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Independent Pricing and Regulatory Tribunal
Cost Review of CityRail's Regular
Passenger Services

6 June 2008

L.E.K. CONSULTING PTY LTD, LEVEL 36, AURORA PLACE, 88 PHILLIP STREET, SYDNEY NSW 2000, AUSTRALIA
T: 61.2.9323 0700 F: 61.2.9323 0600 WWW.LEK.COM

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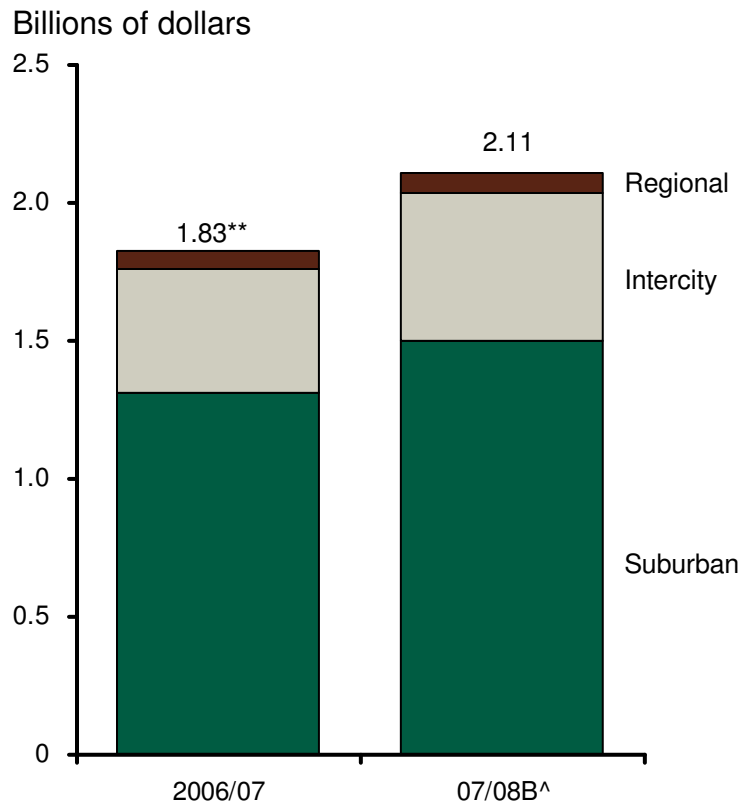
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Executive summary

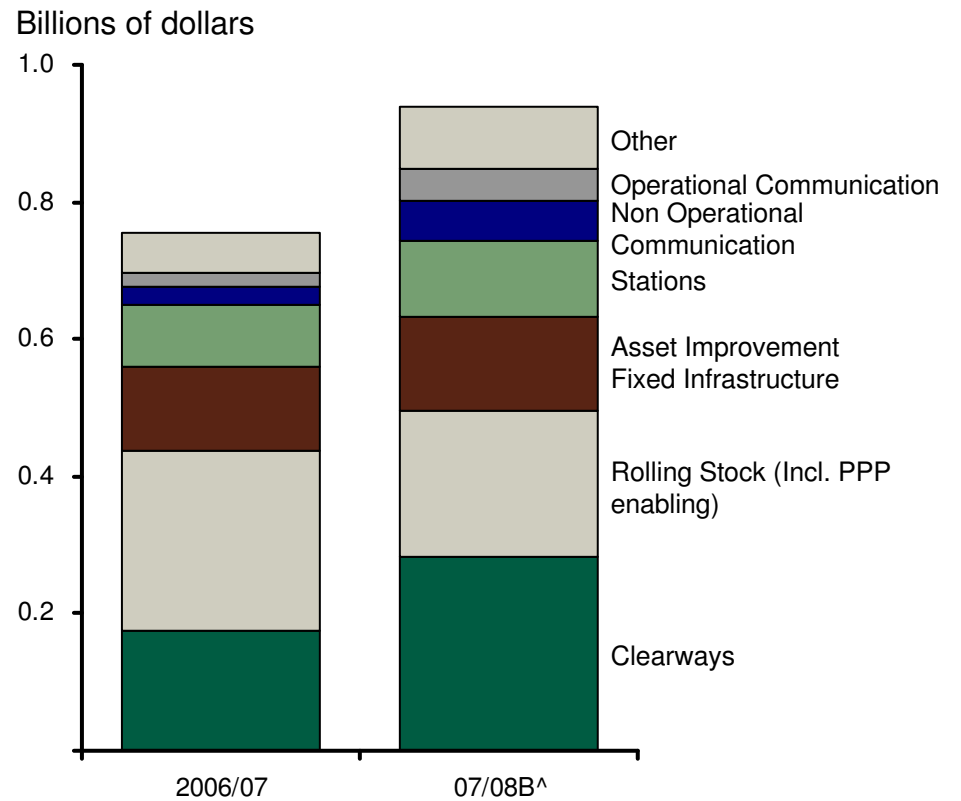
- Management forecasts see CityRail's operating costs grow at 7.7% p.a. from 2006/07 to 2011/12, driven by a number of factors such as maintenance of new assets, PPP costs, EBA and CPI. Costs are projected to reach approx \$2.6bn in 2011/12. This growth rate equates to 5.2% p.a. above inflation. However, if inflation the rate over the period was higher than the forecasted 2.5% p.a., growth in costs would be higher
- If no action is taken, passengers and government will be required to fund this increase
- LEK has undertaken a review of CityRail's costs, which indicates that if CityRail were to adopt practices more in line with other Australia rail networks, the growth in its costs could be contained in line with inflation
- A like-for-like comparison against comparable Australian and international operators has indicated that CityRail operating at benchmark would result in operating costs approximately 23% (~\$610m) lower than projected in 2011/12, equating to a growth of 1.7% p.a. in operating costs
- Approximately 6 ppt (~\$160m) of this cost difference are the result of specific decisions by the State with regards to customer service such as the presence of guards or staffing of very low patronage stations. These costs are not incurred by benchmark operators. The remaining ~17 ppts (~\$450m) cannot be explained by these policy choices and are primarily to be found in overall station staffing, rolling stock maintenance as well as overheads
- However, CityRail can only partially achieve this quantum of cost savings within the next five years. An achievable five-year efficiency improvement path would result in an operating cost growth of 4.9% p.a (involving savings of around 12% in 2011/12) instead of the projected 7.7% p.a., without requiring single crew operation or de-staffing low patronage stations
- De-staffing stations with less than 2,000 passengers per day could reduce annual cost growth to 4.6% p.a. Implementation of single crew operation would lower the growth rate further to 3.5% p.a, resulting in savings of approximately 18% in 2011/12
- Full support by the State would be required to achieve these significant cost savings
- Clearly, pursuing these efficiency improvements will require supplementary capital expenditures. These vary across areas but are not expected to exceed \$1bn. Even taking into account that the savings are being phased in over the period up to 2011/12, the payback period for this investment is unlikely to be in excess of 5 years

