ESA | EFTA Surveillance Authority

Brussels 15 October 2026
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Fjarskiptastofa
Suðurlandsbraut 4
108 Reykjavik
Iceland

For the attention of:
Mr. Hrafnkell V. Gíslason
Managing Director

Dear Mr. Gíslason,

Subject: Weighted Average Cost of Capital ('WACC') estimation for 2026 in Iceland

Article 32(3) of Directive (EU) 2018/1972 ('the Code')[1]: No comments

1 PROCEDURE

1. On 18 September 2026, the EFTA Surveillance Authority ('**ESA**') received a notification of a draft national measure in the field of electronic communications pursuant to Article 32(3) of the Code from the Icelandic national regulatory authority ('**NRA**'), Fjarskiptastofa (the Electronic Communications Office of Iceland ('**ECOI**')), concerning the estimation of the WACC for 2026 in Iceland.[2]

2. The notification became effective on the same day.

3. National consultation was carried out, pursuant to Article 23 of the Code, during the period 13 July to 17 August 2026.

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[1] Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing the European Electronic Communications Code (OJ L 321, 17.12.2018, p. 36), as referred to at point 5czs of Annex XI to the EEA Agreement and as adapted by Protocol 1 to that Agreement and by the sectoral adaptations contained in Annex XI to that Agreement.

[2] The WACC is an input to ECOI's cost accounting, accounting separation, margin squeeze tests and cost models across fixed and mobile markets.

4. During pre-notification contacts between ESA and ECOI, ESA made a number of remarks on ECOI's draft notification that ECOI already implemented at the time of the formal notification.[3]

5. The period for consultation with ESA, BEREC and other national regulatory authorities pursuant to Article 32(3) of the Code expires on 19 October 2026.

2 DESCRIPTION OF THE DRAFT MEASURE

2.1 BACKGROUND

6. In the context of obligations applying to an operator designated as having significant market power ('**SMP**'), NRAs may need to determine a reasonable rate of return on that operator's investments. This is the case, for example, when setting the maximum prices that an SMP operator may charge for interconnection and/or access in markets where there is a lack of effective competition: such prices should allow a sufficient return on the capital employed.

7. To estimate this reasonable rate of return, NRAs typically rely on the WACC, which measures the company's cost of capital (i.e. the return that investors would require to finance the company's investments). The cost of capital can be split into two main components, which reflect the two main sources of a company's financing: the cost of equity and the cost of debt.

8. Due to the lack of consistency in the approaches used by NRAs to estimate the WACC for electronic communications networks, the European Commission published a Notice on the calculation of the cost of capital in 2019 ('**the Notice**'), setting out the assumptions that should be used by NRAs when estimating the cost of capital.[4] The Notice considers it appropriate for NRAs to update the WACC at least on a yearly basis,[5] and establishes that BEREC, the body of European NRAs, should publish the relevant parameters used in the WACC computation for each EEA State on the same basis.[6]

9. ECOI has adopted the methodology set out in the Notice and used the parameters published by BEREC when calculating the WACC in Iceland.

2.2 CURRENT NOTIFICATION

10. The current notification establishes the nominal WACC in Iceland for the year 2026 at 9.07%, which is 0.1 percentage points higher than the WACC for 2025 (set at 8.97%). The WACC applies to both mobile and fixed telecom markets.

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3 Document 1630996.

4 Communication from the Commission – Commission Notice on the calculation of the cost of capital for legacy infrastructure in the context of the Commission's review of national notifications in the EU electronic communications sector, OJ C 375, 6.11.2019, p. 1–11, available here.

5 Ibid. Chapter 8 – paragraphs 68-70.

6 Ibid. Chapter 7 – paragraphs 64-67.

11. ECOI has applied the updated parameters published by BEREC in June 2026 ('**the BEREC report**')[7], in line with the Notice. To compute the nominal pre-tax WACC, ECOI uses the following key inputs from the BEREC report:

    a. An estimated risk-free interest rate based on the 5-year average yield of Icelandic government bonds close to 10-year maturity. ECOI is able to retrieve the real risk-free rate based on the yield of government bonds indexed for inflation;

    b. A credit premium, debt ratio, and beta coefficients derived from a peer group of European telecom operators;[8] and

    c. The average equity risk premium across the EEA.

