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STOCK EXCHANGE ANNOUNCEMENT

13 August 2020

Commerce Commission releases consultation on determining financial loss asset

The Commerce Commission has released a further consultation paper on the fibre input methodologies. The consultation seeks feedback on the methodology for calculating Chorus' financial loss asset.

As signalled by the Commission on 10 July 2020, it has proposed to adopt a discounted cash flow approach to valuation, rather than a building blocks approach as proposed in its November 2019 draft decisions. The Commission notes that a "discounted cash flow approach on its own delivers broadly similar outcomes to the building blocks approach".

The Commission has proposed a new approach to determining the cost of capital and risk free rate to apply to the loss period, which represents an improvement on the Commission's previous views.

The Commission has re-confirmed its earlier view that pre-UFB assets are included when calculating the losses and responded to a range of submissions made on this topic to date.

We appreciate the Commission's acknowledgement of the importance of getting the design of the new regulatory regime right. The outcomes from this regulatory process set the ongoing incentives to drive fibre uptake and innovation so consumers benefit.

Investors need to be sufficiently compensated for the start-up risks faced when funding and building new technology infrastructure ahead of demand. We are continuing to review the detail of today's announcement and will be making submissions accordingly.

The final decision on Input Methodologies (excluding financial loss asset) is due on 13 October 2020. The final decision on Input Methodologies on financial losses is due on 3 November 2020.

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ENDS

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