

NOTICE

RAILWAYS (ACCESS) CODE 2000

WEIGHTED AVERAGE COST OF CAPITAL DETERMINATION

The Economic Regulation Authority has determined the Weighted Average Cost of Capital (WACC) for both the urban and freight railway infrastructure as at June 30, as it is required to do each year under Clause 3(1), Schedule 4 of the *Railways (Access) Code 2000* (Code).

The methodology used by the Authority in the 2006 determination was the same as that used for 2005. The 2005 WACC determinations of 5.7 percent for urban and 6.7 percent for freight (both real pre-tax), were based on the WACC methodology approved by the Authority following public consultation in 2003.

As the Code requires public consultation every five years on the WACC methodology, and this was done in 2003, the Authority is not required to undertake further public consultation until 2008.

Subsequent to the 2005 WACC determination, input variables to the Capital Asset Pricing Model and WACC formulae that have changed as a result of changing market conditions are as follows:

Input Variables	2005	2006
Risk free rate	5.15 percent	5.74 percent
Inflation rate	2.58 percent	3.16 percent

The above changes resulted in a marginal decrease in the WACC value for the urban railway infrastructure but no change for the freight railway infrastructure for 2006 compared with 2005.

Determination

The Authority's determination for the 2006 WACC, to apply over the period 2006-07, is:

- for the urban railway infrastructure the WACC is 5.6 percent (real pre-tax); and
- for the freight railway infrastructure the WACC is 6.7 percent (real pre-tax).

For further information contact:

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