



INFORMATION

2013 Weighted Average Cost of Capital

PUBLIC TRANSPORT AUTHORITY, BROOKFIELD RAIL AND THE PILBARA INFRASTRUCTURE

The Economic Regulation Authority has calculated the weighted average cost of capital (**WACC**) for the Public Transport Authority, Brookfield Rail and The Pilbara Infrastructure rail networks as at 30 June 2013 as required by the *Railways (Access) Code 2000 (Code)*.

The Authority has [determined](#) the following real pre-tax WACC values, to apply from 1 July 2013 to 30 June 2014:

- Public Transport Authority: 4.13 per cent
- Brookfield Rail: 7.00 per cent
- The Pilbara Infrastructure: 9.76 per cent

In comparison, the 2012 real pre-tax WACC for the three networks were 4.30 per cent (Public Transport Authority), 6.87 per cent (Brookfield Rail) and 9.16 per cent (The Pilbara Infrastructure).

Under Clause 3 of Schedule 4 of the Code, in every fifth year subsequent to 2003, the Authority is required to undertake public consultation prior to determining the WACC values for that year.

The Authority is also currently developing rate of return guidelines for gas transmission and distribution networks pursuant to the National Gas Rules, to be finalised by the end of 2013. The Authority considers there is considerable value in harmonising as much as possible the formulation of a method for calculating the rates of return for entities across the industries it regulates. The Authority considers that there is a significant overlap of issues between the required five-yearly rail consultation process mentioned above and the development of the gas access rate of return guidelines.

As a result, the Authority published a notice on 7 February 2013 requesting interested parties to provide submissions on two separate rail processes regarding the WACC:

- an update of the WACC values to apply to regulated railway networks as at 30 June 2013; and
- a review of the methods for calculating the WACC values to apply from 30 June 2014.

The Authority also prepared an issues paper in order to assist stakeholders in providing submissions in relation to the rail WACC determinations required by the Code. Consultation for both processes closed on 15 March 2013.

The Authority received six submissions from interested parties. Upon review of the submissions the Authority has determined that the methodology used in the 2013 determination is to be the same as the methodology used in 2012, with the exception of

dividend imputation credits (gamma) and debt risk premium due to decisions made by the Australian Competition Tribunal.

The Authority has adopted a value for gamma of 0.25 (instead of a value of 0.5 previously used in determinations of the WACC for regulated railways) based on the Australian Competition Tribunal's decision in 2011 of the value of gamma with respect to an application by Energex Limited. This value of gamma has now been adopted in recent regulatory decisions in Australia and by the Authority in its Final Decision on Western Power's access arrangements for the third access arrangement period. There is no new evidence currently before the Authority to differ from the Tribunal's decision.

The Authority amended its 'bond-yield' approach for calculating the debt risk premium following comments made in the Australian Competition Tribunal's decision in 2012 on an application by WA Gas Networks. The Tribunal considered that the 'bond-yield' approach could also be weighted by the 'amount issued' in addition to weighting on the 'term to maturity'. The Authority has adopted a joint weighted approach based on both criteria.

The Authority is still continuing its review process regarding the methods for calculating the WACC values to apply from 30 June 2014 and will provide further information on this at a later date.

The input variables to the 2013 determination, which were updated as of 31 May 2013, are shown in the table below.

Input Variables	2013
Nominal risk free rate (per cent)	3.28
Inflation (per cent)	2.47
Debt Risk Premium (per cent) based on a credit rating of:	
"A" for Public Transport Authority	1.260
"BBB+" for Brookfield Rail	1.900
"BBB-" for The Pilbara Infrastructure	2.470

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