

NOTICE

Review of Westnet Rail's Floor and Ceiling Costs Grain Rail Lines

The Economic Regulation Authority has received a submission from WestNet Rail (WNR) on its proposed floor and ceiling costs for three grain lines for inclusion in the Authority's review of proposed floor and ceiling costs for certain rail lines.

BACKGROUND

On 14 September 2006, the Authority released a notice saying that WNR had submitted its proposed floor and ceiling costs for certain rail lines for review and approval by the Authority. The notice called for submissions on WNR's proposed costs and indicated that, by mid-October 2006, the Authority expected WNR to submit (as part of the review) a further four rail lines within the grain network. Public submissions on WNR's proposed floor and ceiling costs for these grain lines would be sought at that time.

WNR has now submitted to the Authority its proposed floor and ceiling costs for the following lines.

- Avon to Goomalling;
- Katanning to Tambellup; and
- Kulin to Yilliminning.

WNR has not included the Mullewa to Narngulu (Mullewa) rail line in its submission, indicating that the Modern Equivalent Asset (MEA) operating standard for this line would not reflect a standard grain line as it is likely to be upgraded to accommodate the transport of significant quantities of iron ore in the next few years. WNR has proposed submitting the floor and ceiling costs for the upgraded Mullewa rail line in the next few months for review and approval by the Authority.

The Authority has considered and agreed with the reasoning behind the omission of the Mullewa line. This line will be reviewed at a later date under a separate review process.

ISSUES

To help the Authority conduct its review of WNR's submission, interested parties are asked to consider the following issues and provide comment, if appropriate, on these issues as well as any other comments they may wish to make.

- ***Modern Equivalent Asset***

WNR has indicated that the MEA adopted in its submission is the same as that approved by the Authority in its July 2004 determination when the floor and ceiling costs were first approved.

The Authority is seeking the views of interested parties on the assumptions used in the calculation of the MEA in WNR's submission.

- ***Gross Replacement Value***

In calculating the Gross Replacement Value (GRV), WNR has used the same asset population as that approved by the Authority in the 2004 determination.

The second element of the GRV is unit prices. WNR has indicated that unit prices are based on the information outlined in its consultant's (Worley Parsons) report. The Worley Parsons report is available on the Authority's website and was included as part of WNR's earlier submission. Unit prices used are based on a combination of market-tested prices for significant items and an escalation of 2004 unit prices, using appropriate indices, for less significant items.

The Authority is seeking the views of interested parties on the assumptions used in calculating the GRV in WNR's submission.

- ***Allocation of Common Costs***

WNR has indicated in its submission that common costs, consisting of operating and overhead costs, have been allocated to rail lines and route sections based on a combination of train numbers and gross tonne kilometres (apart from centralised train control costs which have been directly allocated to the rail lines where the costs occur and allocated to route sections using train numbers). The allocation methodology for the common costs used by WNR is the same as that approved by the Authority in earlier determinations.

The Authority is seeking the views of interested parties on the methodology used for allocating common costs in WNR's submission.

- ***Maintenance Costs***

In calculating maintenance costs, WNR has used a-dollars-per-kilometre approach rather than an activity-based costing approach. In the 2004 determination, the Authority required WNR to use the former approach. In its current submission, WNR has used the maintenance costs approved in the earlier determination and escalated these costs to current values using the Australian Bureau of Statistics labour and material indices. This methodology was deemed appropriate by Worley Parsons.

The Authority is seeking the views of interested parties on the methodology used in WNR's submission.

In addition to the above issues arising from WNR's submission, the Authority considers that it would make the regulatory process more efficient if consistency were achieved in the timelines for applying the determined floor and ceiling costs on the rail lines subject to this review. This matter is outlined below:

Consistency of Future Review Dates

In its notice of 14 September 2006, the Authority noted that earlier determinations of the floor and ceiling costs for the rail lines under review were undertaken at different times resulting in different time periods over which these determinations applied.

The Authority sees merit in making future timelines for the application of the floor and ceiling cost determinations for these rail lines consistent to improve the efficiency of the regulatory review process. To achieve this, it is proposed that the end date for all of the rail lines subject to this review be 1 July 2009. Subsequent determinations would then apply over the same three-year periods. Under this proposal the period over which the determination for the three grain lines would apply for the next determination period (beyond 31 December 2006) would be shorter. It would reduce from three years to 2 years and six months. Thereafter, a three year time period would apply to these lines.

The Authority is seeking the views of interested parties on its proposal to make future timelines for the application of the floor and ceiling cost determinations for these rail lines consistent.

PUBLIC SUBMISSIONS

In accordance with clause 9 (schedule 4) of the *Railways (Access) Code 2000* (Code), the Authority invites submissions from interested parties on WNR's proposed floor and ceiling costs for the three grain rail lines specified in its submission. All submissions should be in electronic and hard copy form.

In general, submissions made to the Authority will be treated as in the public domain and placed on the Authority's website unless confidentiality is claimed in respect to all or part of the submission and the issues or parts of the submission for which confidential treatment is sought are clearly marked. Any claim of confidentiality will be considered in accordance with the provisions of section 50 of the Code.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

Submissions to the Authority must be received by **4:00pm (Western Standard Time) on Tuesday 14 November 2006**.

Written submissions should be mailed to:

Mr Russell Dumas
Director Gas and Rail Access
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

Electronic submissions should be made to: russell.dumas@era.wa.gov.au

Available Documentation

WNR's submission to the Authority can be downloaded from the Authority's website (www.era.wa.gov.au) under the rail section. Printed copies of this documentation are available directly from the Authority for \$25.00 per set.

For further information contact:

General Enquiries

Mr Russell Dumas
Director Gas and Rail Access
Ph: +61 8 9213 1900
Fax: +61 8 9213 1999

Media Inquiries

Mr Paul Byrne
Ph: +61 8 9385 9941
Mb: 0417 922 452

LYNDON ROWE
CHAIRMAN

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