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My Ref : AN 78/20/1 Vol 4

Your Ref :

19 December 2002

Dr Ken Michael
Acting Regulator
Office of the Rail Access Regulator
PO Box 7459
Cloisters Square
PERTH WA 6850

Dear Dr Michael

REQUEST FOR SECTION 9 DETERMINATIONS

In accordance with your request we enclose the information required under Clause (2) of Part 9 of Schedule 4 of the Railways (Access) Code 2000 for the following routes:-

Forrestfield	to	Kalgoorlie
Leonora	to	Kalgoorlie
Kalgoorlie	to	Esperance
Kwinana	to	Bunbury Inner Harbour

We note that your original request for the first route was from Midland to Kalgoorlie but after discussions with your office it was agreed to amend it to Forrestfield to Kalgoorlie because most operators terminate or break their services at Forrestfield rather than Midland.

1. Definitional Information

For each route in question we have provided a summary sheet which contains:-

- (a) Route sections applicable including a definition of the physical location of the boundary (typically a set of points).
- (b) Exclusions which describe infrastructure which may be used by operators on the route but which are not included in the costings because they fall outside the definitions of the route.
- (c) Route section distances are the route distances used for each route section in the Rail Access Management System (RAMS).

- (d) Ceiling Price Schedule which provides the costs calculated in accordance with the Code and the Costing Principles for each route section.
- (e) Floor Price Schedule which provides the costs calculated in accordance with the Code and the Costing Principles for each route section.
- (f) Gross Replacement Value which provides the total capital replacement cost for Signalling, Communications and Track for each route section.

2. Basis of the Cost Developed

- (a) Code
The costs have been calculated in accordance with the definitions and the principles of the Code and the Costing Principles.
- (b) Costing Principles
The costing principles which underpin the basis of the costing are those submitted to you on 19 December 2002 in response to your draft determination published on 27 September 2002.
- (c) The WestNet Costing Model
All of the total costs are outputs from the WestNet Access costing model which has been the subject of two audits by your office.

There has been a significant number of changes to the model since its initial audit and in addition to those changes made to the manner in which the model operates there has also been significant changes as a consequence of the changes made to the Costing Principles.

In addition, as we will describe later, there has been a review of the population data and also the unit rates used primarily in the GRV calculation.

The principle changes arising from costing principles included in these calculations are:-

- the WACC is set at 7.8%;
- economic lives of turnouts and rail have been adjusted to reflect the Costing Principles as submitted;
- interest during construction is based on a construction rate of 1 km per day;
- the annuity is calculated at the beginning of the period in accordance with the Costing Principles and an allowance for working capital has been included in operating costs consistent with the Costing Principles;
- the population data has been reviewed;
- the unit rates for calculating the cost of track capital have been based primarily on a review by GHD Engineers conducted in October/November 2002.
- the construction and engineering overheads is set at 20%.

3. **Source of Inputs and Basis of Costings**

For each category the following sources of information and costs are included:-

(i) *Capital Costs*

(a) Track Capital

- Population data is based on route section definitions and is WestNet data contained in the WestNet Costing Model.
- The unit costs are those prepared by GHD in November 2002 and are current costs.
- A 'remote factor' and transport costs are based on the work by GHD in November 2002.
- The model uses WestNet costs for track signage; access roads; shunters pathways and fencing.
- Economic life is based on those in WestNet's Costing Principles.

(b) Signalling and Communication Capital

- The unit costs are those developed by WestNet based on recent quotations reviewed for current projects or client quotes. A schedule with signalling unit rates is appended.
- Population data is based on route section definitions and is WestNet data contained in the WestNet Costing Model.
- The model assumes that train control is centralised into one control centre.
- Economic life is based on WestNet's Costing Principles.

(ii) *Maintenance Costs*

(a) Track Maintenance

- The activities included in track maintenance are those required to maintain infrastructure from when it is new until the end of its economic life. The activities are based on the definitions included in the WestNet Costing Principles. The track maintenance model is part of the WestNet Costing Model.
- Unit rates are based on costs being achieved through WestNet's contractors who provide contracted maintenance services.
- It includes WestNet's cost of infrastructure maintenance management.

(b) Signalling and Communications Maintenance

- These costs are based on WestNet's actual costs for routine and cyclic maintenance for the assets by route section.
- The activities and costs are contained in the WestNet Costing Model.
- It includes infrastructure maintenance management costs.

(iii) *Operating Costs*

- Operating costs are based on WestNet's actual costs for train control; train scheduling; emergency management; and the cost of information reporting and based on a full year estimate for calendar year 2002.
- The assumption included in the model is that train control is centralised.
- These costs are allocated in accordance with the allocation rules in the WestNet Costing Principles.

(iv) *Overheads*

(a) WestNet Overheads

- Overheads are an estimate of WestNet's actuals based on calendar year 2002 and include:-
 - IT and software costs;
 - motor vehicle costs;
 - office accommodation and support services;
 - insurance (based on actual market prices);
 - accreditation costs;
 - management costs.
- They are allocated in accordance with the allocation rules in the WestNet Costing Principles.

(b) Other Overheads

- Overheads for services provided by WestNet's parent company are included in the WestNet Costing Model. They include:-
 - accounting services;
 - human resources services;
 - Group overhead costs.

- The allocation rules for distributing ARG overheads to WestNet are included in the WestNet Costing Model. The allocation rules to route sections are contained in the Costing Principles.

4. Regulatory Compliance

WestNet has included in its costs the cost of complying with a number of regulatory regimes including:-

- the Railway (Access) Cost and Code;
- the Rail Safety Act;
- the Dangerous Goods act;
- the Bushfires Act.

In addition, other regulatory requirements such as the use of the corridor for public and private utilities (such as telecommunications carriers) and for public access generate costs.

5. Attached Information

The following information is considered to be essential to support these calculations:-

- (i) the submitted WestNet Costing Principles dated December 19, 2002;
- (ii) the GHD unit costs for capital components of track and supplementary turnout cost breakdown;
- (iii) the WestNet unit costs for signalling and communications infrastructure;
- (iv) supplementary information on maintenance contract rates and floor calculation explanation

and are, therefore, attached as part of this submission.

6. Basis of Costs

As detailed in the Costing Principles, WestNet has attempted to find sources of benchmarking or comparable quotations to determine the efficiency of the costs provided.

With respect to capital costs we have been able to have unit rates for track capital assessed independently and for signalling have relied on quotations and recent tenders.

With respect to maintenance costs because of the nature of the model in this regime we have been unable to directly compare the proposed maintenance activities to others actual costs. The unit rates used are based on competitive costs arising but otherwise the timing and nature of the activities are on the assumption the assets start as new and are maintained to achieve their economic life.

In the case of operating and overhead costs there are WestNet's actuals and sources of comparison are difficult although WestNet has commenced work in this area. Some of these costs are market based prices – the

notable example being insurance – which has shown large increases in recent years.

There has been increases in the ceiling prices previously quoted which WestNet largely attributes to:-

- population reviews and refinement of the definition of infrastructure including earthwork costs;
- unit rates being adjusted to current dollars;
- full attribution of access related overheads.

Conclusion

We believe that this package of information will allow you to proceed with the nominated Section 9 determinations and we look forward to assisting you in that process.

Yours sincerely

T F Ryan
General Manager