



## **Alcoa World Alumina Australia**

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12<sup>th</sup> March 2003

Dr. Ken Michael  
Acting Independent Rail Access Regulator  
Office of the Rail Access Regulator  
27<sup>th</sup> Floor, 197 St Georges Terrace  
PERTH WA 6000

### **Re: Clause 9 Determination of Floor and Ceiling Prices**

Dear Dr. Michael,

Following our meeting with your staff and consultants assisting the Office of the Rail Access Regulator (ORAR) on Wednesday 5<sup>th</sup> March 2003, we would like to record the following additional discussions as part of our submission. We are also seeking further clarification of several points raised during discussions at that meeting with Bruce Chan and Joe Lunghitano.

#### **Track Standard**

We note with interest that since our submission to the Regulator, AWR advised us on 14 February 2003 that WestNet has scheduled a major planned maintenance (MPM) upgrade to the track between Kwinana and Bunbury commencing with the section from Pinjarra to Kwinana in November 2003. This major replacement of timber sleepers with concrete sleepers comes after a previous replacement of rail on this same section of track when sleeper replacement was not considered warranted. AWR has advised that the track standard will be improved to 24 tonne axle load at 80 km/h as a result of this upgrade. We therefore assume that WestNet is now acknowledging that the track standard for the MEA proposed in the ceiling price determination is for an upgraded track with 24 tonne axle load at 80 km/h and not the current standard of 20.5 tonne, 70 km/h.

#### **Earthworks**

We have restated our position that earthworks should be a maximum height of 0.77m and should be based on locally sourced material not imported material. Further, we consider that the unit rates submitted by WestNet do not reflect current market rates in the South West region.

#### **Route Section Lengths**

There has been some discussion about the lengths of various sections of line and the end point of each section. It is clear from our discussions with ORAR that this matter requires further clarification. We have assumed from information provided directly to us by WestNet (and supported by WestNet's submission on the Clause 9 Determination) that the South West mainline

terminates at Bunbury Inner Harbour Junction (reference their submission document "WestNet Rail - Section 9 Determination, Route Kwinana to Bunbury Inner Harbour). This junction is some 518 metres short of the Alcoa boundary at Bunbury Port. Similarly, the start point at Kwinana is 1.8 km short of the Alcoa bauxite facility. These definitions seem to be at odds with ORAR's understanding of the end points and therefore the overall length of each section. A detailed explanation of the discussions previously held with WestNet is attached to this letter as background on this issue.

In view of the implications to Alcoa and, more particularly, to other users on the South West Mainline, we seek a further meeting on this issue with ORAR.

### **Level Crossings**

We still strongly hold the view that level crossings should be excluded from the asset base as they are funded by Main Roads. The suggestion proposed at our meeting that including them now protects WestNet against any possible future change to the funding arrangements is not acceptable. The Regulator has the ability to change the ceiling in the future should there be "...a material change in any of the circumstances that existed at the time when he or she approved or determined costs under Clause 9..." [Railways (Access) Code Schedule 4 Clause 12]. On this basis, there is no necessity to "future proof" the ceiling price against any change in funding by Main Roads.

Notwithstanding this view, if the Regulator determines that level crossings will be included as assets in the GRV and hence in the Capital Cost then the corresponding revenue (or annualised equivalent) from Main Roads must be included in other revenue in the ceiling price test. The revenue which can be earned from access charges must remain unaltered.

To enable access seekers to negotiate access charges within the floor and ceiling prices, the Regulator would need to identify the amount of the ceiling that is assigned to access revenue and the amount assigned to other revenue.

It is imperative that access seekers are made aware of the access component of the ceiling price to ensure that negotiations or, if necessary, arbitration of the access charge does not include costs which are attributable to other revenue sources. Without this split of the ceiling price, access seekers would be unable to assess the reasonableness of any proposed access charges.

