

WEIGHTED AVERAGE COST OF CAPITAL:
UW001637 - QCA CONSULTANCY SERVICES

ACKNOWLEDGEMENT

Sequana acknowledges the Traditional Owners of Country throughout Australia and pays respect to and recognises the contribution from their Elders past and present.



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Issue	Author	Reviewed	Reviewed	Approved	Signature
1	Sebastian Vanderzeil	Matt Bradbury			

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1 EXECUTIVE SUMMARY

This paper sets out the basis for Unitywater’s proposed weighted average cost of capital (WACC) for the period 1 July 2026 to 30 June 2030, in support of the Queensland Competition Authority’s (QCA) Urban water price monitoring 2026–30 investigation.

The WACC has been estimated in accordance with the QCA’s Rate of Return Review (Version 4, September 2024¹), using the QCA’s preferred nominal, post-tax (Officer WACC3) framework.

The proposed WACC has been estimated using the QCA’s benchmark methodology, rather than through optimisation of individual parameters. Unitywater’s approach applies standard regulatory assumptions and ensures internal consistency across parameters, consistent with the QCA’s Rate of Return framework. Where discretion exists, parameter values reflect established benchmark settings for regulated water utilities. The resulting WACC represents an estimate of the long-term cost of capital for a benchmark efficient water utility for the purposes of the urban water price monitoring investigation.

In particular:

- a 40-business-day averaging period has been adopted for the risk-free rate
- an asset beta of 0.40 and corresponding equity beta of 0.82 have been adopted consistent with the QCA’s methodology and recent determinations
- a market risk premium of 6.40 per cent has been applied in line with the recent QCA determination - *Gladstone Area Water Board price monitoring 2026–30: Water Security Assets – Final Report (April 2026)*
- a BBB benchmark credit rating and 10-year trailing average cost of debt have been used, consistent with the QCA’s debt methodology.

The estimated WACC for Unitywater is shown in Table 1.

¹ Version 4 of the QCA’s Rate of Return Review (September 2024) introduced a technical correction to the cost-of-debt extrapolation methodology following changes to publicly available data from the Reserve Bank of Australia. This update resulted in the release of an updated workbook (Cost of Debt Estimation, 2024) implementing the revised calculation. The cost-of-debt estimate in this report has been calculated using the latest version of that workbook (July 2025). All other elements of the WACC framework remain unchanged.



TABLE 1 ESTIMATED WACC FOR UNITYWATER

PARAMETER	QCA REGULATORY WACC
Averaging period end date	7-May-26
Risk-free rate	5.04%
Market risk premium	6.40%
Asset beta	0.40
Equity beta	0.82
Cost of equity	10.29%
Credit rating	BBB
Cost of debt	5.04%
Capital structure	60%
Gamma	0.484
Nominal post-tax WACC (Officer WACC3)	7.14%

The proposed WACC represents an estimate of the long-run cost of capital for a benchmark efficient water utility, consistent with the QCA's methodology.

2 PURPOSE OF THIS PAPER

The purpose of this paper is to set out the basis for Unitywater's proposed WACC for the period 1 July 2026 to 30 June 2030, in support of the QCA Urban water price monitoring 2026–30 investigation.

The Queensland Government has directed the QCA to monitor Unitywater's monopoly business activities. While the price monitoring regime is informative rather than determinative, it is intended to support transparency and accountability in Unitywater's price-setting processes.

Consistent with the scope of the QCA's review, this paper focuses on the estimation of the WACC and its key components, including the cost of equity and cost of debt. These parameters are central to the assessment of proposed prices, revenues, and the return on assets over the monitoring period.

The WACC has been estimated using the QCA's benchmark methodology. Individual parameters have not been optimised; instead, standard regulatory assumptions have been applied, with parameter values selected to ensure internal consistency and alignment with the QCA's Rate of Return framework. This approach reflects the objective of estimating the cost of capital for a benchmark efficient water utility operating under a stable regulatory environment.

This paper sets out the methodology, assumptions and parameter estimates used to derive the WACC, and is intended to support assessment by the QCA and stakeholders as part of the price monitoring process.



