agrees that the focus of the Commission in the Tranche 2 review should be any new information to inform the fibre specific elements of the Cost of Capital. We provide more detail on this further on in the submission.

Focus of this submission is on the Cost of Capital, rather than IMs relating to PQ capital expenditure

10. The Commission lists the overview of Tranche 2 issues it proposes to review in Table X1. Enable's comments in this submission are limited to Chapter 2: Fibre specific cost of capital IMs, given the other areas apply to capital expenditure treatment for price-quality regulated companies.

11. On the cost of capital input methodology, we note this is one of the most important parameters in the regulatory framework because it influences both the prices customers pay and the incentives for regulated firms to invest in, maintain, and improve long-lived infrastructure. If the allowed cost of capital is set too low, there is a risk that efficient investments will be deferred or foregone, undermining service quality, resilience, innovation, and the long-term interests of consumers. Conversely, if it is set too high, customers may pay more than is necessary for regulated services.

12. Given the long asset lives, substantial sunk investments, and uncertainty associated with fibre networks, it is essential that the cost of capital appropriately compensates investors for the risks they incur while maintaining confidence that efficient costs can be recovered over time.

[1] Commerce Commission, *Fibre input methodologies review 2027 Issues paper (Tranche 2)*, 4 August 2026, paragraph X15
[2] Ibid at paragraph 1.10

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13. Enable welcomes the Commission sharing its more detailed thinking on cost of capital changes and sharing the dataset at the Issues paper stage. It is very helpful to understand the Commission's initial views.

14. Given the importance of this matter and the complexities of the Covid-19 period on beta estimation, Enable focuses this submission on where it agrees further careful review is required rather than providing in-depth analysis and arguments on final approach.

Enable supports the approach of discretion being applied to LFCs subject to Information Disclosure only

15. The Commission notes that regulated providers subject only to ID regulation have the flexibility to publish information indicating how they have accounted for the WACC, asset stranding risk and depreciation and provide the evidence to support this. Enable supports the continuation of this approach and agrees with the Commission that these matters do not need to be further considered in the review. (And we note that we still hold the views argued in our submission to the Draft Decision in January 2020 that systematic risks are higher for LFCs other than Chorus for the reasons provided in our submission.)[3]

Fibre specific cost of capital: Equity beta and asset beta

16. Enable supports the Commission focusing its efforts in the Tranche 2 IM Review on reviewing if updated market data should be used for the Cost of Capital, and how the methodology can be refined.

Sub-Issue #1: The selection of the comparator set

17. The Commission's initial view is that the six-step approach is still fit for purpose to review the asset and equity beta.[4] It also considers it should use the 2020 final comparator set as a starting point, and the adjustments and criteria previously used remain relevant. It welcomes views on the proposed additions and removals of firms presented in Appendix C.

18. Enable agrees the comparator set is a key issue to consider in the review of the beta estimation. Enable welcomes the Commission providing its initial analysis as Appendix C, allowing early traversing of issues.

[3] Enable Networks Limited and Ultrafast Fibre Limited, Submission on Fibre Input Methodologies: Draft Decision – Reasons Paper and Draft Fibre Input Methodologies Determination, 28 January 2020, page 12
[4] Ibid at paragraph 2.21

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19. We note the Commission has not specified detail on the thresholds and we ask the Commission to publish more detail on the specific methodology and weightings used to better understand how data has been included or excluded.

Sub-issue #2: Period of data and if there has been a structural change in the beta and leverage ratios in the post-Covid-19 period

20. The Commission's initial view is that the current standard approach – to use the average of the last two five-year periods of estimates – remains appropriate.[5] The Commission has provided data on the results of the pre-Covid, Covid-affected and post-Covid periods and notes it is unclear what the effect of Covid has had on the estimates. It is seeking stakeholder views on this information.

21. We agree that the treatment of the pre, post and Covid-19 period is a key issue in reviewing the beta estimate. This is a complex area, with different impacts across sectors and countries and a number of factors to consider. We note this has been widely debated in other regulatory reviews and must be carefully considered in the Tranche 2 IM Review.

22. For example, while the role of telecommunications was impacted by Covid-19, companies also retained exposure to customer creditworthiness, customers downgraded plans to reduce costs, there were construction and supply chain delays as well as the impact of volatility in foreign exchange and financing conditions.

Average leverage, credit rating, reasonableness checks and spread premium

23. On the matters above, Enable agrees that these issues should be considered in the IM review.

Weighted average cost of capital percentile

24. The Commission's initial view is that the reasons for not providing an uplift in the 2020 reasons paper still hold and the conditions are not sufficiently different that would warrant reconsideration of WACC percentile.[6]

25. Enable notes that for ID regulation of regulated FFLAS, the Commission publishes the mid-point of the WACC and the standard error. This allows Enable to calculate other percentiles and document this in our disclosures. We support this approach.

[5] Commerce Commission, *Fibre input methodologies review 2027 Issues paper (Tranche 2)*, 4 August 2026, paragraph 2.40

[6] Ibid at paragraph 2.74.

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26. We do agree with Chorus however, that for PQ regulation, a level above the 50th percentile should be used. As argued by Chorus, we agree that the cost to consumers of under-investment in FFLAS is likely to outweigh any potential price increase FFLAS consumers may experience as a result of applying an uplift to the midpoint estimate of the cost of capital.

Asset Stranding risk

27. The Commission's initial view is it considers the existing tools remain appropriate to provide for asset stranding risk. This includes that the existing asset stranding allowance of 10 basis points remains appropriate, and it intends to assess to what extent the deregulation decisions affect the residual risk of network stranding.

28. It also notes that for regulated providers subject to ID only, it is still appropriate to give them greater freedom as to how they manage Type II risks, rather than this being laid out in the IMs.

29. As previously discussed, Enable agrees with the approach to regulated providers subject to ID only. We also do consider that, consistent with evidence we have provided as part of deregulation reviews, that the Commission should update its assessment of stranding risk given ten years has passed, and there has been a material shift to fixed wireless and satellite services that was not foreseen in 2020.

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