Via email to infrastructure.regulation@comcom.govt.nz

5 June 2024

Chorus' expenditure allowances for the second regulatory period (2025 – 2028)

Mercury welcomes the opportunity to provide a cross submission to the Commerce Commission (Commission) on *Chorus' expenditure allowances for the second regulatory period (2025 – 2028) Draft decision – Reasons paper*, 18 April 2024 (Reasons Paper).

The Reasons Paper outlines the Commission's draft decision on Chorus' customer incentives payments, amongst other expenditure allowances for the regulatory period 1 January 2025 to 31 December 2028 (PQP2). The Commission's draft decision is to include incentive payment expenditure of $13.6m in the base capex allowance for 2025 calendar year only.

As a retail service provider, Chorus' customer incentive payments enable us to offer more compelling retail propositions to our customers and compete with larger RSPs, which benefits consumers.

Mercury broadly supports the Commission's draft decision that it is prudent and efficient to not include the incentive capex for the whole of PQP2 given the uncertainty of the benefits in latter half of PQP2. Including the incentive capex for 2025 provides market certainty and avoids disrupting the potential procompetitive benefits of the incentive payment early in PQP2.

However, it is not clear that allowing just for one calendar year – i.e. 2025 – gives the Commission sufficient time to consider a Chorus individual capex proposal (ICP) submission that seeks Commission approval for incentive payments for the subsequent years of PQP2. In particular, Mercury notes that Chorus' ICP submission in 2022 was approved by the Commission in its final decision dated 13 December 2022, which was a matter of weeks before it took effect in January 2023.

Looking forward, if these timeframes are repeated, it would give Mercury a very short period of time to adjust to any changes to the incentive payment, particularly if in the future a Commission final decision differed from its draft decision. Mercury, therefore, suggests that the Commission includes in the present determination the incentive capex for the first 18 months of PQP2, as this would give Mercury around 6 months, based on the previous timeframes, to adjust to a subsequent Commission determination that might result in a substantial change to the incentive payment.

Please contact me if you have any questions regarding this submission.

Yours sincerely,

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