

# Voice interconnection - WACC

Australian Competition and Consumer Commission

28 July 2025



**DRAFT INTERNAL NOTE**

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## **1. INTRODUCTION**

The ACCC requires a pre-tax weighted average cost of capital (WACC) to apply to the voice interconnection services decision. This decision encompasses three wholesale services that are provided by and acquired by Australian telecommunications operators. These are the mobile terminating access service (MTAS), fixed terminating access service (FTAS) and fixed originating access service (FOAS).

In this note we first discuss two WACC issues that were identified by the ACCC team:

- Whether a different WACC could be applied for fixed or mobile.
- Whether the approach to the cost of debt is influenced by the regulatory arrangements where no within period adjustments are possible.

We then go on to compare our draft WACC methodology with the ACCC's approach in the October 2020 MTAS decision.

## 2. WACC SUMMARY

The table below provides a summary of the WACC estimate for voice interconnection services as at 31<sup>st</sup> March 2025.

*Table 2.1: WACC summary – Voice interconnection – 31<sup>st</sup> March 2025*

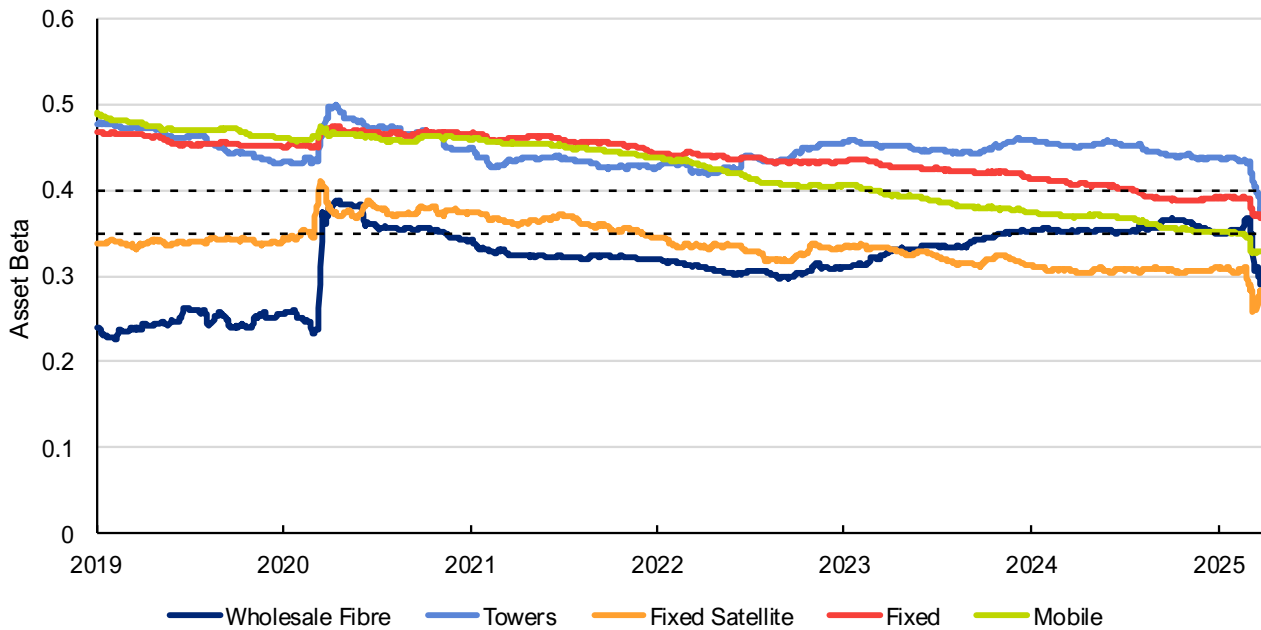
Parameter	Value
<b>Gearing</b>	35%
Risk-free rate	4.47%
Market risk premium	6.40%
Asset beta	0.40
Equity beta	0.62
<b>Cost of equity (post-tax nominal)</b>	<b>8.41%</b>
Credit rating	BBB
Debt yield	5.71%
Debt raising costs	0.10%
<b>Cost of debt (pre-tax nominal)</b>	<b>5.81%</b>
Tax rate	30%
Gamma	0.57
<b>Cost of equity (pre-tax nominal)</b>	<b>9.65%</b>
<b>Nominal pre-tax WACC</b>	<b>8.31%</b>

