

Reference: 20160441

3 April 2016

Thank you for your Official Information Act request, received on 21 December 2016.  
You requested the following:

*“Could you please provide me with any advice the Treasury has given to Ministers regarding today's decision by KiwiRail to phase out the use of electric locomotives between Hamilton and Palmerston North.*

*Could you please also provide any correspondence between Treasury and KiwiRail regarding this decision.*

*Please limit the scope of this request to advice and correspondence in 2016.”*

On 9 February 2017 the deadline to respond to this request was extended by 30 working days.

### Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	18 December 2016	Email between KiwiRail and Treasury - Decision to decommission the Electric Locomotive fleet	Release in part
2.	18 December 2016	Email between KiwiRail and Treasury - Decision to decommission the Electric Locomotive fleet	Release in part
3.	18 December 2016	Email between KiwiRail and others - Decision to decommission the Electric Locomotive fleet	Release in part

4.	19 December 2016	Emails between KiwiRail and Treasury – Updates	Release in part
5.	19 December 2016	Email between KiwiRail and Treasury - KiwiRail North Island Main Truck line performance improvement	Release in part
6.	19 December 2016	Email between KiwiRail and Treasury - Summary Comments	Release in part
7.	19 December 2016	Email between KiwiRail and Treasury - Summary Comments continued	Release in part
8.	19 December 2016	Email between Treasury and KiwiRail: KiwiRail NIMT performance Improvement	Release in part
9.	20 December 2016	KiwiRail paper to Ministers on NIMT performance	Release in part
10.	20 December 2016	Email between Treasury and KiwiRail - Electrics Question	Release in part
11.	20 December 2016	Email between KiwiRail and others - EEF DL	Release in full
12.	20 December 2016	Email between KiwiRail and others - EEF DL	Release in part
13.	20 December 2016	Email between KiwiRail and others - EEF DL	Release in full
14.	20 December 2016	Treasury Report on KiwiRail's decision to decommission its fleet on Electric Locomotives	Release in part
15.	21 December 2016	Emails between KiwiRail and others - Queries on paper	Release in part
16.	21 December 2016	Email between KiwiRail and Treasury – Better business case	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people, and
- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions, and
- commercially sensitive information, under section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information, and

- under section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied, and
- under section 9(2)(ba)(ii) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest.

Some information has also been deleted because it is not covered by the scope of your request. This is because the documents include matters outside your specific request.

### Information Publicly Available

The following information is also covered by your request and is publicly available on the KiwiRail website:

Item	Date	Document Description	Website Address
17.	21 December 2016	NIMT Performance Improvement Better Business Case	<a href="http://www.kiwirail.co.nz/news/450/78/KiwiRail-announces-fleet-decision-on-North-Island-line/d.news.html">http://www.kiwirail.co.nz/news/450/78/KiwiRail-announces-fleet-decision-on-North-Island-line/d.news.html</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act – the information requested is or will soon be publicly available.

Some relevant information has been removed from the document listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Chris Gregory  
Manager, Commercial Operations - Governance and Performance

# TOIA 20160441

## Information for release

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1.	<a href="#"><u>18 December 2016 Email between KiwiRail and Treasury - Decision to decommission the Electric Locomotive fleet</u></a>	1
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16.	<a href="#"><u>21 December 2016 Email between KiwiRail and Treasury on the public release of - KiwiRail paper to Ministers on NIMT performance</u></a>	48

**From:** s9(2)(a)

**Sent:** Sunday, 18 December 2016 4:07 p.m.

**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>; Reidy Peter <peter.reidy@kiwirail.co.nz>

**Cc:** Chris White [TSY] <Chris.White@treasury.govt.nz>; s9(2)(a)

s9(2)(a)

**Subject:** Re: Decision to decommission the Electric Locomotive fleet

Chris (x2)

Please note that I have copied Peter Reidy in on this as he is over the detail and can comment more fully

It is my understanding that ministers Bridges and McClay are well aware (and supportive) of this and have been for some months

It seems to me to be an operational matter, and is very focused on eliminating the costs and inefficiencies of operating a 'railway within a railway' on the main trunk

We had intended to release in Monday but decided to defer in order to brief any new minister, and also to have a conversation with s9(2)(b)(ii)

Peter will revert to you with appropriate information

It is also my understanding that the alternative of electrifying the whole main trunk (if that were to be considered) would not meet any rational evaluation

s9(2)(a)

On 18/12/2016, at 3:53 PM, Chris Gregory [TSY] <[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)> wrote:

[IN-CONFIDENCE]

s9(2)(a)

The purpose of this note is to inform you that the Treasury has been requested by the Minister of State-owned Enterprises' office to provide advice, in the limited time available, on the Board's decision to decommission the Electric Locomotive fleet.

I have been informed by the Minister's office that a decision is likely to be made by the Board on this matter on Tuesday and there is an intention to announce the Board's decision on Wednesday.

Would you please (i) confirm my understanding on the timeframe is correct, and (ii) advise when material will be provided to shareholding Ministers for the Treasury to comment on.

Regards

**Chris Gregory | Manager | Commercial Operations | The Treasury**

Tel: +64 (0)4 917 6064 s9(2)(a)

[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)

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**From:** s9(2)(a)  
**Sent:** Sunday, 18 December 2016 4:23 p.m.  
**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
**Subject:** RE: Decision to decommission the Electric Locomotive fleet

OK

s9(2)(ba)(i)

s9(2)(ba)(ii)

---

**From:** Chris Gregory [TSY] [<mailto:Chris.Gregory@treasury.govt.nz>]  
**Sent:** Sunday, December 18, 2016 4:16 PM  
**To:** s9(2)(a)  
**Subject:** RE: Decision to decommission the Electric Locomotive fleet

Thanks s9(2)(a)

I will make every effort to provide KiwiRail with a copy of our advice before it is provided to Ministers. However, given the timeframe that may not be possible.

Regards

---

**From:** s9(2)(a)  
**Sent:** Sunday, 18 December 2016 16:07  
**To:** Chris Gregory [TSY] <[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)>; Reidy Peter <[peter.reidy@kiwirail.co.nz](mailto:peter.reidy@kiwirail.co.nz)>  
**Cc:** Chris White [TSY] <[Chris.White@treasury.govt.nz](mailto:Chris.White@treasury.govt.nz)>; s9(2)(a)  
**Subject:** Re: Decision to decommission the Electric Locomotive fleet

Chris (x2)

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It is also my understanding that the alternative of electrifying the whole main trunk (if that were to be considered) would not meet any rational evaluation

s9(2)(a)

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[IN-CONFIDENCE]

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Would you please (i) confirm my understanding on the timeframe is correct, and (ii) advise when material will be provided to shareholding Ministers for the Treasury to comment on.

