

# WestNet

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Date 20<sup>th</sup> December 2006

Mr Lyndon Rowe  
Chairman Economic Regulation Authority  
Economic Regulation Authority  
Level 6, Governor Stirling Tower  
197 St Georges Terrace  
Perth WA 6000

Dear Lyndon

**Subject Response to Alcoa / Worsley and ARTC submissions on Ceilings and Floors**

Thankyou for the opportunity for WestNet Rail (WNR) to make comment on the public submissions made by Alcoa / Worsley and ARTC on the review of the Ceilings and Floors proposed by WNR.

Attached to this letter is;

- a letter from WorleyParsons and
- a non-confidential submission by WNR which can be published on the Economic Regulatory Authority's (ERA) web site that responds to the specific recommendations in the Alcoa / Worsley submission.

Our fundamental concerns are detailed below, and WNR would be happy to meet with the ERA to discuss them in more detail.

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## **ARTC Submission**

1. ARTC's submission makes comment on issues that are outside the scope of the review of the Ceiling and Floors. For example the issues of;
  - a national access regime and consistency with the ARTC Access Undertaking;  
and;

- the Depreciated Optimised Replacement Cost (DORC) vs Gross Replacement Value (GRV) asset valuation methodology.

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## **Alcoa / Worsley Joint Submission**

2. WNR would like to challenge the comments regarding the lack of available data . Alcoa made several requests through the ERA for supplementary information, all of which has been supplied by WNR to the ERA in a timely manner.
3. Several comments are made regarding Alcoa and Worsley not having had enough time to make a proper submission. WNR understands from the ERA that both companies were given significant extensions past the original dates that submissions were due and the review period had previously been made clear to all interested parties.
4. The submission makes comment regarding the mathematical accuracy of the Access Pricing Model (APM) and discriminatory allocations within the APM. Both comments are without foundation and WNR has continued to use the original ERA approved APM, which has been audited by Price Waterhouse Coopers on two separate occasions.
5. The submission makes "suggestions" as to what should change in the APM model but without any genuine substantiation as to why. For example:
  - The price of rail, based on supply in the eastern states rather than Western Australia;
  - The price of earthworks, based on an assumption that Worley Parsons have not used the ERA determined mix of "imported" vs. "cut and fill" materials ;
  - The price of ballast, without any basis; and
  - The price of concrete sleepers based on supply in the eastern states rather than Western Australia.
6. The submission also states that the ceiling should be discounted for the Pinjarra to Brunswick section, on the basis that this section has not been resleepered with concrete sleepers yet. WNR makes the following points to argue why this should not be the case:
  - The ERA in its initial determination in September 2003, on page 18 of the determination stated;  
*" Access seekers wishing to include penalties (or discounts) for non performance of agreed standards should incorporate the appropriate provisions in their access agreements with WNR".*

This statement indicates to WNR that the ERA did not intend to mediate between users of the network and WNR on performance standards.

- The ERA's September 2003 determination stated;  
*"the Regulator will monitor the delivery of the level of service through key performance indicators and as indicated in the Regulator's Costing Principles Determination, will revise the MEA standard if it can be demonstrated that WNR is consistently not providing the expected standard and service".*
  - The Costing Principles approved in December 2002 identified that there were specific differences between the actual infrastructure in place and the MEA, including the South West Mainline (SWM). At the time of the first determination in September 2003, none of the 170 kilometres of the SWM had been resleepered with concrete sleepers.
  - The Costing Principles approved in August 2006 on page 8 communicated that over 94 kilometres (or 55%) of the SWM has been resleepered with concrete sleepers with the remainder of the SWM expected to be completed within two to three years.
  - WNR expects to complete the remaining 76 kilometres of the SWM within the time-frame approved in the Costing Principles, most likely in the 2008/09 financial year. This work has been scheduled for this time because up to that point, the availability of the required machines, labour and concrete sleepers will be fully consumed by:
    - the completion of the Perth to Mandurah railway; and
    - the resleepering of 75 kilometres of timber sleepers on the Koolyanobbing to Kalgoorlie section of the Eastern Goldfields Railway (EGR).
  - WNR also notes that Alcoa has stated that it has not received any benefit from the resleepering done to date. Since the resleepering of the Kwinana to Pinjarra section Alcoa has been able to increase its bauxite haulage
  - WNR also notes that the current rolling stock utilised by all above-rail customers (with the exception of the passenger service) cannot operate to the MEA standard. Those assets have substantial remaining useful life and are unlikely to be replaced until well after WNR completes the resleepering in 2008/09.
7. The submission makes the point that the "GRV" should not be based on using prices from the current Western Australian "mining boom" cycle to inflate costs for the next three years. WNR submits that this argument is flawed as follows;

