

Media release

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WACC method updated

The Independent Pricing and Regulatory Tribunal (IPART) has released its final 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. This affects the prices NSW residents pay for water utilities, public transport and private ferry services, and other business services to which IPART 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 minor changes to be implemented.

"Our 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. We consider that this will reduce refinancing risk for firms and improve the setting of prices for customers."

The final decisions include updating the cost of debt throughout the regulatory period using a 'trailing average' approach, 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.

The 2018 method will apply to IPART's decisions that take effect for reviews completed on or after 1 July 2018.