Regards

**Chris Gregory** | Manager | Commercial Operations | The Treasury

Tel: +64 (0)4 917 6064 s9(2)(a) | [Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)

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**From:** Peter Reidy [mailto:Peter.Reidy@kiwirail.co.nz]  
**Sent:** Sunday, 18 December 2016 8:54 p.m.  
**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
**Cc:** Chris White [TSY] <Chris.White@treasury.govt.nz>; s9(2)(a)  
s9(2)(a)  
Kate Jorgensen <Kate.Jorgensen@kiwirail.co.nz>; s9(2)(a)  
**Subject:** Re: Decision to decommission the Electric Locomotive fleet

Chris

In response to my Chairmans email to you the following will provide relevant information on our process

- Through our regular formal KiwiRail / Treasury review sessions you will be aware that the KiwiRail board and management have been conducting a commercial review on the options relating to the electric train fleet operating between Hamilton and Palmerston North on our main NI network
- This review is part of our strategy to standardize our assets and simplify the business to reduce complexity and improve operating performance as outlined in the 2016/2017 KiwiRail SCI. ( Statement of Corporate Intent )
- Our methodology to date has involved extensive engagement with external engineering consultants ( Worley Parsons ), the Rail and Maritime Union ( RMTU ) and regular briefings with Treasury, MOT and Minister of Transport at our monthly Minister briefing sessions.
- The Board of KiwiRail have been fully involved in reviewing the business case, including the four options ( purchase new electric trains, purchase second hand electric trains , Upgrade the existing electric trains, replace the existing fleet with Diesel locos )
- Our process has engaged our infrastructure board sub committee to work with management on the detailed business case methodology, assumptions and accessment criteria of the four options. Management resource has also included Roy Sullivan our Group GM Rolling Stock Assets - Roy has global experience in rail rolling stock standardization strategies
- The business case recommendation to phase out the small electric fleet ( under consideration by our Board ) is aligned to our SCI business simplification and standardization strategy, will deliver a lower financial cost, has a lower implementation risk and superior speed of benefits to be realized on the NI main trunk line than the alternate options

Our board have requested one final element for consideration and this will be confirmed on Monday morning ( December 19) to our Chairman.

In accordance with the COMU no surprises approach and subject to our Chairmans decision to proceed we will distribute a briefing paper to shareholding ministers, minister of transport, MOT and treasury outlining the board decision, the business case summary and the associated draft media statements on Monday afternoon.( December 19).

Subject to our Boards final decision to proceed our intention is to announce the decision after midday on Wednesday December 21st

For your information I briefed the Min SOE (post Fridays board meeting discussion ) on Saturday December 17 and he is in agreement with the timeframe which will allow two days for briefing papers to be circulated to Min Transport, Min SOE and Min Finance and Treasury.

I have also previously informed the Minister of Transport of the Boards impending decision.

Please make contact with me should you require any clarification

Peter Reidy  
Chief Executive KiwiRail

Sent from my iPad

On 18/12/2016, at 4:07 PM, s9(2)(a) wrote:

Chris (x2)

Please note that I have copied Peter Reidy in on this as he is over the detail and can comment more fully

It is my understanding that ministers Bridges and McClay are well aware (and supportive) of this and have been for some months

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s9(2)(a)

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[IN-CONFIDENCE]

s9(2)(a)

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Regards

**Chris Gregory | Manager | Commercial Operations | The Treasury**

Tel: +64 (0)4 917 6064 s9(2)(a)

[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)

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**Attachments:**

Deleted - Not covered by your request

[UNCLASSIFIED]

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**From:** Kate Jorgensen [mailto:Kate.Jorgensen@kiwirail.co.nz]  
**Sent:** Monday, 19 December 2016 1:37 p.m.  
**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
**Subject:** Updates

Chris

Just to update you on the following:

EEF/DL decision – we are waiting on the final Board decision and then will send a briefing pack to yourself, Minister Bridges office and Minister McClays office, MOT and MOF office. Please let me know if you have any queries when you receive it.

Deleted - Not covered by your request

Look forward to catching up tomorrow.

Regards

Kate

**Kate Jorgensen** | Chief Financial Officer

s9(2)(a)

Level 3, KiwiRail Building, 8 – 14 Stanley Street, Auckland, 1010 | Private Bag 92138, Victoria Street West, Auckland 1142, New Zealand



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-----Original Message-----

From: s9(2)(a)

Sent: Monday, 19 December 2016 4:49 p.m.

To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>

Subject: Re: KiwiRail North Island Main Trunk ( NIMT) line performance improvement

I'm in a meeting and have only been able to skim it

But it looks consistent with what the board agreed Friday

s9(2)(a)

> On 19/12/2016, at 16:39, Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz> wrote:

>

> [IN-CONFIDENCE]

>

> s9(2)(a)

>

> Will you please confirm that this paper has been approved by the KiwiRail Board.

>

> Regards

>

>

>

> -----Original Message-----

> From: s9(2)(a)

> Sent: Monday, 19 December 2016 16:01

> To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>; James

> Forsberg [TSY] <James.Forsberg@treasury.govt.nz>; Chris White [TSY]

> <Chris.White@treasury.govt.nz>

> Subject: FW: KiwiRail North Island Main Trunk ( NIMT) line performance  
> improvement

>

> FYI - I have not had a chance to read this yet. Will forward to relevant people at this end also.

>

> Cheers,

>

> s9(2)(a)

>

> s9(2)(a) | Office of Hon Todd McClay | Level 19R Bowen House,  
Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand | s9(2)(a)

> s9(2)(a) W: <http://www.beehive.govt.nz> and <http://www.parliament.nz>

>

>

> -----Original Message-----

> From: Peter Reidy [mailto:Peter.Reidy@kiwirail.co.nz]

> Sent: Monday, 19 December 2016 3:55 p.m.

> To: s9(2)(a) Hon Todd McClay

> Cc: s9(2)(a)

> Subject: KiwiRail North Island Main Trunk ( NIMT) line performance  
> improvement

>  
> Dear Minister  
> Please find attached the summary of the business case regarding  
> locomotive performance improvement on the NIMT. Our chairman ( Trevor  
> Janes ) has requested that I send this to you so that your office is  
> briefed on the board decision and communication process

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may be unlawful.  
> <KiwiRail briefing on NIMT Performance Improvement V4.docx>

>  
>  
>  
> Peter Reidy  
> Chief Executive KiwiRail  
>  
> Sent from my iPad

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**From:** Trevor Janes s9(2)(a)  
**Sent:** Monday, 19 December 2016 8:49 p.m.  
**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
**Subject:** Re: Summary comments

Thanks Chris

s9(2)(g)(i)

It is my clear understanding that the relevant ministers were very aware

s9(2)(g)(i)

Regards, Trevor

s9(2)(a)

Sent from my iPhone

Deleted - Not covered by your request

Deleted - Not covered by your request

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**Chris Gregory** | Manager | Commercial Operations | **The Treasury**

Tel: +64 (0)4 917 6064 | s9(2)(a)

[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)

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**From:** Trevor Janes s9(2)(a)  
**Sent:** Monday, 19 December 2016 9:18 p.m.  
**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
**Subject:** Re: Summary comments

s9(2)(g)(i)



Regards, Trevor

s9(2)(a)


Sent from my iPhone

On 19/12/2016, at 9:09 PM, Chris Gregory [TSY] <[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)> wrote:

Trevor

Just to be clear, we are not contesting the decision. Also we get that the residual operating cost provides optionality (at least in the short term). However, it is not clear from the paper as to what those options are and how long it is worth paying a premium for them.

s9(2)(g)(i)



Regards

---

**From:** Trevor Janes s9(2)(a)  
**Sent:** Monday, 19 December 2016 20:49  
**To:** Chris Gregory [TSY] <[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)>  
**Subject:** Re: Summary comments

Thanks Chris

s9(2)(g)(i)

It is my clear understanding that the relevant ministers were very aware

s9(2)(g)(i)

Regards, Trevor

s9(2)(a)

Sent from my iPhone

On 19/12/2016, at 8:40 PM, Chris Gregory [TSY] <[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)> wrote:

[IN-CONFIDENCE]

Trevor

We are providing a verbal briefing on the paper provided to shareholding Ministers tomorrow morning. Ministers will then provide a briefing to their Cabinet colleagues on the matter.

