



Western Australia

# *Economic Regulation Authority*

Ref: Rail 051

Notice to Stakeholders

## **REPORT: ESTIMATION OF CPI-X IN THE WA RAIL INDUSTRY**

### Background

The Rail Access Regulator (Regulator) approved the Costing Principles that would apply to WestNet Rail (WNR) and Public Transport Authority (PTA) in September 2002 and April 2003 respectively. In both determinations, the Regulator indicated that the approved floor and ceiling costs would be escalated annually by CPI-X between regulatory resets.

The Regulator calculated the X factor to be 0.25 of the Consumer Price Index (CPI), which translates to an approved escalation factor of 0.75 of CPI. The Regulator recognised that there was some element of subjectivity in estimating the X factor and as a consequence indicated that he would review the methodologies to calculate the X factor prior to the next reset of the Gross Replacement Value (GRV) of the WNR and PTA railway infrastructure.

In May 2003, the Institute for Research into International Competitiveness (IRIC) was commissioned to undertake a scoping study to assess the appropriate measures for price adjustment in revenue cap regulation. Public comments were sought on the draft IRIC report in July 2003. The study identified some issues when using CPI as an escalator, outlined a methodology using total factor productivity to calculate the X factor and suggested directions for further research.

In December 2003, the Regulator commissioned IRIC to test the proposed methodology on the four main routes of the WNR rail network in which floor and ceiling costs have been determined. This study is now completed and a draft report has been prepared by IRIC. A copy of the report, and the July 2003 scoping report, can be downloaded from the ERA Rail Division website [www.railaccess.wa.gov.au](http://www.railaccess.wa.gov.au).

It should be noted that the X factor calculated in the report will not be used in place of the 0.25 of CPI that was previously determined by the Regulator prior to the next regulatory reset. The Authority will continue to monitor the development of CPI-X regulation in Australia and overseas, discuss the proposed methodology with stakeholders and other State Regulators and reassess the applicability of the proposed methodology when the GRV of the WNR and PTA railway infrastructure is formally reset.

Public Consultation

The ERA seeks comments from all stakeholders on the draft IRIC report. Submissions should be received by close of business Friday 30 April 2004 and should be addressed to:

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If you have any queries, please contact Mike Jansen on 9213 1952.

Mr Lyndon Rowe  
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Economic Regulation Authority

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