



Economic Regulation Authority

Promoting fair prices, quality services and choice

INFORMATION

2011 Weighted Average Cost of Capital

FOR WESTNET RAIL, PUBLIC TRANSPORT AUTHORITY AND THE PILBARA INFRASTRUCTURE

The Economic Regulation Authority has calculated the weighted average cost of capital (**WACC**) for the WestNet Rail (**WNR**), Public Transport Authority (**PTA**) and The Pilbara Infrastructure (**TPI**) rail networks as at 30 June 2011 as required by the *Railways (Access) Code 2000*.

The Authority has determined the following WACC values, to apply from 1 July 2011 to 30 June 2012:

- 8.77 per cent (real pre-tax) for the WNR (freight) network.
- 6.14 per cent (real pre-tax) for the PTA (urban) network.
- 11.08 per cent (real pre-tax) for the TPI network.

In comparison, the 2010 real pre-tax WACC for the three networks were 8.91 per cent (WNR), 6.32 per cent (PTA) and 11.43 per cent (TPI).

The methodology applied in the 2011 determination was similar to that used in 2010, but with a change to the method for calculating debt risk premiums.

In earlier calculations, the Authority has relied on the estimates of 10-year fair yield curves derived by Bloomberg and CBASpectrum for this purpose. However, Bloomberg has progressively shortened its estimates of fair yields across credit ratings for Australian corporate bonds, and in September 2010, CBASpectrum ceased publishing its estimates of the fair yield curves across all credit ratings for Australian corporate bonds.

In early 2011, following consultation with infrastructure owners (including railway owners), the Authority endorsed a 'bond-yield' approach for calculating debt risk premium. This approach is outlined in a discussion paper "Measuring the Debt Risk Premium" published on the Authority's website on 1 December 2010.

The access code requires public consultation on the WACC methodology in 2003 and every five years thereafter. Therefore, the next public review of the WACC methodology will be undertaken in 2012-13.

The input variables to the 2011 determination, which were updated as of 31 May 2011, are shown in the table below.

Input Variables	2011
Nominal risk free rate (%)	5.40
Inflation (%)	2.65
Debt Risk Premium (%) (Based on credit rating of 'A' for the PTA network, 'BBB+' for WNR network and 'BBB-' for the TPI network)	PTA (urban): 2.236 WNR (freight): 2.861 TPI: 2.861

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