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Mr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
GPO Box 8469  
Perth Business Centre  
PERTH WA 6849

**PUBLIC SUBMISSION ON DRAFT DETERMINATIONS – WESTNET RAIL’S PROPOSED PART 5  
INSTRUMENTS**

Dear Mr. Rowe,

Alcoa has reviewed the Draft Determinations issued by the Economic Regulation Authority (ERA) on the four proposed Part 5 Instruments submitted by WestNet Rail (WNR) in December 2005 and makes the following observations on the Required Amendments in the Draft Determinations on the Overpayment Rules and the Costing Principles.

**1. PROPOSED OVERPAYMENT RULES**

Required Amendment 1.

We concur with the ERA’s view that overpayments will now be calculated at a route section level and not at a route level. There are several other references throughout the Proposed Overpayment Rules where this same confusion arises and we would suggest that these also be changed.

Required Amendment 2

We concur with the ERA’s view that contributed assets must be specified as an equivalent annual contribution but would suggest that WNR should be required to calculate the amount using the same basis as the calculation of WNR funded assets defined in the Costing Principles.

Required Amendment 3

We concur with the ERA’s view that Note (b) should further inform Non-Regime Operators that they can receive refunds of overpayments if this is stipulated in their Access Agreement.

#### Required Amendment 4

We concur with the ERA's view that all eligible Operators on a particular route section should be reimbursed when an overpayment occurs and that no specific Operator should be viewed as the "trigger" of such an event. It is our view that some further clarification is required to the last paragraph of Section 2.8 which in WNR's proposed amendment reads:

*"The repayment will be apportioned based on the total annual Access Revenue received above the Floor for access by each Operator on the route as a proportion of the Total Access Revenue above the Floor for the route section. An Operator paying only the Incremental Cost on the route will not be considered for any refund as this would compromise the Floor Price test in the Code."*

This paragraph also needs to reference the inclusion of contributed assets and it should further explain how if the revenue used in the formula is only the balance of each Operator's payment above their floor price then how does the total percentage of all contributing Operators add up to 100%. In other words, after calculating each Operator's contribution to Access Revenue, does the sum of all the numerators in this formula equal the denominator. Perhaps a worked example of the allocation of, say, Example 3 in Section 4 would be useful.

#### Required Amendment 5

We concur with the ERA's view on the inclusion of non-access revenue in both the numerator and denominator of the formula in Rule 6 and seek further clarification of the operation of the formula as explained above in response to Required Amendment 4.

It would also be useful if the terminology used in the formula matched the text in Section 2.8. In the proposed amendment, the numerator reads *"An Operators annual Access Revenue above the Floor"*. Previously it read *"An operator's annual payment above the floor +contributions"*. It is either a payment made by the Operator or revenue received by WNR and not the Operator's annual revenue. Further the amount of "net overpayment" should be defined as including interest accrued in the Overpayment Account.

## **2. PROPOSED COSTING PRINCIPLES**

#### Required Amendment 1

We concur with the ERA's view that train control costs should be apportioned directly to rail routes, however it would be beneficial to explain the cost driver (proxy) to be used. Further, guidance on the allocation of costs down to a route section level would also assist.

#### Required Amendment 2

We have stated in several submissions that we have specific issues with the use of GTKs and train numbers as proxies for the allocation of overhead costs.

The Code currently requires the railway owner to submit an initial determination of the costs prior to a determination by the Regulator. This amendment would require the railway owner to submit a partly completed price breakdown with the overhead allocation provided subsequently by the Regulator.

As a participant in the working group convened by the ERA, and being supportive in general terms of the outcomes flowing from that group, we support the amendment on the basis that a more equitable allocation of overheads will be forthcoming.

### Required Amendment 3

We have the same view as for amendment 3 - as a participant in the working group convened by the ERA, and being supportive in general terms of the outcomes flowing from that group, we support the amendment on the basis that a more equitable allocation of overheads will be forthcoming

Alcoa's previous submissions have been aimed specifically at addressing the distortion caused by the existing allocation methodology on short route sections which are also often branch lines.

The current allocation methodology results in distorted allocations on certain route sections. A good example of this is the overhead allocation in the Determination on Worsley's Route Sections where overheads on the 20.6 km section from Brunswick East to Worsley were \$176,904 but represented only 7% of the ceiling whereas on the 1km section from Brunswick to Brunswick East the allocation was \$114,377 which was 24% of the ceiling price on that section. Previously submitted examples for some of the short route sections used by Alcoa show even greater distortions.

### Required Amendment 4

We concur with the ERA's view that price resets resulting from a CPI-X calculation should be reviewed and approved by the ERA.

Yours faithfully



**John Oliver**  
**Transportation & Logistics Manager**  
**Alcoa World Alumina Australia**