

# The Treasury

## Official Information Regarding KiwiRail's Purchase of New Ferries Information Release

October 2021

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10 November 2020

OC200862

**Hon Michael Wood**  
**Minister of Transport**

**Action required by:**  
At your convenience

## **KIWIRAIL'S INTERISLAND FERRY REPLACEMENT AND THE WELLINGTON FERRY TERMINAL**

### **Purpose**

This briefing responds to your request for advice on issues with the location of a potential new ferry terminal in Wellington harbour. It also outlines your responsibilities as Minister of Transport concerning KiwiRail's wider interisland ferry replacement project.

### **Key points**

- Cabinet agreed to partially fund, through Budget 2019 and Budget 2020, KiwiRail's purchase of two large rail enabled ferries to replace its current fleet of three ageing vessels (KiwiRail's Inter-Island Resilient Connection (iReX) project) and required terminal infrastructure upgrades in Wellington and Picton.
- The decision on the type/size of vessels is a commercial decision for KiwiRail. Port landside infrastructure decisions are also commercial negotiations between KiwiRail, CentrePort in Wellington and Port Marlborough in Picton.
- New terminal infrastructure is required in both Wellington and Picton to service KiwiRail's proposed new interisland vessels. Delivery of the new vessels is dependent on completion of terminal infrastructure in both Wellington and Picton – the decisions on which are commercially driven.
- "Above rail" asset investments, such as the interisland ferries are largely considered commercial decisions. These are investment decisions taken by the board of KiwiRail on a commercial basis, subject to approval by shareholding Ministers.
- There may be a role for the Minister of Transport, if there are wider public benefits or public funding is sought for the project, on top of commercial investment.
- While recent press releases have indicated differences between the parties, KiwiRail has advised commercial negotiations continue with CentrePort.
- Due to a technicality, all Crown funding, whether a shareholding injection or Crown purchase outcomes, comes through Vote Transport. Technically, therefore, you are responsible for taking KiwiRail's budget bids through the annual Budget. KiwiRail has indicated it will seek additional funding for this project through Budget 2021.

- The iReX project is primarily a commercial project, and KiwiRail's shareholding Ministers (presumed to be the Minister of Finance and the Minister for State Owned Enterprises), should therefore consider any investment, primarily upon advice from the Treasury.
- The Ministry is preparing separate advice to you on the Budget 2021 process, including potential KiwiRail budget bids and your roles and responsibilities through the Budget process.

## Recommendations

We recommend you:

- 1 **agree** to forward this briefing to the Minister of Finance and the Minister for State Owned Enterprises as KiwiRail's shareholding Ministers. Agree / Disagree

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Harriet Shelton  
**Manager, Supply Chain**

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Hon Michael Wood  
**Minister of Transport**

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- Minister's office to complete:**
- Approved  Declined
- Seen by Minister  Not seen by Minister
- Overtaken by events

## Comments

## Contacts

| Name   | Telephone | First contact |
|--|-----------|---------------|
| Harriet Shelton, Manager, Supply Chain                             | [23]      | ✓             |
| Bryn Gandy, Deputy Chief Executive, System Strategy and Investment |           |               |
| Richard Manning, Senior Adviser, Supply Chain                      |           |               |

## **KIWI RAIL'S INTERISLAND FERRY REPLACEMENT AND THE WELLINGTON FERRY TERMINAL**

### **Replacement of KiwiRail's Interislander ferry fleet**

- 1 Cabinet agreed to partially fund, through Budget 2019 and Budget 2020, KiwiRail's purchase of two large rail enabled ferries to replace its current fleet of three ageing vessels (KiwiRail's iReX project) and required infrastructure upgrades in Wellington and Picton.
- 2 Replacing the interisland ferry assets is part of the Government's investment priorities in the draft New Zealand Rail Plan, to achieve a resilient and reliable rail network. The Ministry of Transport (the Ministry) supports replacement of KiwiRail's vessels in principle.
- 3 The decision on the type/size of vessels is a commercial decision for KiwiRail. Port and landside infrastructure decisions are also commercial and subject to negotiations between KiwiRail, CentrePort in Wellington and Port Marlborough in Picton.
- 4 The NZ Transport Agency Waka Kotahi (Waka Kotahi) is responsible for roading realignment decisions to support the project. Bluebridge is also involved to the extent multi-user terminals are considered.
- 5 New terminal infrastructure is required in both Wellington and Picton to service the new vessels, which KiwiRail initially expected to take delivery of in 2024/25. Delivery of the new vessels is dependent, however, on completion of terminal infrastructure in both Wellington and Picton.