3 QUEENSLAND COMPETITION AUTHORITY GUIDANCE ON WACC

The QCA's *Rate of Return Review (Version 4 – September 2024)* sets out the principles, methods, and indicative parameter values for determining the rate of return for regulated entities. The Review emphasises assessment of the overall WACC having regard to the entity's risk profile, regulatory framework, and relevant benchmark assumptions.

Consistent with this framework, this paper applies the QCA's benchmark methodology to estimate the WACC, rather than optimising individual parameters. This is achieved by:

- applying the QCA's preferred methods for each WACC component
- adopting standard benchmark parameter values for regulated water utilities, and
- ensuring internal consistency across assumptions (for example, between gearing, credit rating, and beta).

Where discretion is available, parameter values have been selected on a consistent and evidence-based basis, in line with the QCA's framework.

3.1 FORM OF THE WACC

The WACC is estimated using a nominal, post-tax WACC (Officer WACC3). This is the QCA's preferred form of WACC and is consistent with Australian regulatory practice. Under this framework:

- the cost of equity is estimated on a post-company-tax basis,
- the cost of debt is estimated on a pre-tax basis, and
- company tax and the value of imputation credits (gamma) are treated explicitly in the cash-flow model rather than embedded in the WACC.

4 APPROACH AND WACC METHODOLOGY

A summary of the WACC parameters and methods is shown in Table 2.

TABLE 2 SUMMARY OF WACC PARAMETERS AND METHODS

PARAMETER	METHOD
Form of WACC	Nominal, post-tax WACC (Officer WACC3)
Gearing	Adopt stated regulatory benchmark as starting point; depart only with persuasive evidence
Cost of debt approach	Benchmark trailing average debt management strategy
Credit rating	Assess entity business and financial risk, regulatory precedent, and comparators



Trailing average characteristics	Simple (unweighted) 10-year trailing average applied to entire cost of debt, with annual refinancing
Debt-raising costs	Allowance of 10 basis points per annum
Cost of equity model	Sharpe-Lintner Capital Asset Pricing Model
Risk-free rate	10-year Commonwealth Government Securities yield, averaged over nominated 20–60 business-day period
Beta	Review recent regulatory decisions for comparable water utilities; test against QCA reference points
Market risk premium	Ibbotson method, with parameter value informed by recent QCA application of that methodology
Gamma	Apply a value of 0.484, which is the product of a value of 0.88 for the distribution rate based on the average distribution rate of relevant top fifty companies on the ASX by market capitalisation, and a utilisation rate of 0.55 based on the equity ownership of Australian listed companies. Periodically update this based on current statistical evidence

Source: QCA, Rate of Return Review, Final Report, Version 4, September 2024

5 ESTIMATION OF WACC PARAMETERS

5.1 FORM OF WACC

QCA requires the Officer WACC3 or ‘vanilla’ form of the discount rate. This approach defines cash flows and the discount rate in nominal, post-tax terms and modifies the cash flows, rather than the discount rate, for the tax deductibility of interest payments and the value of dividend imputation credits.

5.2 CAPITAL STRUCTURE AND GEARING

Gearing for a regulated entity is likely to be stable over time—regulated entities tend to have stable cash flows, because of factors such as features of the regulatory framework (for example, revenue caps) and low demand elasticity.

The gearing (ratio of debt to equity) for Unitywater reflects the gearing approved for similar entities. The table below provided by the QCA in its recent Rate of Return Review shows the debt gearing approved for water entities in other jurisdictions (ESG, ICRC and IPART) as shown in Table 3.

TABLE 3: REGULATORY GEARING FROM RECENT DECISION

REGULATOR	INDUSTRY	DEBT GEARING FROM A RECENT DECISION
ESC	Water	60%
ICRC	Water	60%
IPART	Water	60%

Source: QCA, Rate of Return Review, Final Report, Version 4, September 2024



A gearing of 60% debt/40% equity has been adopted.

5.3 COST OF DEBT

The QCA advises that the cost of debt should be calculated as:

- cost of debt based on credit rating
- additional cost of debt raising.

