

WestNet Rail Supplementary Submission

WestNet wish to provide comment to the submission jointly lodged by Alcoa World Alumina Australia and Worsley Alumina.

Recommendation 1 Modern Equivalent Asset

Based on the failure of WestNet to provide the MEA standard claimed in December 2002 over the entire SWM, the ERA needs to monitor that MEA upgrades are delivered on a timely basis or alternatively act promptly to revise the ceiling down until the committed standard is delivered.

The ERA did not support this view in their initial determination in September 2003, page 18 of the determination states "Access seekers wishing to include penalties (or discounts) for non performance of agreed standards should incorporate the appropriate provisions in their access agreements with WNR".

The ERA's September 2003 determination stated "the Regulator will monitor the delivery of the level of service through key performance indicators and as indicated in the Regulator's Costing Principles Determination, will revise the MEA standard if it can be demonstrated that WNR is consistently not providing the expected standard and service".

The Costing Principles recently approved by the ARA on page 8 communicated that over 94 kilometres (or 55%) of the SWM has been resleepered with concrete sleepers with remainder of the SWM expected to be completed within two to three years.

WNR expects to complete the remaining 76 kilometres of the SWM within this time-frame approved in the Costing Principles, most likely in the 2008/09 financial year. This work has been scheduled for this time because up to that point, the availability of the required machines, labour and concrete sleepers will be fully consumed by:

- the completion of the Perth to Mandurah railway; and
- the resleepering of 75 kilometres of timber sleepers on the Koolyanobbing to Kalgoorlie section of the Eastern Goldfields Railway (EGR).

Recommendation 2

Gross Replacement Value

To negate the automatic rises based on CPI-X over the next two years and to reflect volume pricing elsewhere in Australia, the price for 50 kg rail and 60 kg rail should be reduced to \$1375 per tonne.

WestNet engaged an independent consultant to market test all the unit rates, which underpin the calculation of the GRV. Testing rail component suppliers off shore also delivered the same trends in pricing.

The price of \$1375 per tonne for 50kg and 60kg rail is the Eastern States price. Consideration of delivery to the west coast appears to have been ignored in this price.

WorleyParsons obtained costs for rail, which were current 2006 market rates for large quantities of this component (>100km track) supplied and delivered to Midland, in metropolitan WA. It is not clear if the VIC/NSW costs suggested by Alcoa/Worsley include an appropriate cost component for delivery to WA.

The increase in costs can also be supported by information published by ABS 6427.0 Producer Price Indexes, Australia Table 14. Materials used in Manufacturing Industries, ANZSIC Subdivision and Group Index Numbers Index 271 Basic Metal Products (which includes manufacture of railway components including rail), an increase of 43.7% between Dec 2002 and Mar 2006 is recorded

Recommendation 3

The price used for earthworks in the APM for the SWM is assumed to be \$159.925 per metre (based on \$250 for Standard Gauge x 64% for NG). This should be changed to reflect the large volume of cut and fill possible on a greenfields site and a figure of \$117.68 per metre is suggested.

It may not have been clear in the WorleyParsons report that whilst they adopted the GHD principles for dimensioning the earthworks, they did not make the same assumption regarding locally sourced or imported fill.

WorleyParsons 2006 costs for earthworks are based on an "all-in" rate of \$250 per linear metre, with formation fill sourced locally and only the higher quality capping layer to be imported; not 100% imported fill as Alcoa/Worsley suggest (page 11).

The rates used in the ceiling calculations represent a 13% increase since the approved 2003 determination.

The costs provided in the WorleyParsons analysis have already made allowance for minimising imported fill and should not be further reduced.

Recommendation 4

The price used for earthworks in the APM for Brunswick to Premier is assumed to be \$216.33 per metre (based on \$250 for Standard Gauge x 87% for NG 1.5 m height). This should be changed to reflect the large volume of cut and fill agreed for the Brunswick line in 2003 (85%) and a figure of \$159.18 per metre is suggested.

Comments in response to Recommendation three apply.

