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Mr Bruce Chan
Acting Director, Rail Division
Economic Regulation Authority
27th floor, Governor Stirling Tower
197 St Georges Terrace
Perth WA 6000

Dear Bruce

Authority to determine the ceiling costs on seven small sections of Southwest Mainline.

I refer to ERA's letter of May 24 and Alcoa's letter of May 14, 2004 addressed to WestNet with a copy to the Rail Division ERA.

In response to your three questions;

1. Alcoa's request for floor and ceiling costs for end terminal infrastructure under Clause 10, Schedule 4 of the Railways (Access) Code 2000 appears not to be justified. WestNet does not have an access agreement with Alcoa although negotiations for such an agreement did take place between WestNet and Alcoa although those negotiations were outside the Code.

Access for Alcoa is currently provided under the ARG access agreement which was also not negotiated under the Code.

In any event WNR is happy to provide the requested information to enable the ERA to assess whether the ceilings for the terminal end bits are consistent with previous determinations. The ceiling calculations for the terminal infrastructure have been based on the same methodology as adopted for the line sections already determined.

2. The terminal end sections support nearly the same level of traffic as the mainline. Whilst it is arguable that the trains are operating at slower speeds because they are nearing the terminals the track structure required is the same.

There are some temporary speed restrictions but these will be progressively removed as infrastructure is upgraded (we have recently completed works at Kwinana to replace a diamond crossover for example).

There is evidence to suggest that the life of rail would be extended beyond what is assumed in the model if operated constantly at speeds lower than design speed. Based on our analysis using the rail selection module the increase in rail life may be 15% at the predicted speeds.

No such models exist for sleepers, ballast or formation and our expectation is that there would be little change.

3. WestNet has not included any turnouts that were funded or maintained by Alcoa. The bridge referred to at Bunbury was built in 1971 and transferred in ownership from the Public Works Authority to the Bunbury Port Authority to Westrail and leased to WestNet. This infrastructure is now part of the lease and the maintenance and future replacement is now the responsibility of WestNet. We therefore believe that the bridge and turnouts are legitimate infrastructure forming part of the leased corridor and are not deemed a contributed asset for the purposes of overpayment. WestNet is responsible for future replacement and ongoing repair of these assets.

For the purposes of advising ARG of the ceiling costs for these segments WestNet used the same MEA standard as the South West Main. The logic for this being that the terminal infrastructure is required to sustain the same volumes that flow over the main line.

The GTK, Train numbers and significant infrastructure by terminal segment are tabled below.

Terminal Infrastructure - Operating Statistics

	GTK	Train Number	Level Crossing	Turnouts
Alcoa Bauxite Jn - Alcoa Bauxite Sdg	17,810,893	6,192		
Alcoa Caustic Sdg Pts -Alcoa Alumina Sdg Pts	1,192,354	714		
Kwinana no3 points to bauxite junction	30,000,376	7,714		1
Alcoa Bauxite Jn - Alcoa Caustic Sdg Pts	3,517,097	1,272		
Inner Harbour 486 Pt to 487 pts	248,731	3,351		
Inner Harbour 486 Pt to ALCOA (Outbound)	933,709	2,703		1
Inner Harbour 487 Pt to Woodchips	4,776,209	1,262	1	1
Inner Harbour 487 Pt to Worsley (Outbound)	867,552	2,089		
Inner Harbour 485 Pt to 486 pts	528,211	6,054		
Inner Harbour 485 Pt to Alcoa (Inbound)	5,985,075	4,380	1	

The Ceiling, Floor ,GRV and track length for each segment of terminal infrastructure is tabled below.