5.3.1 CREDIT RATING

While Queensland Treasury Corporation's (QTC) internal assessment implies a BBB+ stand-alone credit profile for Unitywater stated in Unitywater's 2024-25 Annual Report², the QCA's assumption of a BBB benchmark credit rating for WACC purposes reflects standard regulatory practice.

The regulatory credit rating is a benchmark parameter used to estimate a reasonable cost of debt for an efficient entity, rather than a statement about actual borrowing arrangements, and is consistent with previous QCA determinations and broader Australian regulatory practice as shown in Table 4.

TABLE 4: CREDIT RATINGS USED BY OTHER AUSTRALIAN REGULATORS

REGULATOR	CREDIT RATING
ESC	RBA 10-year BBB rated corporate bond yield
IPART	RBA 10-year BBB rated corporate bond yield
ESCOSA	RBA 10-year BBB rated corporate bond yield
OTTER	RBA 10-year BBB rated corporate bond yield
ICRC	Average of Bloomberg and RBA 10-year BBB corporate bond yields

Source: QCA, Rate of Return Review, Final Report, Version 4, September 2024

A BBB credit rating has been adopted for this review.

5.3.2 TRAILING AVERAGE COST OF DEBT

The QCA states that the entire cost of debt (risk-free rate and debt risk premium all-in-one) should be calculated using a trailing average approach for 10 years (linearly extrapolated to 10 years and annualised) and assumed refinancing to be undertaken annually.

QCA consider it appropriate to apply the following trailing average approach to determine the cost of debt allowance:

- A 10-year trailing average approach is used to determine the entire cost of debt (that is, risk-free rate and debt risk premium).
- The averaging period is the 10 years preceding the year in which the rate applies.
- Each year, the 10-year trailing average cost of debt is updated by rolling forward the data series by one year, such that:

² Unitywater Annual Report 2024-25, pg. 74



- the cost of debt for the roll-forward year reflects RBA's non-financial corporate [credit rating] bonds – yield – 10-year target tenor – RBA statistical table F3, linearly extrapolated to 10 years and annualised
- the annual update will be a simple average of the monthly observations from April to March in the preceding year to which the rate applies
- the trailing average is a simple average of 10 years of cost of debt.

The cost of debt based on the BBB-rated bonds has been calculated using the trailing average approach provided in the *QCA Cost of Debt Estimation Workbook (July 2025)* and the result are shown in Table 5.

TABLE 5 TRAILING AVERAGE COST OF DEBT

YEAR (APRIL TO MARCH)	YEAR	RBA NON-FINANCIAL CORPORATE [CREDIT RATING] BONDS – YIELD – 10-YEAR TARGET TENOR – RBA STATISTICAL TABLE F3. RBA DATA LINEARLY EXTRAPOLATED TO 10 YEARS AND ANNUALISED
2016-17	1	4.76%
2017-18	2	4.57%
2018-19	3	4.76%
2019-20	4	3.45%
2020-21	5	3.00%
2021-22	6	3.85%
2022-23	7	6.99%
2023-24	8	6.56%
2024-25	9	5.82%
2025-26	10	5.60%
Average		4.94%

Source: QCA Cost of Debt Estimation Workbook (July 2025), Reserve Bank of Australia – F3 and F16

The trailing average component of the cost of debt is calculated as 4.94%.

5.3.3 DEBT-RAISING COSTS

The QCA provides an allowance of ten basis points (0.1%) for the transaction costs associated with raising debt for the trailing average approach.

5.3.4 COST OF DEBT SUMMARY

The cost of debt (trailing average and debt raising costs) is proposed to be 5.04%.

5.4 COST OF EQUITY

The cost of equity is calculated using the:

- Risk free rate
- Equity beta
- Market risk premium.



The cost of equity is estimated using the Sharpe-Lintner Capital Asset Pricing Model (CAPM), which relates expected equity returns to the risk-free rate and the systematic risk of the benchmark efficient entity, as measured by equity beta.

5.4.1 RISK-FREE RATE

The risk-free rate represents the rate of return that an investor would expect to receive on an asset with zero default risk. It compensates investors for the time value of money and forms a core input to the estimation of the cost of equity.

