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Telecommunications Commissioner
The Commerce Commission
Level 9
44 The Terrace
Wellington 6011

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Re: Report of the Independent Chair (Consumer Research) to the Commerce Commission with regard to Chorus' proposals for investment in its second regulatory period, (PQP2)

I am pleased to present this letter and will be available to talk to the findings if the Commerce Commission so wishes.

Summary

I am confident Chorus' engagement on the five areas with investment discretion (resilience, fibre frontier, hyperfibre, sustainability and active wholesaler) has been carried out in a robust and independent manner. The outcomes of that engagement, led by research company Kantar, are reflected in the proposals presented to the Commission as part of PQP2.

Independent Chair role

The role of the Independent Chair, has been to oversee consumer engagement as part of formulating Chorus' fibre investment plans for PQP2. The purpose of that oversight was to provide the Board and the Commission with an assurance the consumer research and insights gleaned had been conducted in accordance with independent, robust and proper methodologies, and in a way that provided:

- for a broad cross-section of New Zealanders to have their say;
- for reporting of the consumer engagement to the executive leadership team and the Board not to be limited in any way; and
- the executive leadership team and the Board with clear directions and input from a consumer/user experience around its five strategic investment options.

The process

I undertook the role in March 2023 and have met regularly with senior staff involved in the project, Kantar, other consultants, and reported to the Board. All staff have made themselves readily available, and have been frank and open in our discussions. Those meetings served to keep me abreast of the process and allowed for my critique and input into the:

- scripts and content of the educational videos provided to consumer workshops;
- focus group structure and questioning to ensure there were no gaps;

- individuals, industry/consumer groups and other key stakeholders selected for indepth interviews. I was able to broaden the list and assisted to find suitable people to interview.

I met twice with the Chorus Board. Initially this was to provide my observations on the approach being taken and workshops. The second meeting was to discuss overall findings and implications for investment choices.

Workshops/Focus Groups

As can be seen by the PQP2 proposal before you, Kantar conducted 11 workshops/focus groups around Aotearoa New Zealand, reaching a broad range of users at various life stages. I attended four workshops – in Auckland, Wellington, Masterton and Whakatane. Each group was meant to comprise 12 attendees and for the most part these numbers were achieved. The workshops required strong leadership from the facilitator as they were more than three hours, on topics most people were not accustomed to talking about. Maintaining good discussion and attention was largely achieved. Chorus had done a good job of acquainting Kantar and its staff, of its business and the strategic investment topics it wanted discussed. Focus group participants were able to express their views freely – positively or negatively - on the topics at hand. Often one topic would merge with another but Kantar allowed that to flow. A good example of that is reflected in the research outcomes that show a strong link in consumers' minds between resilience and the fibre frontier.

From my observation, the Commission can be confident the presentation of the workshops/focus group outcomes is a true reflection of what Kantar saw and heard.

Kantar also conducted indepth interviews with stakeholders from 29 organisations out of a targeted group of 39. I did not attend these, but was able to assist establishing the groups and individuals to interview. I was also able to fill gaps in knowledge about people to speak to, in particular in the disabled community and Māori engagement.

Consideration of consumer feedback

Resilience

There was universal support from consumers for further investment in making the system more resilient. This consumer view (as noted by Kantar) may have been coloured by recent weather events along the North Island's East Cape, the effects of Cyclone Gabrielle in Auckland, and the aftermath of COVID-19 lockdowns, particularly in Auckland. Nevertheless, challenges to the fibre network will undoubtedly become more frequent due to climate change, not less. The PQP2 proposal is for the base case, which represents a substantial increase on the first regulatory period, with an option to invest further subject to economic justification. The Commission will need to be comfortable the base level of expenditure on resilience, rather than a bigger increase, is economically and socially justified.

Fibre frontier

Consumers supported extending the benefits of fibre to more isolated and rural communities. They saw that as an equitable outcome. However, they did note, where the communities were

so isolated, competition from providers like Starlink, were better placed and were in fact already offering internet services to consumers. The base case for extending the network was widely supported.

It was notable that consumers who can already access fibre, strongly supported this investment and were willing to contribute to its cost.

Sustainability

There was strong support for increased investment in sustainability but some scepticism about the choices proffered. The clear preference was for solar panels and batteries. That view is properly reflected in the PQP2 proposal.

Hyperfibre

Kantar noted in its findings people have a natural predisposition to put an unrealistically high value on what happens in the present and an unrealistically low value on what will happen in the future. This played out in the focus groups, with consumers wanting to see more people get fibre rather than improving the fibre they already have. That view has been reflected in the PQP2 proposal with an endorsement of the base case to future-proof the network but a reduction in some previously proposed spend.

Active wholesaler

This was probably the most difficult one for consumers to express a view. However, they were clear education should be a core component and that has been reflected in the proposal to endorse the base case expenditure. I would note 'education' is not necessarily different to marketing expenditure. There is still a job for Chorus to do to 'educate' some consumers of the benefits of fibre.

Conclusion

The consumer research commissioned by Chorus has been conducted in an independent and robust manner. The findings presented by researchers Kantar mirrored the outcomes of the focus groups/workshops and the indepth interviews it conducted. The PQP2 proposals presented to the Commission accurately reflect the consumer/end user feedback received by Chorus. Resilience was significantly more important in consumers' minds than any of the other options. This may have been because of recent severe weather events but these events are likely to be more frequent and not less.

Future engagement plans

I have reviewed the 'engagement report' submitted with Chorus' PQP2 proposal. This report accurately describes the process since my involvement. I support the future engagement plans outlined in the report. I agree that starting the engagement earlier will enable Chorus to use those findings to further tailor its more indepth research, to talk to more groups and particularly increase participation by Māori.

Proposed quality standards

I was asked to consider providing a view on the performance standard relating to unforeseeable demand spikes, such as one off events like a *Fortnite* upgrade, but more significantly if a content producer, like Youtube for arguments sake, decides to go entirely 4K. From my understanding, the mandatory quality standards set as part of the UFB rollout have been successful in ensuring a high-quality customer experience. Breaches are rare. However, a recent tightening of the quality standard from 95% to 90% on port utility has resulted in a breach, which Chorus has reported on to the Commission. The breach of the 90% standard in six ports over a five-minute period, resulted in no impact on end-users' experience of network quality. It did not prompt any complaints to either Chorus or RSPs, or from RSPs to Chorus.

These 'one-off' events are likely to become less 'one-off' in future. But as things stand it appears Chorus managed the event and most importantly the quality for consumers was not at all impacted.

From a consumer perspective, given that increased investment to reach the 90% threshold, will be passed on to them, the Commission needs to give careful thought to the prudent level of investment required now by Chorus. If no drop in quality standards are being observed when there is extraordinary pressure on the network, some consideration of limited and explicable exceptions to the standard may be helpful.

I am pleased to be able to present this letter to the Commission and as stated earlier, can talk to it if required.

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Sue Chetwin
Independent Chair (Consumer Research)



Suzanne Chetwin CNZM LLB
Director & Chair

CCI []