



Nasjonal
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myndighet

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Vår ref.: 2109826-12 -
Vår dato: 14.10.2024

Deres ref.:
Deres dato:

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Draft decision on weighted average cost of capital (WACC) for 2025

1. Background

The Norwegian National Communications Authority (Nkom) determines the weighted average cost of capital used in price controls in the electronic communications markets. WACC¹ is used as an expression of the required return on invested capital.

A provider with significant market power (SMP) may be imposed specific obligations which may involve various forms of price regulation and accounting reporting. For example, a requirement for prices to be cost-oriented. In such cases, the regulatory requirement will allow a reasonable return on invested capital.

On 6 November 2019, the European Commission published a notice with guidelines for the calculation of WACC². The guidelines are intended to ensure consistency in the calculation of WACC across member states. The purpose is also to promote effective investments and innovation through an appropriate level of risk, as reflected in WACC. This common approach will also promote transparency for all stakeholders in terms of the regulators' method of calculating WACC. The European Commission has assessed where it may be appropriate to use a common value for specific parameters included in WACC calculations, and in which cases

¹ *Weighted Average Cost of Capital*

² OJ 2019/C 375/01 of 6 November. 2019, [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC1106\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC1106(01)&from=EN)

it is appropriate to use more differentiated parameters based on national conditions.

In the European Commission's notice, BEREC's³ role and duties are described in Chapter 7, sections 64 - 67. According to Chapter 7 of the notice, BEREC must, in close cooperation with the European Commission, estimate parameters in accordance with the Commission's notice. On an annual basis and in close cooperation with the European Commission, BEREC will estimate parameters necessary for calculating WACC for the individual member state. The results are published annually by BEREC in the "WACC parameters report". BEREC has also included parameters for Norway in the report since 2021⁴.

On 4 April 2022, Nkom made a decision regarding the WACC that is to be used in the fixed-network and mobile markets (WACC decision). The decision includes a description of how the various elements of the WACC calculation are to be determined. The methodological approach is based on the European Commission's notice and BEREC's "WACC Parameters Report 2021".

2. Notification of decision

In accordance with Section 4-9 of the Norwegian Electronic Communications Act, Nkom gave notice on 21 August 2024 that the WACC to be used in the fixed-network and mobile markets in connection with future financial reporting and price controls must be 5.58 % (in nominal terms before tax). The requirement will apply from and including the 2025 financial year.

The new WACC for the fixed-network and mobile markets will replace the previously adopted WACC in Nkom's decision of 20 December 2023.

Nkom received no comments.

3. Updated WACC

The WACC decision states that Nkom will, in future, apply the European Commission's WACC method, with parameters calculated by BEREC, to Norwegian conditions. Nkom will update WACC for Norway when there are new calculations from BEREC. BEREC published the "WACC parameters report 2024"⁵ in June 2024. The table below shows the calculation of

³ *Body of European Regulators for Electronic Communications*

⁴ [https://www.berec.europa.eu/sites/default/files/files/document_register_store/2021/6/BoR_\(21\)_86_BEREC_WACC_parameters_Report_2021_final_11062021_sent_approved.pdf](https://www.berec.europa.eu/sites/default/files/files/document_register_store/2021/6/BoR_(21)_86_BEREC_WACC_parameters_Report_2021_final_11062021_sent_approved.pdf)

⁵ <https://www.berec.europa.eu/en/document-categories/berec/reports/berec-report-on-wacc-parameter-calculations-according-to-the-european-commissions-wacc-notice-of-6th-november-2019-wacc-parameters-report-2024>

WACC from Nkom's decision of 20 December 2023, as well as the updated calculation of WACC based on the "WACC parameters report 2024".

Table 1: Overview of WACC parameters for Norway and calculation of WACC.

	Source	WACC for Norway	
		2024	2025
Risk-free interest rate	10-year government bond, BEREK (Bloomberg)	1,73 %	2,11 %
Credit premium	BEREC's "WACC Parameters Report". Average of "Peer Group"	1,48 %	1,21 %
Cost of debt		3,21 %	3,32 %
Corporate tax	Current corporate tax in Norway	22 %	22 %
Cost of debt before tax		3,21 %	3,32 %
Risk premium on equity	BEREC's "WACC Parameters Report". Average market premium for EEA	5,90 %	5,92 %
Debt ratio	BEREC's "WACC Parameters Report". Average of "Peer Group"	45,36 %	46,66 %
Business beta	BEREC's "WACC Parameters Report". Average of "Peer Group"	0,38	0,36
Equity beta	BEREC's "WACC Parameters Report". Average of "Peer Group"	0,64	0,64
Cost of equity after tax		5,51 %	5,90 %
Cost of equity before tax		7,06 %	7,56 %
Nominal WACC before tax		5,31 %	5,58 %
Real WACC before tax		3,25 %	3,51 %
Inflation	Inflation target Norges Bank	2,00 %	2,00 %

The updated nominal WACC before tax is 5.58 %. Which is 0.27 percentage points higher than in the last WACC decision of 20 December 2023. This increase is mainly due to an increase in the risk-free interest rate of 0.38 percentage points (from 1.73 % to 2.11 %)

Real WACC before tax takes expected inflation into account. It's stated in the European Commission's notice that it is considered appropriate to use the ECB's⁶ forecast for expected inflation 5 years into the future as a basis. For countries that are not part of the eurozone, it may be justified to use national inflation estimates. Norges Bank's forecasts for inflation in the Monetary Policy Report⁷ do not extend 5 years into the future. The latest forecast is for 2027 and shows an expected inflation of 2.4%. It appears from the Monetary Policy Report that when setting interest rates, Norges Bank emphasizes avoiding large and persistent deviations from the inflation target of 2 per cent, and that Norges Bank expects inflation to decline further and approach the target towards the end of 2027. On this basis, Nkom believes that Norges Bank's

⁶ European Central Bank

⁷ <https://www.norges-bank.no/contentassets/6eac537aaa4d43138f063f0ddb53eaf7/ppr-3-24.pdf?v=19092024150909>

inflation target of 2 per cent still provides the most correct estimate of expected long-term inflation in Norway and therefore uses this as a basis when calculating the real WACC.

4. Draft decision

Pursuant to Section 4-9 of the Norwegian Electronic Communications Act, Nkom finds that the WACC to be used in the fixed-network and mobile markets in connection with future financial reporting and price controls must be 5.58 % (in nominal terms before tax). The requirement will apply from and including the 2025 financial year.

The rate will be updated once a year and Nkom will make a new decision concerning WACC for the following year.

The new WACC for the fixed-network and mobile markets will replace the previously adopted interest rate in Nkom's decision of 20 December 2023.

5. Entry into force

The Decision enters into force immediately.

6. Right of appeal and deadline for initiating legal proceedings concerning individual decisions

The decision may be appealed, cf. Section 11-6 of the Norwegian Electronic Communications Act, and Section 28 of the Norwegian Public Administration Act. The deadline for appealing the decision is three weeks, cf. Section 29(1), of the Norwegian Public Administration Act. Any appeal must be addressed to the Ministry of Digitalisation and Public Governance and sent to Nkom, cf. Sections 28 and 32 of the Norwegian Public Administration Act.

Section 11-8, paragraph one of the Norwegian Electronic Communications Act stipulates that lawsuits concerning individual decisions made under or pursuant to this Act must be brought within six months after the decision was made. The time limit for legal action is interrupted by an appeal against the decision and does not run as long as the appeal is being processed, cf. Section 11-8, paragraph two of the Norwegian Electronic Communications Act.



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With regards

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Director General

Inger Vollstad
Head of Section

Electronically approved. No signature required