Recommendation 5

The cost of ballast should reflect both the lowest price available ex quarry and the minimum transport cost and distance. For the SWM and the Brunswick to Premier line, the delivered price for ballast should be \$25.50 per tonne.

WorleyParsons obtained ex quarry costs for supply of ballast from a number of locations around the WestNet network. WorleyParsons consider that these accurately reflect the current market rates for large quantities of ballast at these locations. Based on the GRV of ballast on the SWM the average cost per tonne is \$31.47 including transport.

WorleyParsons considered that it is appropriate to apply an average delivery distance/cost to the ex quarry supply costs for ballast. In the case of the SWM the average transport distance from quarry is assessed at 70 Km.

Recommendation 6

The price for a large quantity of concrete sleepers purchased through a competitive tender process should result in an average price of \$81 per SG sleeper and \$74 per NG sleeper.

The costs for concrete sleepers provided in WorleyParsons 2006 report, are current 2006 costs for large quantities (>100km track) available ex works at a Perth metro location and accurately reflect the current competitive cost for sleepers in WA.

WorleyParsons noted that Alcoa/Worsley are suggesting that there is no increase in cost for SG sleepers from the prices agreed in 2003; this certainly

does not reflect the market changes and influences in the period 2003 to 2006.

Recommendation 7

Three yearly price resets for bridges, culverts etc. should be based on efficient costs and not on indexation from either December 2002 or the original 2003 Determination date.

The process adopted by WorleyParsons (WP) in establishing current prices for culverts is:-

- The supplier was provided with the table of sizes consistent with the 2003 determination.
- Item sizes manufactured by the supplier were priced (75% of all size combinations on the list)
- The remaining item sizes (25% of list) were escalated using the ABS Producer Price Index; specifically Index 6427 table 10 & 11 Concrete Pipe and Culverts. The percentage increase from Dec 2002 to Mar 2006 is 9.5%.
- To complete the pricing process the install component factored the material costs for pipe culverts by 1.1 and box section culverts by 0.8. This approach is consistent with that used in the initial determination.

WorleyParsons consider that a commonly available escalation index from the ABS (concrete pipes and culverts) is the appropriate method to arrive at the current costs for those item sizes not presently manufactured. The escalation factor is transparent and recognises the real increase in the manufacture of pre cast culvert components.

Recommendation 8

The ERA should review the recalculated Communications GRV submitted by WestNet to confirm that it is the lowest current cost.

WestNet has provided the ERA and their consultant and briefing and site visit of the SWM to explain all the elements that make up the Communications GRV. WestNet has provided explanation on how the communications infrastructure is configured and the levels of reliability and redundancy that are considered necessary within the system.

Recommendation 9

The ERA should review the signalling asset list and the signalling installation costs to ensure that the economies achieved by the use of the communications backbone and the combined trenching are reflected in the Signalling GRV.

See comments in recommendation 8

Recommendation 10

WestNet should be required to submit a justification for additional infrastructure based on users' current and future needs and timing and the increase in ceiling costs should be phased to coincide with the availability and usability of the infrastructure.

The requirement for the new crossing loop at Venn (north of Pinjarra) and the extension of three existing crossing loops is based on future pathway requirements, based on reasonably projected future demand.

The Pinjarra crossing loop is located in Pinjarra and is constrained from further extension due to major protected level crossing infrastructure to the north and south of Pinjarra. The preferred site of "Venn" has been selected to accommodate a long loop consistent with other loop extensions along the South West corridor.

Extension of Brunswick, Benger and Yarloop to accommodate long trains is necessary to maximise pathway utility. Network management planning has been undertaken to consider all future expansion requirements of all WestNet's current customers including Alcoa, Worsley, Griffin, Cockburn Cement, Iluka and general freighters.

In order to have operational flexibility the new and extended crossing loops are deemed necessary to accommodate the known expansions from the existing customer base. To date other customers have already absorbed a daily pathway between Brunswick and Kwinana. Whilst other expansions have not yet been contractually agreed, WestNet is permitted under clause 2(4)(c) of Schedule Four of the Access Code to provide for existing and reasonably projected demand. WestNet must consider network capacity from a customers' perspective as well as ensuring the operational integrity to maximise on time service delivery. A level of redundancy must also be allowed in the network to allow for the impact of "out of schedule" services.

