7 August 2025

Commerce Commission
Wellington 6140

By email to: infrastructure.regulation@comcom.govt.nz

As a collective of businesses, industry associations and consumer representatives, we write as part of the consultation process for the *Fibre IM Review issues paper – tranche 1*. We express our shared concern about price volatility and step changes that have occurred at the start of recent regulatory periods under Part 4 (electricity distribution and transmission, gas and airports) of the Commerce Act. Similar volatility in revenue limits – and hence pricing - was mitigated for fibre regulated under Part 6 of the Telecommunications Act through pricing decisions by regulated firms and the use of complex alternative depreciation adjustments.

We consider that such volatility is not in the long-term interests of consumers. Sudden and significant price changes create affordability challenges for households and businesses alike, are difficult to predict, and risk undermining confidence in regulated markets.

A key driver of this volatility is the way the weighted average cost of capital (WACC) is determined. For example, at the most recent DPP4/RCP4 reset for electricity distribution businesses and Transpower, the Commission calculated that about one-third of the forecast increase in allowable revenue was attributable to changes in the WACC – which rose from 4.6% under DPP3 to 7.1% for DPP4. Similarly, the Commission calculated that changes in the risk-free rate increased Chorus' allowable revenues by 15% in the PQP2 reset, relative to the prior year.

This is an opportunity to reduce the large step-change volatility of the estimated WACC, delivering better outcomes for end-consumers by increasing the predictability they face in their prices, supporting greater price stability for consumers. We urge the Commission to amend the WACC methodology to allow for a smoother profile over time and reduce the likelihood of material price step changes in future resets.

Yours faithfully

CHORUS consumer. contact ena electricity networks aotearoa enable fibre broadband

Major Electricity Users' Group Meridian POWERco TRANSPOWER