

IPART to review WACC methodology in 2017-18



WHAT

In 2017-18 the Independent Pricing and Regulatory Tribunal (IPART) will review its methodology for setting the weighted average cost of capital (WACC).

The WACC is an important aspect of pricing decisions in which we use the building block approach to estimate the required revenues. This is because we determine one of the building blocks, the return on assets, by multiplying the asset base by the WACC.



WHY

We concluded our last review of our [WACC methodology](#) in 2013.¹

Our current WACC methodology has been broadly well-accepted by stakeholders. However, we consider it timely after five years to review our WACC methodology.



WHEN

We will commence the review in July 2017 and finalise it by early 2018. We will engage with stakeholders, call for submissions and we will also hold a public forum.



WHO

Our new WACC methodology **will apply** to pricing decisions that take effect **on or after 1 July 2018**. These will include:

- ▼ the next Sydney Water, Hunter Water, Central Coast Council and Essential Energy water price determinations

- ▼ future transport price determinations that use the building block approach, and
- ▼ future special reviews where we recommend prices using a building block approach.

Our new WACC methodology will not apply to any decisions or determinations that result in prices that come into effect before 1 July 2018. This means that the new WACC methodology **will not apply** to the following reviews **currently underway**:

- ▼ prices for the Sydney Desalination Plant from 1 July 2017
- ▼ prices for WaterNSW rural bulk water services (formerly State Water) from 1 July 2017
- ▼ Sydney Water's and Hunter Water's wholesale services
- ▼ private ferry fares for 2017, and
- ▼ maximum prices for wholesale ethanol in NSW.

For these reviews, and any other reviews that we may undertake where prices take effect before 1 July 2018, we will use our current WACC methodology.



WHAT NEXT

Stakeholders who are interested in participating in this review can [register to receive notifications](#) on our website.

We will commence the review in July 2017 with an Issues Paper and call for submissions. We will then release a Draft Report and hold a public hearing in late 2017 before finalising the methodology in early 2018.

¹ We published our [Final Report](#) for this review in late 2013. Since then, we made further refinements to our method of [estimating the debt margin](#) and the [inflation adjustment](#).