

This email trail was an attempt to devalue the railway. It is necessary for it to have a zero value to be 'ripped up'

25 May 2017 - I am following up on your query about timelines for our receiving further information on costings relating to the Launceston and North East railway project.

We would appreciate receiving this information within the next two weeks. If it is much after that, we may not be able to include it in our analysis.

*5 June - We are still gathering information. It is an interesting process that we are going through. We are proving that our project which is totally privately funded is being compared to a project that will spend **\$3mill of government money to replace a \$40mill asset.***

It is difficult to understand why this process is happening when the railway project was proven to be viable.

*12 June - Thank you for the reports. I note you and your group have frequently quoted **\$40 million as the value of the NE corridor.** I can't find any reference to how that has been derived - the Department of State Growth only value rail corridors in terms of the land they sit on, so it hasn't come from there. Can you please let me know how that figure has been arrived at?*

12 June - After consulting with our engineers the \$40m was the value write down cost from the residual value of \$60m for the current line. It would seem unusual that the rail would have no value and that it would only be the land valuation on the corridor.

Our engineer costing consultants have advised that using similar estimates to those utilised by the Federal Government to cost the Inland Rail Project in 2017 it would be in excess of \$296.47M to rebuild the 60kms of railway line to Scottsdale.

***At our meeting in May we were unsure of the material we required to support our case for the railway as there was no real agenda.** We were not aware that the Infrastructure Tasmania report was on the website. LNER had not seen a copy of that report and that was why we were not as prepared as we should have been. The first that we were aware of that report was yesterday.*

I am working with Bob Vanselow to provide more information and would like your consideration of an extension.

12 June 2017 - Typically, as a rough 'rule-of-thumb', it currently costs a few \$ million per kilometre to build a medium-heavy freight-carrying single-track standard-gauge railway across fairly rugged, hilly terrain similar to most of the Scottsdale line's natural terrain. So for this 63 km railway, it would probably cost (be valued

at) about **\$200 million** ('order of magnitude' estimate) in total, if starting 'from scratch' again, now.

Usually, in this sort of natural terrain, about three-quarters of this cost would be consumed in the Civil Works (cuttings, embankments, culverts, stream-training and drainage, bridges, tunnels, level crossings, etc.), while the remaining quarter (say, about \$40 to \$60 million) would be consumed on supplying and building the railway's new track infrastructure onto these civil works. Given that this is a narrow gauge railway whose track infrastructure is only designed to carry medium axle-loads (16 tons), the **\$40 million** figure would probably approximate the cost (value) of providing this track infrastructure itself, now.

These figures might be rough, but at least they should help comprehend the order-of-magnitude **values** of these significant State assets.

Robert Gordon (Bob) Vanselow,
BE (Civ), MIE Aust, CP Eng, MCILT, MPWI.
T/as 'BobV RAIL'

14 June - Attached is the report from Bob Vanselow. I have also attached his CV. Our qualified rail civil engineer has a vastly different view to the requirements for the reopening of this railway line and Bob Vanselow's CV (attached) demonstrates his wealth of experience in the sector. It is doubtful that the office of the rail safety regulator will refute any of his findings.

With regard to the valuation of the railway by the Department of State Growth and the fact they only value rail corridors in terms of the land they sit on.

Based on this premise does that mean that all railways are near worthless. In the Pilbara one operator is freighting in excess of a million tons a day over 400kms over land that is worthless. Does that mean that railway is not worth anything.

Is this same analogy applied to buying a house. It is the built infrastructure that adds value of the land.

The value of the North East railway is by no means just the value of the land. This railway is the heritage value which binds the community to its past and sense of place. A decision made purely on the valuation of the corridor for its land value will draw extensive opposition from the community.

*15 June - If you assert that the NE line has a value of \$40 million, with depreciation at 5 per cent (recommended by the ATO) I am advised that implies the **LNER would have a depreciation expense of \$2 million per year**. This is according to standard financial accounting principles.*

If the LNER is not able to collect sufficient revenue to cover this expense, along with its other expenses, it will be reporting financial losses.

*By the same token, if you set the value of the line at \$296.47 million, the **LNER would need to recover almost \$15 million a year just to account for the depreciation expense.***

I am quite happy to quote the valuation estimates as you have set out above, as your estimates, but I thought you should be aware of the financial implications that follow.

Kind regards, Chris Lock

*15 June - I expect the value of earthworks don't depreciate for a starter.
Chris LeMarshal was preparing a replacement cost of the rail infrastructure above the earthworks which I think was closer to \$40mill.*

Depreciated value is the value of the asset now – so replacement value less life of components lost/worn.

The book value of the asset is already written off in government books. You are correct the asset should not show up on our books as it will still be a government asset.

*Regards
Chris Martin
CSE Tasmania Pty Ltd
Civil and Structural Engineering*

17 June - I reckon there's a disconnect between the asset value (replacement cost) and its rental value. If an asset is currently unusable for its intended use, then its rental value for that use is currently zero. If the asset owner somehow makes the asset usable for its intended use, then the open market should determine the rental value of the asset. LNER is somewhere in between these extremes, and (in return for special consideration by the asset owner, the State Government) is offering to arrange making the asset usable for its (slightly modified) intended use (operating heritage tourist train services - as currently there does not appear to be a market for operating freight services over this railway).

Hoping this helps set the scene for moving forward.

Bob V.

22 June - Dear Chris

There seems to be a disconnect between the asset value (replacement cost) and its rental value.

The value to the community and our operation is the value of the asset now - replacement value less life of components lost/worn. We believe this value to be in the order of \$40million to replace the line to the current standard.

We would assume that the book value of the asset is already written off in government books as you are prepared to rip it up. As it is still a government asset and is currently unusable for its intended use as a freight line, then its rental value is currently zero.

If the asset owner or others makes the asset usable for its intended use then the open market would determine the rental value of the asset.

LNER is somewhere in between these extremes, and (in return for special consideration by the asset owner, the State Government) is offering to work as volunteers to make the asset usable for its (slightly modified) intended use (operating heritage tourist train services). The value to the community when this is achieved is the economic value generated by attracting and holding tourists for a longer period of time in the area (the Victorian experience is that a high percentage of these tourists will be international) along with the economic values of employing staff, marketing the region and attractions of the train ride and its add on products. The added value of preserving heritage and providing an outlet for 100's of volunteers and community work schemes will build community value far beyond what can be expected from the bike track option in our opinion.