

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

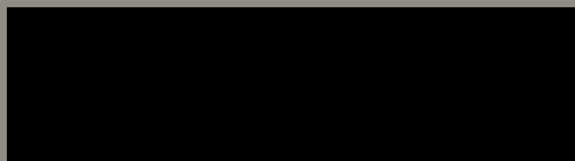
For electricity distribution businesses and Wellington International Airport
[2025] NZCC 7

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COMMERCE COMMISSION

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Associated documents

Publication date	Reference	Title
25 September 2024	ISSN 1178-2560	Cost of capital determination for electricity distribution businesses' default price-quality path commencing 2025 and Transpower New Zealand Limited's 2025-2030 individual price-quality path [2024] NZCC 21
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] NZCC15
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
1 May 2024	ISSN 1178-2560	Cost of capital determination for disclosure year 2025 for information disclosure regulation for electricity distribution businesses and Wellington International Airport [2024] NZCC7
24 April 2024	ISSN 1178-2560	Cost of capital determination for Wellington International Airport Limited's 2024-2029 price setting event [2024] NZCC 6
13 December 2023	ISBN 978-1-991085-69-6	Cost of capital topic paper, Part 4 Input Methodologies Review 2023 – Final decision
13 December 2023	ISSN 1178-2560	Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35
13 December 2023	ISSN 1178-2560	Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 34
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 May 2023	ISSN 1178-2560	Cost of capital determination for disclosure year 2024 for information disclosure regulation – Electricity distribution businesses and Wellington International Airport [2023] NZCC 8
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
3 May 2022	ISSN 1178-2560	Cost of capital determination for disclosure year 2023 for information disclosure regulation – For Electricity distribution businesses and Wellington International Airport [2022] NZCC 12
2 August 2021	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)
30 April 2021	ISSN 1178-2560	Cost of capital determination for disclosure year 2022 – Electricity distribution businesses and Wellington International Airport [2021] NZCC 4
31 July 2020	ISSN 1178-2560	Cost of capital determination for disclosure year 2021 – For Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2020] NZCC 15

WACC estimates for disclosure year 2026 for EDBs and Wellington Airport

1. This cost of capital determination has been made under the Cost of Capital Input Methodologies (IMs).^{1,2}
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 electricity distribution businesses (EDBs) and Wellington International Airport Limited (WIAL).
3. The timing of our WACC determinations for ID regulation differs depending on the disclosure year of the regulated companies. EDBs and WIAL have disclosure year of 1 April to 31 March, with disclosure year 2026 being the year ending 31 March 2026.
4. The vanilla and post-tax WACC estimates for disclosure year 2026 for EDBs and WIAL are summarised in Table 1 and Table 2 below, respectively.

Table 1: Vanilla and post-tax WACC estimates for EDBs

	Vanilla WACC	Post-tax WACC
Mid-point	6.53%	5.90%
25 th percentile	5.81%	5.17%
65 th percentile	6.95%	6.31%
75 th percentile	7.26%	6.62%

Table 2: Vanilla and post-tax WACC estimates for WIAL

	Vanilla WACC	Post-tax WACC
Mid-point	8.19%	7.84%

5. Further detail regarding the parameter values used to generate these WACC estimates is contained in paragraphs 9 to 20 below. The WACC estimates have been calculated as at 1 April 2025, which is the first day of disclosure year 2026.
6. This determination applies the IMs, including any applicable amendments to the IMs made as a result of the review of the IMs made under Part 4 of the Commerce Act 1986

¹ Commerce Commission, [Electricity Distribution Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 35 (as amended).

² Commerce Commission, [Airport Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 34 (December 2023).

