

**Submission on
Chorus' price-quality
path letter –
additional information**

7 October 2024

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Submission

1. This is Chorus' submission on the additional information published relating to Chorus' Price Quality Path for the Second Regulatory Period (2025 – 2028) - Chorus' price quality path letter (**letter**).
2. We noted in our submission to the Commerce Commission (the **Commission**) on the draft PQ decision that the tilt rate for the alternative depreciation methodology proposed by Chorus and adopted by the Commission in its draft PQ decision would need to be reviewed in light of the final decision on expenditure.
3. Our letter of 24 September 2024 provided our view on the principles regarding the alternative depreciation tilt rate, taking into account updated information from the final expenditure decision and our latest fibre revenue forecast.
4. This submission provides additional information about the recommended tilt rate and its potential impact on prices that was not available at the time of drafting our letter and may be of assistance to interested parties in considering the PQP2 MAR.
5. In the Commission's draft decision, a nominal tilt rate of 3.5% resulted in the proposed deferral of depreciation that would otherwise have been recovered in PQP2 and a total allowable revenue of \$3,856m.
6. The final PQ decision will reflect the Commission's final expenditure decision (published 22 August 2024) and the impact of the change to the base year from 2022, used in the draft PQ decision, to 2023. The final expenditure decision allowed for an additional \$98m of opex and \$37m of capex in nominal terms compared to the draft expenditure decision. These changes will lead to an increase in the total allowable revenue for PQP2.
7. We have now confirmed to the Commission that we consider the appropriate tilt rate to be 0.35% in real terms (equivalent to 2.6% nominal) based on the most up to date information. The impact of using this tilt rate would mean more than \$300m of depreciation is deferred to future pricing periods in nominal terms, similar to the draft decision.
8. The 17% increase in net allowable revenue implied by the draft decision for 2025 compared to 2024 does not reflect actual price changes by Chorus for 2025.
9. We published our FFLAS pricing for the year beginning 1 January 2025 on 25 September 2024. Price increases for Chorus' wholesale plans ranged between approximately 3% and 10%, with many services subject to an approximate 5% price rise. The weighted average price change was substantially lower than the 17% increase implied by the draft decision MAR for 2025.
10. Our contracts with retail service providers preclude price increase more than once every 12 months. Our prices for CY 2025 will not be affected by the final PQ decision. Pricing in later years will continue to be subject to consultation and constrained by competition.