28th January, 2020

To whom it may concern,

We are pleased to provide a submission in response to the release of the Commerce Commission's draft Fibre Input Methodologies Decision.

Cooper Investors Pty Ltd ("CI") is a specialist equities fund manager with funds under management of approximately A$14 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.

We recognise that the Commission has addressed some of the issues following the release of the emerging views paper, however, there remains outstanding issues we have outlined in this submission.

Our view is that the revised asset beta of 0.49 is still too low. The comparator group that is used to derive the asset beta is not a like-for-like comparison to Chorus' fibre network given it includes listed vertically integrated telco, mobile and wholesale companies with long-dated contracts (mobile tower companies). Using reasonableness checks, we note some of the regulatory guidelines and decisions in Europe. In the UK, Ofcom released documents on proposed regulation of fibre services in the UK that suggests an asset beta of 0.57 for Openreach's copper and dark fibre services, and 0.65 for Next Generation Access networks (fibre). In Belgium, the regulator decided an asset beta of 0.71 for copper and 0.90 for fibre.

We also believe that the asset beta during the rollout period to 2022 should be higher to reflect the various risks including financial leverage, construction and demand risk. We note that the Crown Fibre Holdings' assessment of the asset beta was in the range of 0.5 to 0.65 in 2010.

We do not agree that the suggested WACC should be kept at the 50th percentile, which is inconsistent with other regulated utilities in New Zealand that are set at the 67th percentile. Data consumption is expected to continue to grow and consumers and businesses are becoming more reliant on data connectivity, which requires ongoing investment in higher network capacity. There is a risk that setting the WACC at the 50th percentile discourages this vital investment.

COOPER INVESTORS PTY LIMITED
Level 1, 60 Collins Street, Melbourne, Victoria 3000 Australia
Telephone: +61 3 9660 2600 Facsimile: +61 3 9660 2699 www.cooperinvestors.com.au
AFS Licence Number 221794 ABN 26 100 409 890

COOPER INVESTORS

It is clear that Chorus continues to face fixed wireless substitution risk, especially as 5G technology becomes more prevalent. Spark has already moved some of their customers onto their own fixed wireless network and Vodafone has publicly stated they are aiming to move 25% of their broadband customers onto fixed wireless. We believe the draft decision underestimates the risk of asset stranding and the asset stranding risk uplift should also be applied from the start of the rollout given investors faced this risk at the time of the investment.

Lastly, we do not agree that the WACC calculation should be reset annually between 2011 and 2021 for the purpose of calculating the financial loss tax asset. This effectively lowers the WACC over this period given the decline in interest rates globally. Chorus does not re-finance all of its debt annually, nor should the WACC be reset annually on a retrospective basis.

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

Yours sincerely,

Jimmy Ly
Research Analyst

COOPER INVESTORS PTY LIMITED
Level 1, 60 Collins Street, Melbourne, Victoria 3000 Australia
Telephone: +61 3 9660 2600 Facsimile: +61 3 9660 2699 www.cooperinvestors.com.au
AFS Licence Number 221794 ABN 26 100 409 890