(Part 4 IM Review 2023).^{3,4} The IMs set out the methodology for determining an estimate of WACC, including:

- 6.1. the formulas used (including for different WACC percentiles);
 - 6.2. the values for WACC parameters which are fixed under the IMs; and
 - 6.3. our methodology for determining the risk-free rate and average debt premium.
7. The Part 4 IM Review 2023 resulted in changes to some fixed WACC parameters, including leverage, asset beta and equity beta. For EDBs, these new parameters apply for the first time from this ID regulation, in disclosure year 2026.⁵ For airports, the WACC changes have applied from 14 December 2023.⁶
8. The 2023 Airport Services IM Amendment relating to the cost of capital is the subject of appeals brought by Auckland International Airport Ltd, Wellington International Airport Ltd and Christchurch International Airport Ltd (joint appeal), and New Zealand Airports Association Inc, and is also the subject of a judicial review application by Air New Zealand Ltd, Qantas Airways Ltd, and Board of Airline Representatives of New Zealand Inc. These matters have yet to be heard by the Court.

Further details regarding WACC estimates

WACC parameter values for EDBs and WIAL

9. The parameter values used to generate the mid-point WACC estimates for EDBs and WIAL are summarised in Table 3 below.⁷

Table 3: Values used to calculate WACC estimates for EDBs and WIAL*

Parameter	EDBs	WIAL
Risk-free rate	4.08%	4.08%
Average debt premium	1.28%	1.10%
Leverage	41%	23%
Asset beta	0.36	0.67

³ Commerce Commission, [Electricity Distribution Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 35 (as amended) and Commerce Commission, [Guidelines for WACC determinations under the cost of capital input methodologies](#) (27 June 2024).

⁴ Commerce Commission, [Airport Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 34 (December 2023)

⁵ Commerce Commission, [Electricity Distribution Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 35, clause 4(b)(i).

⁶ Commerce Commission, [Airport Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 34 (December 2023), clause 4(c)(iv).

⁷ All parameter values except the estimate of the risk-free rate and the average debt premium are set in the IMs.

Equity beta	0.61	0.87
Tax adjusted market risk premium	7.0%	7.0%
Average corporate tax rate	28%	28%
Average investor tax rate	28%	28%
Debt issuance costs	0.20%	0.20%
Cost of debt	5.56%	5.38%
Cost of equity	7.21%	9.03%
Standard error of midpoint WACC estimate	0.0108	0.0169
Mid-point vanilla WACC	6.53%	8.19%
Mid-point post-tax WACC	5.90%	7.84%

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

Risk-free rate for EDBs and WIAL

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 (and five years for airports).
11. Our estimate of the five-year risk-free rate is based on data reported by Bloomberg for the three-month period ending 31 March 2025 in respect of the April 2029 and May 2030 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 a 4.08% interest rate on New Zealand government bonds with a five-year term to maturity, as estimated at 1 April 2025.⁸

Average debt premium for EDBs

13. The average debt premium for EDBs of 1.28% 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 4 below.

⁸ We interpolate between the two closest bonds surrounding a five-year remaining term. This requires taking the yields of the bonds with a remaining term immediately before and after a five-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.

Table 4: Average debt premium for EDBs (%)

	DPRY 2021	DPRY 2022	DPRY 2023	DPRY 2024	DPRY 2025	AVERAGE
Debt						
premium	1.55	1.15	1.25	1.40	1.05	1.28

14. The DPRY for EDBs starts on 1 September and ends on 31 August.⁹ DPRY 2025 is the current DPRY for EDBs as it contains the start of disclosure year 2026 (1 April 2025). The EDB 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.
15. The debt premium values are taken from the following sources:
- 15.1. The debt premium value for DPRY 2021 was estimated in the ID WACC determination published on 30 April 2021 for EDBs and WIAL.¹⁰
 - 15.2. The debt premium value for DPRY 2022 was estimated in the ID WACC determination published on 3 May 2022 for EDBs and WIAL.¹¹
 - 15.3. The debt premium value for DPRY 2023 was estimated in the ID WACC determination published on 1 May 2023 for EDBs and WIAL.¹²
 - 15.4. The debt premium value for DPRY 2024 was estimated in the ID WACC determination published on 1 May 2024 for EDBs and WIAL.¹³
 - 15.5. The debt premium value for DPRY 2025 was estimated in the PQ WACC determination published on 25 September 2024 for EDBs and Transpower.¹⁴

WACC range and 65th percentile estimate for EDBs

16. In addition to the mid-point estimate, we are also required to determine a WACC range and 65th percentile estimate for each EDB disclosure year.