In estimating the risk-free rate, it is necessary to determine an appropriate term to maturity, proxy asset, data source, and estimation method, including the averaging period. Consistent with established regulatory practice, the risk-free rate is estimated using observable market data for government securities, which are widely regarded as free of default risk.

The risk-free rate has been estimated using yields on 10-year Australian Government nominal bonds. A 10-year term to maturity has been adopted to align with the assumed long-term investment horizon of the benchmark efficient entity and to ensure consistency with the duration of cash flows used in the estimation of the WACC.

The risk-free rate has been calculated as the simple average of daily yields on 10-year Australian Government nominal bonds over a 40-business-day averaging period, ending as close as reasonably possible to the commencement of the regulatory period.

The use of a 40-day averaging period is consistent with the QCA's stated position that an averaging period between 20 and 60 business days is appropriate. It represents a balanced approach that mitigates the influence of short-term market volatility while remaining closely aligned with prevailing market conditions at the start of the regulatory period.

TABLE 6 RISK-FREE RATE CALCULATION – 40 BUSINESS DAY AVERAGING PERIOD

DATES	YIELDS ON AUSTRALIAN GOVERNMENT BONDS, 10 YEARS MATURITY	EFFECTIVE ANNUAL RATE (EAR)
11/03/2026	4.85	4.91%
12/03/2026	4.95	5.01%
13/03/2026	4.95	5.01%
16/03/2026	5.00	5.06%
17/03/2026	4.94	5.00%
18/03/2026	4.89	4.95%
19/03/2026	4.97	5.03%
20/03/2026	5.02	5.09%
23/03/2026	5.12	5.18%
24/03/2026	5.04	5.11%
25/03/2026	4.95	5.02%
26/03/2026	5.01	5.07%
27/03/2026	5.09	5.16%



30/03/2026	5.07	5.13%
31/03/2026	4.97	5.03%
1/04/2026	4.91	4.97%
2/04/2026	5.04	5.10%
7/04/2026	4.99	5.05%
8/04/2026	4.86	4.92%
9/04/2026	4.91	4.97%
10/04/2026	4.97	5.03%
13/04/2026	5.02	5.08%
14/04/2026	4.95	5.01%
15/04/2026	4.93	4.99%
16/04/2026	4.96	5.02%
17/04/2026	5.00	5.06%
20/04/2026	4.94	5.00%
21/04/2026	4.91	4.97%
22/04/2026	4.96	5.02%
23/04/2026	5.00	5.06%
24/04/2026	4.98	5.04%
27/04/2026	4.99	5.05%
28/04/2026	5.03	5.09%
29/04/2026	5.00	5.06%
30/04/2026	5.07	5.13%
1/05/2026	5.02	5.09%
4/05/2026	4.98	5.05%
5/05/2026	4.97	5.04%
6/05/2026	4.96	5.02%
7/05/2026	4.93	4.99%
Risk free rate - average		5.04%

Source: QCA, Rate of Return Review, Final Report, Version 4, September 2024, Reserve Bank of Australia Data - F2

The proposed risk-free rate, based on the chosen 40-business day period, is 5.04%.

5.4.2 EQUITY BETA

Equity beta measures the sensitivity of an entity's equity returns to movements in the overall market and reflects the degree of systematic risk borne by equity investors. In a regulatory context, the equity beta is intended to represent the systematic risk of a benchmark efficient entity providing regulated water services over the long term.

Asset beta represents the underlying systematic risk of the entity's regulated activities before the effects of financial leverage are considered. It reflects the exposure of the entity's operating cash flows to economy-wide risks and is therefore independent of the entity's financing structure. Asset beta is commonly derived by de-leveraging observed equity betas using assumptions regarding gearing, taxation and provides a useful reference



point for assessing the reasonableness and consistency of equity beta estimates across firms with different capital structures.

