

9th September 2020

To whom it may concern,

We are pleased to provide a submission in response to the release of the Commerce Commission's consultation on the fibre loss asset.

Cooper Investors Pty Ltd ("CI") is a specialist equities fund manager with funds under management of approximately A\$12 billion. We commenced operations in 2001 and we manage money for a range of clients including large pension and superannuation funds, listed Australian companies, religious institutions, Australian State Government agencies, school endowments, charities and high net worth families. CI is 100% owned by its employees.

CI have numerous listed infrastructure investments and currently have an investment in Chorus.

The Commerce Commission proposing to reverse its November draft decision position for the treatment of Crown Financing as debt, instead proposing to remove any return on this portion of the RAB.

We disagree with this approach as we consider the nature of Crown Financing to be debt-like, and it also encourages early repayment of the Crown Funding which we understand runs counter to the intention of why the financing was provided by the government.

This approach may also impact the willingness of investors to participate in future infrastructure investments where government financing is provided.

While we do not have issues in principle with the switch to a discounted cash flow methodology for the loss asset calculation, our view is the WACC assumptions being adopted within it are too low.

We do not agree with the proposal to reset the WACC annually between 2011 and 2021. As Chorus has shown on slide 30 of their FY20 presentation, this effectively lowers the WACC over this period to slightly below Chorus' current cost of debt given the decline in global interest rates. Chorus does not refinance all of its debt annually, nor should the WACC be reset annually on a retrospective basis. We consider it unlikely that a network investor would refinance capex annually as suggested by the retrospective methodology, which would just introduce additional financing risk. Rather investors would look to obtain finance more consistent with the project term, in this case 10 years.

Asset beta is a key component of the WACC, for which we have not seen any update in the latest financial loss calculation, and our view remains that an asset beta of 0.49 is too low.

We have submitted previously that an asset beta higher than the proposed 0.49 is appropriate during the construction period given the risks involved such as financial leverage, construction and demand risk. This is consistent with standard project financing and Ofcom's proposed 0.65 asset beta for Openreach in the UK, with the asset beta reducing to 0.6 in the post construction period.

The reasonableness checks we and others have raised, including Crown Fibre's own initial assessment and that now being adopted for fibre deployment in the United Kingdom, show it is feasible to derive an asset beta. The existence of a financial loss asset does not and should not be considered a reason to entirely discount the rate of return for investors.

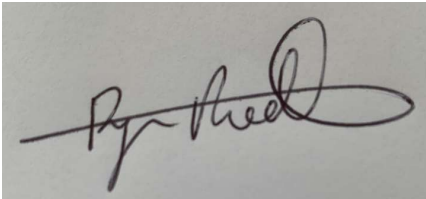
In addition, the current proposal to restrict the WACC to the 50th percentile is inconsistent with established regulatory practice over the period Chorus was building the network. As data consumption and connectivity continue to grow there will be the requirement for ongoing investment in higher network capacity. There is a risk that setting the WACC at the 50th percentile discourages this vital investment.

Ultimately we do not think this return is appropriate for the risks taken at the outset of project, nor does it account for the risk of reduced demand due to alternative technologies such as fixed wireless/5G technology.

The financial loss asset is a core part of the overall RAB and MAR that will be needed to sustain and grow the fibre network. Investors should be able to earn a reasonable return on and recovery of the capital invested. We hope this expectation will be respected in the application of the new regulatory framework.

Please do not hesitate to contact me if you require further clarification.

Yours sincerely,



Ryan Riedler
Deputy Portfolio Manager