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## **STOCK EXCHANGE ANNOUNCEMENT**

2 July 2015

### **Commerce Commission releases latest draft FPP determination**

Chorus has today received the latest draft determination from the Commerce Commission on a range of regulated products and services.

The Commission has proposed a glide path for all the monthly rental prices. The prices indicated today are:

- A draft UCLL price of \$26.74 in year one, reaching \$28.56 in year five (compared to \$23.52 currently, and \$28.22 from the Commission's previous draft determination)
- A draft UBA price of \$11.15 in year one, reducing to \$10.52 in year five (compared to \$10.92 currently and \$10.17 from the Commission's previous draft determination)

Over the five year period the gross EBITDA impact from the revised monthly charges is largely in line with the previous draft, with reductions in years one and two and increases in years four and five. The new prices, if confirmed, would be implemented upon the completion of the Commerce Commission's process.

While the net impact on the monthly charges over the course of five years looks to be about in line with the earlier draft, Chorus has concerns with two new or updated aspects to the determination – transaction charges and backdating.

Transaction charges account for approximately \$40m in annualised revenue today. For the key transactions the Commission has proposed a reduction of 30%, or around \$12m annually.

"Our initial analysis suggests that the proposed reductions in one-off transaction charges may require Chorus to provide these services at below cost," said Mark Ratcliffe, Chorus CEO.

The Commission has also indicated, in a split decision, that it does not propose to backdate the revised FPP charges. Backdating has been the Commerce Commission's practice to date.

"The decision to not backdate in any form is a significant reversal on previous Commission decisions. In our view, the right thing to do if a previous regulatory decision has caused a distortion is to correct it, which in this case means backdating the revised FPP charges.

"Both issues require further explanation and we will continue to work within the Commission's process through to its completion in December, and address these issues through our submissions.

"Chorus continues to believe that the draft pricing significantly undervalues the true cost of network investment in New Zealand. Despite most experts believing that the WACC used in December was artificially low, the Commission has chosen to further reduce the WACC," he said.

"Extensive data from our network rollout experience, urban UFB pricing agreed with the Crown and the comparable value of the Commission-regulated electricity networks all support the view that aggregate pricing should be at or above 2011 levels."

## **ENDS**

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