



# Estimating fair rate of return in times of high inflation

**Roundtable input by Republic of Moldova**  
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# WACC calculation model



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

- According to Natural gas Law, return on investments is calculated according to the weighted average cost of the capital.
- According to the tariffs methodology when calculating the WACC value, the cost of equity is determined according to the formula:

$$K_e = r_f + r_t + \beta_d \times (r_m - r_f)$$

$r_f$  - US risk-free rate, in %, previous 10-year average, for treasury bills, published by the US Treasury

$r_t$  - the country risk rate, in %.

$\beta_d$  - the systemic industry risk (debt free), which is the average corresponding to the US public utility companies published in January 2019

$(r_m - r_f)$  - market characteristic risk premium, in %, determined as an arithmetic average of the last 30 years in the USA (Stock-T. Bonds).

# WACC specification

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

- *Pre-tax*
- *Nominal*

# WACC adjustments



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

*WACC value is calculated each year, %:*

2021	2022	2023
7.13	7.45	8.60

# Inflation effect on WACC and/or tariffs

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

*According to the WACC formula there are only several variable components during the methodology regulation period:*

- Country risk premium;*
- Risk free rate;*
- Cost of debt.*

*Due to the fact that inflation has a direct impact on those variable components, its also has an impact on the WACC value.*

# Methodology adjustments

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

*No, the existing formula shall be applied until the end of the current regulatory period – the year 2025.*



**THANK YOU  
FOR YOUR ATTENTION!**

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