FACT SHEET

Aurizon Network's 2017 Draft Access Undertaking: Weighted Average Cost of Capital (WACC)

The QCA has assessed Aurizon Network's 2017 Draft Access Undertaking (2017 DAU) and considers it appropriate to approve a WACC of 5.7% for the UT5 pricing period.

Assessing Aurizon Network's WACC

Aurizon Network proposed a nominal post-tax WACC of 6.78% in its 2017 DAU. Aurizon Network revised this to 7.03% in its March 2018 submission.

The QCA has assessed Aurizon Network's proposed WACC, employing both a bottom-up assessment of individual WACC parameters and an assessment of the overall appropriateness of the resulting WACC, having regard to the statutory assessment criteria in the QCA Act.

The QCA's decision has, amongst other things, taken into consideration:

- a bottom-up assessment of individual WACC parameters (estimated at 5.45%);
- the risk of Aurizon Network's legitimate business interests not being satisfied, arising from estimating the WACC using a bottom-up assessment for the proposed averaging period;
- the asymmetric consequences of setting a WACC that is not commensurate with Aurizon Network's commercial and regulatory risks; and
- uncertainty inherent in estimating a WACC for the provision of access to the CQCN.

The key consideration is that the overall WACC is appropriate to approve.

QCA decision

The QCA's decision to apply a WACC of 5.7% has also been made having regard to Aurizon Network's incentives to invest, maintain and operate the CQCN in a manner sought by its customers.

The QCA recognises that mechanistically applying bottom-up assessment of individual WACC parameters will not necessarily ensure an appropriate overall WACC for Aurizon Network.

The QCA has not bound itself to previous market parameter decisions.

In arriving at a WACC of 5.7%, the QCA has exercised judgement with reference to a bottom-up assessment of individual WACC parameters and has given consideration to approaches adopted by other Australian regulators—the use of a 10-year bond to estimate the risk-free rate; and the use of independent third party data to estimate the debt risk premium.

Comparison with other regulatory decisions

While lower than Aurizon Network's proposal, the QCA's WACC decision is similar to, and in many cases higher than, other regulatory decisions after normalising for timing differences associated with the averaging period (see figure below).

Further information

The QCA's decision on Aurizon Network's 2017 DAU, along with all stakeholder submissions and other relevant materials can be accessed at www.qca.org.au

Normalised WACC comparison of relevant regulatory decisions on infrastructure networks in Australia