

7 August 2025

Commerce Commission  
Wellington 6140

Sent by email

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.

