

## **Cost of capital determination for Wellington International Airport Limited's 2024 - 2029 price setting event**

### **[2024] NZCC 6**

**The Commission:** Vhari McWha  
Bryan Chapple  
Dr Derek Johnston  
Nathan Strong

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## Associated documents

Publication date	Reference	Title
13 December 2023	ISSN 1178-2560	Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023
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 2022 – For Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2021] NZCC 10
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

13 May 2020	ISSN 1178-2560	Cost of capital determination for disclosure year 2021 – Electricity distribution businesses and Wellington International Airport [2020] NZCC 11
31 July 2019	ISSN 1178-2560	Cost of capital determination for disclosure year 2020 for Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2019] NZCC 8
30 April 2019	ISSN 1178-2560	Cost of capital determination for disclosure year 2020 for information disclosure regulation. Electricity distribution businesses and Wellington International Airport [2019] NZCC 7
31 July 2018	ISSN 1178-2560	Cost of capital determination for disclosure year 2019 for Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2018] NZCC 11
30 April 2018	ISSN 1178-2560	Cost of capital determination for disclosure year 2019. Electricity distribution businesses and Wellington International Airport [2018] NZCC 7
20 December 2016	ISBN 978-1-869455-48-4	Input methodologies review decisions (Topic paper 4: Cost of capital issues)
20 December 2016	ISSN 1178-2560	Airport Services Input Methodologies Determination 2010 (Consolidated December 2016)

Commerce Commission  
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## WACC estimates for Wellington Airport's fifth price setting event

1. This determination specifies the weighted average cost of capital (WACC) estimates that will apply for assessing Wellington International Airport Limited's (Wellington Airport) targeted profitability at its fifth price setting event (PSE5).
2. Wellington Airport's fifth price setting event occurred on 7 March 2024. The price setting period covered by this event is 1 April 2024 to 31 March 2029.
3. The input methodologies for airport services (IMs) require us to determine a mid-point estimate of the post-tax WACC for assessing profitability throughout a price setting event either in order to carry out our summary and analysis function under the Commerce Act (Act), or at an airport's request.<sup>1</sup> Wellington Airport did not request a WACC estimate, so this determination is in order to carry out our summary and analysis function under the Act.
4. Although the IMs do not specify the exact date at which the WACC estimate must be made, in our 2016 IM review, we stated:

*Airports are free to set their prices at any time within the five-year pricing period, which means that the ID WACC, published in either April or July, is not always up-to-date enough to use as a benchmark. We continue to consider that airports can calculate our WACC using the IMs methodology, within a reasonable degree of accuracy. However, as it is currently unclear which WACC estimate we will use when assessing airports' profitability, we consider that we can be more transparent.*

*Therefore, we have decided to estimate a WACC for the two quarters that we do not currently calculate one for ID purposes. We will then use the closest quarter WACC estimate (prior to an airport's price setting event) in assessing profitability. When airports plan to reset their prices they can request that we publish that quarter's WACC estimate, otherwise we will only publish the two annual ID WACCs in April and July, as we currently do. We will also publish any WACC estimate that corresponds to a price setting event, in any circumstance in which it has not already been published on request from an airport.<sup>2</sup>*

5. We have therefore estimated a WACC as at 1 January 2024, as this is the beginning of the closest quarter prior to Wellington Airport's price setting event. The IMs require that we publish such WACC estimates within one month of making them.<sup>3</sup>

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<sup>1</sup> Airport Services Input Methodologies (IM Review 2023) Amendment Determination (13 December 2023), clause 5.5(2).

<sup>2</sup> Input methodologies review decisions Topic paper 4: Cost of capital issues (20 December 2016), paragraphs 811 and 812.

<sup>3</sup> Airport Services Input Methodologies (IM Review 2023) Amendment Determination (13 December 2023), clause 5.7.

6. Vanilla and post-tax WACC estimates for assessing profitability throughout PSE5 for Wellington Airport, as at 1 January 2024, are summarised in Table 1 below.

**Table 1: Summary of vanilla and post-tax WACC estimates for Wellington Airport**

	Vanilla WACC	Post-tax WACC
Mid-point	8.95%	8.54%
Standard error	0.0169	0.0169

7. Further detail regarding the parameter values used to generate these WACC estimates is contained in paragraphs 9 to 15 below.
8. This determination applies the IMs, including the IM amendments from the recent Part 4 IM Review.<sup>4</sup> The IMs set out the process and requirements for determining an estimate of the WACC, including:
- 8.1 the formulas used;
  - 8.2 the values for WACC parameters which are fixed under the IMs; and
  - 8.3 our methodology for determining the risk-free rate and average debt premium.

<sup>4</sup> Airport Services Input Methodologies (IM Review 2023) Amendment Determination (13 December 2023).

