

Media release

Tuesday, 31 October 2017

Feedback sought on IPART's WACC method

The Independent Pricing and Regulatory Tribunal (IPART) has released its draft decisions on the standard method used to decide the weighted average cost of capital (WACC) across various reviews.

The WACC is a key input for calculating the allowance for a return on assets, which is part of the approach IPART uses to determine the revenue requirement of businesses it regulates. These include water utilities, public transport and private ferry businesses, and other businesses to which it applies a building block cost model.

The method was last updated in 2013.

IPART Chair Dr Peter Boxall said that overall, IPART's existing WACC method remains appropriate with only slight changes proposed.

"Our standard approach to WACC has increased the stability of the regulatory regime for our regulated businesses," Dr Boxall said.

"However, we have made incremental improvements to the way we calculate our cost of debt, equity and inflation to better reflect efficient financing costs."

The draft decisions include introducing a 'true-up' to the cost of debt estimates to account for changes between forecast and actual costs that occur during the regulatory period, and changing the averaging period for calculating inflation to align with the length of the regulatory period.

The report is available on IPART's website, with submissions open until 1 December 2017.

Once finalised, the new WACC method will apply to IPART's decisions that take effect on or after 1 July 2018.