Tuatahi First Fibre Limited submission on the Commerce Commission document: *Fibre input methodologies review 2027 – Issues paper (Tranche 2)*

01.09.2026

1. We welcome the opportunity to provide feedback on the Commerce Commission's (the **Commission**) *Fibre input methodologies review 2027 – Issues paper (Tranche 2)* (**issues paper**). We appreciate the provision of the Commissions initial views and analysis in the issues paper, as this has allowed us to consider feedback on the methodology and issues at this early stage of the Tranche 2 consultation process.

Summary

2. Tuatahi is as an Information Disclosure (**ID**) only regulated Local Fibre Company (**LFC**), so our feedback is centred on input methodologies that have relevance to the Information Disclosure regime. Tuatahi's overarching interest is in the maintenance of a regulatory framework that is proportionate, sound, transparent, and balances the incentive to invest against protections from excess profitability adequately to ensure the best outcomes for consumers. The cost of capital input methodology (**IM**) is therefore the focus of our feedback, due to its importance in determining reasonable rates of return for ID-only regulated providers.
3. Our primary concern is with the cost of capital IM, and the Commission's preliminary analysis that produces a materially lower asset beta and therefore attributes materially lower systematic risk to the supply of FFLAS. In our view, the Commission has not yet demonstrated that this result is economically representative of the smaller ID-only regulated LFCs – where our pricing, uptake and revenue are materially sensitive to, and influenced by, retail service provider pricing and competing broadband product strategies, while the LFC regional network footprints result in more concentrated demand and competitive exposure than a national network. We consider it necessary for the Commission to review the composition and weighting of the comparator set and demonstrate that the resulting beta appropriately reflects our systematic risk profile.
4. Our view is that consideration of an ID-only adjustment to the weighted average cost of capital (**WACC**) is warranted, and work should be completed as part of this review to assess whether the risk profile of the smaller LFCs is appropriately captured by the comparator set. Greater transparency of the selection and analysis of the comparator set would assist in this assessment.

Fibre-specific cost of capital input methodology

5. Tuatahi is regulated through the ID regime, Part 4AA and a limited scope of permitted activities framework, rather than the Price Quality (**PQ**) regime. Therefore, the cost of capital IM is significant for us because WACC is used as a critical benchmark to assess our profitability and evaluate the reasonableness of our rate of returns.

6. Given this, it is important that the methodology and data used to determine the WACC is unbiased, and comparators used reflect the conditions of the New Zealand market as best as possible. This is the lens that we have used approaching the review of the Commissions initial views presented in the issues paper.

7. A summary of Tuatahi's feedback on the cost of capital topics is summarised in the below table:

Topic	Commission view	Tuatahi feedback
Asset and equity beta	A decrease in fibre risk	Fuller analysis should be completed before adoption of the preliminary asset beta.
Comparator set	Retain the set used in 2020	Transparent publication of the selection criteria, weighting decisions, and demonstration the comparator set is economically representative of the New Zealand wholesale FFLAS market provider. Consideration of an adjustment for ID-only smaller scale companies is warranted.
Structural change (Covid & Post-Covid) and sample period	Retain standard approach.	Further analysis is warranted prior to determining how to use data across this period.
Use of average leverage	Retain average comparator leverage with zero debt beta	We have no firm view on this.
Credit rating	Retain notional target credit rating of BBB	We have no firm view on this.
WACC percentile	Retain current mid-point	Take this issue forward to undertake a current, fibre specific assessment.
Asset stranding risk	Retain existing tools	Update the forward-looking assessment given growth in investment of alternative technologies.

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

8. The issues paper outlines how the Commission has adopted the comparator set from 2020, with several updates, and which reduces the comparator set from 56 firms to 48 firms. Tuatahi is unclear on what the criteria is for a firm's inclusion or exclusion. Greater transparency of this process in the draft decision would be appreciated, as the purpose of the comparator set is to provide an appropriate market-based proxy for the systemic risk of a regulated FFLAS provider in the New Zealand market.

9. In 2020 we had concerns that the comparator set did not accurately reflect the level of systemic-risk experienced by the smaller ID-only LFCs. This concern remains, and in order to account for the differences between Tuatahi and the results of the comparator set we would like to see transparent publication of the selection criteria, weighting decisions, and demonstration the comparator set is economically representative of the New Zealand wholesale FFLAS market provider.

10. Consideration of how the smaller ID-only LFCs are treated is also warranted, and we outline this further in paragraphs 25 to 27 below.