## Further details regarding the WACC estimates

### WACC parameter values for Wellington Airport

9. The parameter values used to generate the mid-point WACC estimates for assessing profitability throughout PSE5 for Wellington Airport are summarised in Table 2 below.<sup>5</sup>

**Table 2: Values used to calculate WACC estimates for Wellington Airport**

Parameter	Wellington Airport
Risk-free rate	5.03%
Average debt premium	1.18%
Leverage	23%
Asset beta	0.67
Equity beta	0.87
Tax adjusted market risk premium	7.0%
Average corporate tax rate	28%
Average investor tax rate	28%
Debt issuance costs	0.20%
Cost of debt	6.41%
Cost of equity	9.71%
Standard error of midpoint WACC estimate	0.0169
<b>Mid-point vanilla WACC</b>	<b>8.95%</b>
<b>Mid-point post-tax WACC</b>	<b>8.54%</b>

\*The numbers are rounded to two decimal points, except for the TAMRP and standard error of the mid-point WACC estimate.

<sup>5</sup> All parameter values except the estimate of the risk-free rate and the average debt premium are set in the input methodologies.

### Risk-free rate for Wellington Airport

10. The risk-free rate reflects the estimated bid yield to maturity on New Zealand government bonds with a term to maturity equal to five years.
11. Our estimate of the five-year risk-free rate is based on data reported by Bloomberg for the three-month period ending December 2023 in respect of the May 2028 and April 2029 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 5.03% interest rate on New Zealand government bonds with a five-year term to maturity, as estimated at 1 January 2024.<sup>6</sup>

### Average debt premium for Wellington Airport

13. The average debt premium for Wellington Airport of 1.18% 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 3 below.
14. The DPRY for Wellington Airport starts on 1 July and ends on 30 June. DPRY 2024 is the current DPRY for the purpose of this determination as it contains 1 January 2024, which is the start of the closest quarter prior to Wellington Airport's price setting event.<sup>7</sup>
15. The debt premium values for the 2020 to 2024 DPRYs are the same debt premium values that we previously determined for AIAL and CIAL from the following sources:
  - 15.1 The debt premium value for the 2020 DPRY was estimated in the *Cost of capital determination for disclosure year 2020 for Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2019] NZCC 8 (31 July 2019)*.<sup>8</sup>
  - 15.2 The debt premium value for the 2021 DPRY was estimated in the *Cost of capital determination for disclosure year 2021 for Transpower, gas pipeline*

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<sup>6</sup> If we were estimating a five-year risk-free rate, for example, we interpolate between the two closest bonds surrounding a 5-year remaining term. This requires taking the yields of the bonds with a remaining term immediately before and after 5 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.

<sup>7</sup> The period this WACC is estimated for starts on 1 January 2024. In this case, the current debt premium reference year is DPRY 2024. (The debt premium for DPRY 2024 for airports is calculated using data from 1 July 2022 to 30 June 2023).

<sup>8</sup> [Cost of capital determination for disclosure 2020 for Transpower, gas pipeline businesses and supplier of specified airport services \(with a June year-end\) \[2019\] NZCC 8 \(31 July 2019\)](#).

*businesses and suppliers of specified airport services (with a June year-end) [2020] NZCC 15 (31 July 2020).*<sup>9</sup>

- 15.3 The debt premium value for the 2022 DPRY was estimated in the *Cost of capital determination for disclosure year 2022 for information disclosure regulation for Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end) [2021] NZCC 10 (2 August 2021).*<sup>10</sup>
- 15.4 The debt premium value for the 2023 DPRY was estimated in the *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 (2 August 2022).*<sup>11</sup>
- 15.5 The debt premium value for the 2024 DPRY was estimated in the *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 August 2023).*<sup>12</sup>

**Table 3: Average debt premium for Wellington Airport (%)**

	DPRY 2020	DPRY 2021	DPRY 2022	DPRY 2023	DPRY 2024	Average
Debt premium	1.30	1.30	1.10	1.00	1.20	1.18

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

16. The cost of capital IMs for airport services (including for Wellington Airport) reflect that both the risk-free rate and the debt premium on bonds change over time.<sup>13</sup> Figure 1 shows, as at 1 January 2024, changes over time in:

<sup>9</sup> [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 \(31 July 2020\).](#)

<sup>10</sup> [Cost of capital determination for disclosure year 2022 for information disclosure regulation for Transpower, gas pipeline businesses and suppliers of specified airport services \(with a June year-end\) \[2021\] NZCC 10 \(2 August 2021\).](#)

<sup>11</sup> [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 \(2 August 2022\).](#)

<sup>12</sup> 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 August 2023).

<sup>13</sup> Airport Services Input Methodologies (IM Review 2023) Amendment Determination (13 December 2023), clauses 5.3 and 5.4



16.1 The five-year risk-free rate; and

16.2 The estimated debt premium on bonds rated A- with a remaining term to maturity of five years.

**Figure 1: Changes in the risk-free rate and estimated debt premium over time**