I will brief Chris White in the morning prior to both of us briefing Ministers. Subject to his views, I intend to:

- Summarise the key facts set out in the paper provided. However, I do not intend to offer any opinion on the decision.
- Note that the actual cost of the decision (and therefore level of Crown funding required) is not clear in the material provided to shareholding Ministers. s9(2)(b)(ii)

s9(2)(b)(ii)

s9(2)(b)(ii)

Recognising that incurring this cost avoids the need for reconditioning/replacement cost of the EF fleet.

- Note that the s9(2)(b)(ii) cost to continue to operate the electric traction infrastructure in the short term (i) defers the need to incur remediation costs, and (ii) preserves optionality on the electric traction infrastructure. However, this is not likely to be a viable option in the long term.
- Note that decision is consistent with KiwiRail's strategy to simplify and standardise its fleet. It also seems reasonable to assume that there will be other operational benefits from removing the need to change locomotives at Te Rapa and Palmerston North (if indeed that practice still occurs).

Redaction no.1 withheld  
under s9(2)(b)(ii)

- Note that KiwiRail's estimate of the cost to remove the electric infrastructure of 1 does not include removal of the power poles. The material provided does not address whether future capital expenditure would be required for the remaining poles for KiwiRail to meet its health and safety obligations.
- Note that the decision to decommission the EF fleet, taken in isolation, is not a significant decision. However, inevitably this decision raises broader issues on the alternative for use of electric traction on the NIMT, which is a much more significant matter.
- Be critical of the process for consultation with shareholding Ministers of this decision. Ministers' offices inform me that while Ministers are aware of this matter, they were not consulted on this decision until the paper was submitted. s9(2)(g)(i)  
s9(2)(g)(i)

We have been informed that the Minister of Finance is interested in understanding the business case for the decision. Therefore, we have requested this material from Kate. However, we will not provide any analysis of the business case to Ministers within your timeframes. Any further reporting to Ministers will therefore be for prepared for noting purposes after the announcement.

Please feel free to contact me this evening if you have any concerns or comments.

Regards

**Chris Gregory** | Manager | Commercial Operations | **The Treasury**

Tel: +64 (0)4 917 6064 s9(2)(a)

[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)

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**From:** Chris Gregory [TSY]  
**Sent:** Tuesday, 20 December 2016 1:53 p.m.  
**To:** Chris White [TSY] <Chris.White@treasury.govt.nz>; s9(2)(g)(i)@treasury.govt.nz  
**Subject:** FW: KiwiRail NIMT Performance Improvement

[IN-CONFIDENCE]

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**From:** s9(2)(a)  
**Sent:** Tuesday, 20 December 2016 13:50  
**To:** s9(2)(a) Chris Gregory [TSY]  
<[Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)>  
**Subject:** KiwiRail NIMT Performance Improvement

Hi s9(2)(a) and Chris

Please find attached the final NIMT Performance Improvement Better Business Case.

We plan to publish a redacted version of this on KiwiRail's website on Friday December 23.

Thanks

s9(2)(a)

Level 3, Slider Building, 8-14 Stanley Street, Auckland 1010 | Private Bag 92138, Victoria St West, Auckland 1142, New Zealand



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<b>Topic:</b> NIMT Performance Improvement  <i>Appendices: Announcement timeline, Media release, Q and A, Op Ed</i>	<b>For the attention of the Ministers of Finance, Transport, SOEs, Ministry of Transport, Treasury</b>
<b>From:</b> Peter Reidy, Chief Executive, KiwiRail	<b>Date:</b> 19 December 2016

## Executive Summary

This paper provides the Shareholding Ministers, Minister of Transport, Ministry of Transport and Treasury with a summary of the Better Business Case regarding performance improvement of the North Island Main Trunk.

On Friday the KiwiRail Board approved:

- the shift to diesel-only operations on the NIMT and the decommissioning of the electric EF locomotive fleet; and
- leaving the electric traction infrastructure in place and live with low energy use and reduced maintenance notwithstanding the shift to diesel-only operations.

That approval is, however, subject to:

s9(2)(b)(ii)

- Ministers being appropriately briefed on a “no-surprises” basis

The decision will deliver consistent operating reliability performance on the NIMT for our customers, and support our strategy of building a competitive, efficient freight delivery service through standardising assets and simplifying the business to reduce the complexity of a mixed locomotive fleet.

### Current situation

A reliable, cost-effective and consistent freight service is required for customers to use rail as a primary freight line haul service provider not just as an overflow service for road transport.

The NIMT is electrified only between Te Rapa and Palmerston North requiring diesel locomotives to be used from Auckland/Tauranga to Hamilton, electric EF locomotives from Hamilton to Palmerston North, and finally diesel locomotives again from Palmerston North to Wellington. This effectively creates a “railway within a railway model” and requires a dual fleet of locomotives, dual training and maintenance systems, dual depot configurations, dual inventory and a more complicated train plan.

Additionally, the EF locomotives are almost 30 years old and are underperforming. Over the past six months to November 2016, the EFs have had a mean distance between failures (MDBF) of [REDACTED] (rolling average) which is below the overall fleet target operating level of [REDACTED] (rolling average). The diesel locomotives have a MDBF of around [REDACTED] (rolling average) in the last six months.

Efficiency is also compromised by the underutilisation of the electric locomotive asset. The EFs spend 10 out of every 24 hours waiting for assignment as they cannot be used elsewhere on the network.

All redactions on this page withheld under s9(2)(b)(ii)

## Options

Over the past 24 months KiwiRail has worked with a range of external consultants and stakeholders including the Rail and Maritime Union to identify and evaluate options to build a reliable, efficient and sustainable network to support customer growth on the NIMT.

Four options considered were:

- A mixed locomotive fleet of diesel and refurbished electrics via a control system upgrade
- A diesel- only model
- An electric-only model of second-hand locomotives
- An electric-only model of new locomotives

## Environmental considerations

While a shift to diesel would result in an estimated [REDACTED] increase in KiwiRail's emission factor, the net effect on New Zealand's overall emission rates would not be material. Every tonne of freight carried by rail delivers a 66% reduction in greenhouse gas emissions over road. Transport accounts for 17% of New Zealand's total emissions and rail accounts for just 1% of transport's emissions.

Consideration was also given to retaining the infrastructure for electrification on the NIMT. While this has an annual operating cost of [REDACTED] it protects a future decision on the best use of the line. There is an estimated decommissioning [REDACTED] if KiwiRail decided to decommission the electric traction infrastructure, [REDACTED] s9(2)(b)(ii) with the lines and jewellery removed and the poles left standing.

All redactions on this page withheld under s9(2)(b)(ii)

## Benefits and risks

Following a detailed assessment of the benefits and risks, the four options were reduced to two. The control system upgrade and second hand electric options were eliminated as they did not meet the simplify and standardise strategy with considerable risk associated with both.

Both of the DL and new Electric options were favoured to deliver on the business objectives. However the DL model was the only option which reduced operational complexity, asset downtime and fleet standardisation. It is also the quickest to implement and aligns with international practices where the majority of rail networks are standardised and are either 100% diesel or electric on a single corridor.