Beta sub-issue #2 – whether there has been a structural change in the betas and leverage ratios in the post-Covid-19 period

11. Tuatahi encourages the Commission to undertake further work to evidence any changes that may have happened in the post-Covid-19 period. While it is posited at paragraph 2.37 of the issues paper that the Covid-19 pandemic, and associated shift to work from home patterns may have caused a structural shift to the risk profile of providing FLLAS services, this should be researched and evidenced more fully before reaching any conclusions.

12. Data from more recent years has seen a well-publicised trend of the return to the office, and hybrid work arrangements have become more embedded.[1] New Zealand labour-market data demonstrates the transition from the Covid-19 period of unusually high incidence and intensity of working from home to the post-Covid-19 period where employees have returned to physical workplaces. The enduring structural change has primarily been the adoption of hybrid working rather than the continuation of predominantly or exclusively remote working. While flexible working arrangements remain widely variable between firms, Stats NZ business survey data also indicates that the proportion of employees actually working from home on a typical working day is considerably lower than the proportion of businesses that offer that option.[2]

13. We therefore encourage the Commission to conduct analysis on how to best treat this period as being specific to an event in time. Our experience and available data observes it is possible the post Covid period is not an accurate forward-looking projection of FFLAS market risk.

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

14. We have no firm view in relation to the retention of the Commissions current approach, which is to use the average leverage of the comparator set.

Credit rating

15. We have no firm view on the Commission's initial view that the notional service-wide benchmark credit rating of BBB remains appropriate, and we are not aware of any evidence that departure from this view is necessary.

Weighted average cost of capital percentile

16. The Commission's initial view is that retention of the midpoint WACC for both PQ and ID-only regulated fibre providers remains appropriate because the reasons for not applying an uplift in 2020 continue to hold.[3] We encourage the Commission to test that proposition more fully before reaching its draft decision. Our view is consistent with the Commission's stated objective in Tranche 2 of updating fibre-specific cost-of-capital parameters using recent market evidence and achieving a reasonable and commercially realistic cost of capital given investors' exposure to risk.

17. The 2020 decision reflected the circumstances and evidence available at that time. In particular, the Commission relied on the expected gradual and visible consequences of under-investment in regulated FFLAS, the potential mitigation of under-investment risk arising from competition and asset stranding, the availability of alternative services, and the relative newness of the regulated fibre networks. The Commission also considered that, if under-

[1] https://www.stats.govt.nz/information-releases/labour-market-statistics-september-2024-quarter/
[2] https://www.stats.govt.nz/information-releases/labour-market-statistics-september-2024-quarter/
[3] https://www.comcom.govt.nz/assets/Documents/fibre-input-methodologies-review-2027/Fibre-Input-Methodologies-Review-Issues-paper-Tranche-2-4-August-2026.pdf, paras 2.73-2.75

investment in the fibre networks became apparent in relation to resilience, quality or expansion, there are other targeted regulatory tools available than just a WACC uplift. [4]

18. This Tranche 2 review provides an appropriate opportunity to test whether those assumptions remain valid. The Commission itself recognises that the cost of capital is intended to be forward-looking and that firm-specific and sector-wide characteristics can change over time. [5]

19. Additionally, the Commission's 2025 Telecommunications Monitoring Report describes the market as entering a new phase characterised by changing technologies, maturing infrastructure, resilience pressures, evolving competition and shifting consumer expectations. It also identifies increasing cross-technology competitive pressure, including from fixed wireless and satellite services, while recognising an ongoing need for investment in network quality, reliability, resilience and new capability. [6]

20. Enable has expressly supported reviewing the appropriate WACC percentile. [7] Chorus has similarly asked the Commission to review the percentile used for the fibre WACC and identified competition from alternative broadband technologies and investment conditions as relevant considerations. [8]

Asset stranding risk

21. We appreciate the Commission's outline of treatment options for ID-only regulated providers contained in the issues paper, and acknowledge the flexibility in management of the risk. Rather than review this flexible approach, we endorse the approach outlined at paragraph 2.86.2 in the issues paper, and encourage the Commission to update the risk assessment of asset stranding for new investment on a forward-looking basis.

22. This is appropriate given the increasing rate of competition in the telecommunications market arising from the growth in investment (both delivered and opportunity), and increased competitive positioning by the wireless and satellite service providers.

23. The Commission is already considering deregulation of certain fibre services due to the changing end-user demands, so a refreshed forward-looking view is warranted.

Other issues

24. As an ID-only regulated provider, Tuatahi has identified several other areas for the Commission to include in the Tranche 2 review.

