



Your ref: Rail 051
Our ref: DPI/04/0248
Enquiries: Bill Adlam 9216 8729

Ms Meg Jones
Rail Division
Economic Regulation Authority
Level 27, 197 St Georges Terrace
PERTH WA 6000

Attention Mike Jansen

Dear Ms Jones

REPORT: ESTIMATION OF CPI-X IN THE WA RAIL INDUSTRY

Thank you for your letter of 29 March 2004 seeking stakeholder comment on the Institute of Research into International Competitiveness' (IRIC) consultancy report for estimating a CPI-X factor for the WA Rail Industry. Comments have already been provided to your office regarding technical details of the report. I apologise for the delay in our formal response.

The role of DPI in rail access matters is to ensure that the policy settings, in which the Economic Regulator can make his various Determinations, are appropriate. Essentially these policy settings are aimed at providing rail infrastructure owners and access seekers an appropriate risk/return balance.

The Report by IRIC is comprehensive. DPI agrees the best way to assess and derive a CPI-X escalation factor is to compare 1 July 2006 Modern Equivalent Asset (MEA) inputs (needed to derive the floor and ceiling costs outcomes) with those of 1 July 2003.

Deriving a CPI-X outcome for the WA railway infrastructure owners will contain elements of subjectivity. Prior to adopting such an approach, it is suggested that the following matters be considered:

1. Whether CPI-X be applied on a route basis or network basis

IRIC appear to be proposing that the CPI-X methodological approach be assessed and applied on a route basis. Productivity improvements are likely to be network based. There may be merit in using an approach that derives a CPI-X factor for the whole network, which is then uniformly applied to all routes.

2. The suitability of estimating productivity improvements through no excess capacity assumption

IRIC has calculated the CPI-X factor through (indirectly) estimating the productivity outcomes associated with a route being at full capacity. It is not

clear whether this approach is consistent with the manner in which the Regulator's approved MEA inputs are derived, particularly the need for the MEA to take into account only demand scenarios for the next five years.

If the IRIC methodology is considered suitable, it is important to ensure that the revised no-excess capacity is consistent with what would be expected under the Railway (Access) Code's 2000 approach to deriving the MEA.

It appears that in examining the derived CPI-X factor numbers for the various routes, IRIC has left unchanged the Regulator's MEA capital input cost in its revised MEA calculations. It is important to ensure the plausibility of the assumption to escalating only operating and maintenance costs. There is potential for the MEA capital input to have a share less than half the MEA input costs of the route.

Thank you for the opportunity to comment on this report. If you require to discuss these issues further please contact Bill Adlam on 9216 8729.

Yours sincerely



Brett Hughes
Manager Land Transport Policy

24/05/2004