

File No. T/11/2/1
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4 May 2001

MR R Hayward
Manager, Passenger Rail
Tranz Rail Ltd
Private Bag
WELLINGTON

Dear Ross

Masterton Extra Peak Train and the Palmerston North to Wellington Commuter Train

This is to formally advise you that the Wellington Regional Council has approval from Transfund New Zealand for a kick start funded project to provide a third peak rail service between Masterton and Wellington and return. Also to formally advise you that Transfund New Zealand has agreed to allow a further rollover of the existing Wellington Urban Rail contract.

As part of that roll over process we would like to incorporate into the contract the two kick start projects, the Masterton one referred to above and the Paraparaumu/Hutt Valley increased services due to begin on the 5th June 2001. Also we wish to see the new contract include the Palmerston North to Wellington commuter service, even though this is currently a commercially operated service as it is clearly agreed to be an integral part of the Tranz Metro Wellington operation.

Returning to the Masterton third peak train kick start project. I wrote to you on 11 April 2001 regarding this possibility. With the current two services having a total of 14 carriages I would like a 3 service configuration to have a total of 17 carriages timed according to demand. I suggest a survey of existing users would help establish the best pattern of times for the three services. To achieve the increase from 14 to 17 carriages the Council will 'hire' carriages and a third locomotive from Tranz Rail. The cost for this being considered alongside the overall contract rollover.

This increased service on the Masterton line and the clear commitment by the Council to the Palmerston North service indicates that as part of the Tranz Metro Wellington sale process it will be necessary to include sufficient carriages for these services for the longer term. Whatever the future ownership structure that results the Regional Council will be seeking a refurbishment programme of your ex British Rail cars to replace the existing carriages, similar to that undertaken with the Ganz Mavag units.

Yours sincerely

DAVE WATSON
Divisional Manager, Transport

Tranz Rail Limited
Private Bag
Wellington
New Zealand

Wednesday, 30 May 2001

Divisional Manager, Transport
Mr D Watson
Wellington Regional Council
P O Box 11 646
Wellington

31 MAY 2001

FILE REF:	
7/2/11/10	
NAME	Int/Date
D. Watson	2/1/0
TO ACTION:	

Dear Dave

RAIL CONTRACT

Thank you for your letter 7 May 2001 updating progress with Transfund in terms of kick-start funded projects and rollover of the existing Wellington urban rail contract. An update of progress by Tranz Metro with these and other projects is outlined below.

Wairarapa Connection (additional peak train)

In terms of the additional Masterton train we have developed a number of timetable options. We are currently surveying passengers as to their preference and the results should be available very soon.

We will also take the opportunity to make minor changes to off peak and weekend services to make these more attractive to customers. The major result of the changes will be to provide two additional peak services to Masterton on weekdays.

The major issue for the new service will be the sourcing of suitable carriages. At present the sourcing of permanent carriages is uncertain given the sale of Tranz Scenic. In the interim we are examining the option of using four Auckland charter fleet carriages for the service. These carriages would require some upgrading prior to their introduction and we are currently assessing the costs involved. At this stage we believe the grant requirement will be in the order of \$500,000 pa which includes any upgrading costs. I estimate that an additional 64,000 passengers pa will be carried which would result in a grant requirement per passenger kilometre of around \$0.11. We intend to introduce the new service as soon as possible. This however is dependent on work required to the carriages and our ability to source additional peak locomotives and drivers. Our target date is September 2001.

Wairarapa Connection (current fleet)

Fifteen carriages including spares are currently required to operate the peak services. The average consist is seven carriages per train. This fleet has for some time been supplemented by the use of Tranz Scenic carriages from March to December. With the proposed sale of Tranz Scenic these carriages may become unavailable. We will endeavour to obtain suitable carriages to maintain peak capacity. One option may be to rationalise the timetable and move customers from these trains to the electric services. The electric services will provide more peak

capacity with the introduction of the new timetable 8 July 2001. I will keep you advised of developments.

Wairarapa Connection ('A' Carriages)

Currently the Wairarapa Connection is operating by 'A' carriages of varying condition. It was planned to replace these carriages with ex-BR carriages similar to those used on the Capital Connection. This project was to be programmed as part of the proposed long term contract with Council. That has not happened but the problem of providing carriages over the long term remains. Up to eighteen carriage will be required and the cost per carriage is estimated at \$600,000 each.

Capital Connection

The Capital Connection between Palmerston North is as outlined in your letter is an integral part of the Tranz Metro Wellington services. Currently the service is carrying around 700 passengers per day and is commercially registered. I am happy to discuss its future as part of a long-term contract with the Wellington Regional Council.

New Timetable

The new timetable for the Johnsonville, Paraparaumu and Hutt Lines is ready to be implemented. Council has been provided with details of all service changes. Services have been increased by about 15% with a significant proportion in the peak. As discussed with you the grant requirement for these additional services is \$1.46m pa. We expect around 340,000 additional passengers pa as a result of this initiative. The grant cost per passenger kilometre is estimated at \$0.20c. This additional funding will need to be incorporated into the contract for 2001/02.

English Electric Units

The English Electric units provide services to the Hutt Valley, Paraparaumu and Johnsonville Lines. The units are restricted to providing peak services on the major lines and all services on the Johnsonville Line. These units are basically life expired and required replacement some years ago. They are unattractive to passengers and expensive to run. However they do provide around 25% of our peak capacity and cannot be removed from the network without severe disruption to services and patronage.

