

**STOCK EXCHANGE ANNOUNCEMENT**

19 November 2019

**Release of Commerce Commission's draft Fibre Input Methodologies Decision**

The Commerce Commission has today released its draft Fibre Input Methodologies Decision.

"We thank the Commission for the considerable work that has gone into the draft decision and welcome this step towards establishing a utility style framework for New Zealand's key communications infrastructure," said Kate McKenzie, Chorus' CEO.

The draft decision will be followed by a final Input Methodologies decision in mid-2020. This then sets the rules for a Price Quality Determination, which will establish Chorus' revenue cap and quality requirements for 1 January 2022 to 31 December 2024. The final Price Quality Determination is expected in mid-2021.

Today's draft decision is detailed and complex and we will be responding to various issues through the submission process.

- We note that the Commission's overall approach to WACC is an improvement against that of its Emerging Views paper. However, the implied WACC rate for the period to FY22 is still below that required to ensure our cost of capital reflects a fair return to investors given the investment risks taken.
- The draft decision has suggested the pre FY22 WACC will have a risk free rate that varies each year, with the term of the risk free rate based on the number of years remaining until the implementation date.
- The Commission has suggested an increase in asset beta from 0.46 to 0.49. While this is an improvement this continues to underestimate the asset beta of a fibre network, particularly through the rollout period. A higher asset beta was acknowledged by Crown Fibre before the rollout began and has been used by regulators for European fibre networks.
- We welcome the Commission's acknowledgement that market circumstances have changed and a revised TAMRP of 7.5% is appropriate.
- The Commission's draft decision suggests there will be no WACC uplift from the 50<sup>th</sup> percentile. This is at odds with all other regulated utilities in New Zealand. Other international regulators have recognised the need for an uplift to encourage fibre network investment.

- The Commission is considering a small ex ante allowance to compensate for Type II asymmetric risk.
- We welcome the Commission's recognition that tax losses can be carried forward to the implementation date.
- The draft decision indicates a change in the Commission's approach to the treatment of Crown financing and we will need to review the implications of this.

We welcome the opportunity to submit on the draft decision and will be making submissions to the Commission on the due date of 28 January 2020.

The Commission's draft decision is available at: <https://comcom.govt.nz/regulated-industries/telecommunications/projects/fibre-input-methodologies>

**ENDS**

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