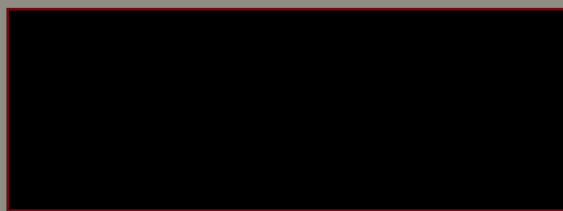


Cost of capital determination for disclosure year 2026 for information disclosure regulation

For First Gas' gas pipeline businesses and Powerco's gas distribution business

[2025] NZCC 21

The Infrastructure Committee: Vhari McWha
Bryan Chapple
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Vhari McWha, Commissioner
COMMERCE COMMISSION

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Associated documents

Publication date	Reference	Title
4 August 2025	ISSN 1178-2560	Cost of capital determination for disclosure year 2026 for information disclosure regulation for Transpower, GasNet, Vector, Auckland International Airport and Christchurch International Airport [2025] NZCC 16
1 August 2024	ISSN 1178-2560	Cost of capital determination for disclosure year 2025 for information disclosure regulation for Transpower, GDBs and Airports ID [2024] NZCC 15
27 June 2024	ISBN 978-1-869457-90-7	Guidelines for WACC determinations under the cost of capital input methodologies - Regulation under Part 4 of the Commerce Act 1986 and Part 6 of the Telecommunications Act 2001 (Post-IM review version)
13 December 2023	ISSN: 1178-2560	Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination – 13 December 2023 [2023] NZCC 37 (as amended)
13 December 2023	ISBN 978-1-991085-69-6	Cost of capital topic paper, Part 4 Input Methodologies Review 2023 – Final decision
1 August 2023	ISSN 1178-2560	Cost of capital determination for disclosure year 2024 for information disclosure regulation - For Transpower, gas distribution businesses and suppliers of specified airport services (with a June year-end) [2023] NZCC 20
2 August 2022	ISSN 1178-2560	Cost of capital determination for disclosure year 2023 for information disclosure regulation – For Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2022] NZCC 28
1 April 2022	ISSN 1178-2560	Cost of capital determination for gas pipeline businesses' 2022-2026/2022-2027 default price-quality path [2022] NZCC 10

2 August 2021

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Cost of capital determination for disclosure year 2023 for information disclosure regulation– For Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2021] NZCC 10

WACC ID estimates for disclosure year 2026 for GPBs (First Gas and Powerco)

1. This cost of capital determination has been made under the Cost of Capital Input Methodologies (IMs).¹
2. This determination specifies the weighted average cost of capital (WACC) estimates that will apply for information disclosure (ID) regulation for disclosure year 2026 for First Gas Limited's (First Gas) gas distribution business (GDB) and gas transmission business (GTB) and Powerco Limited's (Powerco) GDB.
3. The timing of our WACC determinations for ID regulation differs depending on the disclosure year of the regulated companies. First Gas and Powerco's GPBs have disclosure years of 1 October to 30 September, with disclosure year 2026 being the year ending 30 September 2026.²
4. The vanilla and post-tax WACC estimates for disclosure year 2026 are summarised in Table 1.

Table1: Vanilla and post-tax WACC estimates for First Gas and Powerco's GPBs

	Vanilla WACC	Post-tax WACC
Mid-point	6.45%	5.87%
25 th percentile	5.69%	5.11%
75 th percentile	7.20%	6.62%

The WACC estimates have been calculated as at 1 October 2025, which is the first day of disclosure year 2026.

5. This determination applies the relevant sector IMs, including any applicable amendments to those IMs made as a result of a review under Part 4 of the Commerce Act 1986 (Part 4 IM Review 2023).
6. The Part 4 IM Review 2023 resulted in changes to some fixed WACC parameters, including leverage and asset beta. This is the first instance these new parameters will apply for First Gas and Powerco GPBs in ID regulation.

¹ Commerce Commission, [Gas Distribution Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 37 (as amended) and [Gas Transmission Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 36 (as amended).

² Unless appears otherwise from the context, we have used the phrase "gas pipeline business" (GPB) in this determination to refer to First Gas' GDB and GTB and Powerco's GDB.

7. The 2023 Gas Distribution Services Input Methodologies is the subject of an appeal brought by First Gas Limited. The appeal was heard on 4 – 8 August 2025. As at the date of this determination, the Court reserved its decision and has not yet released its judgment.

