AURIZON

12 August 2026

Mr David Murphy
Economic Regulation Authority
Level 4, Albert Facey House
469-489 Wellington Street
PERTH WA 6000

Re: Aurizon submission on the ERA's Draft Determination of the Public Transport Authority's proposed DORC valuation

Dear David,

Aurizon welcomes the opportunity to provide a submission to the Economic Regulation Authority (**ERA**) in response to its Draft Determination of the Public Transport Authority's (**PTA**) proposed Depreciated Optimised Replacement Cost (**DORC**) and Depreciation Schedule.

Aurizon is Australia's largest rail operator, with extensive operations within WA and more generally across Australia, including the large-scale bulk haulage of iron ore and coal, integrated supply chain services for other bulk products as well as inter-city containerised freight services. Aurizon operates regularly scheduled services on the PTA network, transporting containerised freight to the Port of Fremantle, using the route section from Fremantle to Robb Jetty. Aurizon has strong ambitions to grow its containerised freight and bulk supply chains, including connection to the Port of Fremantle. Accordingly, the ability to efficiently access PTA's rail network is crucial to Aurizon's ability to offer attractive rail haulage services to its customers.

The pricing reforms established in the 2023 amendments to the Railways (Access) Code (**Code** and **Code Amendments**) followed an extensive evaluation by the WA Government on how to improve the quality of price guidance established in the Code given the unique issues presented by the WA rail networks. The Code Amendments are intended to ensure that the floor and ceiling price limits best reflect the permissible range of economically efficient prices, given the age and condition of the existing assets. The DORC valuation will establish the key foundation for this assessment for decades to come.

There are a range of common issues that the ERA has considered in its assessment of the PTA DORC valuation and the valuation for Arc Infrastructure's (**Arc**) rail network, meaning that decisions taken with respect to one network will inevitably create precedents relevant to the other network. Aurizon has provided a comprehensive submission to the ERA's Draft

Determination on Arc's DORC and Depreciation Schedule. A number of Aurizon's concerns are also relevant to the PTA Draft Determination, and are explained below.

Contractor On-Costs

Consistent with its approach for the Arc Draft Determination, the ERA has adopted Contractor On-Costs as follows:

- Risk allowance of 5%;
- Contractor preliminaries of 25%; and
- Overheads and profit margin of 9.5%.

When applied cumulatively, this results in a total Contractor On-Cost markup of 43.7%. Reduced contractor preliminaries of 10% have been applied for signalling and communications assets classed as System Infrastructure.

Preliminaries, overheads and profit margin

The ERA's regulatory precedent, from previous Gross Replacement Value (**GRV**) assessments, has been to apply contractor indirect costs of 1-2%. The ERA's rationale for departing from this regulatory precedent is its view that the Code Amendments now require it to assess the cost of a complete reconstruction of the entire network infrastructure, and that this will require the use of Tier 1 contractors for all elements of construction, who will demand a materially higher margin. As explained in our submission on the Arc Draft Determination,[1] Aurizon is unable to identify where the Code Amendments require this changed costing assumption, and considers that this assumption is contributing to a replacement cost estimate for the whole of the network that is higher than if the network were replaced in logical parts, consistent with the expected approach of a hypothetical new entrant. Accordingly, Aurizon requests that the ERA reconsider this decision and revert to its prior precedent.

To the extent that the ERA remains of the view that Contractor On-Costs should be revised in line with current market expectations, Aurizon considers that the adopted margin of ~37% (excluding risk allowance) is excessive. In Aurizon's experience, contractor on-costs will typically reflect around 10-25% of direct project costs. The factors that will influence the on-costs applied for a particular project include:

- scope size and complexity;
- location;
- size and standing of contractor; and
- extent of contractor responsibility for project management.

The ERA's position on contractor on-costs has been based on the typical range of contractor on-costs estimated by the PTA's consultant RLB.[2] In Arc's response to the ERA's Arc Draft Determination, it provides more detail on the way in which this range was estimated, and in

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[1] Aurizon (2026); Submission to ERA – ERA Draft Determination on Arc Infrastructure's Proposed Depreciated Optimised Replacement Cost; June 2026; p.18-20.

