

26 September 2025

[Redacted]

Via email: [Redacted]

Dear [Redacted],

Sydney Airport comments on the ACCC's draft WACC methodology

We refer to your emails of 21 August and 25 August 2025 regarding the ACCC's consultation on the draft general weighted average cost of capital (**WACC**) methodology prepared by CEPA Australia (**CEPA**).

Thank you for the opportunity to comment on the draft WACC methodology, which has been released with the ACCC's draft report, 'Public inquiry on the access determinations for the voice interconnection services' (August 2025).

Distinct nature of the aeronautical services sector

In your email of 21 August 2025, you stated that the ACCC's aim is to 'develop a general methodology that informs its consideration of WACC across regulatory decision-making processes' but noted that, in making particular regulatory decisions, 'the ACCC would continue to consult on its proposed approach to estimating the WACC and take into account the prevailing circumstances and factors relevant to those decisions.' Sydney Airport welcomes this approach given the aeronautical services sector is different from other monitored and regulated sectors in Australia in several material respects.

Of greatest importance, the degree of exposure to volume risk in the aeronautical services sector is fundamentally different from other monitored and regulated sectors. This reflects the discretionary nature of travel for many types of passengers, driving the magnitude and systematic character of demand risks. This is starkly illustrated by the general cessation of air travel during the Covid-19 pandemic, while at the same time demand for NBN Co's services soared.¹

Sector-specific WACC parameters – beta

When considering sector-specific WACC parameters, CEPA notes in respect of beta that the 'relevance of comparators is a clear area of judgment, and this will need to be informed by the circumstances of the sector and decision being made.'² Sydney Airport agrees with this position and notes that a number of the filters CEPA applies to the NBN SAU and voice interconnection services would not be appropriate to apply in respect of aeronautical services.

In particular, CEPA proposes the filtering of beta comparators by reference to 'geographic filters', including only companies that earn the majority of their revenues and are domiciled in developed economies (the "BICS developed economies filter").³ Sydney Airport submits that this approach, and the rationale that CEPA provides for it, are not applicable to the aeronautical services context.

¹ See for example: ACCC Media Release, 'NBN speeds recover after COVID-19 demand' (21 May 2020).

² CEPA, 'WACC Methodology – Draft Report' (1 August 2025), p 33.

³ CEPA, 'WACC Methodology – Draft Report' (1 August 2025), p 44.

Sydney Airport agrees with CEPA's observations that '[c]onceptually, betas do not require an adjustment for country-specific risk premia, as in the CAPM the market beta is 1 by definition' and that 'betas for foreign companies estimated against foreign markets can be relevant as long as these cross-country differences are considered carefully within the comparator selection process and relative risk assessment'.⁴

In the context of a geographic filter relevant to the telecommunications sector, CEPA cites four key channels through which it contends that relative risk differentials may impact estimated betas:⁵

- demand composition;
- growth options and investment;
- regulatory arrangements and risk sharing; and
- composition of the local market index.

Sydney Airport submits that the contentions made by CEPA in relation to these four key channels do not provide a basis to apply a geographic filter when forming a sample of beta comparators for aeronautical services.

Demand composition – CEPA reasons that companies operating networks in emerging regions with different levels of aggregate income may face a different composition (and elasticity) of demand, which may impact the exposure to systematic risk. CEPA suggests that networks in emerging regions have a significantly higher number of pre-paid than post-paid mobile customers, and that pre-paid customers may have a higher price elasticity of demand and greater contractual flexibility to reduce consumption in the event of economic downturn. The distinction between pre-paid and post-paid subscribers in the telecommunications sector is not relevant to the aeronautical services sector.

Sydney Airport submits that airports in both developed and emerging markets alike do not enjoy protection from economic downturns, so that effectively all passengers have the 'pre-paid' characteristics CEPA describes. The aeronautical services sector includes a network of airports and airlines that connects both developed and emerging economies, and so by its nature is exposed to economic downturns in any economy.

Growth options and investment – The telecommunications sector is clearly distinct from the aeronautical services sector in relation to the role of technological change in driving waves of investment, both in the provision of fixed line and mobile services. The hypotheses that CEPA forms about the relative stages of investment and growth as between emerging and developing economies are not relevant to the provision of aeronautical services and do not provide a basis for excluding airports operating in emerging economies from the sample of beta comparators.

Regulatory arrangements and risk sharing – Sydney Airport agrees with the principle that difference in the policy or regulatory environment could affect a firm's systematic risk profile. However, there is no clear-cut reasoning indicating whether regulation will increase or decrease systematic risk, or the magnitude of this effect. Consistent with this observation, Sydney Airport does not support any presumption that businesses should be excluded from the sample of beta comparators simply because they are subject to different regulatory arrangements from those applying in Australia. Any exclusions should be based on clear evidence demonstrating that differences in the policy or regulatory environment affect systematic risk to a material extent.

Composition of the local market index – Finally, in relation to the composition of the local index, Sydney Airport agrees with the principle that economies with similar compositions to the Australian economy may provide better comparators for Australian regulated firms. However, CEPA has provided no evidence to suggest that this provides a basis on which to exclude businesses operating in emerging economies from the sample of beta comparators, or that these are less relevant comparators than economies such as the United States or Western Europe, that are significantly more diversified than Australia.

In summary, although CEPA concludes that a geographic filter could be justified for telecommunications services, Sydney Airport submits that its reasoning does not support the application of a similar filter for aeronautical services. Rather, it is likely to be preferable to establish a broader sample of beta comparators that includes

⁴ CEPA, 'WACC Methodology – Draft Report' (1 August 2025), p 43.

⁵ CEPA, 'WACC Methodology – Draft Report' (1 August 2025), pp 43-47.

businesses operating in emerging economies. This observation is consistent with the Western Australia Supreme Court judgment in *Perth Airport Pty Ltd v Qantas Airways Ltd*, which preferred a broad sample of beta comparators and observed that the contended need to consider country risk factors is 'unpersuasive'.⁶

If you have any questions on the above or would like to discuss our comments further, please contact [REDACTED]

Yours sincerely,



Greg Botham
Group Executive, Aviation Growth & Group Strategy

⁶ *Perth Airport Pty Ltd v Qantas Airways Ltd [No 3] [2022] WASC 51, [262]-[266]*.