5.4.2.1 Recent QCA equity and asset beta decisions

The equity and asset beta for the recent QCA price reviews is shown in Table 7

TABLE 7 QCA EQUITY AND ASSET BETA DECISIONS

ENTITY / PERIOD	QCA DECISION	EQUITY BETA	ASSET BETA
Seqwater - bulk water prices 2022–26	March 2022	0.766	0.4
Sunwater – Rural irrigation price review 2025–29	January 2025	0.725	0.393
Gladstone Area Water Board- price monitoring 2026– 30: Water security assets	May 2026	0.66	0.39

Source: QCA, Seqwater Bulk Water Price Review 2022–26, Final report, March 2022; QCA, Rural irrigation price review 2025–29, Sunwater, Final Report, January 2025; QCA, Gladstone Area Water Board price monitoring 2026– 30: Water security assets, Final Report, April 2026

Recent QCA decisions demonstrate that asset betas for water businesses remain tightly clustered in a relatively narrow range (approximately 0.39–0.40), reflecting the stable and low systematic risk profile of regulated water utilities. Differences in observed equity betas are primarily a function of gearing assumptions rather than underlying asset risk.

While some recent comparator evidence suggests slightly lower implied asset betas, adoption of an asset beta of 0.40 maintains consistency with the QCA's benchmark framework and provides parameter stability across regulatory periods.

5.4.2.2 NSW IPART equity beta for water businesses

The equity beta currently provided by the NSW Independent Pricing and Regulation Tribunal's (IPART) WACC calculation spreadsheet which provides a release financial market updates biannually in February and August is shown in Table 8.

TABLE 8 IPART WATER EQUITY BETA (AUGUST 2025)

	CURRENT MARKET DATA	LONG TERM AVERAGES
Equity beta	0.70	0.70

Source: IPART WACC Calculator – August 2025

5.4.2.3 Systemic risk update

The asset beta measures the underlying systematic risk of an entity's regulated activities, independent of its financing structure. The equity beta reflects this asset risk as well as the additional financial risk borne by equity holders arising from leverage.

While broader market conditions have shifted materially over recent years, changes in the systematic risk of a regulated water business cannot be inferred from macroeconomic trends alone. Instead, systematic risk is



appropriately assessed through observed market behaviour, typically by reference to comparable publicly listed companies.

Comparator companies and benchmarking approach

Ideally, in the Australian context, the assessment of systematic risk would draw on a set of comparable firms listed on the Australian Securities Exchange with similar operational characteristics and risk profiles to the regulated entity. In practice, however, there are very few domestically listed companies that provide services comparable to Unitywater

Consistent with QCA requirements, international comparator companies have therefore been used to inform the assessment of systematic risk.

For the purposes of this analysis, the following four publicly listed US water utilities have been selected as comparators. These companies are commonly used in regulatory analyses and have been screened to ensure adequate market liquidity and scale, including:

- a minimum average daily trading volume of 100,000 shares (three-month average); and
- a current market capitalisation exceeding AUD 100 million.

