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Mr Lyndon Rowe  
Chairman Economic Regulation Authority  
Economic Regulation Authority  
Level 6, Governor Stirling Tower  
197 St Georges Terrace  
Perth WA 6000

Dear Lyndon

#### **Response to Alcoa / Worsley submission on ERA Draft Determination**

WestNet Rail (WNR) has reviewed the joint Alcoa and Worsley submission (AWS) on the Draft Determination (DD) dated April 2007 and wish to comment on the major elements as follows:

##### **1. Rail**

The AWS claims the Chinese 60kg/m rail delivered to Midland is \$1,002 per tonne. WNR understands that the rail priced is not Australian Standard and notes that the specification of the rail has not been disclosed. Specific recognition must be made for dimensional tolerances, chemical composition and mechanical properties. The purchase price of rail is not just dependent on the standard specified. In Australia, rail is supplied in standard 27.5 metre lengths. Shorter lengths require more welded joints and increase the cost per track kilometre and maintenance effort. Due to limitations of ship holds, the length of rail supplied from overseas would be less than the 27.5 metres which adds additional cost on a per tonne rate. WNR would also question the economic life of different standard rail as the product has not been tested in Australia. The cost of shipping, transport, stevedoring and product protection during sea transportation have not been sufficiently defined to justify a realistic comparison between the two supply sources. Exchange rate fluctuations also will effect pricing.

Accordingly, WNR recommends the rate of \$1440 per tonne continue to apply.

## **2. Concrete Sleepers**

The concrete sleeper pricing included in the WNR submission is supported by tendered pricing for projects in the current contracting environment, and of similar magnitude. The pricing suggested by AWS is a hypothetical price, subject to the supplier building a new plant in Western Australia. The unit pricing of sleepers under these circumstances will be driven by the scope, scale and recovery of production plant costs. The reliability of pricing under these conditions is questionable.

WNR would also argue that the order size of 112,500 sleepers (75km) to undertake resleepering on the Koolyanobbing to Kalgoorlie section represents the scale and scope contemplated in the Access Regime. Therefore the pricing evidence previously offered in WNR's supplementary submission remains valid.

Based upon this evidence, WNR recommends the concrete sleeper price for both narrow and standard gauge remain at \$85 and \$95 respectively as proposed in the original WNR submission.

## **3. Earthworks**

WNR requested \$23.21 per cubic metre (\$159 per linear metre). AWS have suggested \$19 per cubic metre or \$131 per linear metre is reasonable based upon pricing provided by a local earthworks contractor. The pricing suggested in the AWS has not been subject to the rigour of a tender process is again considered questionable. Current earthworks estimates tendered for the Burrekup Crossing loop (1200 metres) is \$200 per linear metre on flat terrain. Allowing for adjustment of this price for mobilisation and scale of the works (~30% discount) the rate per linear metre is \$140. Site conditions will also dictate the proportion of cut to fill as compared to borrowing fill from a nearby site. The relatively benign topography of the SWM as a greenfields site would indicate 100% of borrowing fill for earthworks as being reasonable.

WNR consider a rate of \$140 per linear metre is justified for the SWM.

## **4. Communications**

WNR provided detailed specification outlining the level of redundancy required to satisfy strict operational capability for freight and passenger services for the entire communications infrastructure for the South West Main. The ERA subsequently approved the \$12.8 million valuation based on the specification and actual costs incurred provided by WNR. The AWS valuation of \$8.7 million (based on an unknown specification) must be treated with caution as it is a hypothetical cost compared to a WNR valuation that is based upon a real contract price to provide.

WNR suggest the original valuation of \$12.8 million is justified based upon the detailed specification provided.



**5. Burrekup Loop**

The AWS has recommended that the Burrekup Loop be costed on the basis as if it was built at the same time as the original mainline and initial crossing loops. Crossing loops get added to the existing infrastructure base as required to increase capacity. Therefore the cost to provide loops in isolation is relevant and the detailed estimate provided by WNR supports this position.

WNR recommend the cost for Burrekup loop is adopted as it reflects the true cost to provide additional infrastructure as capacity limits are reached.

**6. Maintenance Costs**

WNR have applied escalation to the approved 2003 determination rates. The rate in 2003 for the SWM was set at \$15,000 per Km and escalated to \$17,600 per km. The relevant ABS data suggests actual escalation of costs of 17.4% between Dec 2002 and March 2006. To confirm the validity of this approach WNR compared the actual contract escalation of its maintenance provider and found the two rates to match over the same period. A table demonstrating this comparison was provided in WNR's earlier submission. The actual track maintenance cost incurred by WNR during 2006 for the SWM was \$24,087/Km. WNR cannot hold maintenance costs without escalation as costs have gone up since the initial determination in 2003.

WNR recommend the rate of \$17,600 / Km for the SWM and Brunswick to Worsley remain unchanged.

**7. Overheads**

Train Control in the South West cannot be managed with half the resources as suggested by the AWS. The train control function includes management of the Kwinana yard and the Bunbury port. Activities included in the train management includes train pathway management, control of maintenance work windows in between scheduled train paths, interaction on a daily basis with maintenance crews and inspection personnel and ensuring that all network management decisions are in accordance with the Train Management Guidelines (TMG) as prescribed by the Economic Regulation Authority (ERA) and specific customer train priority requests.

Accepting a one desk operation to control all activity on the South West Main will invariably lead to a compromised network management solution and delays in attending to conflicting train priority requests which will fail to meet customer expectations.

Accordingly, WNR recommend the train control resource allocation for the SWM remain unchanged.

**8. Consistency of Review Dates**

The initial determination for the five main lines, and later the terminals and grain lines was presented on the same unit pricing in 2002 dollars. Timing for the grain and terminal lines in the current determination process should remain the same as the main lines as they too were prepared in "July 2006 dollars".

Timing for the Grain Lines and Terminal Ends should have the same date of application as the Main lines and Worsley Lines, or if they are to be applied from the 1 January 2007 date, they should be escalated for a period six months at 75% of CPI.

The AWS and Australian Railroad Group submission suggests that no backdating of the Determination occur, as the ERA does not have the power to do so.

WNR has obtained legal advice that the ERA does have the power to backdate the Determination.

The ERA must balance the interests of railway users and WNR. To not backdate the Determination which correctly reflects the clear evidence that costs to invest in and maintain the WNR network have increased will penalise WNR.

WNR looks forward to the opportunity to discuss the issues raised in this letter prior to the Final Determination being released. In the mean time please do not hesitate to contact us with any queries that you may have.

Yours Sincerely

**Paul Larsen**  
**Commercial Manager**