⁹ For example, DPRY 2025 for EDBs is 1 September 2024 to 31 August 2025.

¹⁰ Commerce Commission, [Cost of capital determination for disclosure year 2022 for information disclosure regulation. Electricity distribution businesses and Wellington International Airport](#) [2021] NZCC 4.

¹¹ Commerce Commission, [Cost of capital determination for disclosure year 2023 for information disclosure regulation. Electricity distribution businesses and Wellington International Airport](#) [2022] NZCC 12.

¹² Commerce Commission, [Cost of capital determination for disclosure year 2024 for information disclosure regulation. Electricity distribution businesses and Wellington International Airport](#) [2023] NZCC 8.

¹³ Commerce Commission, [Cost of capital determination for disclosure year 2025 for information disclosure regulation. Electricity distribution businesses and Wellington International Airport](#) [2024] NZCC 7.

¹⁴ Commerce Commission, [Cost of capital determination for electricity distribution businesses' default price-quality path commencing 2025 and Transpower New Zealand Limited's 2025-2030 individual price-quality path](#) [2024] NZCC21.

17. 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 EDB IMs.¹⁵

Average debt premium for WIAL

18. The average debt premium for WIAL of 1.10% is the average of the debt premium values for the current DPRY and the four previous DPRYs, as shown in Table 6 below.
19. The DPRY for WIAL starts on 1 July and ends on 30 June.¹⁶ DPRY 2025 is the current DPRY for WIAL as it contains the start of disclosure year 2026 (1 April 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.
20. The debt premium values for the 2021 to 2025 DPRYs are the same debt premium values that we previously determined for AIAL and CIAL from the following sources:
- 20.1. The debt premium value for the 2021 DPRY was estimated in the ID WACC determination published on 31 July 2020 for Transpower, GPBs and airports.¹⁷
- 20.2. The debt premium value for the 2022 DPRY was estimated in the ID WACC determination published on 2 August 2021 for Transpower, GPBs and airports.¹⁸
- 20.3. The debt premium value for the 2023 DPRY was estimated in the ID WACC determination published on 2 August 2022 for Transpower, GPBs and airports.¹⁹
- 20.4. The debt premium value for the 2024 DPRY was estimated in the ID WACC determination published on 1 August 2023 for Transpower, GPBs and airports.²⁰
- 20.5. The debt premium value for the 2025 DPRY was estimated in the ID WACC determination published on 1 August 2024 for Transpower, GPBs and airports.²¹

¹⁵ Commerce Commission, [Electricity Distribution Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 35 (as amended)

¹⁶ For example, DPRY 2025 for WIAL is 1 July 2024 to 30 June 2025.

¹⁷ Commerce Commission, [Cost of capital determination for disclosure year 2021 for information disclosure regulation](#) [2020] NZCC 15

¹⁸ Commerce Commission, [Cost of capital determination for disclosure year 2022 for information disclosure regulation](#) [2021] NZCC 10

¹⁹ Commerce Commission, [Cost of capital determination for disclosure year 2023 for information disclosure regulation](#) [2022] NZCC 28

²⁰ Commerce Commission, [Cost of capital determination for disclosure year 2024 for information disclosure regulation](#) [2023] NZCC 20

²¹ Commerce Commission, [Cost of capital determination for disclosure year 2025 for information disclosure regulation](#) [2024] NZCC 15

Table 6: Debt premium estimate for WIAL (%)

	DPRY 2021	DPRY 2022	DPRY 2023	DPRY 2024	DPRY 2025	AVERAGE
Debt premium	1.30	1.10	1.00	1.20	0.90	1.10

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

21. 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 April 2025, changes over time in the:

- 21.1. five-year risk-free rate;
- 21.2. estimated debt premium on bonds rated BBB+ with a remaining term to maturity of five years; and
- 21.3. estimated debt premium on bonds rated A- with a remaining term to maturity of five years.

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