Terminal Infrastructure Ceiling Floor and GRV

Alcoa terminal track marked *

	Section Length Km	Total Ceiling	Capital	Maintenance	Working Capital	Operating	Overhead	Floor	GRV	
Total Terminal Routes	10.522	2,616,067	640,926	157,830	22,112	820,480	974,719	652,761	8,904,516	
Route Section										
Inner Harbour 485 Pt to Alcoa (Inbound)	*	0.512	269,575	36,442	12,528	1,257	100,577	118,771	73,732	466,225
Inner Harbour 486 Pt to ALCOA (Outbound)	*	0.38	177,227	36,485	5,061	1,259	62,068	72,355	45,392	462,300
Inner Harbour 487 Pt to Worsley (Outbound)		0.328	143,130	33,525	4,510	1,157	47,969	55,969	35,378	424,257
Inner Harbour 485 Pt to 486 pts	*	0.081	313,227	11,165	1,137	385	139,016	161,523	95,573	108,702
Inner Harbour 486 Pt to 487 pts		0.055	173,861	6,604	690	228	76,948	89,391	52,957	66,441
Inner Harbour 487 Pt to Woodchips		3.183	346,629	230,556	43,877	7,954	28,979	35,262	45,425	3,390,729
Kwinana no3 points to bauxite junction	*	1.853	540,377	106,116	37,649	3,661	177,134	215,817	143,190	1,400,709
Alcoa Bauxite Jn - Alcoa Bauxite Sdg	*	1.297	400,380	61,223	23,764	2,112	142,185	171,096	109,895	846,999
Alcoa Bauxite Jn - Alcoa Caustic Sdg Pts	*	1.893	165,634	79,317	19,273	2,736	29,209	35,099	33,348	1,160,895
Alcoa Caustic Sdg Pts -Alcoa Alumina Sdg Pts	*	0.94	86,026	39,492	9,341	1,362	16,395	19,435	17,871	577,260

Further to your enquiry regarding disclosure of GTK and train number as a percentage of all sections, WestNet wishes to advise that the table provided in our letter of January 28, 2003 was incorrect. A comparison between numbers reported in our communication to you in Jan 2003 and current numbers are provided in the following table. GTK and train numbers used in the determination are the "APM Actual" numbers. These "APM Actual" numbers were the numbers used in your determinations because the values determined were based on the APM model.

	Jan 2003 Advice		APM Actual		Variation	
	Train	GTK	Train	GTK	Train	GTK
EGR	26	51	21	51	-19%	0%
Leonora	2	4	1	4	-50%	0%
Esperance	7	17	4	17	-43%	0%
SWM	47	14	34	12	-28%	-14%
Other remaining lines	18	14	40	16	122%	14%
Total	100	100	100	100	-18%	0%

A copy of the Access Pricing Model will be forwarded to you by email.

By way of conclusion I would like to raise some points about the request as follows:

- Alcoa clearly are not happy with the outcome of the overall determination. The segmentation of the line (including the end bits) and the drive to keep the ceiling low are driven by commercial interests given their particular pricing strategy for access as previously disclosed;
 - Alcoa argued in October 2003 to the ERA that the Pinjarra triangle had been treated inequitably in terms of overheads and operating allocation.
 - I communicated to you in my email of 21 October 2003 that it was quite clear that even through Alcoa had originally asked for the spilt-up of route sections upon which the determination was made, Alcoa stood to gain from the above argument commercially by pushing ceiling cost off infrastructure dedicated to Alcoa and onto the mainline, which other users would then be forced to pick up.
 - The end bits should not be treated any differently to the triangle in regards to this same issue.
 - The table below compares the Pinjarra triangle to all of the terminals and the Alcoa terminals in regards to the total ceiling cost per track kilometre and overhead/operating cost per track kilometre.

	Section Length Km	Total Ceiling per track km	Total Operating and overhead per track km
Triangle	2.92	508,896	345,438
All Terminals	10.522	248,628	170,614
Alcoa Terminals	6.956	280,685	209,989

- The argument about points and bridges is akin to a previously run argument that the 'sale price' represents some form of contributed assets from the State Government.
- If the 'end bits' are to be determined on a different basis to the rest of the SW Main then it is appropriate to reconsider the effect on the whole of the SW Main and not the 'end bits' in isolation.

- We have accepted the regulator's determination and whilst there are aspects we may not agree with we have not raised objections. We believe it is not fair to reconsider only those issues that a party feels adversely affects them.

If you require any clarification regarding these matters please refer to the Access Policy Manager, Geoff Brook on Ext 22839.

Yours faithfully

T.F.Ryan
General Manager
WestNet Rail