### Fixed versus mobile

It could be possible that the nature of mobile services varies from fixed line so that a separate beta estimate could be used and by extension a different WACC. Bloomberg classifies some telecommunication firms as wireline (fixed-line) and some wireless (mobile). As such, at first glance it appears we have constructed a comparator sample where it is possible to produce separate beta estimates. However, despite Bloomberg's classifications most firms provide telecommunications services across both technologies. For example, Deutsche Telekom is classified as wireless but owns significant fixed-line infrastructure and this is the case for several other comparators. It does not seem simple to establish separate 'pure-play' samples of wireline and wireless.

In the draft methodology report we also provided the rolling 5-year asset beta estimates as replicated below. While the fixed-line asset beta sits above the wireless asset beta this separation is rather recent, and the two samples' asset betas previously tracked very closely together. It is possible that this separation is temporary and that in the future the two samples will be indistinguishable.

Figure 2.1: Rolling 5-year weekly asset betas for the comparator groups, and the proposed asset beta range (figures refer to the average across the comparator group), 2019-present



## Cost of debt

We have recommended an on-the-day cost of debt estimation methodology for voice interconnection. This varies from the trailing average methodology we recommend for NBN. We set out the arguments for and against applying a trailing average methodology in the draft methodology report.

The regulation of voice interconnection services varies slightly from what is commonly found in other regulatory frameworks such as applied by the AER for energy networks. There is no mechanism for the rolling forward of the regulatory asset base and there are no within period adjustments. As such, the pre-tax WACC that is set at the beginning of the period is maintained for that period with no ability to adjust this with no post-period true-ups possible.

No possibility of debt indexation presents a significant methodology difficulty in implementing a trailing average approach at least in the way this has been typically implemented by regulators in Australia. It may be possible to use forward curves or some other method to establish an expectation of the cost of debt on a trailing average basis over the period. However, such methodologies are untested in the Australian regulatory context, and we have not set out to develop such an approach.

## Tax rate

We have calculated our pre-tax WACC by assuming a 30% tax rate as we have no other value to apply.

### 3. COMPARISON TO PREVIOUS DETERMINATION

The WACC was last considered by the ACCC for MTAS in October 2020.<sup>1</sup> The table below sets out the methodology that was applied.

Table 3.1: Summary of ACCC’s WACC methodology for MTAS in October 2020

Parameter	Methodology
<b>Risk-free rate</b>	The ACCC estimated the risk-free rate using the average yield on ten-year Commonwealth Government Securities averaged over the last twenty working days.
<b>Market risk premium</b>	Adopted 6.1% “consistent with recent ACCC regulatory decisions, as well as the Australian Energy Regulator’s (AER) most recent Rate of Return Instrument”. This explanation aligns with applying the historical excess returns (HER) methodology.
<b>Beta – Comparator sample</b>	The ACCC identified 25 comparators drawn from OECD countries. The ACCC applied the following filters: <ul style="list-style-type: none"> <li>• Market capitalisation greater than \$AUD 500 million.</li> <li>• Greater than 50% exposure to mobile markets in terms of revenue (as determined by Bloomberg BICS)</li> <li>• At least 5-years worth of data.</li> </ul>
<b>Beta - Estimation</b>	The ACCC estimated equity betas using the Bloomberg BETA function. The ACCC used weekly betas against the local total returns index for each equity. The ACCC used Brealey-Myers for de-levering.
<b>Gearing</b>	The average of the same comparator sample as for beta was used.
<b>Cost of debt</b>	Assumed a benchmark credit rating of A- with a term of ten years. A- estimated using Bloomberg data by placing 2/3 weight on Bloomberg’s 10-year A estimate and 1/3 on Bloomberg’s 10-year BBB estimate.  The A- rating was justified on the observation that comparable entities have a median rating of A/A-. The comparators chosen to consider credit rating were Telstra, Optus, Vodafone, CK Hutchinson, Singtel, Spark NZ.
<b>Debt issuance costs</b>	Debt issuance costs of 0.07% assumed.
<b>Tax rate</b>	30%
<b>Gamma</b>	A gamma of 0.585 aligning with the AER’s most recent Rate of Return Instrument was applied.