It was expected that the issue of the replacement of these units would have been addressed in the long-term contract proposed two years ago. However for a number of reasons that has not occurred. In interim Tranz Rail refurbished and upgraded a prototype, which was recently demonstrated to Council. The upgrading in effect returned the unit to an as purchased condition and cost around \$600,000 for a two-car unit.

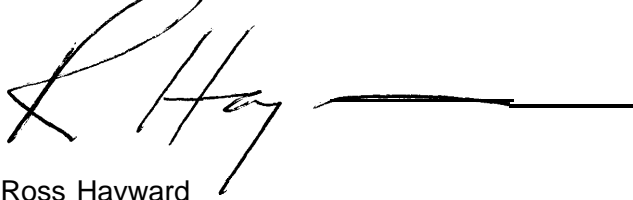
Two issues will shortly arise. The first is that Tranz Rail may have to withdraw units on safety grounds. We have already withdrawn one two-car unit. Our Mechanical Engineering staff are currently undertaking a major structural inspection of all English Electric to assess their condition and the results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

The second issue is that even the refurbished units are likely to be restricted to the Johnsonville Line as the units will not meet modern safety criteria. Since these units

also currently act as spares for the entire multiple unit fleet the problem is significant. The Council needs to address the issue of replacement rolling stock if it does not want severe disruption to services. Thirty-six cars are involved including spares. Approximately eighteen of these cars are needed to provide Johnsonville services while the rest service the Hutt and Paraparaumu lines. The cost of a new two car unit is estimated at around \$5m-\$7m.

We should meet to discuss these issues and finalise the contract for 2002.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Hayward', followed by a long horizontal line.

Ross Hayward
National Passenger Manager
Rail Services
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COPY

19 June 2001

Ross Hayward
National Passenger Manager
Rail Services
Tranz Rail Limited
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WELLINGTON

Dear Ross

Rail Contract

Thank you for your letter of 30 May outlining the position of Tranz Metro with regard to ongoing services and the particular enhancements we have previously discussed.

Having received your letter and endeavoured to work through how I should advise the Council to now respond, I find myself in some degree of difficulty. Both of us have been aware for many years, that Tranz Metro and its predecessor needs a long term infrastructural focus if it is to achieve its overall public and private objectives. Up until this year, long term contracts, although discussed, were both politically and rationally impossible. Transfund rules and the focus on 12 month funding cycles together with the WRC's unwillingness to enter into long term contracts without similar commitment from Transfund has left us with an unsatisfactory annual rollover position which we again confront.

As if this was not sufficient, we have an additional dimension to deal with, namely your company's strategic declaration of intent to divest itself of the Wellington Tranz Metro business. So, now we have short term public funding constraints exacerbated by private capital starvation as tools to foster the growth in rail patronage expected in the region's land transport strategy. Not a desirable position nor one which is going to be easy to deal with.

It is abundantly clear that injecting public money to enhance and upgrade assets owned by a company which is shortly to be disposed of is not justifiable under any circumstances. The quid pro quo which I accept is that Tranz Metro has no real incentive to invest capital in a business which it intends to exit. In the meantime, both central government and regional government have demonstrated the political will to inject additional investment into rail services in order to increase patronage in line with an overall transport policy direction. Tragically therefore, we have money available and from the contents of your letter, a burning need to upgrade rolling stock, and no basis for putting the two together. We can of course enter into short term

service enhancement but as you well know, this is not focussing on the real issue. However, I will be referring to this issue a little later in this letter.

Your letter painted a grim picture which I have to say reflects the lack of investment in suburban rail services over the last 8-9 years. I realise that this situation cannot be solely attributed to Tranz Rail as indicated by my earlier comments about funding streams. However, Tranz Rail must also bear its share of responsibility along with others. The only rational way of resolving our current impasse is for Tranz Rail to pursue the sale of Tranz Metro at the earliest opportunity and, as you know, the WRC, together with a private sector rail operator, in a form of public-private partnership is willing to negotiate with Tranz Rail to enable it to exit the public passenger transport business. You and I are the people who have the task of getting a result for both our organisations and I would invite you to join with us in making strong representations to government about the need to move forward with exiting the business through a legislative change.

Coming back to your letter on the cost of service provision, I would comment as follows. My Council has certainly encouraged you to develop a new timetable that maximises the use of your existing resources, both drivers and units. We have also asked you to provide a third Masterton peak service. Both these are part of the Government's "kick start" initiatives. Clearly, the Council does not wish to miss out on the funding incentive provided by this new Government programme. At the same time however, for all the reasons referred to earlier, we need to be assured that the costs of providing these new services are fully supportable both in form and substance. The Council therefore seeks a full breakdown of the two annual prices quoted of \$500,000 for the Masterton service and \$1,460,000 for the new timetable. Following receipt of your justification for presenting these figures, I am sure we would be able to progress our negotiations. But again, I have to say it will be in the context of your company's overall declaration of strategic intent, i.e. it will be short term in tenure.

With regard to the capital connection service, the Council wishes to include it in the final contract for 20001/02 year. As you state, this service is commercial and I see no reason for it not to form part of our contract at no cost to the Council.

Probably, like you, I am saddened to see the quickly deteriorating state of Tranz Metro's rolling stock and daunted by the prospect of the capital required to bring it up to standard. Clearly, your company does not wish to do this, the Government has yet to determine its position with regard to its policy framework and at present, legislation prevents my Council from progressively pursuing its solution to the problem i.e. the purchase of the Tranz Metro business for which it has a demonstrable political and public mandate. Notwithstanding this environment we still have to conclude a contract for the next financial year and I shall look forward to your response to my requests at the earliest opportunity given the fast approach of 30 June 2001.

Yours sincerely

DAVE WATSON
Divisional Manager, Transport