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Report PE-01.444

21 June 2001

File: T/11/2/1

[01444_djw]

Report to the Policy and Finance Committee
By Dr D J Watson, Divisional Manager Transport

Tranz Rail Wellington Negotiations

1. Purpose

To update the Committee on the Tranz Metro Wellington contract negotiations and some issues relevant to those negotiations.

2. Exclusion of the Public

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information Act 1987 are:

"That the public conduct of the whole or relevant part of the meeting would be likely to result in the disclosure of information for which good reasons for withholding exists, ie. to carry on commercial negotiations."

3. Background

... **Attached** are copies of letters between the Council and Tranz Rail re the contract rollover.

4. Issues

The main issues confronting the Council's contract negotiations are:

- The effect of the negotiation on the sale of Tranz Metro Wellington
- The state of the peak of the peak English Electric units set out in Tranz Rail's letter.

- The need to undertake a partial carriages refurbishment of the "hired" carriages for the Masterton extra peak service
- The Masterton extra peak service
- The availability of additional carriages in the short and long term
- The increased cost of the schedule service enhancement to Paraparaumu and Upper Hutt
- Tranz Rail's expectations on further carriages refurbishment for the Masterton services
- The future of the Palmerston North service
- Timing of service enhancements, patronage funding versus future sale
- The sale process itself

5. Comment

The sale of the Tranz Rail business appears to be a much longer process than originally envisaged. The involvement of the government in the Auckland sale has extended the process there. Due diligence ended for the Tranz Scenic services months ago with no final outcome yet. With a sale of Tranz Metro Wellington pending the rollover contract negotiation could affect the final sale price.

However, there is an even more pressing issue and that is the state of parts of the Tranz Metro Wellington rolling stock. The next to last paragraph on page two of the Tranz Rail letter states,

"Two issues will shortly arise. The first is that Tranz Rail may have to withdraw units on safety grounds. (reference to English Electric "red" units). We have already withdrawn a two-car unit. Our mechanical engineering staff are currently undertaking a major structure inspection of all English Electric units to assess their condition and the results are expected by June."

This concern extends to the Johnsonville line units. On page three of the letter it states:

"The Council needs to address the issue of replacement rolling stock if it does not want severe disruption to services."

The reference to Tranz Scenic carriages, page one, on the Wairarapa service possibly not being available once Tranz Scenic is sold is also problematic.

On the one hand we are being asked to roll over the existing contract, pay significant additional amounts to have a number of additional services on a business as usual basis while on the other hand we are told there may be severe service disruptions and we need to invest in new or refurbished units and carriages at our expense.

6. **A Way Forward**

The big picture solution is the public-private ownership of Tranz Metro Wellington which can only be achieved through legislative change. This would provide a platform for investment in the long term with some certainty of service durability. The General Manager has been pursuing this outcome vigorously. He will be able to update the Committee regarding recent events.

A second, backstop, approach is to assume that urban rail is in decline. That further large scale investments in rolling stock and other long run assets are problematic and unlikely to be achievable. Hence it would be prudent to plan for a run down of the urban rail service with a consequential increase in replacement bus services. A series of options would need to be developed, the change from rail to bus could be phased over several years through the maximisation of the Ganz Mavag units. Clearly the Johnsonville, Masterton and Palmerston North services would be the first to be dispensed with.

The third option is that of struggling on with the existing arrangements, making the best of what we have got. This would lead to another year long contract for the existing service and if the price is right, the enhanced Paraparaumu, Upper Hutt and Masterton services. The problems faced now by Tranz Rail would be resolved by identifying short term solutions. That is minimal cost solutions such as accepting the withdrawal of the English Electric "Red" units as they arise. Cosmetic refurbishment of the Wairarapa carriages over time once the Ganz Mavag units are finished. Isolating, for safety reasons, the Johnsonville railway line.

Without a change in legislation allowing the Council some level of ownership in the services the fall back option of a declining rail service supplemented with additional bus services appears to be the contingency we should be planning for as of today.

7. **Recommendation**

That the report be received.

Report prepared by:

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Attachments : Tranz Rail Correspondence