



Western Australia

# *Economic Regulation Authority*

## NOTICE

### **RAILWAYS (ACCESS) CODE 2000 WEIGHTED AVERAGE COST OF CAPITAL DETERMINATION**

Clause 3(1), Schedule 4 of the *Railways (Access) Code 2000 (Code)* requires the Economic Regulation Authority (**Authority**) to determine the Weighted Average Cost of Capital (**WACC**) for both the urban and freight railway infrastructure as at 30 June each year. The Authority undertook public consultation on the WACC methodology in 2003 as required under the Code. As the Code requires public consultation on this matter every five years, the Authority is not required to undertake further public consultation on the WACC methodology until 2008.

The 2004 WACC determinations for the urban and freight railway infrastructure, of 6.4 percent and 7.4 percent (real pre-tax) respectively, were based on the WACC methodology approved by the Authority following the public consultation undertaken on this methodology in 2003. The same WACC methodology has been used in the Authority's 2005 WACC determination.

Subsequent to the 2004 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:

<b>Input Variables</b>	<b>2004</b>	<b>2005</b>
Risk free rate	5.92 percent	5.15 percent
Inflation rate	2.61 percent	2.58 percent

The above changes result in a decrease in the WACC values for 2005 compared with 2004.

**Determination**

The Authority's determination for the 2005 WACC, to apply over the period 2005-06, is:

1. For the urban railway infrastructure the WACC is 5.7 percent (real pre-tax); and
2. For the freight railway infrastructure the WACC is 6.7 percent (real pre-tax).

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