12. In addition to the BEREC report inputs, ECOI applies the Icelandic corporate tax rate to calculate the nominal pre-tax WACC.

13. The BEREC report only provides the arithmetic average of the asset beta for the peer group. ECOI has therefore derived the equity beta by re-levering the asset beta, in line with the approach discussed with ESA.[9]

2.3 COMMENTS FROM STAKEHOLDERS

14. ECOI received comments from one stakeholder during the national consultation.

15. Ljósleiðarinn considered the BEREC methodology an appropriate basis for determining the WACC but argued that ECOI should assess more closely whether the parameters used adequately reflect Icelandic market conditions. In particular, it raised issues concerning the beta coefficient, risk-free rate, gearing and debt premium. Ljósleiðarinn also submitted that ECOI should consider whether a separate WACC should apply to infrastructure and wholesale activities and whether investments in very high-capacity networks may justify a specific risk premium.

16. ECOI however maintained its approach. It considered that domestic data were not sufficiently comparable or reliable to replace the BEREC parameters for beta and gearing and that the WACC should reflect the cost of capital of an efficient operator rather than the financing terms of individual undertakings. ECOI acknowledged that different activities or certain new infrastructure investments could, in principle, justify differentiated WACC values or an additional risk premium, but concluded that the available evidence did not support such adjustments for 2026.

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7 See BEREC's report available here.

8 The peer group consists of 14 major telecom operators from different European countries. BEREC uses the peer group as a reference for the computation of several key parameters, following the capital asset pricing model ("CAPM") methodology.

9 This approach is briefly described in Section 5.3 of the BEREC report, and more extensively in the European Commission's Staff Working Document accompanying the European Commission's WACC Notice (available here), Section 5.3.3.3, p. 84-86.

3 NO COMMENTS

17. ESA has examined the notified draft measure and has no comments.

4 FINAL REMARKS

18. On a procedural note, ESA recalls that any future amendments to, or more detailed implementation of, the draft measure consulted on in the current notification will require re-notification in accordance with Article 32(3) of the Code.

19. Pursuant to Article 32(8) of the Code, ECOI shall take the utmost account of comments of other NRAs, BEREC and ESA. It may adopt the resulting draft measure and, where it does so, shall communicate it to ESA. Pursuant to Article 32(9) of the Code, ECOI shall communicate to ESA and to BEREC all adopted final measures which fall under points (a) and (b) of Article 32(3).

20. ESA's position on the current notification is without prejudice to any position ESA may take in respect of other notified draft measures.

21. Pursuant to Point 6 of the Procedural Recommendation,[10] ESA will publish this document on its eCom Online Notification Registry. You are invited to inform ESA within three working days following receipt of this letter if you consider, in accordance with EEA and national rules on confidentiality, that this letter contains confidential information which you wish to have deleted prior to publication. You should give reasons for any such request. In the absence of confidentiality claims received within the above deadline, ESA will publish this document in full.

Yours sincerely,

Filip Ragolle

Deputy Director for Competition and Regulation

Competition and State Aid Directorate

This document has been electronically authenticated by Filip Ragolle.

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[10] EFTA Surveillance Authority Decision No 102/25/COL of 2 July 2025 – EFTA Surveillance Authority Recommendation on the form, content, time limits and level of detail to be given in notifications under the procedures set in Article 32 of the Act referred to at point 5czs of Annex XI to the EEA Agreement (Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing the European Electronic Communications Code), as adapted by Protocol 1 to the EEA Agreement and by the sectoral adaptations contained in Annex XI to that Agreement [2025/2407] (OJ L 2025/2407, 27.11.2025 and EEA Supplement No 74, 27.11.2025, p. 1) ('**the Procedural Recommendation**'), available here.