### **Your role and responsibilities as Minister of Transport**

- 6 KiwiRail receives funding from the Crown through Vote Transport, which you are responsible for as Minister of Transport. However, through the Future of Rail review, there were funding principles agreed to delineate between commercial investment decisions for KiwiRail and broader transport investment decisions for the rail system.
- 7 Commercial investment decisions focus on investing in KiwiRail's "above rail" commercial assets, such as the interisland ferries. "Above rail" asset investments, such as the interisland ferries and potentially terminal infrastructure are largely considered commercial investment decisions.
- 8 These are investment decisions taken by the Board of KiwiRail on a commercial basis, subject to the approval of shareholding Ministers if a major transaction (as defined by the Companies Act 1983) or shareholder equity is required.
- 9 There may be a role for the Minister of Transport, if there are additional public benefits or transport funding sought from the project, beyond commercial investment.
- 10 Due to a technicality, all Crown funding, whether a shareholder injection or Crown purchased outcomes, comes through Vote Transport. Technically, therefore you are responsible for taking KiwiRail's budget bids through the annual Budget. KiwiRail has indicated it will seek additional funding for this project through Budget 2021.

- 11 The Ministry will work with the Treasury to ensure that the appropriate commercial investment advice is provided through the Budget process, as you will be taking the commercial bids through on behalf of the Treasury.
- 12 It will be important for you to work with KiwiRail's shareholding Ministers (once announced) to seek their support to take forward any Budget bids for the iReX project through Vote Transport. For shareholding injection bids, you are acting as the conduit for shareholding Ministers, therefore you should seek their support.

### **Greater Wellington Regional Council convened a Forum to determine a future terminal location in Wellington**

- 13 In late 2018, Greater Wellington Regional Council (GWRC), as majority shareholder of CentrePort, convened the Wellington Future Port Forum (the Forum). The Forum's role was to determine the best location for a new terminal in Wellington.
- 14 KiwiRail's current three vessels berth at Kaiwharawhara in Wellington, while Bluebridge's two vessels berth at Kings Wharf. Terminal infrastructure is a critical component and major part of the overall cost of the iReX project.
- 15 Representatives on the Forum included Bluebridge, CentrePort, GWRC, KiwiRail, Waka Kotahi and Wellington City Council. The Ministry and the Treasury were not involved as the detailed designs for replacing the vessels and required landside infrastructure are commercial decisions.
- 16 The Forum published a report entitled *Cook Strait Connectivity: Programme Business Case for the Wellington Ferry Terminals* (the PBC) in July 2019. Undertaken by engineering consultants BECA, the PBC examined opportunities to reconfigure the Wellington ferry terminals.
- 17 The Forum considered new terminal locations ranging from Kapiti to the Wairarapa. These new location options were rejected due to lack of facilities, costs and other factors. One of the key requirements was for freight to be within a three-hour sailing time to allow three crossings a day.
- 18 The Forum shortlisted Kaiwharawhara and Kings Wharf from a longlist of eight location options. Considerations included: terminal layout, road, rail, public transport, cycleway and footpath connections, resilience improvements to terminal(s), the transport network, public amenities and other interventions.
- 19 Following the shortlisting exercise, a multi-criteria analysis of three options was undertaken, which included comparing an enhanced status quo against Kaiwharawhara and Kings Wharf multi-user terminals.
- 20 These options were compared and ranked against resilience, (user) experience, economic and delivery criteria. The Forum shortlisted the two current terminal sites of Kings Wharf and Kaiwharawhara for a new multi-user ferry terminal (**Annex 1** summarises the multi-criteria analysis of options).

### *Capital cost estimates for Kings Wharf and Kaiwharawhara locations*

21 The table below summarises the estimated capital costs from the PBC.

|                  | <b>Kaiwharawhara</b> | <b>Kings Wharf</b>   |
|------------------|----------------------|----------------------|
| <b>Terminal</b>  | \$320m-\$590m        | \$350m-\$640m        |
| <b>Transport</b> | \$70m-\$140m         | \$30m-\$60m          |
| <b>Total</b>     | <b>\$390m-\$730m</b> | <b>\$380m-\$700m</b> |

22 The PBC identified a multi-user terminal at Kaiwharawhara as the preferred location option and recommended that a resilience study of the site be undertaken.

