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Senior Project Officer (Rail), Access
Economic Regulation Authority
Level 6
197 St Georges Terrace
Perth WA 6000

Dear Sir/Madam

Invitation for Public Submission – WestNet Rail – Overpayment Rules and Costing Principles

Co-operative Bulk Handling Limited ("CBH") refers to the Economic Regulation Authority's review of the Overpayment Rules and Costing Principles prepared by WestNet Rail.

CBH makes the following submissions in respect of the Overpayment Rules and Costing Principles.

1. Allocation of Access Revenue

Pursuant to part 2.6 of the Overpayment Rules, Access Revenue is to be distributed according to the following rules:

- 1) Access Revenue derived from a route can only be allocated to the route sections on that route.
- 2) WestNet will allocate Access Revenue to cover the costs attributed to the applicable route sections in the following order:
 - a) Incremental Costs against all applicable route sections;
 - b) up to the Ceiling on all applicable branch or feeder (dedicated) route sections; and
 - c) up to the Ceiling on all applicable shared route sections.

CBH submits that further clarity and specificity is required in relation to the above distribution rules.

The route sections identified in part 2.1 of the Overpayment Rules are limited to 22 route sections (page 4 of the Overpayment Rules). The remainder of the rail network is not recognised as a "route section" which we submit leads to uncertainty when interpreting the allocation of Access Revenue rules.

By way of example, if freight is transported from Beacon to Forrestfield, the only identified route sections specified in the Overpayment Rules consist of Forrestfield – Midland, Midland

– Millendon Junction, Millendon Junction – Toodyay West and Toodyay West – Avon Yard. It is unclear if the remainder of the route – Avon Yard to Beacon – constitutes a branch or feeder route section, a separate route section or a combination of different route sections.

Continuing with the above example, under the distribution rules it is not clear how revenue received from the Beacon to Forrestfield route is to be allocated. For instance, is Access Revenue only to be allocated against the Incremental Costs of the applicable “route sections” specified in the Overpayment Rules (i.e. to the four route sections comprising the journey from Forrestfield to Avon Yard)? Is the Avon Yard to Beacon route regarded as a feeder route section? Are other lines which branch or feed into Avon Yard (e.g. lines from McLevie, Kalannie and Mukinbudin) taken into account when allocating Access Revenue? On a separate point, are non-operational lines (e.g. Maya to McLevie or Bruce Rock to Quairading) included as a feeder or branch route section with applicable Access Revenue distributed to such lines even though trains cannot run on these unusable lines?

Further, in distributing Access Revenue, how is the Ceiling price calculated for the Avon Yard to Beacon route or the branch or feeder route sections (whatever they may be) when these are not specified by WestNet? Also, when allocating Access Revenue against the Ceiling cost for such lines, does WestNet seek only to recover the capital cost component on the branch or feeder route section in question (as is suggested by WestNet in the justification for the distribution rules) or are other costs such as maintenance and operational costs included in the Ceiling – even if no maintenance or operational costs are actually incurred on such branch or feeder lines?

CBH submits that the uncertainty surrounding the Access Revenue allocation rules stems from those sections of the rail network not being specified as a “route section” and not having any particular Ceiling cost attributed to it. We would recommend that a more definitive list of route sections be created so that costs and revenues can be properly tracked. Enclosed at Annexure A is an indicative list of the sections that we believe should be properly identified as a “route section” (as the term is used in the Overpayment Rules).

CBH further submits that better guidance should be provided in determining how revenue from a freight movement is to be allocated. We contend that revenue received from a freight movement on a route (e.g. Beacon to Forrestfield) should only be allocated to that route and not to other line sections not utilised in that freight movement (e.g. lines from McLevie, Kalannie and Mukinbudin).

Given the inter-related nature of the rail network, we submit that the access revenue received for one movement across multiple route sections could be allocated as follows:

- 1) Incremental costs to all utilised route sections (properly identified).
- 2) Then allocated up to the floor of the utilised individual route sections.
- 3) Then remaining revenue allocated by kilometre proportionally across all route sections up to the Ceiling for each utilised route section (i.e. if a route section was 10% of distance for the route then it should receive 10% of the remaining revenue).

Any surplus should then be returned to the track user.

2. Costing Principles

In relation to the Costing Principles, CBH is of the view that where there are government contributions to the further development of rail infrastructure, WestNet should not be

permitted to increase the Gross Replacement Values (and consequently, the Ceiling price) to allow for a return on capital that it did not contribute.

Further, it is apparent that in many parts of the grain line network the assets provided do not meet the Modern Equivalent Assets (“**MEA**”) standard. CBH submits that it is therefore inappropriate to attribute a MEA standard costing principle to these route sections. Splitting the grain lines into more discrete route sections will highlight these areas, increase the transparency and thus enhance the debate about the efficient future shape of the network.

CBH also submits that the increase in Weighted Average Cost of Capital sought by WestNet is inappropriate given the condition of a significant portion of the network utilised by CBH, the lack of capital allocated to it and the general return on capital in the region.

CBH appreciates the opportunity to comment on the Costing Principles and Overpayment Rules and is willing to meet to discuss in further detail or provide additional clarification if the Economic Regulation Authority requires.

Yours sincerely,

Colin Tutt
General Manager Operations

Annexure A – Route Sections

Start	End	Distance (kilometres) (approximate)
Katanning	Nyabing	61
Tambellup	Gnowangerup	38
York	Quairading	74
Trayning	West Merredin	83
Lake Grace	Newdegate	63
Yilliminning/Wickepin	Bruce Rock	145/125
Bruce Rock	West Merredin	49.3
Kulin	Yilliminning	95
Narembeen	West Merredin	91
Kondinin	Narembeen	51
Goomalling/Konnongorring	McLevie	138/105
Burakin	Beacon	71
Bunjil	Maya	30
Bunjil	Morawa	65
Morawa	Mullewa	96
Mullewa	Narngulu	85
Narngulu	Geraldton	15
Avon	Beverley	74
Beverley	Narrogin	102
Narrogin	Wagin	50
Wagin	Albany	237
Wagin	Lake Grace	119
Lake Grace	Hyden	98
Narrogin	Yilliminning	23
Yilliminning	Wickepin	20
Amery	Mukinbudin	163.5
Amery	Kalannie and Beacon	98/169
Avon	Goomalling	55
Goomalling	Amery	34
Toodyay	Milling	135

Goomalling	Konnongorring	33
Millendon Junction	Watheroo	165
Watheroo	Dongara	231
Dongara	Narngulu	56