



20th May 2004

Mr Lyndon Rowe
Chairman
Rail Division
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

RE: Alcoa's Proposal for Rail Access to SW Mainline

Dear Mr Rowe,

We wish to advise you that we have recently written to WestNet Rail as track owner of the South West Mainline to request WestNet Rail to provide costing information to your office under Schedule 4 Clause 10 of the Railways (Access) Code 2000 [the Code].

By way of background, Alcoa submitted a Proposal for Access under the Code to WestNet Rail in November 2001 which requested access to all track between the private sidings on Alcoa sites at Kwinana, Pinjarra, Wagerup and Bunbury Port. Subsequently, the Regulator announced he would provide a Clause 9 determination on all the mainlines in the WestNet network including the South West Mainline. During submissions and pricing reviews, it was agreed between the Regulator and WestNet Rail that the extent of the Clause 9 review would include only the "common user" sections of line and therefore only nine sections on the South West Mainline were reviewed and pricing for these sections was determined on 24 September 2003.

This determination did not include the following short sections of line:

ID	Section	Distance (km)
1a	Kwinana No 3 Facing Points to Alcoa Bauxite Junction	1.853
1b	Alcoa Bauxite Junction to Alcoa Bauxite Siding (Kwinana)	1.297
1c	Alcoa Bauxite Junction to Alcoa Caustic Siding (Kwinana)	2.833
1d	Alcoa Caustic Siding to Alcoa Alumina Siding (Kwinana)	
2a	Bunbury Inner Harbour No. 485 Points to Alcoa (inbound)	0.518
2b	Bunbury Inner Harbour No. 486 Points to Alcoa (outbound)	0.38
2c	Bunbury Inner Harbour No. 485 Points to No. 486 Points	0.08

Table 1. The "Short Sections" of line connecting Alcoa sites to the mainline

Section 1 in Table 1 connects our Kwinana refinery to the narrow gauge line at Kwinana via a common section (ID 1a) and two spur lines - one into the bauxite unloader (ID 1b) and one into the caustic loader (ID 1c). There is also a spur from section 1c which connects to the alumina unloader (ID 1d) at the northernmost end of our Kwinana site. The section at Bunbury Inner Harbour provides the connection between the Picton to Bunbury Harbour line and the Alcoa site which is configured as a loop with trains entering the site on the inbound section (ID 2a) and exiting on the outbound section (ID 2b). All these sections of line have been referred to as the "Short Sections" in this letter.

Following the Clause 9 Determination in September last year, we received correspondence from ARG dated 24 October 2003 in which they state it is their view that the South West Mainline determination is not complete due to the omission of the Short Sections. ARG offered their view of the access rates which would apply to our haulage task on the South West Mainline. The access rates were based on the Clause 9 Determination dated 24 September 2003 in relation to the nine sections and on pricing from WestNet Rail for the Short Sections.

We subsequently sought clarification on the calculation of the costings for the Short Sections as the prices supplied did not match our estimates of the costs associated with these Short Sections. We received a breakdown of the ceiling price for these sections in a letter from AWR on 18 December 2003. The ceiling price quoted for section 1 was \$1,218,259 and for section 2 was \$737,978.

It is our view that these ceiling prices are excessive as our consultant's previous estimate of ceiling price was approximately \$550,000 for section 1 and \$50,000 for section 2. We have attempted to negotiate more reasonable ceilings on these sections however we have received no satisfactory explanation for the ceiling prices being suggested by WestNet for these sections of line. As a result, we have requested WestNet Rail (by letter on 14 May 2004) to seek a Clause 10 determination on these sections of line to ensure that the costs being applied are fair and reasonable.

We request that these ceilings be reviewed and not merely approved, and ask that a regulatory determination take into account our views on the following issues:

1. There is no basis for an additional allocation of overheads and operating costs to these short sections as the full allocation of overheads and operating costs is being recovered on the nine sections in the Clause 9 Determination.
2. These sections of line are not required to meet the full mainline specification and are permanently speed restricted as trains approach Alcoa's site boundaries. Rail, sleepers and turnouts are not subject to the same wear due to the low traverse speeds on these sections and so extended life and lower maintenance costs should be reflected in the ceiling price.
3. Alcoa has already contributed to the full cost of installation of several turnouts on these sections of line and continues to be responsible for the on-going maintenance of these turnouts.
4. The Port of Bunbury provided funding for the new rail bridge over the Preston River when the Bunbury Inner Harbour to Alcoa access was upgraded from single track to triple track. As such, this asset should either be excluded from the calculations or be identified as a contributed asset if renewal is the responsibility of the Port.
5. Any allocation of costs to these short sections of line based on train movements would further disadvantage Alcoa in the same way that train movements allocations on the mainline sections attach disproportionately high charges to short section lengths.
6. Alcoa is the only user of these sections of line (apart from the Bunbury section which is shared with Worsley Alumina) and as such we are likely to be charged the maximum permissible rate on

these sections. Based on the ceiling prices proposed by WestNet and the current volumes on these sections, the maximum GTK rate on the Kwinana short section (ID 1) is \$24.06 per thousand GTK and on the Bunbury section (ID 2) it is a staggering \$86.89 per thousand GTK. WestNet could charge up to these maximum rates and not incur any overpayment obligations if the ceiling prices supplied to Alcoa are approved. We consider that ceiling prices of this order of magnitude would not meet the "Guidelines to be applied" in Schedule 4 Clause 13 of the Code.

Whilst we understand that the delay in the provision of these ceiling prices was outside the control of your office, we would request your urgent review of these ceiling prices to enable a resolution of this outstanding commercial issue between Alcoa and WestNet Rail before 30 June 2004 if possible.

Yours faithfully

John Oliver
Transportation & Logistics Manager
Alcoa World Alumina, Australia