23 At that time (July 2019), the next steps for the Forum were to commission further structural and resilience engineering feasibility studies, reach agreement on programme governance structure, confirm site masterplan and apportion project responsibilities among stakeholders.

24 The PBC estimated that the new multi-user terminal would be operational by late 2028. However, following the initial PBC the Forum appeared to breakdown and each of the parties pursued their own preferred sites, including through the media.

### *GWRC and Horizons Regional Councils' position*

25 On 9 April 2020, GWRC and Horizons Regional Council, as shareholders of CentrePort, issued a press release announcing their preference of Kaiwharawhara as the location of a Wellington multi-user (i.e. to serve both KiwiRail and Bluebridge) ferry terminal.

26 The Councils also jointly wrote to the previous Minister for State Owned Enterprises and the Minister of Finance on 9 April 2020 at that time where it:

- noted the councils' preferred location for a new multi-user terminal and that the close cooperation of all parties would be required to make the terminal a success
- advised that they see a multi-user terminal at Kaiwharawhara bringing regional and national benefits, enabling efficiencies for ferry service operators and the port, as well as freeing up port land for alternative uses.

### *KiwiRail's position*

27 KiwiRail briefed the previous Minister of Finance and Minister of Transport in September 2020, highlighting their concerns with the proposed Kaiwharawhara location and reasons for supporting Kings Wharf.

28 KiwiRail does not support the Kaiwharawhara location as it considers that:

- the Kaiwharawhara location is exposed to the risk of complex faulting in a major earthquake on the Wellington Fault, as identified by a 2019 study by GNS Science

- compared with the rupturing expected at other harbour sites of a 90 metre area around the fault, rupturing over a 200 metre – 300 metre area is more likely at Kaiwharawhara
- even with additional work, a major earthquake could still leave a terminal at Kaiwharawhara inoperable and with the potential to result in loss of lives, with a rebuild estimated to take two to three years. This would impact the ability to move freight between the North and South Islands
- the importance of the ferries to provide essential lifeline support after a major earthquake would be severely impacted, given expected damage at Kaiwharawhara
- it is much more likely that resource consents for Kaiwharawhara could be declined, and there would be increased insurance costs due to seismic risk.

29 KiwiRail considers that a terminal at Kings Wharf will provide significant benefits over the Kaiwharawhara site because:

- all areas around Wellington Port are vulnerable to earthquake damage and tsunami; however, it notes that only the Kaiwharawhara site has the additional risk of being on top of a rupture zone
- the Kings Wharf site would likely be able to operate sooner after an earthquake to provide lifeline services
- Kings Wharf provides opportunities from both an urban development and transport connections perspective, as well as easy access to Wellington Railway Station
- Ferry and port traffic would continue to be removed from the current roading network prior to reaching the Wellington CBD, minimizing any impact on congestion.

#### *Bluebridge's position*

30 We understand that Bluebridge, KiwiRail's competitor, has raised safety concerns with KiwiRail's preferred Kings Wharf location. Bluebridge considers that an extended site at Kings Wharf could cause serious safety concerns, including collisions between ferries and difficulty docking.

31 Bluebridge is a major operator across the Cook Strait, providing over 40 percent of the total lane-metre capacity for commercial and private vehicles. Bluebridge continued to operate throughout the COVID-19 lockdown period to provide connectivity without direct Crown support (other than the wage subsidy).

#### *The previous Minister for State Owned Enterprises responded to GWRC's and Horizons Regional Council's concerns*

32 The previous Minister for State Owned Enterprises responded to the chairs of GWRC and Horizons Regional Council on 4 June 2020. The response noted that the Forum involves the agencies best equipped to make the terminal a success and urged all members to focus on reaching agreement to a permanent site as soon as possible.

33 In addition, the response:

- noted that the Government agrees a future terminal must be a success and close cooperation and agreement from all parties involved is required
- reiterated the fact that KiwiRail has raised questions about seismic issues at the Kaiwharawhara site
- stated that there will be high public expectations that the future terminal location best addresses public safety, resilience, transport outcomes, as well as providing value for money
- noted KiwiRail's and CentrePort's roles as lifeline utilities under the Civil Defence Emergency Management Act 2002.

#### *Commercial negotiations between KiwiRail and CentrePort continue*

34 KiwiRail has advised that Greg Miller (Group Chief Executive Officer, KiwiRail) and David Gordon (Chief Operating Officer, KiwiRail) met with Derek Nind (Chief Executive, CentrePort) and Daran Ponter (Chair, GWRC) in the last week and will continue to meet this week to discuss the two locations.

