



NZ Commerce Commission

c/o TelcoFibre@comcom.govt.nz

Cc: Infrastructure Commission

July 06, 2021

Brussels

Submission on Chorus New Zealand Price-Quality draft decision

We value the opportunity to respond to the Price-Quality Draft Decision dated May 27, 2021. This submission aims to provide a broader international perspective relative to those of other domestic stakeholder groups.

Well understood, attractive listed markets for infrastructure investment are fundamental for the future development of the global economy. Without a trusted regulatory framework, countries risk falling short of their investment needs.

Most governments around the world are debating how to attract additional capital for infrastructure funding. New Zealand is no exception with the Infrastructure Commission acknowledging a "significant gap" in its Infrastructure Strategy Consultation Document.¹

The public-private partnership (PPP) created to deliver New Zealand's fibre broadband network had been considered a leading global example of how these infrastructure challenges can and should be tackled. The project has seemingly delivered on all its objectives with uptake far exceeding expectations. Feedback from the international investment community had been very positive.

However, the transition from the contractual phase of the PPP to a new regulatory framework is now penalising the investors in this infrastructure and has created an environment of uncertainty. This is a 'red flag' for long-term infrastructure investors. We note market reports describing the current regulatory approach as "punitive" with regards to the return on capital and indicative estimates of the regulated asset base. The scale of investor concerns (sell-offs) and regulatory sentiment is evident from the Chorus New Zealand share price.

Long-term international investors have long memories when it comes to bad experiences in past investments. Unfortunately, the past treatment of copper network pricing, after the fibre project had been committed to, remains a very real scar on New Zealand's regulatory reputation.

¹ <https://infracom.govt.nz/assets/Uploads/Infrastructure-Strategy-Consultation-Document-June-2021.pdf> p10



With regards to the price-quality draft decision, we wish to highlight the use of depreciation tilting as raising real concerns for investors that the new regulatory model is not delivering a fair outcome. While we agree in principle with the use of tilting, there is a more fundamental question that should be asked.

Put simply, does it make sense that a network builder's allowable revenues need to be underpinned by a 'fix' of this magnitude when the asset is still being built and demand is still increasing?

The affordability of full fibre broadband in New Zealand², despite a very extensive network footprint across a less densely populated areas than other countries, doesn't support the idea that over-earning of regulated revenues could occur at such an early stage of the asset life.

The Commerce Commission says it is focused on delivering on the purpose of the legislation to promote the long-term benefit of end-users. We agree this is important, but we believe it also requires consideration of what a fair outcome looks like for domestic and international investors overall.

The consumer benefits from fibre will be unnecessarily curtailed if there isn't ongoing investor support for capital investment in the network.

We should not forget Chorus' progress has been heavily financed by the international investment community. I wonder if international investors would be prepared to finance other essential New Zealand infrastructure projects based on their experience with Chorus?

Further examination of the regulatory settings or approach is clearly required to deliver a sustainable platform for ongoing investment.

We appreciate your consideration of these comments as your consultation moves forward.

Yours faithfully,

Fraser Hughes

Chief Executive, GLIO

f.hughes@glio.org

² https://comcom.govt.nz/_data/assets/pdf_file/0030/247377/2020-Annual-Telecommunications-Monitoring-Report-Revised-version-16-March-2021.pdf, p3



GLOBAL LISTED INFRASTRUCTURE ORGANISATION

About GLIO:

The Global Listed Infrastructure Organisation (GLIO) is the representative body for the \$3 trillion market capitalization listed infrastructure asset class. Specialist listed infrastructure managers make up a significant part of the membership, along with banks and advisors. The specialist managers have approximately \$115bn in assets under management.

GLIO is a central portal for investor education, listed infrastructure research, plus national and international regulatory issues.

For more information visit: www.glio.org

GLIO Members:

