

Erratum to: Final Report – Prices for Hunter Water Corporation from 1 July 2020, issued by IPART

Erratum to Appendices H & I

This erratum has been issued to correct some typographic errors in appendices H and I of the Final Report – Prices for Hunter Water Corporation from 1 July 2020.

Appendix I – Table I.1

There is an error in Table I.1 on page 245 of the Final Report. The value for ‘Gamma’ reported in that table is incorrect and should have been 0.25 for both the current and long term measures. The error is in the text of the report only and does not represent an error in our calculations. That is, the error had no impact on IPART’s calculation of the Weighted Average Cost of Capital (WACC) or prices. Further, the heading of Table I.1 refers to “Water NSW WACC for final report” however this heading is incorrect and should read “Hunter Water WACC for Final Report”. The corrected table is presented here:

Table I.1 Hunter Water WACC for Final Report

	Step 1		Step 2 – Final WACC range		
	Current market data	Long term averages	Lower	Midpoint	Upper
Nominal risk free rate	0.90%	3.10%			
Inflation	2.30%	2.30%			
Implied Debt Margin	2.50%	2.60%			
Market Risk premium	9.7%	6.0%			
Debt funding	60%	60%			
Equity funding	40%	40%			
Total funding (debt + equity)	100%	100%			
Gamma	0.25	0.25			
Corporate tax rate	30.0%	30.0%			
Effective tax rate for equity	30.0%	30.0%			
Effective tax rate for debt	30.0%	30.0%			
Equity beta	0.70	0.70			
Cost of equity (nominal post-tax)	7.7%	7.3%			
Cost of equity (real-post tax)	5.3%	4.9%			
Cost of debt (nominal pre-tax)	3.4%	5.7%			
Cost of debt (real pre-tax)	1.1%	3.3%			
Nominal Vanilla (post-tax nominal) WACC	5.1%	6.3%	5.1%	5.7%	6.3%
Post-tax real WACC	2.8%	3.9%	2.8%	3.4%	3.9%
Pre-tax nominal WACC	6.0%	7.2%	6.0%	6.6%	7.2%
Pre-tax real WACC point estimate	3.6%	4.8%	3.6%	4.2%	4.8%

Appendix I – Section I.6

There is a typographic error in the text of section I.6 on page 246 of the Final Report. This section reads: “We adopt a standard four year regulatory period for Water NSW” when this should read “We adopt a standard four year regulatory period for Hunter Water”.

Appendix H – Table H.11

There is a typographic error in the heading of Table H.11 on page 240 of the Final Report. This table has the heading: “Comparison of our return on working capital allowance to Water NSW’s proposal (\$million, \$2019-20)” when the correct heading is: “Comparison of our return on working capital allowance to Hunter Water’s proposal (\$million, \$2019-20)”.