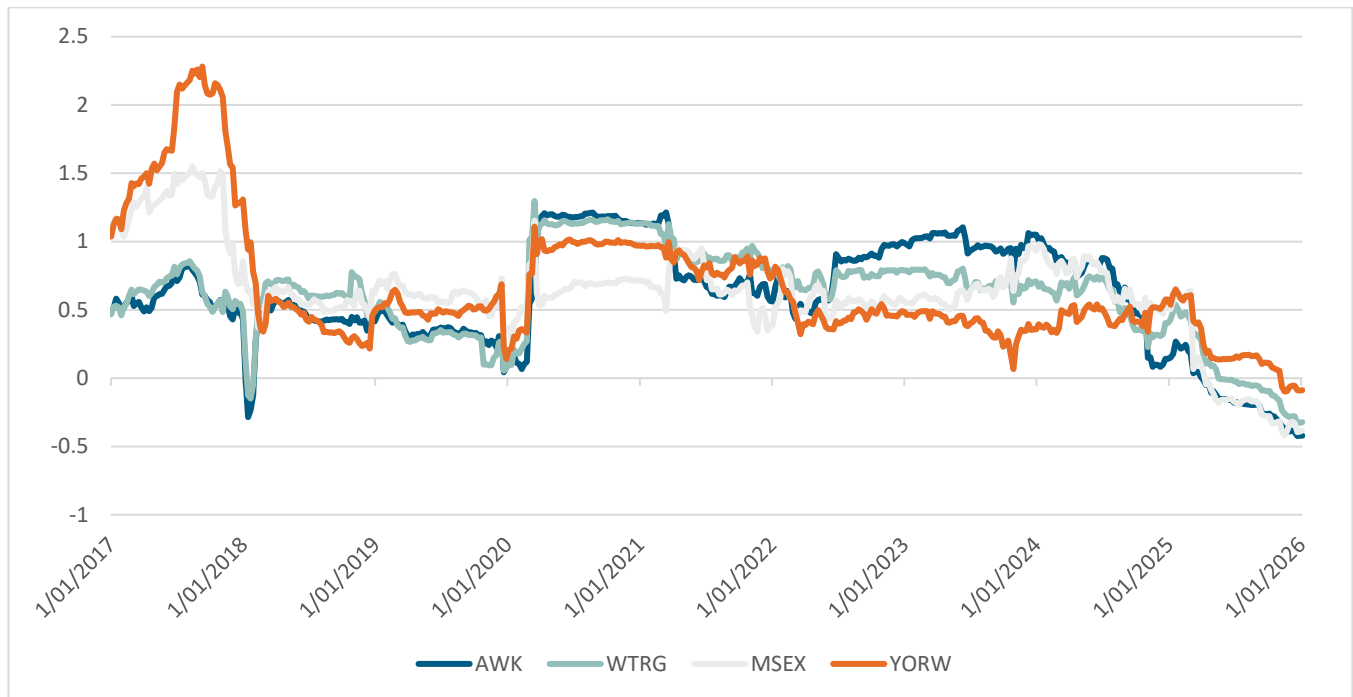
TABLE 9 COMPARATOR COMPANIES

WATER TICKER	COMPANY NAME
AWK	American Water Works Company, Inc.
WTRG	Essential Utilities, Inc.
MSEX	Middlesex Water Company
YORW	York Water Co

The systematic risk of the benchmark efficient entity has been assessed by analysing rolling equity beta estimates for these comparator companies and interpreting the results considering regulatory precedent and longer-term averages.



FIGURE 1 COMPARABLE WATER COMPANIES – ROLLING 52-WEEK BETAS



Source: Yahoo Finance

Figure 1 presents rolling 52-week equity beta estimates for the selected comparator water utilities.

Over most of the sample period (2017–2022), rolling equity beta estimates generally fall within a range of approximately 0.5 to 0.9, with central tendencies broadly consistent with observed regulatory estimates for water utilities. A temporary increase is observed in 2020, with some estimates exceeding 1.0, reflecting heightened market volatility during the COVID-19 period rather than a structural change in risk.

From late 2023, rolling beta estimates decline materially, with some observations approaching zero or becoming negative in 2024–25. These outcomes coincide with a period in which broader market returns were driven by concentrated growth sectors (technology), while regulated water utilities exhibited falling returns during this period.

While recent rolling estimates are low, they represent a limited subset of observations. Over the full estimation period, the median rolling equity beta remains positive, and the interquartile range continues to span values broadly consistent with regulatory benchmarks in the range of approximately 0.6 to 0.85. Given the recent negative values, the implied equity betas should be treated with caution.

Implied asset beta analysis

Implied asset betas have been derived for the comparator companies by de-leveraging observed equity beta estimates using the standard Brealey–Myers formulation, consistent with QCA precedent. Asset beta represents the underlying systematic risk of the regulated activities, abstracting from the effects of financial leverage, and therefore provides a useful cross-check on the reasonableness of the selected equity beta.

The de-leveraging has been undertaken using:

- comparator-specific gearing levels derived from publicly available balance sheet data;
- a corporate tax rate of 21 per cent, consistent with US corporate tax settings; and



- a debt beta of 0.12, consistent with the QCA's Rate of Return Review assumptions.

Table 10 presents the implied asset beta estimates for each comparator.

TABLE 10 IMPLIED ASSET BETA ESTIMATES FOR EACH COMPARATOR

	AVERAGE EQUITY BETA	REGULATORY GEARING	CORPORATE TAX RATE	ASSET BETA (UNLEVERED)
AWK	0.597	58%	21%	0.29
WTRG	0.610	55%	21%	0.31
MSEX	0.627	46%	21%	0.37
YORW	0.657	47%	21%	0.39
Average	0.623	51%	21%	0.34

Source: Yahoo Finance

Regulatory gearing is debt / (debt + equity)

Across the comparator set, average equity betas range from 0.60 to 0.66, while gearing levels range from approximately 46 per cent to 58 per cent. After adjusting for leverage, the resulting implied asset betas fall within a relatively narrow range of 0.29 to 0.39, with an average implied asset beta of approximately 0.34.