The EF model had greater implementation risk leading to a later improved operational performance timeframe. It was believed that the bedding in of a new fleet could take three to five years from commissioning. Financial costings are less certain with a new EF fleet as a full RFP process would be required. KiwiRail has recently commissioned diesel locomotives and so costings and implementation are more certain.

## Financial Considerations

A detailed financial model was developed to determine the long run NPV cost cash flow ranges of the two shortlisted options with assumptions based on capital and operating expenditure profiles.

The current freight task between Hamilton and Palmerston North requires [REDACTED] locomotives on a daily basis plus spares to enable maintenance programmes to be delivered.

For the diesel model, given that [REDACTED] diesel locomotives are already allocated to and operate on this section, only the incremental capital needed to procure the balance of locomotives was included. However the operating costs of the full [REDACTED] was used to determine the other expenditures.

For the all electric model, the current diesel locomotives operating on this segment will become surplus and are therefore treated as a capital credit in the cash flow summaries.

All redactions on this page withheld under s9(2)(b)(ii)



Overall the diesel option delivers a lower NPV s9(2)(b)(ii) compared to the electric option which produces s9(2)(b)(ii)

s9(2)(b)(ii)

A lower up-front capital outlay of the DL's over the EF's is partially offset by the lower operating and maintenance costs associated with the electrics.

## Conclusion

On balance, the all diesel model is preferred as it has a lower NPV cost range, offers far greater efficiency via a standardised fleet and less complex operating environment. It has lower implementation risk, improved existing asset utilisation and the speed of which the benefits for our customers can be realised on the NIMT are sooner than the new electric model.

The Board approved the shift to diesel-only operations on the NIMT and the decommissioning of the EF loco fleet. The Board also approved leaving the electric traction infrastructure in place. The status of the traction infrastructure on the NIMT will be reviewed again and brought back to the Board in three years.

## Appendix 1: Announcement timeline

### EF DECISION TIMELINE –MONDAY DECEMBER 19 – WEDNESDAY DECEMBER 21

#### FRIDAY DECEMBER 16:

Board meets to discuss the NIMT Performance Improvement Better Business Case  
Clarification is sought on a number of issues

#### MONDAY DECEMBER 19:

Board makes decision to accept the recommendations  
Ministers, MOT and Treasury are alerted to decision  
Media materials are prepared  
Briefing document and media materials are sent to Ministers, MOT and Treasury

#### WEDNESDAY DECEMBER 21:

Key customers are notified of decision with embargo to 11am  
Key stakeholders are notified of decision (Business NZ, EMA, Sustainable Business Council) with embargo to 11am

s9(2)(a)

11am: CEO email to all staff is sent  
11am: Media Release and supporting materials are distributed  
11am: Media release and supporting materials are published on website  
2.30pm: Media conference is held in Auckland with CEO  
3pm – 5pm: Peter Reidy available for additional interviews if required

#### FRIDAY DECEMBER 23:

Redacted version of Better Business Case is published on KiwiRail website

## Appendix 2: Media Release, 21 December 2016

### MEDIA RELEASE

December 21 2016

#### KIWIRAIL ANNOUNCES FLEET DECISION ON NORTH ISLAND LINE

KiwiRail will improve its reliability and efficiency for customers by employing an all-diesel fleet on the North Island Main trunk line, KiwiRail Chief Executive Peter Reidy says.

The small fleet of 30 year old electric trains that currently operate only between Hamilton and Palmerston North will be phased out over the next two years and replaced with diesel locomotives. The decision, which was made by the Board on Monday, allows for the electric infrastructure to remain in place and be maintained to a safe standard for any future use.

The North Island Main Trunk runs from Auckland to Wellington but is electrified only between Hamilton and Palmerston North. Mr Reidy says KiwiRail is essentially running “a railway within a railway” by having the electric section.

“Imagine Air New Zealand having to change planes at Hamilton to fly to Wellington. That’s not efficient, it’s more costly and ultimately delivers a less reliable service.”

The doubling up of service facilities, training and maintenance required with two separate systems on the line adds to the inefficiency and unreliability.

The decision took more than two years to make with extensive consultation with international experts, unions and consultants.

KiwiRail investigated four main options: replace the electric fleet with used or new electric trains; upgrade the current electric fleet or replace them with diesel trains as used on the rest of KiwiRail's network. Only eight diesel trains need to be purchased as they can be repurposed from elsewhere in the country and would not be limited only to the electrified part of the line.

Efficiency was not the only factor involved in the decision – environmental factors were assessed alongside the driving factors of reliability and performance improvement for our customers on the NIMT.

“This is an important move for New Zealand as without a reliable and efficient service, our customers will not move freight on rail, and for every tonne of freight we move there is a 66% reduction in emissions for New Zealand,” says Mr Reidy.

The 16 electric trains were breaking down on average every 30,000 kms (rolling average) which is well below the fleet target of every 50,000 km. “Doing nothing was not an option,” says Mr Reidy.

A small number of staff may be affected by the change but staff and unions will be consulted well before the phase-in begins.

“Our preference is always to redeploy staff where possible and the project will take a number of years to implement,” Mr Reidy says.

The decision to choose the diesel option wasn't made lightly or hastily, says Mr Reidy. "We looked long and hard at the electric options and for our business and most importantly our customers, they just did not stack up.

"Ultimately the high costs of a new or refurbished electric fleet couldn't be justified, while the gains to be made from standardising our fleet were very compelling."

The cost of electrifying the whole NIMT is estimated at more than \$1 billion for the infrastructure alone and feeder lines would still require diesel trains.

Retaining the electric infrastructure leaves the way open for future use if required.

"This is not a forever decision," says Mr Reidy. "We should also not lose sight of the fact that last financial year freight carried by rail in New Zealand meant 1.1 million fewer truck trips, 76.7 million fewer litres of fuel used, and 208,613 fewer tonnes of greenhouse gas emitted and that was with a largely diesel fleet."

ENDS

### **Appendix 3: Q&A**

#### **Why is only part of the NIMT electrified?**

The project was one of the so-called "Think Big" projects of the Muldoon era and a response to the oil price shocks of the 1970s and early 1980s.

A factor in the decision was that the diesel locomotives at the time were not powerful enough to transport the freight up the gradients in the central North Island, meaning a second locomotive had to be used. Electrifying the relatively level sections of line between Wellington and Palmerston North and between Te Rapa and Auckland was not considered economically justifiable at the time.

Technology has advanced to the point that diesels can now deliver this horsepower. The DL locomotives are powerful enough to negotiate the gradients without needing to be doubled up.

#### **Why do the current electric locomotives need to be replaced?**

They are 30 years old and are under-performing. Over the past 6 months they have failed on average once every 30,000 kms. Fleet targets are for locomotives to not fail until 50,000 kilometres. The electric trains are becoming harder to maintain, parts are difficult to find and the two fleet system is hindering our growth strategy.

#### **What is gained by moving to an all-diesel fleet in the North Island?**

It will help KiwiRail deliver a more reliable, more efficient service for its customers.

Creating a simplified operating model is a key KiwiRail business growth strategy to help our customers become more competitive through reliability and improved performance.

Lifting our operational performance will improve customer confidence and drive new revenue growth by encouraging our customers to move more freight by rail. That is important for New Zealand, also, as every tonne of freight moved by rail has 66 per cent fewer carbon emissions.

Moving from two to one fleet type will also mean lower training and maintenance requirements.

