



Notice

28 October 2016

2016 WEIGHTED AVERAGE COST OF CAPITAL

PUBLIC TRANSPORT AUTHORITY, BROOKFIELD RAIL AND THE PILBARA RAILWAYS

The Economic Regulation Authority (**ERA**) has calculated the weighted average cost of capital (**WACC**) for the Public Transport Authority, Brookfield Rail, The Pilbara Infrastructure (**TPI**) and the Roy Hill Infrastructure (**RHI**) railways, as at 30 June 2016, as required by the *Railways (Access) Code 2000 (Code)*.

The ERA has [determined](#) that the WACC for RHI should be the same as for TPI, and therefore informed by the analysis for TPI which was set out in the 2015 rail WACC method. Accordingly, both TPI and RHI are referred to as ‘the Pilbara railways’, and treated identically.

The ERA has determined the following real, pre-tax WACC values to apply from 1 July 2016 to 30 June 2017:

- Public Transport Authority: 4.47 per cent;
- Brookfield Rail: 7.67 per cent;
- the Pilbara railways (TPI and RHI): 10.90 per cent.

In comparison, the 2015 real pre-tax WACC values were 4.25 per cent (Public Transport Authority), 7.59 per cent (Brookfield Rail) and 10.74 per cent (TPI).

The input variables – which here are updated as of 30 June 2016, and which contribute to the revised values for the respective WACC – are shown in the table below:

Input Variable	2016
Nominal Risk Free Rate	2.22 per cent
Expected Inflation	1.74 per cent
Debt Risk Premium based on a credit rating of	
‘A’ for Public Transport Authority	2.111 per cent
‘BBB+’ for Brookfield Rail	2.450 per cent
‘BBB-’ for the Pilbara railways (TPI and RHI)	3.578 per cent
Market risk premium	7.40 per cent

Background

The ERA's 2016 calculations of the railway network WACCs are based on a revised method, resulting from a review finalised in September 2015.

The ERA's [Final Report](#) on the review and related documents are available on the [ERA's website](#).

The Code requires the ERA to undertake a process of consultation every fifth year, prior to making a determination of WACC in that year. The ERA will commence its next program of public consultation concerning the determination of WACC prior to the 2018 determination.

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