

## NOTICE

### REVIEW OF WESTNET RAIL'S FLOOR AND CEILING COSTS FOR CERTAIN RAIL LINES

The Economic Regulation Authority has commenced a review of WestNet Rail's (WNR) proposed floor and ceiling costs for certain rail lines.

#### BACKGROUND

In late 2003, the Independent Rail Access Regulator (Regulator) approved the floor and ceiling costs for the following rail lines, on a route section basis under clause 9 (schedule 4) of the *Railways Access Code 2000* (Code). These costs applied for a three year period, from 1 July 2003 to 30 June 2006.

- Kwinana to Bunbury Inner Harbour.
- Forrestfield to Kalgoorlie.
- Leonora to Kalgoorlie.
- Kalgoorlie to Esperance.
- Brunswick Junction to Collie rail line.

In mid 2004, the Regulator approved the floor and ceiling costs for the additional rail lines listed below. These costs are applicable for a three year period, from 1 January 2004 to 31 December 2006.

- Terminal ends of the Kwinana to Bunbury Inner Harbour rail line.
- Four rail lines in the grain network.

The Authority's review of WNR's proposed floor and ceiling costs covers the above rail lines.

WestNet Rail (WNR) has submitted its proposed floor and ceiling costs for all the above rail lines apart from the four rail lines in the grain network. WNR's submission on its proposed floor and ceiling costs for the four rail lines in the grain network is expected to be submitted in mid-October 2006. The Authority will seek public submissions on WNR's proposed floor and ceiling costs for these grain lines when this second submission is received from WNR.

#### ISSUES

In order to assist the Authority in carrying out its review of WNR's submission, interested parties are requested to give consideration to the following issues and to provide comment, if appropriate, on these matters in addition to any other comments parties may wish to make on WNR's submission:

- ***Modern Equivalent Asset***

WNR has indicated that the Modern Equivalent Asset (MEA) adopted in its submission is the same as that approved by the Regulator in the 2003 determination, with the exception of additional passing loops for the Kwinana to Bunbury rail line which have been included to allow for a reasonable increase in projected demand.

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 the calculation of the Gross Replacement Value (GRV), WNR has used the same asset population as that approved by the Regulator in the 2003 determination with the exception of the additional passing loops for the Kwinana to Bunbury line and the inclusion of Communications Backbone infrastructure for the Kwinana to Bunbury and Forrestfield to Kalgoorlie rail lines which was previously excluded from the 2003 assessment.

The second element which comprises 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 as part of the WNR submission. Unit prices used are based on a combination of market tested prices for significant items and an escalation of 2003 unit prices, using appropriate indices, for less significant items.

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

- ***Allocation of Common Costs***

WNR has indicated in its submission that operating and overhead costs (which are considered to be common 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 the methodology approved by the Regulator in earlier determinations.

The Authority is seeking the views of interested parties on the methodology used for the allocation of common costs, particularly at the route section level, in WNR's submission.

- ***Maintenance Costs***

In its calculation of maintenance costs, WNR has used a dollars per kilometre approach rather than an activity based costing approach. In the 2003 determination, the Regulator required WNR to utilise the former approach. In its current submission, WNR has used the maintenance cost approved in the earlier determinations and escalated the 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 for the calculation of maintenance costs in WNR's submission.

In addition to the above issues arising from WNR's submission, the Authority considers that it would improve the efficiency of the regulatory process if the timelines for applicability of the determined floor and ceiling costs, on each of the rail lines subject to this review, was consistent. This matter is outlined below:

- ***Consistency of Future Review Dates***

As noted above, as earlier determinations of the floor and ceiling costs for the rail lines under review were conducted at different times there was a difference in the start and finish dates for the three year determination periods.

The Authority sees merit in ensuring that future timelines for the application of floor and ceiling cost determinations, for those WNR rail lines subject to this review, be made consistent in order to improve the efficiency of the regulatory review process. In order to achieve this objective 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. The implication of this proposal is that there would be a reduced period over which the determination for the rail lines consisting of terminal ends of the Kwinana to Bunbury Inner Harbour line and the four grain lines would apply for the next determination period (beyond 31 December 2006). The relevant period for these lines would reduce from three years to 2 years and six months. Thereafter, a three year time period would apply to all the lines as mentioned above.

The Authority is seeking the views of interested parties on the Authority's proposal to make future timelines for applicability of determined floor and ceiling costs for all the rail lines subject to review.

## **PUBLIC SUBMISSIONS**

In accordance with clause 9 (schedule 4) of the Code, the Authority invites submissions from interested parties on WNR's proposed floor and ceiling costs for those rail lines outlined in WNR's current 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 of the submission or part of the submission and the issues or parts of the submission in relation to 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 Friday 27 October 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](mailto: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](http://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 please contact:	
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LYNDON ROWE <b>CHAIRMAN</b>  14 September 2006	