Further details regarding WACC estimates

WACC parameter values for First Gas and Powerco's GPB

8. The parameter values used to generate the mid-point WACC estimates for First Gas and Powerco's GPB are summarised in Table 2 below.³

Table 2: Values used to calculate WACC estimates for First Gas and Powerco's GPB *

Parameter	First Gas and Powerco's GPB
Risk-free rate	3.59%
Average debt premium	1.21%
Leverage	41%
Asset beta	0.41
Equity beta	0.69
Tax adjusted market risk premium	7.0%
Average corporate tax rate	28%
Average investor tax rate	28%
Debt issuance costs	0.25%
Cost of debt	5.05%
Cost of equity	7.42%
Standard error of midpoint WACC estimate	0.0112
Mid-point vanilla WACC	6.45%
Mid-point post-tax WACC	5.87%

*The numbers are rounded to two decimal points, except for tax adjusted market risk premium and standard error of the mid-point WACC estimate

³ All parameter values except the estimate of the risk-free rate and the average debt premium are set in the IMs.

Risk-free rate for First Gas and Powerco's GPB

9. The risk-free rate reflects the estimated bid yield to maturity on New Zealand government bonds with a term to maturity equal to the length of the regulatory period.
10. Our estimate of the four-year risk-free rate is based on data reported by Bloomberg for the three-month period ending 30 September 2025 in respect of the April 2029 and May 2030 maturity bonds.
11. The daily data reported by Bloomberg is linearly interpolated, annualised (to reflect the six-monthly payment of interest) and averaged to produce the estimate of 3.59% for New Zealand government bonds with a four-year term to maturity, as estimated at 1 October 2025.⁴

Average debt premium for First Gas and Powerco's GPB

12. The average debt premium for First Gas and Powerco's GPB of 1.21% is the average of the debt premium values for the current debt premium reference year (DPRY) and the four previous DPRYs, as shown in Table 3 below.

Table 3: Average debt premium for First Gas and Powerco's GPB (%)

	DPRY 2022	DPRY 2023	DPRY 2024	DPRY 2025	DPRY 2026	AVERAGE
Debt						
premium	1.35	1.10	1.45	1.20	0.95	1.21

13. The DPRY for First Gas and Powerco's GPB starts on 1 March and ends on 28 February⁵. DPRY 2026 is the current DPRY for First Gas and Powerco as it contains the start of disclosure year 2026 (1 October 2025). The IMs state that the calculation of the debt premium for a DPRY is estimated for each business day in the 12 months preceding the start of the DPRY.

⁴ We interpolate between the two closest bonds surrounding a four-year remaining term. This requires taking the yields of the bonds with a remaining term immediately before and after the four years term to maturity on that day. The target term to maturity is constant but the bonds' remaining terms to maturity decrease over time so the bonds immediately before and after the target term may change over time.

⁵ For example, DPRY 2026 for First Gas and Vector is 1 March 2025 to 28 February 2026.

14. The debt premium values are taken from the following sources:
- 14.1. The debt premium value for 2022 DPRY was estimated in the ID WACC determination published on 2 August 2021 for Transpower, GDBs and airports⁶.
 - 14.2. The debt premium value for 2023 DPRY was estimated in the WACC determination for the third price-quality path for the gas pipeline businesses published on 1 April 2022⁷.
 - 14.3. The debt premium value for 2024 DPRY was estimated in the ID WACC determination published on 1 August 2023 for Transpower, GDBs and airports⁸.
 - 14.4. The debt premium value for 2025 DPRY was estimated was estimated in the ID WACC determination published 1 August 2024 for Transpower, GDBs and airports⁹.
 - 14.5. The debt premium value for 2026 DPRY was estimated in the ID WACC determination published 4 August 2025 for Transpower, GDBs and airports¹⁰.

WACC range estimate for First Gas and Powerco's GPB

15. In addition to the mid-point estimate, we are also required to determine a WACC range estimate for the First Gas and Powerco's GPB.

⁶ Commerce Commission, [Cost of capital determination for disclosure year 2022 for information disclosure regulation. For Transpower, gas pipeline businesses and suppliers of specified airport services](#) (with a June year-end) [2021] NZCC 10.

⁷ Commerce Commission, [Cost of capital determination for gas pipeline businesses' 2022-2026/2022-2027 default price-quality path](#) [2022] NZCC 10. In this determination we had two sets of WACC estimates – one reflecting a five-year period and the other reflecting a four-year period. We did this because we had not yet produced our final decision on the term of the regulatory period for the GPB default price path (DPP).

