

10 December 2021

Hon Michael Wood
Minister of Transport
Parliament Buildings
Wellington

REF: NZT-6900

Dear Minister Wood

Update to advice on the 2021-24 Rail Network Investment Programme

On 29 June 2021, you approved KiwiRail's first Rail Network Investment Programme (RNIP) after considering advice from Waka Kotahi NZ Transport Agency and consulting with KiwiRail's shareholding Ministers. At that time, you:

- **approved**, in accordance with section 22B of the Land Transport Management Act (LTMA), the RNIP at a maximum contribution from the NLTF of \$1,351.7 million
- **approved**, in accordance with section 22F of the LTMA, funding from the National Land Transport Fund (NLTF) for eight of the eleven activities in the RNIP that were ready for approval at a total of \$1,270.7 million
- **noted**, further planned approvals would be requested during the 2021-24 period, in accordance with section 22F of the LTMA, for activities that were not ready for approval at that time

The RNIP is now in the delivery phase and we are monitoring its delivery to ensure KiwiRail is implementing appropriate processes and methodologies, and that the programme is on track to deliver the outcomes sought.

We note that KiwiRail has reported its Continuous Improvement Programme (CIP) to you. We are satisfied that the proposed CIP will have both an immediate and enduring effect on lifting KiwiRail's asset management maturity and will build their capability and capacity.

Our advice included a table showing the eleven activities included in the RNIP, and which activities KiwiRail requested funding for at the date of approval. This advice updates you on two activities KiwiRail signalled it would be seeking approval for at a later date (shown in bold text in the table below):

- **#4 Additional Traction Feed (West)** and recommends the approval of the \$57 million identified for the implementation phase.

- #11 Wellington Network Capacity Improvements and recommends the approval of the \$1 million identified for the business case phase.

#	Region	Activity	Phase	Activity Class	KiwiRail requests for NLTF under s22F on approval of RNIP (\$m)	Total 3-year NLTF (including probable mid-period approvals) (\$m)
1	National	Freight Network Renewals	Implementation	Rail Network	789.9	789.9
2	National	Freight Network Maintenance and Operations	Implementation	Rail Network	361.0	361.0
3	National	Freight network improvements	Business Case	Rail Network	49.5	49.5
4	AKL	Additional Traction Feed (West)	Implementation	PT Infrastructure	0.0	57.0
5	AKL	European Train Control System Upgrade	Business Case	PT Infrastructure	0.0	4.0
6	AKL	Integrated Rail Management Centre	Implementation	PT Infrastructure	35.7	35.7
7	AKL	Metro Infill Signalling	Business Case	PT Infrastructure	1.0	15.0
8	AKL	Progressive fencing and security	Business Case / Implementation	PT Infrastructure	6.0	6.0
9	AKL	KiwiRail Strategic Future Planning	Implementation	PT Infrastructure	7.0	12.0
10	WLG	Wellington Rail Network Re-signalling	Business Case	PT Infrastructure	20.6	20.6
11	WLG	Wellington Network Capacity Improvements	Business Case	PT Infrastructure	0.0	1.0
		TOTAL NLTF			1,270.7	1,351.7

As such, we have updated our advice to support your decision-making in considering the two planned requests for funding from KiwiRail. This includes analysis to confirm that the activity complies with the requirements of Section 22G.

Additional Traction Feed (West)

The Additional Traction Feed (West) project has now completed its business case and is ready to move into implementation phase. In the RNIP and our previous advice, the Additional Traction Feed (West) project was based on a proposed option with a 95th percentile cost estimate of \$57 million (i.e., 95 percent certainty the project could be delivered for that cost). During the completion of the business case, a more resilient option has been identified which offers increased value (when considered through incremental economic analysis). This new option is now recommended for implementation.

The new option has a 50th percentile cost estimate of around \$57 million and a 95th percentile estimate of \$67 million. Therefore, there is now only 50 percent certainty that the project can be delivered for this cost.

Currently, we do not recommend changes to the overall cost of the RNIP (as per section 22B) but highlight to you that the likelihood of this project exceeding the recommended funding has increased. We have agreed with KiwiRail to introduce a hold point at the end of the design phase where we will review the updated costs and benefits. We will report back to you again at that time if any changes to funding levels are required, or our view on the value for money of this project has changed in any way.

As noted in our previous advice to you, there is pressure on the National Land Transport Fund (NLTF) to deliver the Government's transport priorities as set out in GPS 2021. The Additional Track Feed (West) is being funded through the Public Transport Infrastructure Activity Class (PTIAC), which is under significant pressure.

Wellington Network Capacity Improvements

In accordance with our agreement to advance the Wellington Network Capacity Improvements business case from year three of the programme to year one, we have now assessed the scoping document for the business case and recommend funding.

We are satisfied that the scoping document adequately addresses the matters that need to be covered and it includes several issues consistent with previous discussions with you and your officials. These are:

- the network upgrades identified for the Lower North Island Rail Integrated Mobility Business Case (LNIRIM) preferred solution, which is planned to be considered by the Waka Kotahi Board in their December 2021 meeting
- considering costs and staging for potential further northwest extension of electrification on the North Island Main Trunk (NIMT), and potential partial electrification on the Wairarapa line (if required to support the above business case)
- the interaction between the above new fleet and longer freight trains associated with larger ferries at the freight yard entry
- any network improvements required to support the Government's freight and tourism objectives.

An update to our advice is detailed in Appendix One.

Before making your decision on whether to approve funding for this activity, the LTMA requires you to consult with KiwiRail's Shareholding Ministers (Hon Grant Robertson, Minister of Finance, and Hon David Clark, Minister for State Owned Enterprises).