- The process of establishing the Ceiling must use currently available prices. To attempt to forecast what prices will be for the next three years is an impossible and highly risky task, which if not done correctly could penalise WestNet, and have a chilling effect on investment in the Network. The Ceiling review process manages this risk for the Railway Owner and users by having a price review every three years.
8. The submission incorrectly ignores the September 2003 determination made by the ERA by seeking to open discussion on items that the ERA has previously determined such as:
- Earthworks volumes; and
  - Efficient Maintenance costs per kilometre.
9. The submission states that WNR should have further reduced its Overhead costs since the September 2003 determination by the ERA. WNR makes the following points why this argument is flawed;
- Movement in the CPI of Perth has been 13.6% since the previous determination, which has driven a genuine uplift in costs.
  - The Overhead baseline approved in the September 2003 determination was based on a shared services model with ARG and an assessment of WNR's level of consumption of those shared services;
  - WNR has made available to the ERA its line by line detailed budget for operation as a stand-alone Railway Owner which shows the true cost to be higher than that previously determined under the above mentioned approach; and
  - WNR is willing to work through that budget line by line with the ERA and its consultants.
10. The submission states that the APM has not included any cost savings resulting from the implementation of Centralised Train Control (CTC). This is not the case as the September 2003 determination was based on CTC being in place and the numbers of Train Controllers assumed in the APM being commensurate with CTC. The submission overlooks that WNR has increased the number of Train Controllers in CTC since that determination to support additional new and likely traffics resulting in more train movements.
11. The submission states that the maintenance cost per kilometre should be \$12,700 per kilometre. This is less than the \$15,000 per kilometre determined by the ERA in the September 2003 determination. WNR has in its most recent submission escalated the \$15,000 per kilometre by 17.4% to \$17,610 based on;
- The Australian Bureau of Statistics Index 4121 for Non Building Construction and Road / Bridge Construction having increased by 17.4% since the last determination; and

- WNR's maintenance contract with John Holland being escalated by more than 17.4% over the same period. This information has been made available to the ERA.

To propose that the maintenance cost per kilometre should come down from the previously ERA determined amount over a period where real cost increases have occurred is substantially flawed.

12. The submission makes the point that the allocation of overheads to the Terminal End Bits is too high. Whilst WNR has used the mathematics of the September 2003 determination, it acknowledges that there may be an over-allocation of overhead costs to the Terminal End Bits. WNR proposes that it meet with the ERA before the draft determination to identify and agree an appropriate methodology.

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### **Crossing Loop at Burekup**

WNR also included in the GRV a new crossing loop at Burekup. The cost included in the APM was understated at \$1,347,504. The detailed design and estimate for this crossing loop has been completed since WNR's submission in August 2006. The estimate has been finalised at \$3,220,000. WNR will advise the ERA of what the changes to Ceiling and Floor will be and is happy to make the detail of the estimate available for the ERA's scrutiny.

WNR looks forward to discussing the issues in this letter and its attached submission prior to the draft determination being finalised.

Yours sincerely



**John Cleland**  
Chief Executive Officer