#### **Why doesn't KiwiRail buy new electric locomotives?**

They would be more expensive and would take longer to get into service. Simply replacing the existing locomotives also would not address the difficulties caused by operating both electric and diesel locomotives on one network, which creates a railway within a railway. It is equivalent to Air New Zealand requiring those flying from Auckland to Wellington to change planes at Hamilton and again at Palmerston North.

### **Why don't you electrify the whole North Island system?**

It would be very expensive. The cost estimate is \$2.5 million per kilometre of single track. Electrifying the parts of the North Island Main Trunk currently not electrified would cost at least \$1 billion for the infrastructure alone and feeder lines would still require diesel trains. There are additional complications in that the Wellington electric network uses a different power system to the Auckland electric network.

### **Will we now have diesel for 30 years on that line?**

The electric infrastructure will remain in place and maintained to a safe standard for any future needs.

### **What is the cost of maintaining the electric infrastructure?**

The cost of maintaining the infrastructure is about \$2 million a year. KiwiRail is continuing to spend this money to keep the use of electric trains as a future option should the situation change.

### **What was the difference in cost between buying new electric or diesel locomotives?**

The exact cost of locomotives is commercially sensitive. However the overall costing of the diesel option was estimated at 20% - 30% lower than the overall cost of the electric option over its operational life.

### **What part in the decision did environmental issues play?**

Environmental factors were considered as part of the overall decision, which also looked at operational efficiency and economic viability. When KiwiRail delivers a more consistent and reliable service it encourages more freight to move by rail.

Emissions from rail are less than 1% of all transport emissions, with transport accounting for 17% of New Zealand's overall emissions.

A shift to diesel on the NIMT will increase the emission factor for freight carried by rail in New Zealand from 30.80 gms per Net Tonne Kilometre to approximately 34 gms per NTK (The sum of the tonnes carried multiplied by the distance travelled). There

is no comparable figure for road freight in New Zealand but the United Kingdom produces an annual figure for Heavy Goods Vehicle. This is currently 114 gms per NTK.

**What will happen to the old electric trains?**

They will be decommissioned over a two year period.

**How many new diesel locomotives will be bought and how much will they cost?**

Eight locomotives will be required to replace the EF fleet. The cost is commercially sensitive.

**Appendix 4: Op Ed**

***KiwiRail has made the decision to take ageing electric trains off part of its North Island network. Chief Executive Peter Reidy explains why.***

KiwiRail's decision to go all-diesel on the North Island Main Trunk line was never going to be an easy one. It's certainly not a decision we took lightly, or quickly.

For the past 24 months all available options were carefully considered, consultations with the unions took place over many workshops and meetings, experts were consulted from both inside and outside the organisation.

But in the end, having the most reliable and efficient business for our customers was the most important consideration, not only for KiwiRail but for New Zealand itself.



Because if our business isn't reliable, customers won't put their goods on trains. If they can't get their goods where they are needed, on time every time, they simply won't use us. And for every tonne of freight KiwiRail carries, New Zealand enjoys 66% fewer emissions. Even when those trains are diesel.

Doing nothing was never an option. The existing locomotives were simply not up to the job.

The electric trains we are using now are 30 years old, and are becoming increasingly unreliable, despite our best efforts to maintain them. They fail, on average, once every 30,000 kilometres, which is well below our overall fleet target of 50,000 km.

That inefficiency is hurting KiwiRail's ability to deliver on our vision of being a trusted, Kiwi-owned logistics partner growing New Zealand. It held us back in our transformation project,

For the past few years, KiwiRail has been transforming itself into a commercial, customer-focused organisation. That inefficiency has held us back.

Our strategy of Simplify, Standardise and Invest was hindered by effectively operating a railway within a railway – diesel trains to Hamilton, then electric, then back to diesel again. Imagine Air New Zealand having to change planes at Hamilton just to fly Auckland to Wellington.

The complexity of the electric, diesel mix also meant having to employ drivers and mechanics with specific electric fleet knowledge or engineering skills. It meant more complicated train plans and load schedules. It introduced safety risks, as our staff had to switch locomotives over each time the train came into Hamilton and Palmerston North.

Some will ask why KiwiRail couldn't just take the whole NIMT electric. That would also require the networks feeding into the NIMT to electrify as well. That cost is estimated at \$1.5 million per kilometre. The total could be \$1 billion or more for just the infrastructure. Feeder lines would still require diesel trains.

Importantly, this is not a forever decision. Even though diesel trains are the best option for KiwiRail right now, the electric infrastructure will continue to be maintained on the line, leaving that an option should it be required in the future.

We understand that some people will be disappointed by this decision. Others – particularly New Zealand's importers, exporters, freight forwarders and their customers will be pleased by the reliability and efficiency it will offer them. And that is why this decision is what is best for not only our customers and our company, but for our country.

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**From:** s9(2)(a)  
**Sent:** Tuesday, 20 December 2016 12:09 p.m.  
**To:** s9(2)(a)  
**Cc:**  
**Subject:** RE: Electrics Question

Hi s9(2)(a)

Please find your questions and our answers outlined below.

Why can't locomotives be manufactured in NZ? Can NZ manufacture locomotives anymore – again I know the answer is no. We no longer have the facilities and staffing?

*New Zealand does not have the capacity to build its own locomotives, which is a feature common to most countries. The market for locomotives is dominated by large suppliers from Asia, America and Europe who have the ability to invest in R&D and overheads across multiple international orders and types of locomotive.*

Can I have some background information on the costs of manufacture in NZ vs the purchase price from overseas? *There are no costings for local construction of the locomotive as this was never a realistic option. The last locomotive was built in New Zealand 30 years ago.*

What reassurances have you got from the Chinese manufacturers that there is no asbestos in the new DL locomotives?

*The manufacturer who supplied previous locomotives (CRRC) had to meet considerable costs as a result of its failure to adhere to the contract condition that the trains were asbestos free. This provides a strong incentive to ensure any new build is asbestos free.* s9(2)(b)(iii)

s9(2)(b)(ii)

If there's anything else you need please let us know.

Many thanks

s9(2)(a)

---

**From:** s9(2)(a)  
**Sent:** Tuesday, 20 December 2016 10:18 a.m.  
**To:** s9(2)(a)  
**Cc:**  
**Subject:** Electrics Question

Hi s9(2)(a)

I've a couple of question in relation to KiwiRail's pending announcement around decommissioning the Electrics. As noted, these came from Minister McClay.

- Someone will ask the question – why can't locomotives be manufactured in NZ? The answer is "it's too costly". But can I have some background information on the costs of manufacture in NZ vs the purchase price from overseas?
- Can NZ manufacture locomotives anymore – again I know the answer is no. We no longer have the facilities and staffing?

- What reassurances have you got from the Chinese manufacturers that there is no asbestos in the new DL locomotives?

s9(2)(a)

s9(2)(a) | Senior Analyst | **The Treasury**

s9(2)(a) [@treasury.govt.nz](mailto:treasury@govt.nz)

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From: Kate Jorgensen [mailto:Kate.Jorgensen@kiwirail.co.nz]  
Sent: Tuesday, 20 December 2016 5:42 p.m.  
To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
Cc: Peter Reidy <Peter.Reidy@kiwirail.co.nz>  
Subject: EEf/DL

Chris

As per my phone message, we have been advised by the SOE minister that following the cabinet meeting today, we can go ahead and announce the outcome of the business case tomorrow.

You raised several queries with me and we have sent you the business case. I will send you the remaining queries tomorrow.

Can you advise if treasury has any urgent issues that need to be dealt with prior to announcement.