⁸ Commerce Commission, [Cost of capital determination for disclosure year 2024 for information disclosure regulation. For Transpower, gas pipeline businesses and suppliers of specified airport services \(with a June year-end\)](#) [2023] NZCC 20.

⁹ Commerce Commission, [Cost of capital determination for disclosure year 2025 for information disclosure regulation. For Transpower, gas pipeline businesses and suppliers of specified airport services \(with a June year-end\)](#) [2024] NZCC 15.

¹⁰ Commerce Commission, [Cost of capital determination for disclosure year 2026 for information disclosure regulation. For Transpower, gas pipeline businesses and suppliers of specified airport services \(with a June year-end\)](#) [2025] NZCC 16.

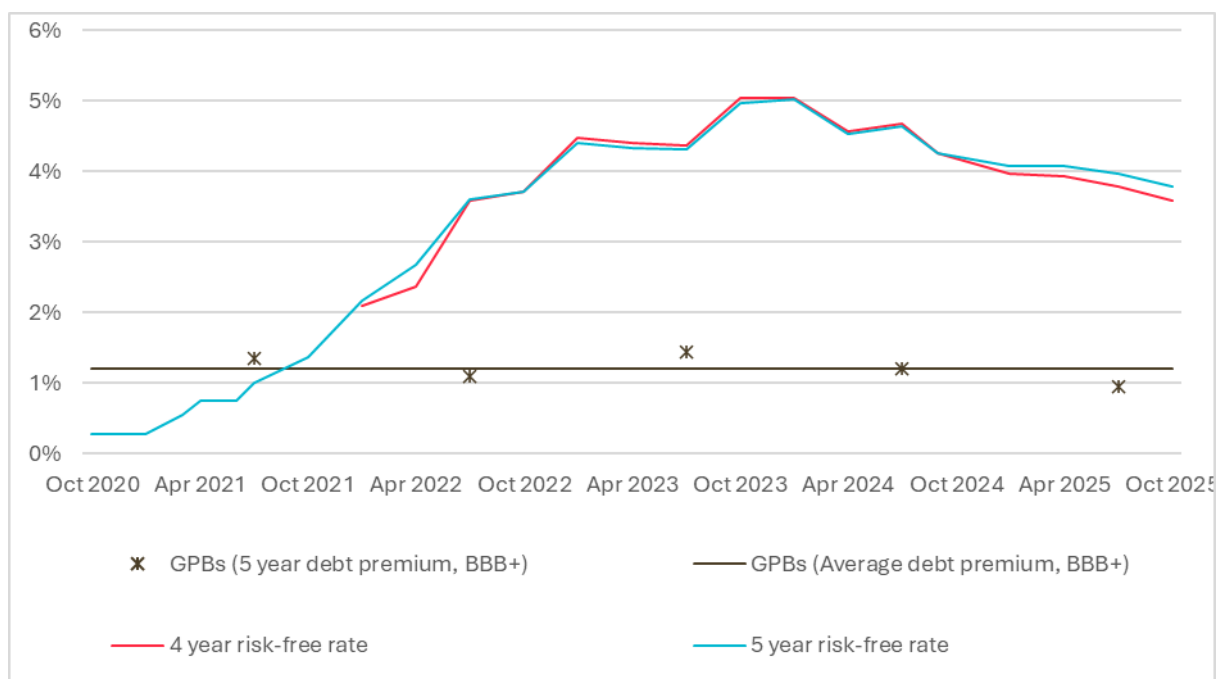
16. The WACC range means the values falling between the 25th percentile and 75th percentile, inclusive of the mid-point estimate of WACC. The methodology for estimating different WACC percentiles is set out in clause 2.4.5 of the GDB and GTB IMs¹¹.

Changes in the risk-free rate and debt premium over time

17. The risk-free rate and the debt premium on bonds change over time. Changes in the risk-free rate and debt premium estimates are illustrated below. Figure 1 shows, as at 1 October 2025, changes over time in the:

- 17.1. four-year risk-free rate;
- 17.2. five-year risk-free rate; and
- 17.3. estimated debt premium on bonds rated BBB+ with a remaining term to maturity of five years;

Figure 1: Changes in the risk-free rates and estimated debt premiums over time



¹¹ Commerce Commission, [Gas Distribution Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 37 (as amended) and [Gas Transmission Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 36 (as amended).