The dispersion in implied asset betas reflects differences in capital structure across the comparator firms rather than material differences in underlying business risk. Larger regulated utilities with higher gearing exhibit lower implied asset betas, while smaller utilities with more moderate gearing exhibit slightly higher implied asset betas. Importantly, all implied asset betas remain well below 0.4, indicating a consistently low level of underlying systematic risk across the comparator set.

The average implied asset beta of 0.34 is broadly consistent with Australian regulatory precedent for water utilities, including the asset beta of 0.40 adopted for Seqwater in the 2022–26 bulk water price determination.

Re-levering the average implied asset beta of 0.34 using the Brealey–Myers formula, benchmark capital structure of 60 per cent debt and 40 per cent equity, together with a debt beta of 0.12, results in a calculated equity beta of approximately 0.67.

5.4.2.3.1 Selected equity and asset beta

The calculation of Unitywater's equity and asset beta has considered both Australian regulatory precedent and comparator market evidence.

Recent QCA decisions demonstrate that asset betas for regulated water businesses remain tightly clustered around 0.40, reflecting a stable and low level of underlying systematic risk. Differences in observed equity betas across determinations are primarily driven by gearing assumptions rather than material changes in assessed asset risk. In particular, the Gladstone Area Water Board final decision adopts a slightly lower asset beta (0.39) with a lower gearing assumption (50 per cent debt), resulting in an equity beta of 0.66. This illustrates that equity beta outcomes are sensitive to capital structure settings rather than changes in business risk.

Comparator analysis supports this conclusion. The average implied asset beta of approximately 0.34 confirms that underlying systematic risk for regulated water utilities remains low. While this estimate is marginally below recent Australian precedent, it does not indicate a structural shift in risk. Rather, it reflects differences in market conditions and capital structures across firms.

Consistent with the QCA's framework, greater weight has been placed on Australian regulatory determinations. An asset beta of 0.40 is therefore adopted.



The Brealey–Myers levering formulation with an explicit debt beta is applied to transform asset beta into equity beta. Using a benchmark gearing assumption of 60 per cent debt and a debt beta of 0.12 results in a corresponding equity beta of approximately 0.82. As tax and imputation effects are modelled separately under the Officer WACC3 framework, no imputation-adjusted tax term is applied within the beta transformation.

This approach ensures internal consistency with recent QCA methodology while maintaining parameter stability over time.

TABLE 11 CHOSEN EQUITY AND ASSET BETA ASSUMPTIONS

PARAMETER	VALUE	BASIS
Asset beta	0.4	Consistent with regulatory determinations for water utilities (including Seqwater) by QCA
Debt beta	0.12	QCA Rate of Return Review assumption
Benchmark gearing (debt)	60%	QCA-consistent gearing
Adopted equity beta	0.82	Brealey–Myers levering of asset beta

5.4.3 MARKET RISK PREMIUM

The market risk premium (MRP) represents the additional return that an equity investor requires for investing in a diversified portfolio of risky assets relative to a risk-free asset.

5.4.3.1 Ibbotson method

The QCA's Rate of Return Review states that the market risk premium (MRP) should be estimated using the Ibbotson method, which derives the MRP from long-run historical excess returns of the market portfolio over the risk-free rate. This approach is intended to reflect long-term market expectations and to minimise the influence of short-term volatility.

Consistent with this framework, the MRP is informed by the QCA's application of the Ibbotson methodology in recent regulatory determinations. Implementation of the Ibbotson approach requires specification of key inputs, including the historical sample period, index selection, averaging convention and alignment with the risk-free rate methodology. In practice, these inputs are applied using the QCA's established datasets and conventions.

