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**Committee** Policy, Finance and Strategy  
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## Tranz Metro (Wellington) Update

### 1. Purpose

To update the Committee on progress in implementing the Council resolutions arising from the meeting on 10 December 2002.

### 2. Background

On 10 December 2002 the Committee considered report 02.757.

The Council subsequently resolved:

That Council:

1. *Receives the report and notes its contents.*
2. *Confirms that the conditions placed upon the Tranz Metro Wellington sale process by Tranz Rail (as detailed in the letter from Michael Beard, dated 3 December 2002) are unacceptable to the Regional Council.*
3. *Confirms that the Council will be seeking a new non-assignable contract with Tranz Rail (or an alternate provider, should such a provider be in a position to respond to the Council's tender for passenger rail services) including the following key features:*
  - *Requirement for the rail operator to be prepared to invest its own capital into the passenger rail business;*
  - *Requirement for long-term asset management planning beyond the term of the ten-year contract;*
  - *Requirement for tough sanctions in the event of failure to deliver agreed services;*
  - *Requirement for the rate of return on the operator's equity to be capped;*

- *Requirement for vastly improved transparency and information disclosure.*
4. *Requests Tranz Rail to clarify whether it wishes to remain in the business of supplying passenger rail services for the Wellington Region in the long term.*
  5. *Requests officers to update their earlier preliminary investigations on how the current Wellington rail based passenger transport services might be replaced partially or wholly, with bus services and/or other alternatives.*
  6. *Seeks, concurrently with the above resolutions and in conjunction with the Mayors of the Region, the views of the Government on the desirability of regulating urban passenger rail services, given the monopoly nature of the market.*

### **3. What has happened since 10 December 2002?**

On 16 December 2002 the Managing Director of Tranz Rail, Michael Beard sent a letter to the Council Chairperson which advised that Tranz Rail “now plan to move forward with alternative plans regarding the sale.” (Refer Attachment 1).

On 17 December 2002 the Council Chairperson responded to Tranz Rail by reinforcing the outcome of the meeting on 10 December and the Council’s objectives going forward. (Refer Attachment 2).

On 23 January 2003, officers met with a number of the Tranz Rail top management team to discuss the process surrounding a new Rail contract. Officers explained to Tranz Rail that there is a significant process to go through (as required by Transfund) which needs to incorporate the following:

- ⇒ Finalise in conjunction with Transfund the proposed Rail contract including Council approval of the key principles underpinning the contract.
- ⇒ Approval by Transfund of the competitive pricing procedure (CPP) for passenger rail.
- ⇒ International call for tenders in accordance with the approved CPP.
- ⇒ Evaluation of tenders.
- ⇒ Negotiation with preferred tenderer over Rail contract.
- ⇒ Approval of contract by both parties, including Council sign off.

It is conceivable that this process could take at least 6 months.

#### 4. What does this mean in relation to implementation of the Council's resolutions?

The following is a summary of the current position in relation to Council's 6 resolutions passed on 10 December 2002.

- Resolution 1: No action required.
- Resolution 2: Tranz Rail were advised on 17 December 2002 that the requirement for an indicative bid prior to completion of a thorough due diligence process was unacceptable.
- Resolution 3: Tranz Rail were advised on 17 December 2002 that the Council will be seeking a new improved Rail contract and discussions were held with Tranz Rail on 23 January 2003 in relation to process. As Transfund looks likely to require the Council to go through a competitive process, including an international tender, details of the contract cannot be discussed with Tranz Rail unless and until they become the preferred tenderer. This is likely to take a number of months.
- Resolution 4: Tranz Rail have advised the Council that they "now plan to move forward with alternative plans regarding the sale".

This indicates that Tranz Rail's publicly stated strategy of exiting the passenger business remains in place. In other words, Tranz Rail does not wish to remain in the business of supplying passenger rail services for the Wellington Region in the long term.

- Resolution 5: Officers have begun updating the earlier preliminary investigations on how the current Wellington rail based passenger transport services might be replaced partially or wholly, with bus services and/or other alternatives.
- Resolution 6: The Council Chairperson has contacted the Region's Mayors with a view to arranging an urgent meeting next week to discuss the current position and the Council's resolutions, in particular the need to approach Government about the desirability of regulating urban passenger rail services.

**5. Communications**

The future of Tranz Metro is a matter which is of extreme public interest, particularly since the major disruption to services in recent months.

If necessary a suitable press release will be prepared. However, it is expected this matter will continue to be fully reported by the media.

**6. Recommendations**

*That the Committee recommend to Council that it:*

*(1) Receive the report and note its contents.*

**Dave Watson**  
Divisional Manager Transport

**Greg Schollum**  
Chief Financial Officer

Attachment 1 Letter from Michael Beard dated 16 December 2002

Attachment 2 Letter from Margaret Shields dated 17 December 2002