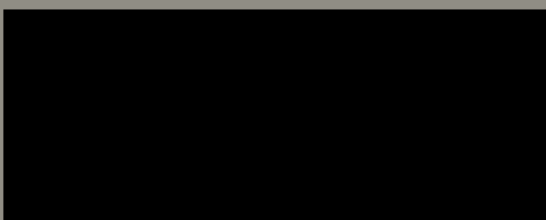


Cost of capital determination for gas pipeline businesses' DPP4

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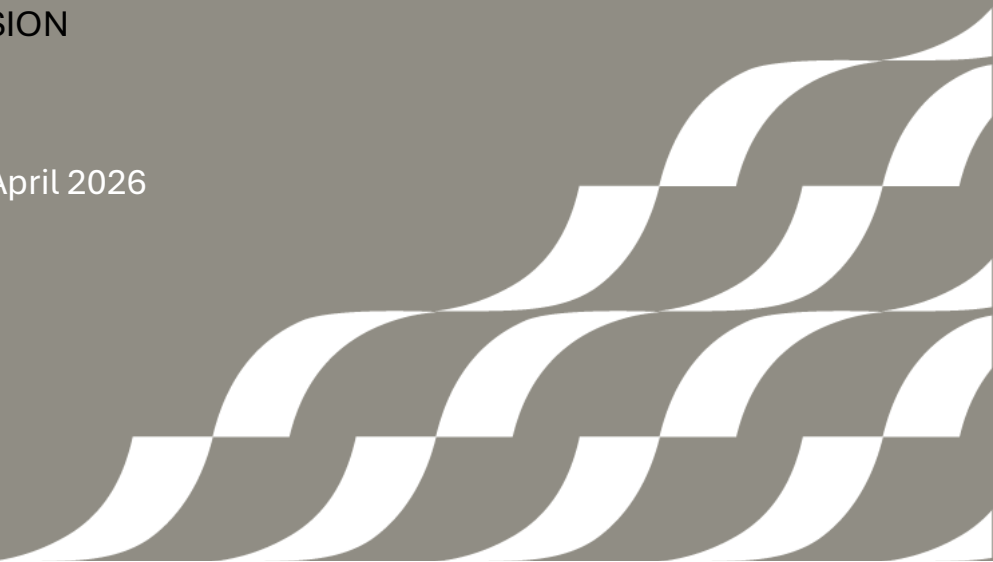
The Infrastructure Committee: Nathan Strong
Bryan Chapple
Dr Derek Johnston
Dr John Small



Nathan Strong, Commissioner

COMMERCE COMMISSION

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Associated documents

Publication date	Reference	Title
30 October 2025	ISSN 1178-2560	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
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
31 October 2024	ISSN 1178-2560	Cost of capital determination for disclosure year 2025 for information disclosure regulation - For First Gas' gas pipeline businesses and Powerco's gas distribution business [2024] NZCC 24
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 Transmission Services Input Methodologies (IM Review 2023) Amendment Determination [2023] NZCC 36 (as amended)
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

31 October 2023	ISSN 1178-2560	Cost of capital determination for disclosure year 2024 for information disclosure regulation - For First Gas' gas pipeline businesses and Powerco's gas distribution business [2023] NZCC 28
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
1 November 2022	ISSN 1178-2560	Cost of capital determination for disclosure year 2023 for information disclosure regulation – For First Gas and Powerco gas pipeline businesses [2022] NZCC 34
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

WACC estimates for GPBs DPP4

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 to the default price-quality path (DPP) for gas distribution businesses and gas transmission businesses, together gas pipeline business (GPBs), for the regulatory period commencing from 1 October 2026 (DPP4).
3. The term of the risk-free rate and the term of debt issuance cost must match the length of the regulatory period. Our draft decision was to set a five-year regulatory period for DPP4.² In this determination we publish WACC estimates for both a four-year and a five-year regulatory period as we will only make a final decision on the length of the regulatory period by 31 May 2026. The WACC estimates that will apply will reflect our final decision on the length of the regulatory period.
4. The vanilla and post-tax WACC estimates for DPP4 are summarised in Table 1.