Accordingly, the MRP has been determined by reference to recent QCA benchmark estimates, which reflect the application of the Ibbotson methodology using current data and consistent assumptions. This approach ensures alignment with the QCA's methodology and provides a stable and internally consistent estimate of the market risk premium.

5.4.3.2 Recent QCA determinations

The recent utility proposed MRPs and QCA decisions are provided in Table 12



TABLE 12 RECENT QCA MARKET RISK PREMIUM DECISIONS

ENTITY / PERIOD	QCA DECISION	UTILITY PROPOSED	QCA DECISION
Seqwater - bulk water prices 2022–26	March 2022	7.5%	6.5%
Sunwater – Rural irrigation price review 2025–29	January 2025	6.5%	6.5%
Gladstone Area Water Board- price monitoring 2026– 30: Water security assets	April 2026	6.66%	6.40%

Source: QCA, Seqwater Bulk Water Price Review 2022–26, Final report, March 2022; QCA, Gladstone Area Water Board price monitoring 2026– 30: Water security assets, Final Report, April 2026

In the Gladstone Area Water Board final decision (2026–30), the QCA adopted a market risk premium of 6.40 per cent. This reflects the QCA's application of the Ibbotson methodology using the most recent available data. The estimate remains within a narrow range around the long-standing mid-6 per cent benchmark.

Across recent determinations, the QCA has consistently applied the Ibbotson methodology to estimate the MRP, with resulting values generally within the mid-6 per cent range. Variation across decisions reflects updated data inputs and the application of the QCA's estimation framework.

Consistent with this approach, recent QCA determinations provide an appropriate benchmark for estimating the MRP. The adopted value reflects the most recent application of the QCA's methodology and ensures alignment with the QCA's current framework and data.

5.4.3.3 NSW IPART market risk premium for water businesses

IPART publishes semi-annual updates of current market data and long-term average market risk premium estimates through its WACC calculation spreadsheet. The August 2025 update indicates an MRP of 6.1 per cent based on current market data and 6.0 per cent based on long-term averages for regulated water businesses in Table 13.

TABLE 13 IPART WATER MARKET RISK PREMIUM (AUGUST 2025)

	CURRENT MARKET DATA	LONG TERM AVERAGES
Market Risk premium	6.1%	6.0%

While these values are lower than recent QCA determinations, they reflect IPART's specific estimation framework and dataset. The QCA has historically adopted a slightly higher long-run estimate based on its own application of the Ibbotson methodology and precedent-based approach.

5.4.3.4 Selected market risk premium

5.4.4 COST OF EQUITY SUMMARY

Having considered the QCA's estimation methodology and recent determinations, a market risk premium of 6.40 per cent has been adopted.



This value reflects the most recent application of the QCA's Ibbotson methodology, as applied in the Gladstone Area Water Board final decision, and incorporates updated historical data. It remains consistent with the QCA's established approach to estimating the MRP and the range of values observed in recent determinations.

The adopted value ensures alignment with the QCA's current methodology and provides a stable and internally consistent estimate of the market risk premium for the purposes of this analysis.

A summary of the cost of equity is shown in Table 14.

TABLE 14 COST OF EQUITY SUMMARY

PARAMETER	VALUES
Risk-free rate	5.04%
Market risk premium	6.40%
Asset beta	0.40
Equity beta	0.82
Cost of equity	10.29%



6 ESTIMATED WACC FOR UNITYWATER

The estimated WACC for Unitywater is shown in Table 15.

TABLE 15 ESTIMATED WACC FOR UNITYWATER

PARAMETER	QCA REGULATORY WACC
Averaging period end date	7-May-26
Risk-free rate	5.04%
Market risk premium	6.40%
Asset beta	0.40
Equity beta	0.82
Cost of equity	10.29%
Credit rating	BBB
Cost of debt	5.04%
Capital structure	60%
Gamma	0.484
Nominal post-tax WACC (Officer WACC3)	7.14%

CONTACT US

SYDNEY

Level 6, 201 Kent Street, Sydney NSW 2000

MELBOURNE

Level 31, 570 Bourke Street, Melbourne VIC 3000

BRISBANE

Level 7, 123 Eagle Street, Brisbane City QLD 4000

enquiry@sequana.co
sequana.co