35 We are advised by KiwiRail that these meetings are building on the work already undertaken. In a conversation with the Secretary of Transport, KiwiRail's Group Chief Executive made it clear that productive meetings are underway with a view to reach common ground on a preferred site.

#### **Lifeline utility responsibilities**

36 Both KiwiRail (as provider of a rail network or service) and CentrePort (as a port company) are classed as lifeline utilities under Schedule 1 of the Civil Defence Emergency Management Act 2002 (the CDEM Act).

37 This classification places responsibilities on the two organisations, including the requirement to be able to function to the fullest possible extent, even though this may be at a reduced level, during and after an emergency.

#### **Concerns raised by other harbour users with the proposed Kings Wharf location**

38 The Ministry is also aware that other harbour users have raised concerns over the proposed Kings Wharf site. These relate to reduced access to the inner harbour, safety concerns from larger vessels manoeuvring in close proximity to other users, and loss of amenity values.

#### **Next steps**

39 The decision on the future location of the Wellington ferry terminal is a commercial decision subject to negotiation between KiwiRail and CentrePort. It is not clear at this



time that the parties have reached an impasse. We understand that commercial negotiations are ongoing.

- 40 Commercial parties are best placed to determine the future location of the Wellington ferry terminal. The Ministry and the Treasury will maintain a watching brief of the situation as it continues to develop.
- 41 Should KiwiRail seek further funding the Budget 2021 for landside infrastructure, this will be a decision for its shareholding Ministers (previously the Minister of Finance and Minister for State Owned Enterprises). It is important that any increase to costs be weighed against the overall benefits of the project.

# Annex 1: Wellington Future Port Forum Multi-criteria analysis of the options

Shortlist Development

## How do the options compare?

|   | Enhanced Status Quo | Kaiwharawhara Multi-user | Kings Multi-user |
|---|---------------------|--------------------------|------------------|
| <b>RESILIENCE</b>   |                     |                          |                  |
| Resilience to high impact low probability event Day Zero to day 20              | ●                   | ●                        | ●                |
| Resilience to high impact low probability event Day 20 to day 1000              | ●                   | ●                        | ●                |
| Resilience to moderate events   | ●                   | ●                        | ●                |
| <b>EXPERIENCE</b>   |                     |                          |                  |
| Logical location for long term planning of the city to achieve city aspirations | ●                   | ●                        | ●                |
| Traffic impact on other network users   | ●                   | ●                        | ●                |
| Integrated transportation/land use  | ●                   | ●                        | ●                |
| Connection to alternative transport modes                                       | ●                   | ●                        | ●                |
| Tourism and visitor ferry journey experience                                    | ●                   | ●                        | ●                |
| On-harbour recreational user impacts  | ●                   | ●                        | ●                |
| <b>ECONOMY</b>  |                     |                          |                  |
| Optimising land for highest and best use  | ●                   | ●                        | ●                |
| Enables efficient terminus layout   | ●                   | ●                        | ●                |
| Harbour management maritime operation   | ●                   | ●                        | ●                |
| Economic impact beyond the site   | ●                   | ●                        | ●                |
| <b>DELIVERY</b>   |                     |                          |                  |
| Environmental / ease of consenting  | ●                   | ●                        | ●                |
| Impact on ferry operations during construction & transition                     | ●                   | ●                        | ●                |
| Impact on other Port operations during construction & transition                | ●                   | ●                        | ●                |
| CAPEX terminus facilities   | ●                   | ●                        | ●                |
| CAPEX transportation network  | ●                   | ●                        | ●                |

MCA rating framework



All scores to be relative to the current status quo

## Capital Costs\*:

|              | Kaiwharawhara       | Kings Wharf         |
|--------------|---------------------|---------------------|
| Terminal     | \$320-\$590M        | \$350-\$640M        |
| Transport    | \$70-\$140M         | \$30-\$60M          |
| <b>Total</b> | <b>\$390-\$730M</b> | <b>\$380-\$700M</b> |

\*Ongoing costs were not considered to differentiate between site options and are anticipated to be lower than the enhanced status quo operating costs.

Refer Working Paper 2 for multi-criteria analysis (MCA) scoring results, commentary on the scoring of each option by expert advisors and sensitivity testing.