Risk profile for ID-only regulated LFCs

25. When comparing Tuatahi to the firms that comprise the comparator set, it is notable that Tuatahi is a substantially smaller network operator that is less diversified due to regulatory settings. Our view is that the smaller scale of the ID-only regulated LFCs, the single market presence in New Zealand, and our regulatory settings that including restricting our permitted

[4] https://comcom.govt.nz/__data/assets/pdf_file/0022/226507/Fibre-Input-Methodologies-Main-final-decisions-reasons-paper-13-October-2020.pdf, paras 2.69-2.75
[5] https://www.comcom.govt.nz/assets/Documents/fibre-input-methodologies-review-2027/Fibre-Input-Methodologies-Review-Issues-paper-Tranche-2-4-August-2026.pdf, para 2.18
[6] https://comcom.govt.nz/assets/Uploads/2025-Telecommunications-Monitoring-Report-29-June-2026.pdf; and https://www.comcom.govt.nz/news-and-media/news-and-events/2026/telecommunications-market-enters-new-phase-of-change-as-technology-reshapes-competition/
[7] https://www.comcom.govt.nz/assets/pdf_file/0031/368275/Enable-Fibre-IM-Review-Issues-paper-Tranche-1-submission-7-August-2025.pdf
[8] https://comcom.govt.nz/assets/pdf_file/0026/366065/Chorus-Submission-on-Fibre-IM-Open-letter-29-April-2025.pdf, para 9

activities, create economic exposure that looks to be unaccounted for in the comparator set.

26. While we are not suggesting that a firm's size inherently warrants an adjustment (uplift) to the asset beta, there are several factors at play in the ID-only market that the Commission should consider when assessing whether an adjustment is needed. These differentiators include (but are not limited to):

(i) **Lower diversification**: Tuatahi's ability to invest in network growth has been geographically constrained to specific areas in New Zealand, and our permitted activities restricted to the provision of wholesale fibre servives. These settings have been loosened recently (but not in relation to FFLAS), however due to these longstanding settings there is a large gap between the level of diversification (and therefore exposure) in Tuatahi's business compared to the vertically integrated, national and multinational telecommunications companies contained in the comparator set.

(ii) **Greater exposure to technology substitution**: A vertically integrated telecommunications operator may lose a fibre customer, but use aggressive retail pricing and incentives to pick them up on their fixed wireless network.[9] As Tuatahi has been restricted to supplying wholesale fibre services, our ability to incentivise and retain customers as they churn off fibre onto another technology is limited to reducing wholesale prices to under-recover our costs.

(iii) **Greater operating leverage**: A smaller fibre-only network operator has a relatively fixed asset and cost base spread across fewer customers and revenue streams. A loss on demand will therefore have a larger impact on cash-flows.

27. In reviewing the comparator set, and the initial Commission views on how Covid-19 has impacted the asset beta, our view is that a full analysis and consideration of how the comparator set accurately reflects the entirety of the wholesale FFLAS market in New Zealand (rather than just Chorus) is warranted. Our initial view is that there are such substantial differences between a regionalised ID-only regulated LFC and the global retail consumer facing businesses included in the comparator set, further analysis of the evidence that the global telecommunications companies are comparable is required.

Use of WACC in the monitoring of ID-only regulated entity profitability monitoring

28. Given the role WACC has in determining whether rate of returns are acceptable, and the concerns we have around the applicability of the comparator set to the smaller ID-only regulated network providers, it would be helpful and improve transparency if the Commission was to set out an explicit framework for interpreting WACC under the ID-only regime.

29. The framework should address WACC mid-point, standard error, multi-year returns, asset lifecycle effects, justified depreciation choices, one-off items and provider-specific explanations. Further guidance information from the Commission would support ID-only network providers accurately applying the WACC settings as appropriate within their businesses, given we have differing views from the Commission on reflecting a differing risk profile for ID-only LFCs within the WACC.

[9] https://www.spark.co.nz/online/shop/broadband/plans/; https://www.2degrees.nz/broadband/plans?filter=allplans&discount=yes&powerDiscount=no; and https://one.nz/broadband/internet-plans/

Tuatahi First Fibre

Conclusion

30. Tuatahi supports the Commission's review of the fibre input methodologies, and appreciate the opportunity to consider the Commission's preliminary views at this initial stage of the Tranche 2 process. We encourage a cautious, evidence based approach to making material changes to the fibre-specific cost of capital parameters. In particular we consider further analysis is required before concluding that the systemic risk of providing FFALS has materially reduced.

31. In particular we recommend that a review of the comparator sets applicability to ID-only regulated LFCs, and the treatment of the Covid-19 and post Covid-19 periods is completed prior to the draft decision being released. A review of whether the methodology appropriately reflects the risk profile of the smaller ID-only LFCs would address these issues, so we suggest consideration be given to whether an adjustment is required to better reflect the systemic risk of smaller ID-only LFCs.