[2] ERA (July 2026); Draft Decision – Determinations of depreciated optimised replacement costs and depreciation schedule for Public Transport Authority – Attachment 1: Total construction replacement cost; 14 July 2026; p.20.

particular that it is based on benchmarking of the margins included in a range of actual PTA projects in recent years, which include:[3]

- Claremont Station and Turnback;
- Rail Revitalisation Program (Work Package 1);
- Armadale Line Upgrade;
- Bayswater Station and Turnback;
- Byford Rail Extension;
- Morley-Ellenbrook Line;
- Thornlie-Cockburn Link;
- Victoria Park – Canning Level Crossing Removal; and
- Yanchep Rail Extension.

While some of these projects include lengths of new rail corridor (generally between 8-20km), they all involve a significant amount of brownfields modification and/or renewal of infrastructure within an existing working railway. Accordingly, these projects are both of much smaller scale but greater complexity than the construction of a wholly new railway from a virgin corridor within the existing surrounding infrastructure (i.e. the limited brownfields assumption used for the DORC valuation). Care needs to be taken in considering the extent to which these site preliminaries, when expressed in percentage terms, can be extrapolated to the much larger, but simpler, assumed full reconstruction of the rail network. In Aurizon's experience, significant economies of scale should be expected.

Risk Allowance

In considering the reasonable contractor on-costs, the ERA has relied on RPI's advice that, in tendering for construction projects, a contractor will typically include a risk allowance (taken to be 5% for the purpose of the DORC valuation). Neither RPI nor the ERA have considered the differences in costing methodology that are typically applied to a regulatory DORC valuation, as compared to a construction cost tender.

In Arc's substantiation of a similar contractor risk allowance, it cited regulatory precedent from the ACCC's arbitration of an access dispute between Glencore and Port of Newcastle. Aurizon notes that, in this determination, the ACCC required a 5% risk allowance specifically for the construction of breakwaters, given debate around the cost of construction using the determined MEA design which Port of Newcastle argued involved a higher degree of risk than its preferred design, given limited instances of its use in Australian ports.[4] The ACCC did not apply this 5% risk allowance as an across-the-board markup to all construction costs.

Regulatory precedent does not support the inclusion of a general construction risk allowance in a DORC valuation. This reflects the view that, while a firm that is tendering to construct a new asset will typically include an allowance for risks or contingencies that could increase the

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[3] Arc Infrastructure (2026); Arc Submission in Response to ERA Draft Determination; June 2026; p.34, 72.

[4] ACCC (2018); Final Determination Statement of Reasons – Access dispute between Glencore Coal Assets Australia Pty Ltd and Port of Newcastle Operations Pty Ltd; 18 September 2018; p.93.

cost of construction, this does not mean that those risks will eventuate or that those costs will be incurred. It is equally likely that the project may cost less than was forecast. A DORC valuation seeks to estimate the actual cost of replacing the existing asset. To include in such a valuation an allowance for risks or contingencies assumes that the replacement project would always suffer from the planned risks or contingencies and would cost more than was forecast. Regulators have previously taken the view that this assumption is not justified.

As a result, Aurizon is of the view that there is insufficient evidence of a change in circumstances since the ERA's previous consideration of this issue to warrant the proposed inclusion of an across-the-board construction risk contingency.

Railway Owner costs

While the PTA did not specifically include an allowance for Railway Owner costs, some of these costs were included in the uplifts used in their unit rates. The ERA has instead recommended the removal of these uplifts from the unit rates and inclusion of a 19.3% Railway Owner cost allowance, consistent with the recommended allowance for Arc.

Aurizon is concerned that the assumptions applied by ERA in its assessment of contractor on-costs and railway owner costs are internally inconsistent.

The ERA has accepted RPI's advice that Arc's proposed 19.3% railway owner cost allowance is acceptable, considering it to be in-line with current industry benchmarks for projects of this scope and aligned with its previous cost determinations for WestNet Rail and Brookfield Rail of 20% railway owner costs.[5]

However, Aurizon is concerned that neither RPI's comparison with current industry standards, nor the comparison with previous ERA determinations, has fully considered all relevant issues.