The ACCC’s fixed line services final access determination inquiry 2018 did not appear to contain a discussion of how WACC would be set for FTAS and FOAS.<sup>2</sup>

Relative to the MTAS decision our draft WACC methodology proposes the following material changes:

- A difference in the comparator selection methodology, which likely drives the materially lower beta estimate as outlined below.
- A difference in the benchmark credit rating. Our proposed comparator set points to a low credit rating in the BBB range rather than A- as adopted previously by the ACCC.
- Our draft WACC methodology proposes higher debt issuance costs than previously applied by the ACCC.

<sup>1</sup> ACCC (2020), [Public inquiry on the access determination for the Domestic Mobile Terminating Access Service](#).

<sup>2</sup> ACCC (2019), [Inquiry into final access determinations for fixed line services – Final Decision](#).

## Comparators

We observe that the comparator sample used by the ACCC previously does not apply the same filters and by extension leads to a different set of comparators. We also observe materially different beta estimates likely driven by differences in the comparator set. The equity beta used previously by the ACCC was 0.80 and with an asset beta of 0.50 this compares to our recommended asset beta of 0.40. Gearing is not materially different, 37% applied by the ACCC relative to 35% in our draft methodology.

The table below shows the ACCC's comparator sample and provides the reason why some of these comparators are not included in our sample. This includes eliminations because of the geographic filter, lack of sufficient telecommunications revenue and ownership by other comparators.

We observe that if we were to use this comparator sample but remove those indicated we obtain an asset beta of just 0.33 using five-year betas as of 31<sup>st</sup> March 2025.

*Table 3.2: Reason for exclusions relative to ACCC's previous MTAS sample*

Comparators	Inclusion in CEPA's sample
America Movil SAB DE C-SER L	Eliminated by geographic filter
AT&T Inc	Included
Cellcom Israel Ltd	Eliminated by geographic filter
Deutsche Telekom AG	Included
Elisa Oyj	Included
Empresa Nacional De Telecom	Eliminated by geographic filter
KDDI Corp	Eliminated low telecoms revenue
Orange Belgium	Eliminated - Owned by Orange SA
Orange SA	Included
Rogers Communications Inc-B	Included
Shenandoah Telecommunications Co	Included
Sprint Corp	Eliminated - Merged with T-Mobile
Tele2 AB-B SHS	Included
Telefonica Deutschland Holding AG	Eliminated - Owned by Telefonica SA
Telefonica SA	Included
Telekom Austria AG	Included
Telenor ASA	Included
Telia Co AB	Included
Telstra Corp Ltd	Included
Telus Corp	Included
T-Mobile US Inc	Eliminated - Majority owned by DTE
Turkcell Iletisim Hizmet AS	Included
US Cellular Corp	Eliminated - Owned by TDS
Verizon Communications Inc	Included
Vodafone Group Plc	Included

## Credit rating

We have chosen to apply a credit rating of BBB rather than the A- credit rating applied previously by the ACCC. This is in line with the evidence from our comparator sample. The ACCC chose to place most emphasis on Australian comparators or their parent entities. This produces a slightly higher average credit rating. An argument could be made that Australian evidence for the credit rating is most relevant. On the other hand, the gearing level has been set using the overall comparator sample and this might influence the credit rating. Furthermore, if beta

and gearing can be informed by international comparator it may appear inconsistent to also use this evidence to set the benchmark credit rating.

### **Debt issuance costs**

The ACCC has previously applied debt issuance costs of 0.07%. This is lower than the 0.1% we have elected to apply and is also lower than the regulatory precedent we examined for the draft report where the lowest was AER's 0.0827%. We observe there were three regulators that did not place their estimate primarily on regulatory precedent, these were AER (0.0827%), ERA (0.165%) and QCA (0.10%). For debt issuance costs we have chosen to align with regulatory precedent, noting that more work examining the various breakdowns could be undertaken.



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