Yours sincerely



Nicole Rosie
Chief Executive

Appendix 1 – Update to advice on the Rail Network Investment Programme

Update to advice on the Rail Network Investment Programme (Section 22C)

- Our previous advice on the Rail Network Investment Programme (RNIP) (Section 22C) remains unchanged and we reconfirm that the RNIP:
 - contributes to the purpose of the Land Transport Management Act (LTMA) (to contribute to a safe, efficient and effective land transport system)
 - is consistent with the Government Policy Statement on land transport (GPS 2021)
 - takes into account any relevant Regional Land Transport Plan (RLTP).
- We note that the work now being undertaken through the Continuous Improvement Programme will provide increased confidence on the efficiency and effectiveness of the continuous maintenance and renewal programme proposed for the freight network.

Update to advice on individual activities (Section 22G)

- Section 22G of the LTMA requires us to provide you with advice on the individual activities for which KiwiRail is requesting funding from the National Land Transport Fund (NLTF), and a view on whether we consider that you should approve the request.
- As part of our advice on each activity under S22G we are required to evaluate whether:
 - the activity is included in the proposed RNIP
 - the activity takes into account the relevant RLTP, any national energy efficiency and conservation strategy and any relevant national or regional policy statements in effect under the Resource Management Act 1991 (RMA)
 - the activity will contribute to the purpose of the LTMA and is consistent with the GPS 2021
 - the activity is efficient and effective.
- The table below updates the activities for which funding is being requested, details compliance with the relevant provisions of the LTMA and provides our advice as to whether you should approve the funding or not. You may approve partial or full contributions from the NLTF for each activity.

Title of activity or combination	Overview	Compliance with Section 22G(1)(b)	Referenced in RNIP?	Consistent with, and referenced in relevant RLTP?	Contributes to the LTMA purpose and is consistent with the GPS	Is the activity efficient and effective?	Funding requested	
Additional Traction Feed (West)	Installation of an additional grid exit point and traction power feed to the Auckland rail network.	Yes	Yes	Consistent with, and referenced on page 11 of the Auckland RLTP, Appendix 3.	<p>Activity contributes to the LTMA purpose by enabling the Auckland rail network to operate more efficiently and effectively.</p> <p>Aligns to the Better Travel Options strategic priority in GPS 21/31.</p>	<p>The activity has been re-assessed based on the completed business case. As a result, investment profile for the stand-alone project is:</p> <p>GPS Alignment – Medium Scheduling – High Efficiency – Low (BCR 1.2)</p> <p>The assessment also recognises that the project is an enabler of the CRL programme, and thus contributes to broader mode shift, safety and climate change objectives. If assessed as part of the broader CRL programme it would achieve High results alignment.</p> <p>The updated profile is consistent with other projects in the NLTP that are critical CRL Day 1 projects when they are assessed in isolation.</p> <p>With the revised profile, the project remains above the funding threshold for public transport infrastructure projects.</p> <p>The project objectives:</p> <ul style="list-style-type: none"> • Enable CRL full fleet operation in 2025 (under rail industry standard power scenario) • Enable planned growth of rail services beyond 2025 • Improve reliability and reduction of system vulnerabilities • Reduce the impact of planned and unplanned outages <p>During the development of the business case an additional option has been identified. This option provides greater resilience and is expected to provide capacity for future growth well beyond 2031.</p> <p>The new option scores highest in the Multi Criteria Analysis, particularly against the investment objectives relating to growth, resilience and network flexibility. This option also has the highest BCR (despite a higher capital cost) and has an incremental BCR</p>	A request for \$57 million has been received.	Approve, noting the revised cost estimation risk.

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						<p>of 2.0 against the previous option as it provides benefits beyond 2031.</p> <p>The new option has an expected (50th percentile) estimate of around \$57 million and a 95th percentile estimate of \$67 million.</p> <p>While this may appear consistent with previous advice, it is important to note that the previous option had a 95th percentile cost of \$57 million.</p> <p>This means there is now only a 50% level of confidence that the final project out-turn cost will not exceed \$57 million, where previously there was a 95% level of confidence.</p> <p>Currently, we do not recommend changing the funding level for this project (and the overall cost of the RNIP (as per section 22B) but highlight to you that the likelihood of the project exceeding the allocated funding has increased.</p> <p>We have worked with KiwiRail and agreed to introduce a hold point at the end of the design phase where we will review the updated cost and benefits.</p> <p>We will continue to work closely with KiwiRail as the project is delivered to manage the cost as closely as possible and will update you with any forecast changes as they become apparent.</p>		
Wellington network – further capacity improvements	The overall programme considers the replacement of all existing longer-distance rail rolling stock on the Wairarapa and Manawatu lines, with supporting improvements to maintenance facilities, stations and network infrastructure. KiwiRail are responsible for the network infrastructure portion.	Yes	Yes	Consistent with, and referenced on page 59 of the Wellington RLTP	<p>Activity contributes to the LTMA purpose by enabling the Wellington metro network to operate in a safer and more operationally flexible way.</p> <p>Aligns to the Better Travel Options strategic priority in GPS 21/31.</p>	<p>This activity has undergone an initial assessment against GPS alignment and criticality. This has determined:</p> <p>GPS Alignment – High (through improved freight movement, better travel options, addressing climate change and safety). Scheduling – High (the need for these improvements are urgent)</p> <p>A full assessment will be completed at the completion of the business case, including the economic efficiency.</p> <p>Business Case objectives:</p> <ul style="list-style-type: none"> • The network upgrades identified for the LNIRIM preferred solution • Considering costs and staging for potential further northwest extension of electrification on the NIMT, and potential partial electrification on the Wairarapa line (if required to support the above business case) • The interaction between the above new fleet and longer freight trains associated with larger ferries at the freight yard entry • Any network improvements required to support the governments freight and tourism objectives. 	A request for \$1 million has been received.	Approve.

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