Regards

Kate

Sent from my iPhone

-----Original Message-----

From: Trevor Janes [mailto:s9(2)(a)]  
Sent: Tuesday, 20 December 2016 7:57 p.m.  
To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
Cc: Chris White [TSY] <Chris.White@treasury.govt.nz>  
Subject: Re: EEF/DL

s9(2)(g)(i)

Regards, Trevor

s9(2)(a)

Sent from my iPad

> On 20/12/2016, at 18:31, Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz> wrote:

>

> [IN-CONFIDENCE]

>

> Kate

>

> The Treasury has no urgent issues that need to be dealt with prior to the announcement.

>

> The Treasury provided a paper to Ministers this morning. I am also informed that the Minister of Finance's office is looking at the business case provided this morning. We look forward to receiving a response to the remaining queries tomorrow.

>

> Regards

>

>

>

> -----Original Message-----

> From: Kate Jorgensen [mailto:Kate.Jorgensen@kiwirail.co.nz]

> Sent: Tuesday, 20 December 2016 17:42

> To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>

> Cc: Peter Reidy <Peter.Reidy@kiwirail.co.nz>

> Subject: EEF/DL

>

> Chris

>

> As per my phone message, we have been advised by the SOE minister that following the cabinet meeting today, we can go ahead and announce the outcome of the business case tomorrow.

>

> You raised several queries with me and we have sent you the business case, I will send you the remaining queries tomorrow.

>

> Can you advise if treasury has any urgent issues that need to be dealt with prior to announcement.

>

> Regards

>

> Kate

>

> Sent from my iPhone

-----Original Message-----

From: Peter Reidy [mailto:Peter.Reidy@kiwirail.co.nz]  
Sent: Tuesday, 20 December 2016 9:32 p.m.  
To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
Cc: Kate Jorgensen <Kate.Jorgensen@kiwirail.co.nz>  
Subject: Re: EEF/DL

Thanks Chris

Peter Reidy, Chief Executive KiwiRail

> On 20/12/2016, at 6:31 PM, Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz> wrote:  
>  
> [IN-CONFIDENCE]  
>  
> Kate  
>  
> The Treasury has no urgent issues that need to be dealt with prior to the announcement.  
>  
> The Treasury provided a paper to Ministers this morning. I am also informed that the Minister of Finance's office is looking at the business case provided this morning. We look forward to receiving a response to the remaining queries tomorrow.  
>  
> Regards  
>  
>  
>

> -----Original Message-----

> From: Kate Jorgensen [mailto:Kate.Jorgensen@kiwirail.co.nz]  
> Sent: Tuesday, 20 December 2016 17:42  
> To: Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
> Cc: Peter Reidy <Peter.Reidy@kiwirail.co.nz>  
> Subject: EEF/DL  
>

> Chris  
>

> As per my phone message, we have been advised by the SOE minister that following the cabinet meeting today, we can go ahead and announce the outcome of the business case tomorrow.

> You raised several queries with me and we have sent you the business case, I will send you the remaining queries tomorrow.  
>

> Can you advise if treasury has any urgent issues that need to be dealt with prior to announcement.  
>

> Regards

> Kate  
>

> Sent from my iPhone  
>

> --

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**Treasury Report:** KiwiRail's decision to decommission its fleet of Electric Locomotives

<b>Date:</b>	20 December 2016	<b>Report No:</b>	T2016/2529
		<b>File Number:</b>	SE-2-25-1

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Steven Joyce)	<b>Note</b> the content of this report	Tuesday, 20 December 2016
Associate Minister of Finance (Hon Simon Bridges)	<b>Note</b> the content of this report	Tuesday, 20 December 2016
Minister for State Owned Enterprises (Hon Todd McClay)	<b>Note</b> the content of this report	Tuesday, 20 December 2016

**Contact for Telephone Discussion** (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Chris Gregory	Manager, Commercial Operations - Governance and Performance	+64 4 917 6064 (wk)	s9(2)(a) ✓
Chris White	Director, Commercial Operations - Governance and Performance	+64 4 890 7256 (wk)	

**Actions for the Minister's Office Staff** (if required)

<b>Return</b> the signed report to Treasury.	
Note any feedback on the quality of the report	

**Enclosure:** Yes (attached)

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## Treasury Report: KiwiRail's decision to decommission its fleet of Electric Locomotives

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### Purpose of Report

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1. The KiwiRail Board is consulting with shareholding Ministers on its decision to decommission the fleet of EF class of electric locomotives (EF) that operate on the North Island Main Trunk line (NIMT). A summarised history of the EF locomotives and the NIMT is provided in Appendix 1. The purpose of this report is to:
  - Summarise key elements of KiwiRail's business case provided to shareholding Ministers in support of the Board's decision, and
  - Comment on the process followed by the KiwiRail Board to consult with shareholding Ministers on this decision.
2. It is important to note that KiwiRail provided the business case to shareholding Ministers on Monday, 19 December 2016. The Treasury has had a matter of hours to read the business case. In light of this, the Treasury has not provided an opinion to shareholding Ministers on the KiwiRail Board's decision. Instead we draw shareholding Ministers' attention to key observations noted by the Treasury on the business case.

### Comments on the Decision

---

3. Subject to s9(2)(b)(ii) [redacted] and (ii) consultation with Ministers, the KiwiRail Board has agreed to:
  - Decommission the remaining fleet of 16 EF locomotives over a two year period.
  - Retain and continue to operate the electric traction infrastructure at an annual cost [redacted]
  - Review the decision to continue to operate the electric traction infrastructure in three years.
  - Acquire [redacted] new diesel traction locomotives (DL's) to replace the EF fleet.
4. We make the following observations:
  - The actual cost of (and therefore level of Crown funding required) this decision is not clear in the material provided to shareholding Ministers. Assuming an acquisition cost of [redacted] suggests a capital outlay of [redacted] for the replacement DLs, in addition to the annual cost of [redacted] to operate the electric traction infrastructure.
  - The costs provided do not appear to include the non-cash cost from writing-off the carrying value of the EF fleet in KiwiRail's financial statements (if any). Any write-off will have an impact to the Operating Budget before Gains And Losses (OBEGAL).

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this page withheld  
under s9(2)(b)(ii)

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this page withheld  
under s9(2)(b)(ii)

- The electric traction infrastructure will not be used in the operation of the KiwiRail's remaining diesel fleet. The decision to continue to operate the infrastructure at a cost of [REDACTED] per year appears in the short term to (i) defer remediation costs, and (ii) retain the option to use the electric traction infrastructure in the future. However, this is not likely to be a viable option in the long term.
  - KiwiRail's estimate of the cost to remove the electric infrastructure [REDACTED] does not include removal of the power poles. The material provided does not address whether future capital expenditure that would be required for the remaining poles for KiwiRail to meet its health and safety obligations.
  - The decision is consistent with KiwiRail's strategy to simplify and standardise its fleet. It also seems reasonable to assume that there will be other operational benefits from eliminating the need to change locomotives at Te Rapa and Palmerston North.
  - KiwiRail estimate the Net Present Cost (NPC) of its decision to decommission the EF fleet and replace it with diesel locomotives is in the [REDACTED]. This compares with KiwiRail's estimate of the NPC for the alternative of acquiring new electric locomotives in the [REDACTED].
  - The decision to decommission the EF fleet, taken in isolation, is not a significant decision. However, inevitably this decision raises broader issues with the electric traction of the NIMT. KiwiRail estimate that it could cost up to \$1bn to electrify the entire NIMT; however, KiwiRail provide no basis for its cost estimate. While the decision to decommission the EF fleet does not remove the opportunity to invest in further electric traction for the NIMT, it is a further step away from such an alternative.
  - The rail network between Britomart and Hamilton could provide alternatives for the government in addressing the current level of demand on Auckland's infrastructure. It is not clear from the analysis undertaken by KiwiRail whether any of the government's broader priorities in terms of the Auckland infrastructure were considered in making this decision (indeed it would not be unreasonable for the KiwiRail board to not have considered these matters).
5. We have put a number of questions to KiwiRail on the material provided to us and have requested additional material from KiwiRail supporting the decision. However, the material was not provided to us in time to include in this report.

