

Notice of the Regulator's Determination of the Weighted Average Cost of Capital as at 30 June 2002

Clause 3(1)(a), Schedule 4 of the *Railways (Access) Code 2000* ("the Code") requires the Regulator to determine the Weighted Average Cost of Capital (WACC) for both the urban and freight railway infrastructure as at 30 June in each year.

The current real pre-tax WACCs for the urban and freight railway infrastructure of 5.1 percent and 8.2 percent respectively were derived from a review undertaken by Macquarie Bank for the Department of Transport in August 1999.

The Regulator has applied the same assumptions and methodology adopted by Macquarie Bank in the assessment of the WACCs for 2002-03. Since the 1999 review, input variables to the Capital Asset Pricing Model (CAPM) and WACC formulae that have changed can be summarised below:

Input variables	1999	2002
1. Corporate tax rate	36%	30%
2. Nominal risk free rate	6.24%	6.07%

These changes have resulted in decrease in both WACC values. For the urban railway infrastructure, the real pre-tax WACC will be 4.9 percent. Likewise, for the freight railway infrastructure, the real pre-tax WACC will be 7.8 percent.

Clause 3(2), Schedule 4 of the Code requires the Regulator to undertake a full public consultation process in assessing the WACCs in 2003. This review is scheduled to commence in six months time and it is the Regulator's intent to revisit the CAPM and WACC methodology and assumptions in that review.

Determination

1. For the urban railway infrastructure WACC – 4.9 percent real pre-tax;
2. For the freight railway infrastructure WACC – 7.8 percent real pre-tax.



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1 July 2002