When considering current industry benchmarks for projects of this scope, it is usual that owner's costs would include an estimate of the upfront costs of project planning, concept design and development approvals. Indeed, RPI concluded that Arc's proposal included 5.2% markup specifically for these elements.[6]

However, the Code identifies a definition of railway infrastructure which is to be subject to the DORC valuation which differs from the typically assumed network construction project scope. The Code definition of railway infrastructure excludes the railway corridor itself,[7] but goes onto provide that the costs of any land, cutting or embankment made since the initial commencement of the Code in 2000 will be recognised in the assessed capital costs.[8]

The most reasonable way to interpret this is that the valuation should assume that the corridor (including land, cuttings and embankments) is in place, and that the valuation of railway infrastructure (as defined in the Code) should recognise the costs that would be incurred to construct the network from this point.

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5 ERA (2026); Draft Determination on Arc Infrastructure Proposed DORC; March 2026; Paragraph 125.

6 RP Infrastructure (2026); Initial Report (Review of Arc Infrastructure's Sections 47J and 47K submissions) FINAL; p.21.

7 Railways (Access) Code 2000 (Western Australia); Part 1, Clause 3

8 Railways (Access) Code 2000 (Western Australia); Schedule 4, Clause 2

This means that costs associated with assembling the corridor, such as initial concept design, feasibility assessments, EIS studies, native title issues and development permits, should not be recognised in the valuation, as all corridor approvals would need to be in place in order for the corridor to have been assembled and earthworks be constructed.

This is consistent with the approach that the ERA has previously required when assessing capital costs for the Arc network:[9]

> The Authority has not included a period for planning and approvals before the construction of the routes, or financing charges associated with such a period. The 'hypothetical' replacement of infrastructure which already exists is on the basis that all routes are fully designed and optimised. As the costs associated with all land corridors in place at the commencement of the Code are not included in the infrastructure capital cost, as detailed in clause 2(5) Schedule 4 to the Code, it is assumed that all necessary approvals are already in place.

On this basis, the preliminary planning and development approval costs normally considered as part of railway owner costs for a project of this scope should not be included in this valuation.

While the ERA accepted railway owner costs (excluding planning and development approvals) of 20% in previous cost determinations, this was in the context of a high railway owner involvement in project management allowing low contractor on-costs of 1-2%. If the ERA were to revert to its regulatory precedent of 1-2% contractor on-cost allowance, maintaining its regulatory precedent on 20% railway owner costs would be reasonable.

In its Arc Draft Determination, the ERA recognised that contractor on-costs will be higher when Tier 1 contractors are employed, as it is assumed that the contractor shoulders the bulk of the project risk and overheads associated with the job, rather than those being absorbed by the railway owner.[10] If the ERA revises the Contractor On-Cost allowance to reflect current margins for Tier 1 contractors and the expectation that the contractor will perform the bulk of the project management role, then the Railway Owner Costs should be adjusted downwards to reflect the reduced role of the railway owner in project management and construction supervision.

Accordingly, in the event of an upwards revision to Contractor On-Costs, Aurizon considers that the railway owner's cost allowance should be reduced to:

- remove the 5.2% provision for planning and development approvals costs; and
- reduce the 11.2% provision for project and construction management costs by 40%-60%, having regard to the extent of responsibilities assumed by the Tier 1 contractor under the ERA's assumed contracting arrangements.

The appropriate range for the resulting Railway Owner costs would therefore be 7.5-10%.

