



Shire of Quairading

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Your Ref:

ERA SUBMISSION – BROOKFIELD RAIL
Our Ref: TRS 1

31st January 2014

Jeremy Threlfall
Assistant Director Rail
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
PERTH WA 6000

Dear Mr Threlfall

Interim Submission: Brookfield Rail Pty Ltd Floor and Ceiling Cost Determination

In its consultation document, the Economic Regulation Authority (ERA) indicated that it received Brookfield Rail's determination of floor and ceiling costs for certain routes and that this material is confidential as per section 50(3) of the *Railways (Access) Code 2000*. This adds some difficulty to preparing a submission on this topic, since Council cannot comment on the validity of Brookfield Rail's estimates of floor and ceiling costs. Local Governments have a strong interest in the outcome of this process due to their broad responsibilities in economic development of the Local Government area and their specific responsibilities for the provision of road infrastructure and the issue of Road Safety of the Community and the Travelling Public utilising Roads within the District. An efficient and funded supply chain to enable grain to move from farms through storage and handling facilities to port is a critical component of the competitive viability of the grain industry in Western Australia. Council has identified a number of important factors that it believes the ERA should consider in determining costs for the routes on Brookfield Rail's network.

Access charges relative to maintenance levels

According to Co-operative Bulk Handling Ltd (CBH), grain supply chain costs in Western Australian are significantly higher than in other countries and rail access charges are the highest of all Australian States. Furthermore, while access charges are high, there is evidence that Brookfield Rail has not carried out sufficient routine maintenance on parts of the network to maintain the previously existing level of service. The condition of certain lines means that Brookfield has imposed speed and weight restrictions which then reduce the productivity of any above rail operator.

Council understands that Brookfield's lease agreement contains 'fit for purpose' performance standards to ensure the network remains in the condition required by network users. According to the Auditor General's 2013 report on the lease agreement, the Public Transport Authority interprets the lease to mean that performance standards are set at year 2000 levels. Such performance standards are unlikely to reflect the needs of rail users.

Council highlights the "run down" condition of the York – Quairading Railway Line which has seen Speed and Load Restrictions on this Line for many years. It is believed that the condition of the track has led to more grain being outloaded from the Quairading CBH Facility by Road and also caused the recent derailment of CBH Grain Wagons West of Quairading.

Council believes that Brookfield Rail's access charges should relate to the level of service that is provided. Where maintenance standards have decreased, access charges for these routes should be set at a low level to reflect this.

Access Charges relative to Capital Investment

Capital investment in the grain freight network has been heavily subsidised in the past by Federal and State Governments. The current lease agreement between the State Government (Public Transport Authority) and Brookfield appears to allow the network operator to not reinvest in the infrastructure. It is assumed that this situation has not changed and hence there will continue to be calls on government to contribute capital to infrastructure renewal of rail lines. It is important that the determination accurately reflects this public investment and does not enable the leaseholder to charge depreciation or a return on capital that it did not invest.

Council is concerned that poor State Infrastructure Assets, being the Road and Rail, are in a poor condition.

Competitive neutrality between road and rail

The 'price' paid by heavy vehicles for using road infrastructure is set by the 'pay as you go' system (PAYGO) using a combination of fuel excise and vehicle registration charges. These charges are effectively average prices set on a cost recovery basis as PAYGO revenue is used to cover the proportion of road expenditure that is attributable to heavy vehicles.

Because the charges are averaged over the whole road network, this provides a cross subsidy to heavy vehicles that carry heavier than average loads, travel further than average and travel on roads with higher than average marginal costs. Such cross subsidies clearly apply to grain freight by road in WA and have led to over use of road infrastructure relative to rail. This was anticipated by the ERA in its submission to the Productivity Commission's 2007 Freight Inquiry:

Potentially this cross subsidy could have a significant impact on the competitiveness of rail versus road for grain haulage and/or on the long term sustainability of the rail network. If rail owners do not match the artificially low charge for road haulage they will lose tonnage to road. This would be suboptimal from society's point of view as there would be an over use of road and associated under use of rail. However, if the rail owners do match the road haulage charge in order to maintain tonnage then the revenue generated will not be sufficient to contribute to capital. This will result in a deterioration of the rail network.

Council therefore believes that the current (artificially) low price for road infrastructure is an important consideration in determining Brookfield's access charges.

In addition to the hidden subsidies, the true cost of grain freight by road includes a number of externalities, such as amenity, safety, and pollution impacts. Amenity impacts include the noise and vibrations as heavy vehicles travel through main streets and residential areas. The vibrations from heavy vehicles can also have implications for the integrity of heritage buildings in country towns. Additionally, greater use of heavy vehicles contributes to congestion in urban areas situated along freight routes.

It is highlighted that due to the recent decision by Brookfield Rail to put the York – Quairading Railway Line into “care and maintenance”, it is estimated that 215,000 Tonnes will be outloaded from the Quairading and Yoting Bins by Road Freight Routes, which equates to in excess of 10,000 additional Road Train Movements on both the Quairading – Cunderdin Road and the York – Merredin Road (Quairading to York section) in the next 8 months.

Campaigns in WA have highlighted that many rural roads are unsuitable to accommodate large trucks and local traffic, such as school buses, tourist buses, farm vehicles and light vehicles. This is an important issue in WA’s Wheatbelt, since the “Wheatbelt North” and “Wheatbelt South” regions already have the highest rate of serious crashes per 100,000 population in the State.

The State Government has provided funding for upgrade works on the Quairading – Cunderdin Road so that the increased freight task can be accommodated more safely, this has not been accompanied by an increase in Local Governments’ operating revenue for ongoing Maintenance Work on this Road. Effectively, this shifts freight infrastructure maintenance expenditure from Brookfield Rail and the State Government to the Quairading Ratepayers.

Council is concerned that the massive increase in Grain Freight Road Transport will occur despite the necessary Upgrade Roadworks not having been completed (in some cases yet to commence).

Council is also concerned that Road Safety has not been factored into the Road over Rail decision and that calls for the Construction of Overtaking Lanes on the Quairading to York section of the Main Road have remained unanswered.

Separation of above and below rail operations

Council believes that the separation of above rail and below rail operations contributes to difficulties in establishing the economically optimal service levels for each line in the Network. Brookfield Rail faces no such incentive to find the optimal service level. Again, this should be an important consideration when the ERA makes its determination.

Should you require any further information, please do not hesitate to contact the Writer on 96451001.

Yours faithfully

GRAEME A FARDON
Chief Executive Officer