### **Communications**

In our submission, we calculated the total cost of providing a 24 SMOF main bearer and a 34 Mbps backup radio system (to provide 100% redundancy). The capital cost for these systems allocated to the South West Mainline was calculated to be \$6,564,795. We then calculated that only 10.85% of the available bandwidth would be required to satisfy the rail signalling and communications needs on the mainline. As a result, \$712,304 was included in the GRV for communications infrastructure. The cost of providing the surplus bandwidth in the form of extra fibres is assumed to be non-rail related expenditure.

Following our meeting, we now understand that WestNet does not own the communications infrastructure but has access to 6 of the 24 fibres in the cable (the basis of this access and associated charges, if any, are unknown). Without further explanation of the terms for accessing this capacity, we would suggest that WestNet should only be claiming its incurred MEA capital

costs for equipment installed by WestNet to provide signalling and communications coverage along the mainline and any lease costs associated with an agreement with a telecommunications carrier to use corridor land in return for WestNet's access (free or otherwise) to fibres on the cable should be shown as a net annual cost under Operating Costs.

Ultimately, the costs of providing the communications backbone along the entire length of the mainline should not exceed the annual cost of leasing the required bandwidth from a telecommunications carrier. Installing additional capacity by the addition of extra fibres would be an acceptable approach only if the final costs allocated to rail access related functions were reduced as a result of this initiative.

### Half WACC

During our discussions, it was pointed out that the ½ WACC allowance for WestNet to be compensated for working capital on monthly v annual revenues is included in Operating Costs in the WestNet submission.

The Alcoa Submission includes ½ WACC as part of the Capital Cost. In view of this, Capital Costs in our submission are overstated by \$370,889 and should be \$9,509,984 and Operating Costs are understated by the same amount and should be \$1,496,489. The total suggested ceiling price remains unchanged at \$13,731,059.

### Overheads

Based on WestNet's submitted overhead costs, we calculate that WestNet has allocated 55.7%<sup>1</sup> of mainline overheads to the South West Mainline. Since this is close to the split of train movements on the four mainlines (see table below - South West percentage is 57.3%<sup>1</sup>), it was assumed that WestNet had chosen to allocated overheads based on train movements rather than GTKs. At our meeting, it was suggested that the allocation to the South West Mainline represents approximately 25% of all WestNet overheads. This percentage does not correlate with other information provided by WestNet on train movement percentages.

In its supplementary letter of 28 January 2003, WestNet submitted that the following train movement percentages applied across the whole network:

Route	Train Movements % (supplied by WestNet)	Indec calculation of train movements as a percentage of mainline routes only.	WestNet Overheads Dollars expressed as a percentage of mainline routes only
South West Main	47%	57.3%	55.7%
Forrestfield - Kalgoorlie	26%	31.7%	35.2%
Kalgoorlie - Esperance	7%	8.5%	7.3%
Kalgoorlie - Leonora	2%	2.5%	1.8%
Worsley Branch line	8%	n/a	n/a
Other branch lines	11%	n/a	n/a
Total	101%	100%	100%

<sup>1</sup> Note that we have incorrectly stated this as 54% in our original submission.

If the allocation to the South West Mainline is 25% of the total overhead figure, this suggests that the total overhead cost is in the order of \$18.4 million and not our estimate of \$10 million based on WestNet's submitted train movement percentages. In our submission, we proposed a total WestNet overhead for all routes including grain lines of \$6 million.

These large differences suggest that either one or more of the WestNet submitted percentages is inaccurate or train movement percentages are not being used as the allocation methodology.

In view of the size of this discrepancy, we request a further meeting with ORAR for clarification of this matter.

### **The Determination Process**

We understand that the consultants appointed by the Regulator will continue to examine and explore the costs proposed by WestNet. In view of the points raised during our meeting, we would seek to continue to be involved in this process to provide feedback from a user's perspective. How this further input can be achieved in practice, we leave to the Regulator's judgement but we would suggest that regular discussions between Alcoa and ORAR and its consultants, similar to last week's meeting, would be beneficial to the process.

