

Guidance for calculating a discount rate for connection charge reconciliations

Published 3 September 2026

1. Purpose

- 1.1. This guidance explains how distributors should calculate the discount rate for connection charge reconciliations and identifies the Commerce Commission (the Commission) and the Reserve Bank of New Zealand publications needed to obtain the relevant WACC and CPI values.

2. Code requirements for the discount rate

- 2.1. The requirement for discount rates is set out in clause 6B.11(4)(c)(ii) of the Electricity Industry Participation Code 2010 which provides the following:
 - a discount rate equal to the most recent available mid-point estimate of vanilla WACC (being the weighted average cost of capital) made by the Commerce Commission in accordance with the EDB ID determination made under Part 4 of the Commerce Act 1986 less an adjustment to remove inflation consistent with inflation projections for the year ahead from the most recent Monetary Policy Statement published by the Reserve Bank of New Zealand at the time of that mid-point estimate of vanilla WACC
- 2.2. From 1 October 2026 the requirement will change to the following:
 - a discount rate equal to the most recent available estimate of vanilla WACC (being the weighted average cost of capital) determined by the Commerce Commission under clause 2.4.5(4) of the **EDB IMs** less an adjustment to remove inflation consistent with inflation projections for the year ahead from the most recent Monetary Policy Statement published by the Reserve Bank of New Zealand at the time the determination is published by the Commerce Commission
- 2.3. The applicable WACC estimate determined under clause 2.4.5(4) of the **EDB IMs** is currently the 65th percentile estimate.

3. Discount rates for reconciliations

- 3.1. The Code requires an adjustment to the estimate of vanilla WACC to remove forecast inflation.

For connection charge reconciliations from 1 April 2026 and until 5 May 2026

- 3.2. The most recent available mid-point estimate of vanilla WACC comes from the [Cost of capital determination](#) published 6 May 2025 and is 6.53%.
- 3.3. Inflation projections for the year ahead come from the [Monetary Policy Statement](#) (MPS) published by the Reserve Bank on 19 February 2025. This was the most recent MPS at the time the cost of capital determination was published.
- 3.4. The relevant inflation adjustment is 2.2%, which is the forecast of annual CPI inflation for the year to March 2026 as found in Table 6.1.

The calculation of discount rate from 1 April 2026 to 5 May 2026

$$= \frac{(1 + 0.0653)}{(1 + 0.022)} - 1 = 1.0424 - 1 = 0.0424 = 4.24\%$$

For connection charge reconciliations from 6 May 2026 to 30 September 2026

- 3.5. The most recent available mid-point estimate of vanilla WACC comes from the [Cost of capital determination](#) published 5 May 2026 and is 6.39%.
- 3.6. Inflation projections for the year ahead come from the [Monetary Policy Statement](#) (MPS) published by the Reserve Bank on 27 February 2026. This is the most recent MPS at the time the cost of capital determination was published.
- 3.7. The relevant inflation adjustment is 2.1%, which is the forecast of annual CPI inflation for the year to March 2027 as found in Table 6.1.

The calculation of discount rate from 6 May 2026 to 30 September 2026

$$= \frac{(1 + 0.0639)}{(1 + 0.021)} - 1 = 1.0420 - 1 = 0.0420 = 4.20\%$$

For connection charge reconciliations from 1 October 2026 (date of the Code change) to the day before the next WACC determination publication

- 3.8. The most recent available estimate of vanilla WACC determined by the Commission under clause 2.4.5(4) of the **EDB IMs**, (currently the 65th percentile estimate), comes from the [Cost of capital determination](#) published 5 May 2026 and is 6.81%.
- 3.9. Inflation projections for the year ahead come from the [Monetary Policy Statement](#) (MPS) published by the Reserve Bank on 27 February 2026. This is the most recent MPS at the time the cost of capital determination was published.
- 3.10. The relevant inflation adjustment is 2.1%, which is the forecast of CPI inflation Annual for the year to March 2027 found in Table 6.1.

The calculation of discount rate from 1 October 2026

$$= \frac{(1 + 0.0681)}{(1 + 0.021)} - 1 = 1.0461 - 1 = 0.0461 = 4.61\%$$

- 3.11. The discount rate needs to be updated annually at the time the Commission publishes its WACC determination.