



# Notice

24 October 2014

## Rail 2014 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 2014, as required by the Railways (Access) Code 2000 (**Code**).

The Authority has determined the following 2014 real pre-tax WACC values, to apply from 1 July 2014 to 30 June 2015:

- Public Transport Authority: 4.52 per cent;
- Brookfield Rail: 7.31 per cent; and
- The Pilbara Infrastructure: 10.14 per cent.

In comparison, the 2013 real pre-tax WACC values for the three networks were 4.13 per cent (Public Transport Authority), 7.00 per cent (Brookfield Rail) and 9.76 per cent (The Pilbara Infrastructure).

#### The rail WACC review

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.

To that end, the Authority undertook a public consultation program prior to making its annual WACC determination for the regulatory year commencing 1 July 2013, with a view to also undertaking a review of the rail WACC method at that time. The 2013 Issues Paper, as well as submissions from stakeholders, can be found on the Authority's [website](#).

However, the Authority chose to defer finalisation of the rail WACC method review at the time, because it was undertaking a review of its approach to determining the rate of return for gas networks under the National Gas Rules, which involved common issues. The Authority subsequently released the rate of return guidelines for gas transmission and distribution networks pursuant to the National Gas Rules in December 2013.

The Authority released a [draft decision](#) in relation to the rail WACC method review on 5 June 2014.

The Authority's rate of return approach has undergone further development during the course of the Authority's deliberations for the draft decision on the proposed revisions to ATCO's gas distribution system (**GDS**) access arrangement, which was released on 14 October 2014. Again, there is an overlap of issues between the rail WACC method and the revised rate of return method set out in the ATCO GDS draft decision, with attendant conflicts, which need to be addressed.

To accommodate the changes required to address the conflicts, and to allow due process in terms of consultation with rail stakeholders, the Authority has decided to revise and re-issue the rail WACC method review draft decision that it previously released, referred to above. The Authority intends to



# Notice

release a final rail WACC method review decision later in 2014 or early in 2015, with the resulting updated method to apply for the determination of the rail WACC for the Freight and Urban Railway Networks for the regulatory year commencing 1 July 2015, and for subsequent years.

## The 2014 rail WACC update

In the interim, the Authority has based the 2014 rail WACC values on the 2013 method and parameters. The 2014 rail WACC – to apply for the regulated railway networks from 1 July 2014 to 30 June 2015 – uses the method that was applied for the determination of the 2013 rail WACC, but updates the parameters based on observable market variables (that is, the risk free rate, inflation and the debt risk premium). These input variables, which were updated as of the 20 trading days to 30 June 2014, are shown in the table below. All other parameters remain unchanged from the 2013 rail WACC determination. The Authority's 2014 rail WACC [determination](#) is available on the ERA's website.

Input Variables	2014
Nominal risk free rate (per cent)	3.75
Inflation (per cent)	2.52
Debt Risk Premium (per cent) based on a credit rating of:	
“A” for Public Transport Authority	0.971
“BBB+” for Brookfield Rail	1.388
“BBB-” for The Pilbara Infrastructure	2.084

STEVE EDWELL  
MEMBER

For further information contact:

### General Enquiries

Richard Begley  
Economic Regulation Authority  
Phone: 08 6557 7900  
Email: [records@erawa.com.au](mailto:records@erawa.com.au)

### Media Enquiries

Richard Taylor  
Riley Mathewson Public Relations  
Phone: 08 9381 2144  
Email: [admin@rmpr.com.au](mailto:admin@rmpr.com.au)