## Consultation

---

6. We make the following comments on the process followed by KiwiRail to consult with shareholding Ministers on the decision to decommission the EF fleet:
- Shareholding Ministers were informed of the Board's decision to (i) decommission the EF fleet, and (ii) publicly announce the decision, on Thursday, 15 December after a 'Communications Plan' was provided to the Minister of State-owned Enterprises' and the Minister of Transport's offices.
  - The decision to decommission the EF fleet is not a new matter. KiwiRail report that the decision has taken two years involving consultation with international experts, unions and consultants.
  - The business case supporting the decision to decommission the EF fleet was provided to shareholding Ministers at 4:00pm, on Monday, 19 December 2016.

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The Treasury has only had a few hours to read the business case and provide comments to Ministers.

- KiwiRail intend to publicly announce its decision to decommission the EF fleet on Wednesday, 21 December 2016.

7. KiwiRail is subject to expectations set out in the Owner's Expectations Manual (OEM).

s9(2)(g)(i)

- 8.

s9(2)(g)(i)

s9(2)(g)(i) Deleted - Not covered by your request

Deleted - Not covered by your request

9. Decisions made involving KiwiRail's infrastructure often involve significant cost and may have long term consequences. Deleted - Not covered by your request

Deleted - Not covered by your request

10. We again urge Ministers to encourage KiwiRail to comply with expectations set-out in the OEM when consulting with shareholding Ministers.

### Next Steps

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11. The next steps are:

- Ministers to discuss the matter at Cabinet on Tuesday, 20 December
- KiwiRail to publicly announce its decision on Wednesday, Wednesday 21 December
- KiwiRail to publish a redacted version of its business case on Friday, 23 December

**IN-CONFIDENCE**

**Recommended Action**

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We recommend that you:

- a **Note** that the KiwiRail Board has decided to decommission the remaining EF class electric locomotive fleet.
- b **Note** that KiwiRail will retain and continue to operate the electric traction infrastructure at an annual cost of [REDACTED] The KiwiRail Board intend to review this decision in three years time.
- c **Note** that KiwiRail intend to acquire [REDACTED] new diesel traction locomotives (DL's) to replace the EF fleet.

All redactions on  
this page withheld  
under s9(2)(b)(ii)

Chris Gregory  
**Manager, Commercial Operations - Governance and Performance**

Hon Steven English  
**Minister of Finance**

Hon Todd McClay  
**Minister of State-owned Enterprises**

**IN-CONFIDENCE**

## Appendix 1: Background on the electrified NIMT

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### The EF Locomotive Fleet

1. The EF fleet comprises 22 locomotives built in the UK between 1986 and 1988 at a cost of c.\$40m. The EF fleet was subsequently upgraded between 1993 and 1994.
2. At the date of this report 16 locomotives remain in the fleet. However, it is not clear whether all 16 remaining EF's are operational.

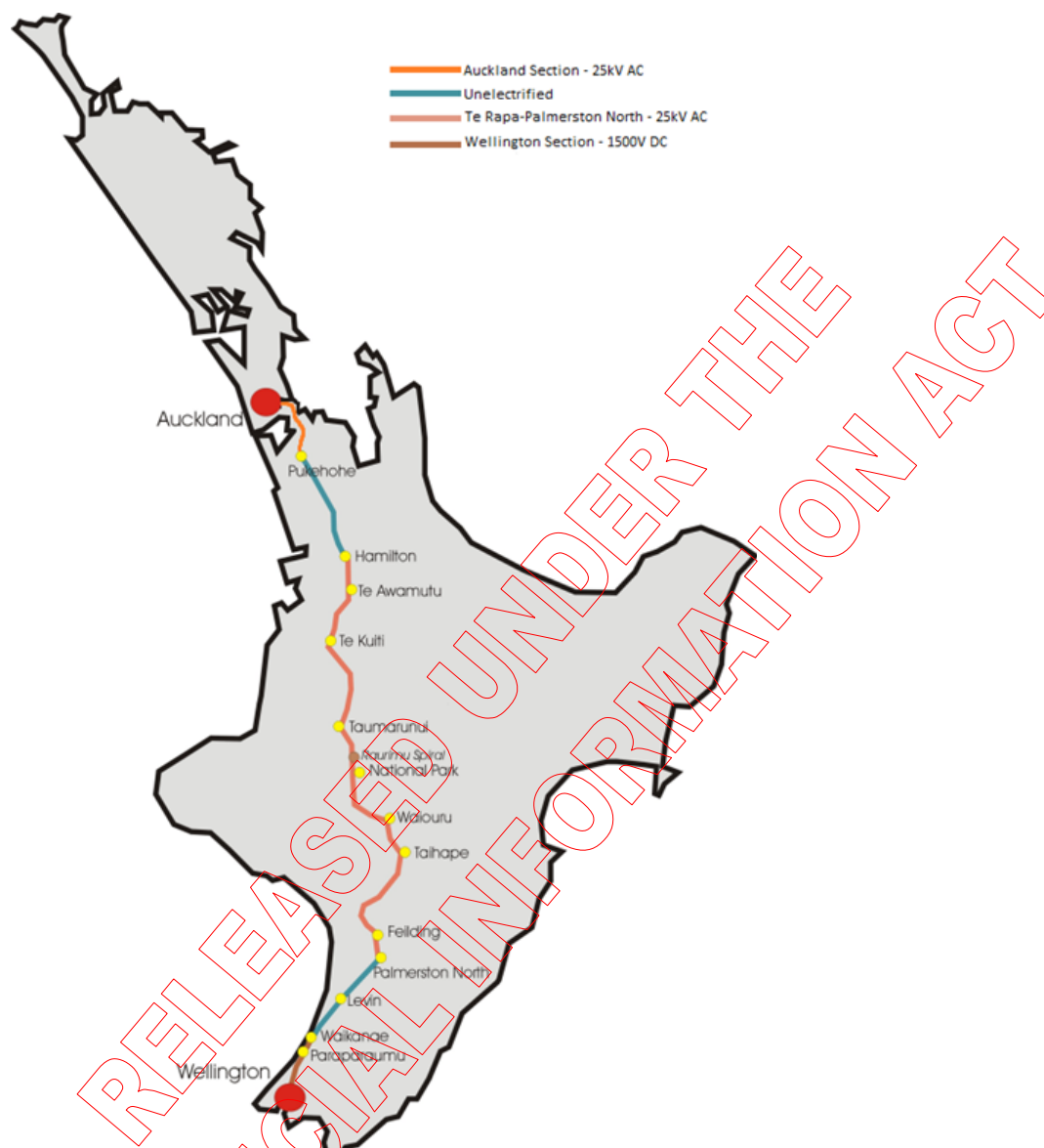


### Electric Traction Infrastructure on the NIMT

3. Electrification of the NIMT was one of the 'Think Big' projects undertaken between 1984 and 1988. The 412km span of track between Palmerston North and Te Rapa (north of Hamilton) was electrified at a cost of c.\$250m.
4. At that time the advantages of electrification included the additional power of the electric locomotives compared to diesel locomotives. The additional power was particularly required to deal with the various gradients on this section of the rail network, in particular the Raurimu spiral.