We also request a meeting to specifically discuss the communications, overheads and section length issues raised in this letter.

Yours faithfully

John Oliver  
Transportation and Logistics Manager  
Alcoa World Alumina Australia

Enc: Section Length Information - Attachment A

## Attachment A - Route section definitions for Clause 9 Determination

In accordance with Clause 9, Schedule 4 of the Code the Regulator advised of his intention to determine floor and ceiling prices on a route section basis for four (4) routes one of which was *Kwinana to Bunbury Inner Harbour*.

The Costing Principles state that the eight (8) route sections on the *Kwinana to Bunbury Inner Harbour* route were:

- Kwinana - Mundijong Junction;
- Mundijong Junction - Pinjarra;
- Pinjarra - Alumina Junction;
- Alumina Junction - Pinjarra South;
- Pinjarra - Wagerup;
- Wagerup - Brunswick Junction;
- Brunswick Junction - Picton Junction; and
- Picton Junction - Bunbury Inner Harbour.

In the Ceiling and Floor Price Schedules provided by WestNet for the Clause 9 Determination, pricing is given for nine (9) route sections, namely:

- Kwinana - Mundijong Junction;
- Mundijong Junction - Pinjarra;
- Pinjarra - Pinjarra East;
- Pinjarra East - Alumina Junction;
- Pinjarra East - Pinjarra South;
- Pinjarra - Wagerup;
- Wagerup - Brunswick Junction;
- Brunswick Junction - Picton Junction; and
- Picton Junction - Bunbury Inner Harbour.

Note that the start and end points for the *Kwinana to Bunbury Inner Harbour* route were not defined specifically, simply as "Kwinana" and "Bunbury Inner Harbour". In order to progress negotiations between Alcoa and WestNet on the exact route section lengths for each Alcoa task, a detailed description of the start and end points was defined.

In Alcoa's negotiations to date with WestNet we assumed that the Clause 9 Determination was for the sections of track common to all users hence, the start and end points for each service were defined as:

- **Bauxite (or Alumina) from Calcine to Kwinana:** No 3 F/Pts Kwinana - Alumina Junction Pts;
- **Alumina from Calcine to Bunbury:** Alumina Junction - Inner Harbour Jct Pts;
- **Alumina from Yalup Brook (Wagerup) to Bunbury:** Wagerup South Pts - Inner Harbour Jct Pts; and
- **Caustic from Kwinana to Yalup Brook (Wagerup):** No 3 F/Pts Kwinana - Wagerup North Pts.

However, from Alcoa's point of view, there would be additional sections of track that are not common to all users to which we still require access to complete the journey. This means that the routes Alcoa requires access to are actually:

- **Bauxite (or Alumina) from Calcine to Kwinana:** Alcoa Bauxite Siding (or Alcoa Alumina Siding Pts for Alumina) - Alumina Jet Pts;
- **Alumina from Calcine to Bunbury:** Alumina Junction Pts - Alcoa Bunbury Boundary;
- **Yalup Brook to Bunbury:** Wagerup South Pts - Alcoa Bunbury Boundary; and
- **Kwinana to Yalup Brook:** Bauxite Siding - Wagerup North Pts.

Alcoa requires access to the following sections of track which are not common to all users on the mainline and which we understood were not part of the Clause 9 Determination:

- **No 3 F/Pts Kwinana - Bauxite Junction:** This is a section of track that is 1.853km in length but not including branch lines to CBH and AIS respectively.
- **Bauxite Junction - Alcoa Bauxite Siding:** This is a section of track 1.297km in length but not including a branch line to Cockburn Cement.
- **Bauxite Junction - Alcoa Alumina Siding Pts:** This is a section of track that is 2.833km in length.
- **Bunbury Inner Harbour - Alcoa Boundary:** This is a 0.518km long section of track that excludes branch lines to the decommissioned power station and to the woodchips loading facility.