

Estimating fair rate of return in times of high inflation

Roundtable input by Hungary
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WACC calculation model



What WACC calculation model do you use in your legislation (Capital Asset Pricing Model, other?)

CAPM is used to calculate the rate of return for equity.

$$WACC_{pre-tax} = \frac{E}{V} * r_e * \frac{1}{(1-t)} + \frac{D}{V} * r_d$$

$$r_e = r_f + CR + \beta_E * (r_m - r_f),$$

where r_e : expected return on equity,
 r_f : risk-free rate,
 CR : country risk.
 r_m : expected market return,
 β_E : beta of security.

WACC specification



What is the WACC specification (pre/post-tax, real/nominal)?

Pre-tax real WACC.

WACC adjustments



How did the WACC change (if at all) in the past 3 years for all gas segments (distribution, transmission, storage)?

WACC is determined for four-year regulatory periods, it remains constant during the period. As the last regulatory period began in 2021 (April 2021 for SSOs, October 2021 for the TSO and the DSOs), before the beginning of the regulatory period the level of the WACC was updated to account for the economic environment (e.g. the reduction of the corporate tax rate from 19% to 9%).

	2017-2021	2021-2025
SSO	5,04%	3,78%
DSO	4,62%	3,24%
TSO	4,62%	3,24%

Inflation effect on WACC and/or tariffs



How has inflation affected WACC and/or tariffs (CAPEX side)?

The level of WACC itself remains constant during the four year regulatory period.

Inflation however affects the cost of capital that is financed through the tariffs.

(Cost of capital is calculated as the product of the RAB and WACC. This resulting value is adjusted before each tariff period with the level of inflation.)

Methodology adjustments



Are there any WACC determination methodology adjustments anticipated in the nearest future (2023/24)?

The next gas regulatory period will start in 2025. Before the beginning of the regulatory period a cost and asset review is undertaken by MEKH, which includes at least the review of the level of the WACC, but it might also include changes to the applied WACC methodology itself.



**THANK YOU
FOR YOUR ATTENTION!**

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