AWB

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Mr Bruce Chan
Acting Director
Rail Division
Economic Regulation Authority
GPO Box 8469
Perth Business Centre WA 6849

Dear Mr Chan,

I am writing in response to your letter (dated 9 March 2004) to our WA Regional Operations Manager, Paul Budgeon. This letter requested comments regarding the determination of floor and ceiling costs for the following line sections of the WA rail network:

1. Avon to Goomalling
2. Katanning to Tambellup
3. Kulin to Yilminning
4. Mullewa to Narngulu

We offer the following comments regarding the proposed ceiling costs:

1. General

The data provided was fairly high level in nature and did not itemise individual costs for each component of the track specification. Given that the network is managed by WNR, obtaining access to independently inspect the track is an uncertain process that may be difficult to obtain. Consequently at this time, it is difficult to offer detailed analysis of the WNR submission and the comments can only be considered as preliminary.

We would welcome the opportunity to discuss the possibility of reviewing more detailed information of the route sections. This could potentially be achieved through one of three ways:

1. Physical inspection of each route section.
2. Detailed review of the WNR submission for the floor and ceiling costs for each route section.
3. Detailed review of any reports prepared for the ERA concerning these line sections.

If you could assist with any of the above options, we would appreciate your assistance. However, our preference would be either option 2 or 3, which we believe would be more time and cost effective than a physical track inspection.

2. Preliminary Detailed Comments

On a $/kilometre basis, the GRV for each route section is:

Route Section	km	axle load (tonnes)	Total cost ($'m)	Cost/km ($'000)
Avon to Goomalling	57.7	19	$42.036	$728.5
Katanning to Tambellup	46.7	19	$30.526	$653.6
Kulin to Yilminning	99.8	16	$62.523	$626.5
Mullewa to Narngulu	103.1	16	$60.281	$584.7

The construction cost of a grain branchline can vary significantly, due to many factors such as soil type, gradients, waterways and local availability of materials. The data presented in the WNR summary does not provide any indication of these issues.

In examining the potential construction costs, we engaged Rail Asset Management (RAM), a company with significant experience in rail siding construction, management of grain branchline networks and rail infrastructure scoping studies. As part of the brief, we requested RAM to develop a model to estimate the construction cost for each of the branchlines, based on the information provided in your letter. AWB also requested RAM to adopt an approach that reflected contemporary construction costs and include a margin to cover contingency factors that may be related to WA grain belt specific regional issues. Due to insufficient detail being available concerning track layouts, RAM used the WNR quotations for signalling and communication costs in its model.

Using on the above assumptions, the RAM modelling identified that the WNR quotations appeared to be more expensive by the following margins:

Route Section	Variance % (WNR compared to RAM)
Avon to Goomalling	14.6%
Katanning to Tambellup	11.5%
Kulin to Yilminning	13.5%
Mullewa to Narngulu	13.0%

The variance between the WNR and RAM estimates would be even greater if the WA grain belt contingency is not required. Further savings may also be available if a detailed review of the scope of works for signalling and communications were also undertaken.

3. Conclusion

The costings submitted to the rail regular by WNR appear to be above normal industry expectations, given the specification presented for review. We would be happy to review the estimates as more detail becomes available.

We welcome the opportunity to discuss this proposal in more detail at your earliest convenience and I can be contacted on (03) 9209 2161 to arrange an appointment.

Regards

Roger O'Donnell
Land Transport Manager
AWB Services Limited