



Western Australia

Economic Regulation Authority

Notice of the Economic Regulation Authority's Determination of the Weighted Average Cost of Capital for the urban and freight railway infrastructure as at 30 June 2004

Clause 3(1), Schedule 4 of the *Railways (Access) Code 2000* requires the Economic Regulation Authority ("the Authority") 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 2003-04 real pre-tax WACCs for the urban and freight railway infrastructure, of 5.8 percent and 6.9 percent respectively, were determined by the Regulator after a public review of the appropriate methodology to calculate the WACC.

For 2004-05, the Authority has applied the same assumptions and methodology used in the previous determination of the WACC. Since the 2003 review, input variables to the Capital Asset Pricing Model and WACC formulae that have changed are as follows:

Input variables	2003	2004
Risk free rate	4.80 percent	5.92 percent
Inflation rate	2.01 percent	2.61 percent

These changes have resulted in the increase in both WACC values. For the urban railway infrastructure, the real pre-tax WACC will be 6.4 percent. Likewise, for the freight railway infrastructure, the real pre-tax WACC will be 7.4 percent.

Determination

1. For the urban railway infrastructure WACC – 6.4 percent real pre-tax;
2. For the freight railway infrastructure WACC – 7.4 percent real pre-tax.

LYNDON ROWE
CHAIRMAN

1 July 2004