Issues for Discussion

The following sets out the parameters of a potential arrangement for negotiation between the Crown and the third party. The arrangement assumes the third party has successfully acquired the company. A heads of agreement covering the substantive terms of the arrangement would have to be agreed between the two parties before any offer is made. Details would be finalised post-acquisition of the company.

1. The Crown would purchase the network and place it in a Crown Entity. This would include track infrastructure and all ancillary assets required for management and operation (tracks, tunnels, bridges; signalling, train control). The existing lease governing the use of Crown land for rail purposes would be terminated.

2. The Crown Entity would have responsibility for providing maintenance and capex of the network. This would be recovered by way of access charges [but the value of the rail network would be close to zero][. Because this would not impact on Tranz Rail's cash flows, would leave the Crown responsible for the maintenance liability and the fact that except under certain circumstances the operator would retain monopoly rights (see 3 below), the value of the rail network would be close to zero.] The Crown may commit to a one-off refurbishment of the network and there would be scope for partial recovery of maintenance for an initial period. A way of determining the level of maintenance and where it is done would need to be established.

3. There would not be an open access regime. The company would retain the existing operating rights but there would be potential for introduction of new operators and some contestability under the following circumstances:

- Where agreed with company
- Where the company fails to meet performance indicators/standards
- Where Government offers a service subsidy
- For long distance passenger transport where no service is provided at present.
- For all existing non Tranz Rail operators and types (eg heritage)

4. A high-level Strategic Alliance between the Crown and company would be established. This would provide for:

- A basis for information exchange
- Consultation processes (e.g. intention to discontinue services)
- Processes for collaboration on maintenance and investment
- Agreement to maintain specified line-by-line services

5. The Crown would purchase more detailed and closely specified service level agreements (SLAs) for at-risk lines and services such as:

- Services on marginal/uneconomic lines
- Services to smaller centres/regional plants
- Potential for hook and pull operations where there are insufficient specific use wagons(fertiliser/timber/meat).

The SLAs would cover:

- for example frequency/volume of service/ service quality such as timing;
- Provisions for penalties/incentives with contestability being a default mechanism
- Provisions to cope with changing economics and rail viability
- Publication by company of performance information.

6. Parties to consider potential for wholesaling of space on main trunk line. Such an arrangement could have the following features:

- The company would sell capacity (wagons, containers and space) to other freight providers an agreed percentage of freight on particular sectors.
- Only company would operate locomotives
- Price would be determined by company and potential freight providers.

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