Table1: Vanilla and post-tax WACC estimates for DPP4

	Vanilla WACC	Post-tax WACC
4-year mid-point	6.47%	5.90%
5-year mid-point	6.64%	6.04%

The WACC estimates have been calculated as at 1 March 2026, which is seven months prior to the start of DPP4.

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, asset beta and standard error. This is the first instance these new parameters will apply for price-quality (PQ) regulation.
7. The Part 4 IM Review 2023 removed the requirement to apply a percentile WACC for GPBs in PQ regulation, meaning PQ WACC determinations now reflect solely on the

¹ Commerce Commission, Gas Distribution Services Input Methodologies Determination 2012 [2012] NZCC 27 (as amended), clause 4.4.1 and Gas Transmission Services Input Methodologies Determination 2012 [2012] NZCC 28 (as amended), clause 4.4.1. The Input Methodologies are available on our website: <https://www.comcom.govt.nz/regulated-industries/input-methodologies/input-methodologies-for-electricity-gas-and-airports/gas-pipelines-input-methodologies/>.

² Under s 53 M of the Commerce Act, the length of a regulatory period must be five years, unless we set a shorter regulatory period which may not be less than four years.

mid-point estimate. Before this change, GPBs received a WACC uplift to mitigate the risk of under-investment, which required estimating a distribution around the WACC and adopting the 67th percentile. Through the 2023 IM Review, we concluded that this uplift was no longer appropriate for GPBs, and the WACC used to set their PQ paths now reflects the mid-point estimate.

8. 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

9. The parameter values used to generate the mid-point WACC estimates for DPP4 are summarised in Table 2 below.³

Table 2: Values used to calculate WACC estimates for DPP4*

Parameter	Estimate (4-year regulatory period)	Estimate (5-year regulatory period)
Risk-free rate	3.68%	3.91%
Average debt premium	1.09%	1.09%
Leverage	41%	41%
Asset beta	0.41	0.41
Equity beta	0.69	0.69
Tax adjusted market risk premium	7.0%	7.0%
Average corporate tax rate	28%	28%
Average investor tax rate	28%	28%
Debt issuance costs	0.25%	0.20%
Cost of debt	5.02%	5.20%
Cost of equity	7.48%	7.64%
Standard error of mid-point WACC estimate	0.0112	0.0112
Mid-point vanilla WACC	6.47%	6.64%
Mid-point post-tax WACC	5.90%	6.04%

*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

10. 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.
11. Our estimate of the risk-free rate is based on data reported by Bloomberg for each business day in the three-month period ending 28 February 2026. For the four-year risk-free rate, we use the April 2029 and May 2030 maturity bonds, and for the five-year risk-free rate we use the May 2030 and May 2031 maturity bonds.
12. 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 3.68% for New Zealand government bonds with a four-year term to maturity and 3.91% for bonds with a five-year term to maturity, as estimated at 1 March 2026.⁴

Average debt premium

13. The average debt premium for GPBs of 1.09% 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 (%)

	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

14. The DPRY for GPBs starts on 1 March and ends on 28 February.⁵ DPRY 2027 is the current DPRY for GPBs as it contains the start of disclosure year 2027 (1 July 2026 or 1 October 2026). 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.⁶

⁴ We interpolate between the two closest bonds surrounding a four- or five-year remaining term. This requires taking the yields of the bonds with a remaining term immediately before and after the target 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 2027 is 1 March 2026 to 28 February 2027.

⁶ Commerce Commission, Gas Distribution Services Input Methodologies Determination 2012 [2012] NZCC 27 (as amended), clause 2.4.4(5) and Gas Transmission Services Input Methodologies Determination 2012 [2012] NZCC 28 (as amended), clause 2.4.4(5).

