

Ministerial Briefing

COMMERCIAL IN CONFIDENCE

To	Hon. Michael Wood, Minister of Transport	19 February 2021
Cc	Brian Corban, KiwiRail Chairman	
From	Greg Miller, KiwiRail Group Chief Executive	

NZ UPGRADE PROGRAMME – CAPITAL CONNECTION UPDATE

PURPOSE

1. This briefing updates you about cost pressures on the Capital Connection carriage refurbishment project, and its potential impact on other NZ Upgrade Programme funded rail projects. It seeks an indication as to whether the cost escalations should be met through further funding or reprioritised.

BACKGROUND

2. The Capital Connection service runs once a day between Palmerston North and Wellington, with a morning service to Wellington and an evening return to Palmerston North. KiwiRail has run the Capital Connection since 1991 and has had limited funding from Greater Wellington and Horizons regional councils for the last four years.
3. The service runs close to capacity with approximately 112,000 passenger trips per year. This is a modest operation. The service has operated at a loss of around [REDACTED] per annum, costing approximately [REDACTED] to operate. In August 2019 Waka Kotahi confirmed a \$3.5 million investment in the service through the Transitional Rail activity class.
4. Survival of the Capital Connection is dependent on an ongoing operating subsidy from Waka Kotahi, GWRC and Horizons. KiwiRail currently only has an operating contract through to June 2021.
5. The service uses older rolling stock which is nearing its end of life. In January 2020 the Government announced \$15 million to refurbish former Auckland Transport carriages to replace the aging rolling stock on the service as part of the NZ Upgrade Programme. This refurbishment is the same approach taken with the Te Huia (Hamilton – Auckland) service.

CURRENT SITUATION & STRATEGY

6. Passenger numbers on the Capital Connection are modest, by any commuter service standards:
 - Between Waikanae and Palmerston North, where there is no rail alternative, numbers average 142 per journey per day
 - Between Wellington and Waikanae, where commuters also have the choice of the Metlink EMU services, numbers average 242 per journey per day.

7. In other words, 100 passengers each journey use the Capital Connection in preference to the Waikanae – Wellington Metlink service. There is a convenience factor in this as the Capital Connection does not stop as frequently as the Metlink services on the way to and from Wellington.
8. The Capital Connection carriage stock has had some repair work completed to remain fit to run for a further 18 months (to mid-2022). KiwiRail has already had to withdraw carriages from service for emergency repairs. The carriages will not be fit to run beyond mid-2022.
9. The current strategy, which was articulated during the NZUP Establishment announcements, is as follows:
 - a. Refurbish 11 of the ex-Auckland passenger fleet and bring it into service before the current Capital Connection fleet expires
 - b. In parallel, GWRC/Horizons will run a process through Waka Kotahi to define a new service delivery model for the Wairarapa Line and Palmerston North lines, and this will most likely be an EMU with a mix electrical/battery operation
 - c. Run the refurbished fleet until such time as the new EMUs are ready for operation.
10. The refurbished Capital Connection carriages are expected to enter service around mid-2022.

NZUP COST PRESSURES & COST OF STRATEGY

11. KiwiRail appreciates the cost pressures on the NZ Upgrade Programme as a whole. KiwiRail's rail NZUP projects are close to the original Establishment Values and as a portfolio in total are within the Establishment Budget.
12. However, the Capital Connection refurbishment costs are considerably over budget – given an updated per carriage cost based on the Te Huia refurbishment actuals and the need to raise older platforms to ensure they align with the carriage ride height (and other Wellington stations). Both costs relate to safety – more significant safety upgrades to the carriages than originally thought and removing any trip hazard for passengers at the stations.

The cost status is:

Work Scope	Establishment Report	Baselining Estimate
Upgrade to carriages	\$15m – being 12 carriages at \$1.25m	\$23.4m (P50)
Consequential works to platforms between Waikanae & Palmerston North	\$Nil	\$3.5m Interim fixes to three (Palmerston North, Levin, Otaki) platforms pending rebuild under the full GWRC/Horizons exercise
Total	\$15m	\$26.9m (increase of 79% on original estimate)

MATTERS TO CONSIDER

16. This choice will ultimately make its way to you through the NZUP/OSG reports in April and you may choose to wait until then to make a decision.
17. However, KiwiRail has some urgent decisions to make in relation to securing labour and materials for this project and we risk either losing these resources or incurring costs to no benefit if a decision not to proceed is delayed until that later date.
18. On the other hand, if the Government does want to proceed with the project, then waiting until April for the NZUP process adds delay and uncertainty to project delivery.
19. For completeness, operating a Palmerston North to Waikanae only service would rely on the same carriages, requiring renewal at the same cost in 18 months, and two locomotives would be required to operate the service.

RECOMMENDATION

20. KiwiRail requests that the Minister of Transport:
 - a. **note** the New Zealand Upgrade Programme (NZUP) provided \$15.000 million to refurbish 11 former Auckland Transport carriages to extend the life of the Capital Connection from 2022 to 2026.
 - b. **note** the Capital Connection NZUP costs have increased to \$26.900 million due to rebaselining of refurbishments and consequential work required to Palmerston North to Waikanae platforms.
 - c. **note** the variance of \$11.900 million will be considered through the NZUP rebaselining report to be provided by the Ministry of Transport and Treasury in April 2021, but that an earlier decision would avoid additional costs.

- d. **indicate** whether the Capital Connection investment should progress or if the NZUP funding should be reprioritised.

Progressed/Not progressed

- e. **note** the progression of the Capital Connection investment would require reprioritisation of \$11.900 million from other NZUP initiatives or new funding.
- f. **note** that not progressing the Capital Connection investment would enable \$15.000 million capital to be reprioritised to other NZUP initiatives and the operating subsidy to a replacement bus service to be lessened.

21. KiwiRail is available to brief you further on this matter should you require more information.