

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 under the *Railways (Access) Code 2000*.

The Authority has determined that the WACC to apply for 2007-08 is:

- 6.0 per cent (real pre tax) for urban; and
- 7.1 per cent (real pre tax) for freight.

The methodology used in the 2007 determination was the same as that used for 2006, which resulted in a WACC of 5.6 percent for urban and 6.7 percent for freight (both real pre-tax).

The methodology used was approved by the Authority following public consultation in 2003. The Code requires public consultation on the methodology every five years and this will be done again in 2008.

The input variables to the Capital Asset Pricing Model and WACC formulae that changed after the 2006 WACC determination, as a result of changed market conditions, are as follows:

Input Variables	2006	2007
Risk free rate	5.74 percent	6.20 percent
Inflation rate	3.16 percent	3.24 percent

These changes resulted in the increased WACC values for 2007.

For further information contact:

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