15. The debt premium values are taken from the following sources:
 - 15.1. 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 2022.⁷
 - 15.2. The debt premium value for 2024 DPRY was estimated in the ID WACC determination published on 1 August 2023 for Transpower, GDBs and airports⁸.
 - 15.3. The debt premium value for 2025 DPRY was estimated in the ID WACC determination published 1 August 2024 for Transpower, GDBs and airports.⁹
 - 15.4. The debt premium value for 2026 DPRY was estimated in the ID WACC determination published 4 August 2025 for Transpower, GDBs and airports.¹⁰
16. We have estimated a debt premium of 0.75% for DPRY 2027, based on the data in Table 4 below:
 - 16.1. We had greatest regard to the category (a) and (b) bonds. The category (a) bond supports a debt premium higher than 0.63%, while the category (b) bonds are not inconsistent with an estimate of 0.75%.
 - 16.2. The estimated debt premium for other issuers in bond categories (d) and (e) are not inconsistent with a debt premium around 0.75%, when consideration is given to the different credit ratings and term to maturity (refer to Table 4 for details).
 - 16.3. The Nelson-Siegel-Svensson (NSS) estimate of the five-year debt premium of 0.77% is consistent with our estimate of 0.75%.

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.

Table 4: Debt premium estimates

	Sector	100% Govt owned	Bond credit rating	Remaining term to maturity (years)	Debt premium (%)
Benchmark bond	EDB/GPB	No	BBB+	5	0.75%

Bond category	Issuer	Sector	100% Govt owned	Bond credit rating	Remaining term to maturity (years)	Debt premium (%)	Comments	Bonds analysed
a	Vector Limited	EDB/GPB	No	BBB+	2.20	0.63	5 year debt premium would be higher.	VCTNZ 3.69 11/26/2027
b	Air New Zealand Limited	Other	No	BBB+	2.70	1.05	5 year debt premium would be higher.	AIRNZ 6.61 04/27/2028
b	Genesis Energy Limited	Other	No	BBB+	3.30	0.80	5 year debt premium would be higher.	GENEPO 3.65 12/20/2028
b	Mercury NZ Limited	Other	No	BBB+	5.10	0.68	5 year debt premium would be lower.	MCYNZ 1.917 10/09/2030
b	Meridian Energy Limited	Other	No	BBB+	4.60	0.64	5 year debt premium would be higher.	MERINZ 5.4 03/21/2030
d	Auckland International	Airport	No	A-	5.20	0.61	BBB+ debt premium would be higher; 5 year debt premium would be lower.	AIANZ 5.45 11/15/2030
d	Chorus Limited	Fibre	No	BBB	5.30	0.78	BBB+ debt premium would be lower; 5 year debt premium would be lower.	CNUNZ 2.51 12/02/2030
d	Contact Energy Limited	Other	No	BBB	3.60	0.61	BBB+ debt premium would be lower; 5 year debt premium would be higher.	CENNZ 5.62 04/06/2029
d	Fonterra Co-operative Group	Other	No	A-	4.20	0.59	BBB+ debt premium would be higher; 5 year debt premium would be higher.	FCGNZ 4.6 11/08/2029
d	Spark Finance Limited	Telco	No	A-	4.10	0.61	BBB+ debt premium would be higher; 5 year debt premium would be higher.	SPKNZ 5.21 09/18/2029
d	Wellington International	Airport	No	BBB	5.00	0.95	BBB+ debt premium would be lower.	WIANZ 5.78 08/24/2028; WIANZ 6.02 09/04/2030; WIANZ 5.09 04/03/2031
e	Christchurch International	Airport	Yes	A-	5.00	0.63	BBB+ debt premium would be higher.	CHRINT 5.18 05/19/2028; CHRINT 5.44 04/15/2031
e	Transpower New Zealand Limited	EDB/GPB	Yes	AA-	4.90	0.39	BBB+ debt premium would be higher; 5 year debt premium would be higher.	TPNZ 4.219 07/31/2030

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 March 2026, 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

