SHIRE OF KONDININ

Review of the Western Australian Rail Access Regime

About the Shire of Kondinin

The Shire of Kondinin covers an area of 7,340km² in the Wheatbelt of Western Australia and has a population of approximately 873 (ABS, 2016). The Shire comprises of three town sites, those being Hyden, Karlgarin and Kondinin with 289km of sealed roads and 1,193km of unsealed roads.

The total number of households within the Shire is 440 (ABS, 2016) with the majority living outside of the town sites on rural properties and producers of grain and are therefore impacted by the rail access regime through government ownership of the rail infrastructure, as well as their ownership of CBH Group as a grower cooperative.

Introduction

Local Governments in Western Australia are neither an access seeker nor provider of railway facilities. However, the sector continues to be active in seeking to ensure the on-going provision of efficient and sustainable freight rail in Western Australia, due to:

- the adverse impacts on Local Governments, communities and industry of increased reliance on road freight, where rail freight is either not competitive or not available; and
- the adverse impact on regional economic development, where freight intensive, export oriented industries are denied efficient, globally competitive supply chains.

The sector has adopted as a policy position that freight should be transported by rail where this is economically viable, and where a freight task is to move from rail to Local Government controlled roads, that new funding is provided to ensure that the designated roads are upgraded and maintained with road safety considerations paramount (WALGA State Council Resolution 34.2/2010, April 2010).

The Local Government experience in the past four years has seen a reduction in grant funding for road maintenance and renewal. It is noted that the Western Australian rail access regime, established by the Railways (Access) Act 1998 and the Railways (Access) Code 2000, have been in operation for over 15 years. During this period, key issues have been associated with the reduction of rail services in the Wheatbelt region and the development of iron ore mining operations in the Mid-West region.

In the past decade, five year average grain production in Western Australia has increased by 20%, and the size of the average load delivered to the largest grain handler, CBH, has increased 37% to 45.5 tonnes and the rate at which grain is moved from country storage to port increased significantly adding demands to the rail and road freight infrastructure.
(source: Ian Duncan, WA Local Government Association)

Coverage of Marginal Routes

Consideration should be given to amend the scope of the railway access regime to give consideration to the marginal routes or routes where there is currently access and this should be reflected in the rail manager's lease agreement.

Should the rail manager be relieved of any obligation to maintain lines as fit for purpose, then there need to be scope and opportunity for other interested parties to do so if they deem them to be economically viable.

If the lessee is not prepared to maintain the lines and allow them to be used by interested parties then the lines must be automatically surrendered back to the state government. The State government should then take over the lease and make the lines available to other rail operators.

Pricing Mechanisms

Under the existing regime, the potentially very wide range between the floor and ceiling price within which the railway owner and access seeker are to negotiate an access price, provides little support or guidance to either party.

In the case of the marginal routes referred to previously, the capital value of the asset is significantly different from the efficient cost to replace existing infrastructure with modern equivalent assets. The access seeker will generally have limited information about the actual cost of providing services on a particular route or group of routes. Although it has been argued that the access seeker has more information about the value of a particular rail service, this is not necessarily the case, particularly where road transport is a competitive alternative. The cost of road transport can be reasonably easily established by both parties, and potentially pricing established to be just competitive, rather than reflecting the cost to provide access.

Road transport contributes the marginal cost of its impact on the road network, with the remaining costs shared across all road users (through fuel excise and registration), ratepayers and taxpayers. The full cost of providing the infrastructure (including the cost of capital and return on assets) is not collected from the freight carrier, as is the case with rail.

It is the Shire's view that a cost benefit analysis should be carried out to ascertain the real cost of road transport both in Regional WA and Metropolitan WA.

Farmers within the Shire of Kondinin are paying some of the highest rates for grain freight by rail. It is the Shire's view that pricing bands and capping, associated with different levels of service should be provided by the Regulator in order to facilitate more effective negotiation between the parties.

Cost of Network Expansion

Rail facilities are long-lived assets. The pricing principle as stated in the Rail (Access) Code 2000, Schedule 4, clause 13 is that "prices should allow the railway owner to recover, over the economic life of the infrastructure, the costs of any extension or expansion required to accommodate the operator." It is unclear to what extent this principle has been applied previously in considering investments to maintain existing services and the assumptions that have been made about economic life. The regime and Code need to provide additional guidance in this area.

It would be advantageous if the adopted model encouraged the upgrading of the tier 3 lines from a 16 tonne to a 19 tonne axle load.

Agreements Outside the Code

It is noted that to date all agreements in relation to access to rail facilities covered by the regime have been outside of the Code. While this may be seen as a positive outcome from some perspectives, the primary reasons for the existence of the Code within the regime, is for asymmetry of information and unbalanced power in negotiations. Consequently the regime should be amended to enable a negotiation outside the Code that is in dispute to be brought within the Code. Consideration should also be given to requiring those aspects of Part 5 instruments that, if not applied, contribute to unbalanced power in negotiations to apply to agreements outside the Code. The Shire recommends that Treasury commission specific work to identify why access seekers and the railway manager prefer to negotiate outside of the Code.

Transparency and Information

The current regime does not provide adequate, public on-going information flow between the railway manager and current or future access seekers in regard to the state of the asset, and planned investment in maintaining or improving (or slowing the rate of decline) the level of service provided by the asset. The lack of information means that access pricing is based on information provided at a point in time, despite the access agreement being for a (significant) period of time.

The operation of the lease agreement covering rail assets within the context of the Code and the regime needs to be clear and addressed. Lack of transparency in relation to the lease agreement contributes further to asymmetry of information between participants seeking to agree access arrangements. Furthermore it would seem that the ability to implement some changes to the rail access regime is dependent on agreeing changes to the lease agreement.

It is likely that changes to the regime or the Code will have little impact without corresponding or related changes to the rail lease agreement. The review of the regime must be address both the regime and the lease agreement.

In Closing

It's apparent that the road infrastructure network is not adequate to withstand the weight and frequency the increased volume of heavy vehicles since the closure of the Tier 3 rail lines. Added to the physical and financial impact on the road network is the increased social risk of road safety for road users of roads in poor condition and a substantially increased number of truck movements along major arterial routes.

To shift the stored grain in Kondinin, Corrigin and Kulin Grain Receival Sites alone will take some 3,700 road train loads or 7,400 truck movements along Brookton Highway. This could be done with only two hundred and sixty 1000tn train loads thus reducing the financial, physical and social issues. Again, it is the Shire's view that a cost benefit analysis should be carried out to ascertain the real cost of road transport both in Regional WA and Metropolitan WA.