



WorleyParsons

resources & energy

Infrastructure

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6 December 2006

Ref:
File:

Geoff Brook
Access Policy Manager
WestNet Rail
2-10 Adams Drive,
Welshpool WA 6106

Dear Sir

PUBLIC SUBMISSION BY ALCOA AND WORSLEY ON THE REVIEW OF WESTNET RAIL'S FLOOR & CEILING COSTS

We refer to your email of 1st December 2006 requesting comments on the submission by Alcoa World Alumina Australia and Worsley Alumina.

We have provided comments in a tabular format addressing the recommendations of the submission as the base format.

We would be pleased to iterate with you over any required need to emphasize or address other matters as the case may be.

Item	Alcoa/Worsley Recommendation	WorleyParsons Comment
1	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.	WorleyParsons do not have any further comment for this item.



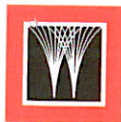
Item	Alcoa/Worsley Recommendation	WorleyParsons Comment
2	To negate the automatic rises based on CPI-X over the next two years and to reflect volume pricing elsewhere in Australia, the price for 50 kg rail and 60 kg rail should be reduced to \$1375 per tonne.	<p>WorleyParsons obtained costs for rail, which were current 2006 market rates for large quantities of this component (>100km track) supplied and delivered to a WA location. It is not clear if the VIC/NSW costs suggested by Alcoa/Worsley include an appropriate cost component for delivery to WA.</p> <p>The increase in costs can 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</p>



Item	Alcoa/Worsley Recommendation	WorleyParsons Comment
3	<p>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.</p>	<p>It may not have been clear in the WorleyParsons report that whilst we adopted the GHD principles for dimensioning the earthworks, we did not make the same assumption regarding locally sourced or imported fill.</p> <p>To clarify; 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)</p> <p>The costs provided in the WorleyParsons analysis have already made allowance for minimising imported fill and should not be further reduced.</p>
4	<p>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.</p>	<p>See comment for item 3</p>



Item	Alcoa/Worsley Recommendation	WorleyParsons Comment
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.	<p>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.</p> <p>WorleyParsons considered that it is appropriate to apply an average delivery distance/cost to the ex quarry supply costs for ballast.</p>
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.	<p>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.</p> <p>WorleyParsons note 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.</p>
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.	WorleyParsons consider that a commonly available escalation factor is an appropriate method to arrive at the current costs for these items. The escalation factor is transparent and is appropriate given the large number of design types and specific location circumstances.
8	The ERA should review the recalculated Communications GRV submitted by WestNet to confirm that it is the lowest current cost.	WorleyParsons do not have any further comment for this item.



Item	Alcoa/Worsley Recommendation	WorleyParsons Comment
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.	Some configuration components for the communications backbone would now be different to the original bottom up analysis in 2002 and the materiality of that difference could only be assessed with a further bottom up analysis.
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.	WorleyParsons do not have any further comment for this item.
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.	WorleyParsons do not have any further comment for this item.
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	WorleyParsons do not have any further comment for this item.



Item	Alcoa/Worsley Recommendation	WorleyParsons Comment
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	WorleyParsons do not have any further comment for this item.
14	The ERA should review the allocation methodology which results in a proposed 180% increase in overhead allocation to some Terminal End Bits	WorleyParsons do not have any further comment for this item.
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.	WorleyParsons do not have any further comment for this item.
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	WorleyParsons have received no data from Alcoa to evaluate this comment. However, its own enquiries support such increases in the recent past because resources are very stretched responding to other rail infrastructure works.
17	The ERA should review the price escalation used for the Terminal End Bits and verify that the correct escalation has been applied.	WorleyParsons do not have any further comment for this item.

Yours faithfully
WorleyParsons

Martin BAGGOTT
General Manager Rail Infrastructure