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5. The diagram below presents a map of the NIMT:



6. We make the following observations:

- The Auckland Metro network is electrified from Britomart to Papakura using an AC electric power source.
- The 87km span of track between Papakura and Te Rapa is not electrified (shown as Pukekohe to Hamilton on the map above).
- The NIMT is electrified for the 412 km between Palmerston North and Te Rapa (Hamilton on the map). The electric traction infrastructure used for this span of track is compatible with the electric traction system used for the Auckland metro network.
- The span of track between Palmerston North and Waikanae is not electrified. The track between Waikanae and Wellington is electrified using a DC electric power source. This span of track is not compatible with the electric traction infrastructure used on the rest of the NIMT.



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Appendix 2: Process of Consultation

1. Expectations of State-owned Enterprises (SOEs) are set out in the Owner's Expectations Manual (OEM). We summarise the key expectations of the OEM in relation to the process of consultation in the table below.

Reference	Clause	Wording
5.7.1	"No surprises" policy	<p>Under the "no surprises" policy, shareholding Ministers expect to be informed well in advance of any material or significant events, transactions and other issues relating to the company that may be contentious or could attract public interest, whether positive or negative.</p> <p>Examples of matters that could fall within the "no surprises" policy could include, but are not limited to:</p> <ul style="list-style-type: none"> <li>– Imminent media coverage of any activities that could attract critical comment or on which the shareholding Ministers could be asked to express a view.</li> </ul>
5.7.4	Business case review	<p>Companies are expected to consult in good time with shareholding Ministers on significant investments, irrespective of whether the company expects direct financial input from the Crown. In assessing a business case, COMU would advise shareholding Ministers on the aspects identified below. COMU would therefore expect business cases provided by SOEs to cover the following:</p> <ul style="list-style-type: none"> <li>– full explanation of the intended investment, demonstration of its link to the entity's purpose, core business and agreed strategy (as identified in the latest business plan/SCI)</li> <li>– full assessment of the benefits, costs and risks of the proposal and a description of why the investment is considered necessary/priority</li> <li>– full financial projections (statement of financial performance, statement of financial position and cash flow statement) to the same level of detail as the annual forecasted accounts in the business plan, and forecasted annually for an appropriate period for the type of investment (typically 10+ years)</li> <li>– identification of forecasts of capital expenditure and funding (and sources of funding) over the projection period</li> <li>– calculations should not only identify the expenses and returns for the project, but should also identify impacts for the whole of the organisation</li> <li>– full identification of risks</li> <li>– similar rigour applied to alternative scenarios (eg, status quo)</li> <li>– full DCF analysis leading to net present value (NPV) for each scenario. This should clearly identify all relevant assumptions</li> </ul>



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Reference	Clause	Wording
		<ul style="list-style-type: none"> <li>– present the business case in a form that either conducts appropriate sensitivity analysis or enables officials to carry out such an analysis, and</li> <li>– whether the proposal can be funded from the company's balance sheet, or via another vehicle, without recourse to new equity injection from the Crown.</li> </ul>
8.2	Process for consultation	<p>The consultation process, as distinct from shareholder approval, is expected to be conducted in good faith and to involve the following steps:</p> <ul style="list-style-type: none"> <li>– Based on advice from its management team, the board forms a view on the commercial merits of the proposal.</li> <li>– The board advises Ministers of a relevant pending decision.</li> <li>– The board provides information to Ministers.</li> <li>– Reasonable time is given for Ministers' consideration, depending on the circumstances of the particular decision.</li> <li>– The board considers Ministers' comments, with an open mind.</li> <li>– The board proceeds to take the final decision for which it is responsible.</li> </ul>

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**From:** Kate Jorgensen [mailto:Kate.Jorgensen@kiwirail.co.nz]  
**Sent:** Wednesday, 21 December 2016 9:37 a.m.  
**To:** Chris Gregory [TSY] <Chris.Gregory@treasury.govt.nz>  
**Cc:** s9(2)(a) Peter Reidy <Peter.Reidy@kiwirail.co.nz>  
**Subject:** RE: Queries on paper

Hi Chris,

Responses below:

Regards

Kate

---

**From:** Chris Gregory [TSY] [mailto:Chris.Gregory@treasury.govt.nz]  
**Sent:** Monday, December 19, 2016 7:58 PM  
**To:** Kate Jorgensen  
**Subject:** Queries on paper

[IN-CONFIDENCE]

Kate

In relation to the paper on the topic of 'NIMT Performance Improvement' provided to shareholding Ministers this afternoon, please provide the additional material requested below

Also, we note an inconsistency between pgs 11 and 14 on the cost per km to electrify the NIMT.

Regards

#### **Additional Material Requested**

Provide the Better Business Case referred to on pg1 of the material provided to shareholding Ministers (including support for the estimates of NPV provided).

s9(2)(b)(ii)

s9(2)(b)(ii)

What are the key assumptions that scenario is sensitive to? Are there any outcomes from your sensitivity testing that swing the outcome?

Refer to business case page 46.

What is the decommissioning cost if all poles supporting the electric traction infrastructure on the NIMT are removed?

s9(2)(b)(ii)

Provide a list of the reports provided by consultants and experts that provided advice to KiwiRail on this matter.

Internal expertise on assumptions re decommissioning costs, based on experience in Wellington Metro.

Confirm that ■ new diesel locos plus ■ additional for maintenance spares is required to replace the EF fleet (as per pg 4 of the paper provided).

Redactions above withheld under  
s9(2)(b)(ii)

As per business case.

Provide the total cash funding required from the Crown for this decision (i.e. undiscounted cash flows required from the Crown over time). Please include the cost of the replacement diesel locomotives in this estimate.

s9(2)(b)(ii)

Provide a copy of the redacted Better Business Case that KiwiRail intends to publish on its website (and any other material the KiwiRail intend to make publicly available that has not already been provided to shareholding Ministers).

Currently under review – will send Thursday.

Confirm whether any write-off to the carrying value of any assets will be required to KiwiRail's financial stmt's as a result of the decision. This will impact OBEGAL.

Book value of EF Locomotives at 30 September 2016 ■ ■ Once decommissioned they would be impaired as part of the annual financial year end impairment process. FY2016 impairment was \$216m (2015 \$225m)

Redaction above withheld  
under s9(2)(b)(ii)

**Chris Gregory** | Manager | Commercial Operations | The Treasury

Tel: +64 (0)4 917 6064 | s9(2)(a) | [Chris.Gregory@treasury.govt.nz](mailto:Chris.Gregory@treasury.govt.nz)

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**From:** s9(2)(a)

**Sent:** Friday, 23 December 2016 1:44 p.m.

**To:** s9(2)(g)(i) @treasury.govt.nz; Chris Gregory [TSY]

<Chris.Gregory@treasury.govt.nz>

**Subject:** Better business case

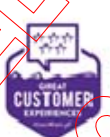
s9(2)(g)(i) and Chris

This is going up on KiwiRail's website today.

Regards

s9(2)(a)

**KiwiRail**



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