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3 April, 2002

WestNet Rail Pty Ltd ABN 42 094 721 301

Mr Bruce Chan
Acting Executive Director
Office of The Rail Access Regulator
27 th Floor
197 St Georges Terrace
Perth WA 6000

Dear Mr Chan,

WESTNET'S COMMENTS ON DRAFT AUDIT REPORT BY PwC

Generally the findings of the draft report prepared by PricewaterhouseCoopers (PwC) are agreed to with the exception that the statement where the model is deficient in its treatment of combinatorial test compliance for the determination of overpayments. At the time the audit review was undertaken, WestNet made no assertions that the model in its current state would calculate the combinatorial test for a route section for both the ceiling and floor. The timing of this audit was premature from WestNet's perspective as WestNet was obliged through the confines of the Access Code to respond to requests for preliminary information and proposals for access. This limited WestNet's ability to develop a purpose specific access model which would have addressed the majority of issues and concerns raised in this report.

Whilst WestNet generally agrees with the report findings some of PwC's comments extend beyond the scope of the audit review. These include the capacity to assess compliance on a combinatorial basis and the management and monitoring of overpayments.

WestNet has initiated a project to rewrite the access pricing model. The access pricing model is being converted into a single model using Visual DSS™ software. Visual DSS is a financial modelling and decision support system software. It has a number of features that will reduce the "risk" associated with the current spreadsheet models. A distinguishing feature of VDSS is its language structure, which allows all calculations to be programmed into an easy to read format. This code is stored separately from the data and is not accessed during standard processing of the model, hence is protected from user error (eg accidental changes to the cells containing formulae). In addition, the software has the power to run numerous

procedures in a single model, removing the problem of multiple models identified in the review of the current Westnet modelling approach.

The data used in the model will be stored in a Microsoft Access Database that will have custom built forms that allow the user to view and change physical and cost data assumptions. As other WestNet population data are also stored using Access (eg the RAMS database) the Costing Model database will be designed to read and update information from these databases as deemed appropriate. The systems officer responsible for developing and maintaining the RAMS database will also be responsible for the Costing Model database. The advantage of separating the data into a database to be read by VisualDSS is that Access provides a better and more familiar user interface for data management, and the separation of calculations from data is an important requirement for auditing purposes.

Issues raised in the Price Waterhouse review and WestNet's Response

ISSUE	RESPONSE
Risks inherent in approach used	
Large number of separate files	Models are to be merged into a single system
No formalised price calculation procedure	Inherent in revised model
No formalised procedure for updating model	To be address in maintenance of costing database
Reliance on hardcoded data	No data will be hardcoded in Visual DSS- all parameter assumptions will be updated from a single source, the costing database
Inadequate security	Costing model database will be password protected Visual DSS model to be kept in secure location
Superseded model components	Will be reviewed during model recoding
Absence of links from model to source data	All data will be stored in costing model data base and all calculations performed will consistently read from the same source
Comments on whether the model can assess overpayments; whether it can perform ceiling price tests etc	The model was developed to determine ceiling costs and the review should be limited to addressing how it performs this role. Additional models will be built for determining how prices should be calculated and how revenue will be attributed to route components when there are common route segments on several routes. This will be discussed with the regulator during proposed discussion on definition of routes and route segments for the purpose of the ceiling test.
Reliance on one individual	Calculations in the new model will be significantly more automated, reducing the reliance on the knowledge of one individual. Moreover, the revised model will be adequately documented so it will be possible for other WestNet staff to use it, after some training.

ISSUE	RESPONSE
Accuracy of calculations	
Allocation of financing charge	This will be done on a route basis in future, as suggested
Communication capital and costs	Allocation of capital costs will be revised during model recoding
Communication operating costs	
Floor test	The floor calculations will be revised during model recoding
Sample testing on model accuracy	
Errors found in physical and cost parameters in spreadsheet	These will be avoided in new model where all data will be stored in one place and read in during calculations

Furthermore, WestNet is engaging independent engineers to review all infrastructure for compliance to the Code. This will include assessment of the principle of Modern Equivalent Assets (MEA); economic life and pricing issues.

WestNet believes this project will deliver a level of compliance and security that will mitigate the majority of risks that have been raised in this review process.

Suggested changes to the draft report as submitted by Price WaterhouseCoopers 'marked up' is appended for your consideration.

Yours sincerely


TIM RYAN
GENERAL MANAGER