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Te Komihana Tauhokohoko

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Cost of capital determination for disclosure year 2027 for information disclosure regulation

For First Gas Limited's gas pipeline businesses and

Powerco Limited's gas distribution business

[2026] NZCC 54

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COMMERCE COMMISSION

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1. This cost of capital determination has been made under the relevant Cost of Capital Input Methodologies (IMs). Other relevant cost of capital determinations and related guidelines are published on our website.[1]

2. The weighted average cost of capital (WACC) estimates applicable under this determination, together with relevant regulatory details, are summarised in Table 1: Regulatory contextbelow:

Table 1: Regulatory context

Regulation	Information disclosure (ID)
Disclosure year	For disclosure year 2027, being 1 October 2026 to 30 September 2027[2]
Estimation date	1 October 2026
Regulated business and sector IM applied	First Gas Limited gas distribution and gas transmission business Powerco Limited gas distribution business Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 37 (as amended, including the High Court order dated 20 August 2026) and Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 36 (as amended, including the High Court order dated 20 August 2026) [3].

3. The vanilla and post-tax WACC estimates are summarised in Table 2: Vanilla and post-tax WACC estimates below. See our guidelines for an explanation on how WACC is estimated under the relevant IMs.[4]

Table 2: Vanilla and post-tax WACC estimates

	Vanilla WACC	Post-tax WACC
Mid-point	6.98%	6.33%
25th percentile	6.22%	5.58%
65th percentile	7.41%	6.76%
75th percentile	7.73%	7.09%

1 Commerce Commission webpage cost of capital guidelines and determinations.

2 The timing of our WACC determinations for ID regulation differs depending on the disclosure year of the regulated companies.

3 Gas Pipeline Input Methodology Amendments Order by the High Court, 20 August 2026.

4 Commerce Commission, Guidelines for WACC determinations under the cost of capital input methodologies (Post-IM Review) 27 June 2024 (guidelines).

WACC parameter values

4. The parameter values including the sources used to generate the mid-point WACC estimates for this determination are summarised in Table 3: Parameters and values used to calculate WACC estimates*below.

Table 3: Parameters and values used to calculate WACC estimates*

Parameter	Type	Value
Risk-free rate	Estimated	4.31%
Average debt premium	Estimated	1.09%
Leverage	IM-specified	41%
Asset beta	IM-specified	0.41
Equity beta	IM-specified	0.69
Tax adjusted market risk premium	IM-specified	7.0%
Average corporate tax rate	Statutory	28%
Average investor tax rate	Statutory	28%
Debt issuance costs	IM-specified	0.20%
Cost of debt	Calculated	5.60%
Cost of equity	Calculated	7.93%
Standard error of midpoint WACC estimate	IM-specified	0.0112
Mid-point vanilla WACC	Calculated	**6.98%**
Mid-point post-tax WACC	Calculated	**6.33%**

*Calculated and estimated values are rounded to two decimal points. IM-specified parameters can be explicit (such as leverage and equity beta) and implicit (such as asset beta).

Risk-free rate

5. 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 current regulatory period. The daily bid yields reported by Bloomberg on each business day in the three months preceding the date of estimation were linearly interpolated, annualised to reflect semi-annual interest payments, and averaged to produce a final estimate.[5] The detail of this estimate is summarised in Table 4: Details of risk-free rate estimates below:

Table 4: Details of risk-free rate estimates

Regulatory period	Five years for the current regulatory period starting on 1 October 2026
Daily yields averaging period	Three-month period ending 30 September 2026
NZ Government bonds used in estimate	Bonds maturing in May 2031 and May 2032
Risk-free rate	4.31%

Average debt premium

6. The average debt premium 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 5: Average debt premiums and DPRY (%) below, along with the supporting information.[6] The source document also identifies the source determinations for the earlier DPRYs. 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.

Table 5: Average debt premiums and DPRY (%)

	DPRY 2023	DPRY 2024	DPRY 2025	DPRY 2026	DPRY 2027	AVERAGE
Debt premium	1.10	1.45	1.20	0.95	0.75	1.09
Current DPRY	2027 (1 March 2026 – 28 February 2027)					
Source	PQ WACC determination published on 9 April 2026[7].					

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

7. Figure 1 illustrates how the risk-free rate and estimated debt premium have changed over time as at the estimation date.

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5 For more information on our methodology for estimating the risk-free rate, please see paragraphs 40 – 46 of our guidelines, as well as the relevant sector IMs.

6 For more information on our methodology for estimating the average debt premium, please see paragraphs 47 – 71 of our guidelines, as well as the relevant sector IMs. The timing of DPRY is also in Table 12 of the guidelines.

7 Cost of capital determination for gas pipeline businesses' DPP4 [2026] NZCC 8 (9 April 2026)

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

