

8 May 2009

Mr Russell Dumas
Director Gas and Rail Access
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Dear Russell

WestNet Rail Submission on Draft Determination on WestNet Rail's proposed 2009-10 Floor and Ceiling Costs

WestNet Rail (WNR) submitted proposed floor and ceiling costs on 24 October 2008. The Economic Regulation Authority (the Authority) released a Draft Determination on this proposal on 4 March 2009.

The Authority's determination was to not approve the floor and ceiling costs and to require WNR to make the following amendments:

1. Reduction of 2008-2009 escalation factor from 2.75% to 2.00%
2. Reduction of unit prices as per Table 10 of the Draft Determination.

The Authority also determined that WNR recalculate the floor and ceiling costs using these revised inputs and include a statement relating to the timeframe of the proposed floor and ceiling costs.

WNR's submits the following response to the Draft Determination:

Escalation Factor

WNR asserts that the escalation factor should be based on the latest Consumer Price Index information available at the time of the Final Determination. Current data from the Australian Bureau of Statistics shows a movement of 2.2% for the Perth All Groups CPI for the year to March 2009.

Unit Prices

WNR broadly agrees with PwC/Maunsell's assessment that prices of some rail infrastructure components have softened or reduced slightly since WNR's submission in October 2008.

GHD were engaged to obtain up-to-date prices for those components listed in Table 10 of the Draft Determination. Their report is attached to this submission. As a result, WNR accepts the unit prices in Table 10 of the Draft Determination with the following exceptions.

Rail

WNR does not accept PwC/Maunsell's assessment that prices for all rail sizes are equal. For each tonne of heavier rail there is less distance of rail produced. In turn there is less rolling, handling and transport costs for heavier rail when expressed in \$/tonne.

WNR agrees that there has been a general softening of prices for rail, however GHD's report confirms that there is a real difference between 41kg, 50kg and 60kg rail when expressed in \$/tonne.

WNR accepts the price of \$1440 per tonne for 50kg/m rail, but for the reasons outlined, a price of \$1525 per tonne for 41kg/m rail is more representative of the market.

Sleepers

The softening in price proposed by PwC/Maunsell is not supported by more recent prices provided to GHD. Developments in the MidWest and Pilbara continue to place pressure on supply of concrete sleepers and prices have not reduced as significantly as the PwC/Maunsell estimates predicted.

Ballast Transport

WNR disagrees with PwC/Maunsell's assumptions in the calculation of ballast haulage rates. A figure of 9c/ntk does not reflect the specialised equipment required and inefficient nature of ballast transport by road or rail.

WNR submits that the following unit costs be used in the Final Determination

Item	Unit	2008 WNR Proposed Price	2008 Authority Determined Price	April 2009 WNR Revised Price
Rail 41 kg/m	Tonne	1600	1400	1525
Concrete Sleeper SG	Each	155	125	137
Concrete Sleeper SG	Each	210	174	195
Ballast Transport	Tonne	12.0	5.4	9.0

Yours sincerely



Paul Larsen
General Manager
WESTNET RAIL



05 May 2009

WestNet Rail Pty Ltd
Attn Adam Sidebottom
2-4 Adams Drive, Welshpool
WA

Our ref: 31/206960/1/165860
Your ref:

Dear Sir,

Ceiling Costs - Unit Rates - Updated Unit Rates

Following your request for GHD Pty Ltd to review the Unit Rates previously reported as part of WestNet's consideration regarding the task of Ceiling Price Review, we have undertaken an update and report our results in the following Table.

In general we have found that unit rates have flattened since our September 2008 review and in some instances the unit costs have reduced. Each item is affected by their own market pressures and by specific projects.

Owing to some suppliers' undertaking rationalisations it was not possible to speak to the same person and therefore the context of the review altered with the particular individual questioned. The estimates of unit cost are somewhat individually based, which is the reality of supplier costing, where they need to respond to the particular conditions on the particular day. Nevertheless a consistent downward trend in prices was observed.

The results of our enquiries are as below:



Item	Unit	2008 WNR Proposed Price (\$ June 2008)	2008 Authority Determined Price (\$ June 2008)	April 2009 GHD Revised Price (\$ April 2009)	Comment
Rail 41 kg/m	Tonne	1,600	1,400	1,525	Delivered Midland. This unit price is higher than for 50 kg/m rail for at least two reasons. The manufacturing costs are higher on a per tonne basis because there are greater handling costs with more "strings" being produced than 50 kg/m rail. The transport costs including handling are higher on a per tonne basis because there are more "strings" to handle and the limit on rail wagon capacity for transport is not weight but space or height on the rail wagon.
Concrete sleeper SG	Each	155	125	137	Including Fastenings delivered Perth Metro. Prices are determined largely by supplier expectations and competitive pressures. In Perth, while the Mandurah rail line is now complete the developments in the Mid-West and in the Pilbara have maintained prices particularly for equipment and skilled labour components.
Concrete sleeper DG	Each	210	174	195	Including Fastenings delivered Perth Metro. Prices are determined largely by supplier expectations and competitive pressures. In Perth, while the Mandurah rail line is now complete the developments in the Mid-West and in the Pilbara have maintained prices particularly for equipment and skilled labour components
Ballast Transport	Tonne	12	5.4	9.00	At an average haul distance of 75km (150kms max haul) and unit transport rates of 12c/ntk including loading. This is a relatively high unit rate because of specialised equipment/wagons with slow turnaround and poor asset utilisation. These haul distances are longer on the EGR/Leonora/Esperance and shorter on the SWM.



We would be pleased to further discuss or clarify these results if the need arises.

Yours faithfully
GHD Pty Ltd

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