Recommendation 11

The ERA should review the unit prices for calculation of the GRV on the Terminal End Bits and update these prices if the corresponding unit prices for the SWM and Brunswick to Premier lines are changed.

The unit prices used for the Terminal End Bits are the same rates used for routes calculated under the Access Pricing Model (APM) Two independent

audit reviews conducted during the first determination confirmed pricing consistency within the APM.

Recommendation 12

WestNet should be required to provide a more detailed breakdown of Operating Costs including separate figures for Working Capital, Operating Costs, Overheads and Network Management Costs for the lines under review and also identify costs allocated to other lines on the network not the subject of the proposed review. Key indicators, such as number of full time equivalent employees, transaction costs and IT costs should be provided to prove efficient costs are being used

WestNet have provided PWC a breakdown of Operating Costs; Overheads and Network Management Costs, including FTE's and other related KPI information for benchmarking purposes.

Recommendation 13

The ERA should review overhead costs and allocations in detail to establish if there is any justification for a 23% increase since the 2003 Determination

WestNet provides the following to justify the increase:-

- Movement in the CPI of Perth has been 13.6% since the previous determination, which has driven a genuine uplift in costs.
- That the Overhead baseline approved in the September 2003 determination was based on a shared services model with ARG and an assessment of WNR's level of consumption of those shared services;
- WNR has made available to the ERA its line by line detailed budget (on a confidential basis) for operation as a stand-alone Railway Owner which shows the true cost to be higher than that previously determined under the above mentioned approach; and
- WNR is willing to work through that budget line by line with the ERA and its consultants.

Recommendation 14

The ERA should review the allocation methodology which results in a proposed 180% increase in overhead allocation to some Terminal End Bits

The submission makes the point that the allocation of overheads to the Terminal End Bits is too high. Whilst WNR has used the mathematics of the

September 2003 determination, it acknowledges that there may be an over-allocation of overhead costs to the Terminal End Bits. WNR proposes that it meet with the ERA before the draft determination to identify and agree an appropriate methodology

Recommendation 15

Both the increases in Operating Costs and Network Management Costs should be reviewed against the savings anticipated from the capex investment in centralising Train Control and also benchmarked for efficient cost.

The current Operating and Network Management costs reflect the centralised Train Control model. The September 2003 determination was based on CTC being in place and the numbers of Train Controllers assumed in the APM being commensurate with CTC at that time. The submission overlooks that WNR has increased the number of Train Controllers in CTC since that determination to support additional new and likely traffics resulting in additional train movements.

Both Operating and Network Management costs reflect the current level of activity supported by WNR. Detailed “confidential” budget information and employee numbers provided to the ERA will allow benchmarking to be undertaken to test for efficiency.

Recommendation 16

The ERA should again review the maintenance costs for the MEA specification as the proposed rates are considered to be up to 38% above benchmark rates

The submission states that the maintenance cost per kilometre should be \$12,700 per kilometre. This is less than the \$15,000 per kilometre determined by the ERA in the September 2003 determination. WNR has in its most recent submission escalated the \$15,000 per kilometre by 17.4% to \$17,610 based on;

- The Australian Bureau of Statistics Index 4121 for Non Building Construction and Road / Bridge Construction having increased by 17.4% since the last determination; and
- WNR’s maintenance contract with John Holland being escalated by more than 17.4% over the same period. This information has been made available to the ERA.

To propose that the maintenance cost per kilometre should come down from the previously ERA determined amount over a period where real cost increases have occurred is substantially flawed.

Recommendation 17

The ERA should review the price escalation used for the Terminal End Bits and verify that the correct escalation has been applied.

The escalation used for the Terminal End Bits is consistent with that used for the other main lines. This is considered appropriate as the underlying unit rates were constant for all routes for the initial determination.