Estimation of Replacement Cost - Track

Aurizon considers that the ERA's estimate of Construction Replacement Cost for track, and in particular for rail, is significantly overstated. Issues of concern are discussed in detail in our

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[9] ERA (2014); Brookfield Rail – Determination of Costs Relevant to Co-operative Bulk Handling's Access Proposal dated 10 December 2013; 30 June 2014; Paragraph 324, p.53

[10] ERA (2026); Draft Determination on Arc Infrastructure Proposed DORC; March 2026; Paragraph 106.

submission responding to the ERA's Arc Draft Determination.[11] We note that the overstatement of Construction Replacement Cost is likely to be less for the PTA network than for the Arc network, given differences in assumptions applied, including reduced ballast quantities and reduced unit rate for rail, consistent with the MEA specification of the passenger railways. However, Aurizon considers that Construction Replacement Cost for PTA's Track asset components should also be amended to:

- assume track materials are supplied by the railway owner on a 'free-issue basis', as normally done by experienced rail managers in order to avoid high contractor on-costs for the material supply component of the project, with a 1-2% railway owner procurement cost then applied to the materials supply costs; and
- review the installation methodology and cost to ensure that it reflects a contemporary and efficient construction methodology.

For the Arc valuation, Aurizon noted that the aggregate impact of the issues of inappropriate asset specification and procurement approach, together with concerns around transport costs and installation methodology and cost, meant that the ERA's derived Construction Replacement Cost for track of ~$1.9m/km remained around 65% higher than reasonable expectations of track replacement unit rates (in equivalent $ terms), based on previous ERA determinations and more recently GHD's own assessment for the ARTC Interstate Network DORC valuation.

We have found it difficult to discretely identify the corresponding ERA recommended Construction Replacement Cost per km for the PTA network. But notwithstanding that some of the concerns identified for the Arc valuation do not apply to the PTA valuation, we are concerned that the remaining issues will result in the Construction Replacement Cost for track continuing to be overstated.

Cost Allocation Methodology

There are a number of assets that PTA has allocated amongst line sections, including Network-wide assets (allocated to all routes other than City Line), as well as specific route links which are allocated amongst the routes serviced by those links.

The PTA's methodology was to allocate costs based on a nominated route weighting. In most cases each route was given the same weighting of 1, although some routes were assigned a 1.33 weighting for the allocation of Network-wide assets.

The ERA has instead recommended assets be allocated based on route km. Aurizon agrees that this is a more reasonable approach, and avoids the inappropriately high weighting of shared assets to small routes (such as the 6km Fremantle-Robb Jetty route) as proposed by the PTA.

[11] Aurizon (2026); Submission to ERA – ERA Draft Determination on Arc Infrastructure's Proposed Depreciated Optimised Replacement Cost; June 2026; p.31-34.

Depreciation

Aurizon acknowledges the ERA's explanation for the significant decrease in accumulated depreciation (compared to PTA's proposal) as the result of correctly applying the Costing Principle's methodology of straight line depreciation over the asset's economic life.

We note that, for most asset classes, ERA's applied remaining lives have been discretely assessed by route. However, for some asset classes, notably rail, sleepers and sidings, the same remaining asset life appears to have been applied to all routes, indicating that for these assets, a network wide average remaining life may have been used.

Aurizon expects that there will be variation in asset age across the different routes, particularly noting the extent of recent construction undertaken on some routes as part of the Metronet projects. We are concerned that the use of network wide average remaining lives may have the impact of understating depreciation on older route sections, and overstating depreciation on route sections with newer assets. Accordingly, this averaging approach will undermine the effectiveness of the DORC valuation in achieving the objectives of the Code Amendments to recognise the diversity in the age and quality of regulated rail networks, and enhance the quality of the information provided to access seekers by ensuring that the floor and ceiling price limits for a route section best reflect the permissible range of economically efficient prices given the age and condition of the existing assets. Accordingly, Aurizon considers that accumulated depreciation rates should be assessed and applied for each asset class by individual route section.

Conclusions

The DORC valuation will establish the key foundation for assessment of PTA's floor and ceiling prices for decades to come. Aurizon welcomes the ERA's Draft Determination, however has concerns with some aspects of the ERA's proposed valuation assumptions and believes that the resulting valuation remains inflated. We consider that the effectiveness of the Code Amendments in meeting their intended objectives would be undermined if the initial regulatory asset base were set using this valuation.

This letter contains no confidential information and is in a form suitable for publication by the ERA. Should you have any questions or require further information, please do not hesitate to contact me on [redacted]

Kind regards,

[redacted]

David Steele
Head of Customer & Growth
Aurizon