We appreciate the opportunity to provide an investor perspective on the Commerce Commission's draft price-quality decision of 27th May.

As we have noted in prior submission, TelstraSuper is Australia's largest corporate super fund with over $21 billion in assets invested on behalf of around 92,000 members. We have been a significant investor in Chorus for some years because we viewed it as having infrastructure-like qualities.

We have, however, recently reduced our shareholding because we are concerned that the nature of Chorus' business risks and costs have not been adequately reflected in Commission decisions. This includes:

- risks taken on by Chorus and its investors through the roll-out of the fibre network have been optimised away with the benefit of hindsight.
- the current stranding risk uplift of 10 basis points does not reflect New Zealand's relatively unique telecommunications industry structure, whereby fibre networks face substantially higher competitive risk from vertically integrated mobile networks.
- the WACC that has been set for 2022-2024 does not reflect true equity risk and discourages further investment in the fibre network.

We submitted on these matters through the Input Methodology process, but they were not adequately addressed. In our view the draft price-quality decision continues to overlook the true nature of the Chorus business.

While we acknowledge the Commerce Commission's role in ensuring fair outcomes for consumers, the suggestion that Chorus can simply cut its expenditure base by 10% for potential efficiencies is concerning. The company was specifically established as an independent business for the purpose of building the fibre network. That is the primary function of its corporate centre.

Having gone through the regulatory wringer on copper pricing some years ago we believe it has done its utmost to constrain costs. Fibre costs must in fact be increasing because of the growing regulatory requirements and greatly reduced role of copper services in the business.

The regulatory process to date has already led to a potential revenue hole that needs to be artificially filled by depreciation. Attempts to impose efficiency judgments will only add to this gap and risks a Humpty Dumpty scenario where Chorus cannot support fibre uptake beyond a certain point.

As it is, our view is that the company should avoid discretionary investment in regulated fibre services. It would be best to instead return funds to shareholders or invest in opportunities where it can earn a more reasonable return.

This is at odds with the Commission's focus on consumer outcomes. But as Professor George Yarrow described in relation to Telstra's asset base in 2010, initial RAB's "...crystallize or cement an initial implicit bargain between consumers and investors which can be judged fair and reasonable". The outcomes in front of investors currently do not meet that test.

Other regulatory regimes for similar businesses have recognised the importance of a fair return.

We hope the Commission's process from here may provide more balance to how investors view this equation in the New Zealand context.