CityRail's operating costs, which amounted to ~\$1.8bn in 2006/07, are budgeted at ~\$2.1bn in 2007/08. Capital expenditure amounted to \$756m in 2006/07 and is budgeted at \$938m in 2007/08

CityRail operating expenditure* by subnetwork***



CityRail capital expenditure 2005/06 – 2007/08B



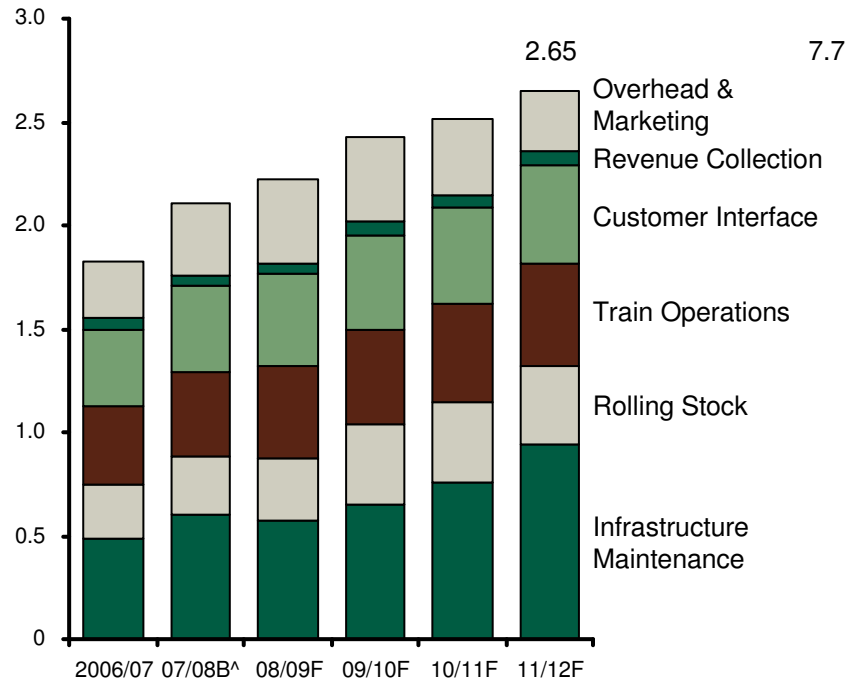
Note: ^ Budget data for 2007/08; * Includes borrowing costs which are funded directly by the Treasury ** CityRail states \$1.88bn, adjusted to \$1.83bn to improve cost comparability *** L.E.K. applied the 2006/07 split of costs to sub-network by division to the CityRail cost estimates
 Source: RailCorp Data; L.E.K. Analysis

Management forecasts see CityRail’s operating costs growing at ~7.7% p.a. (~5.2% p.a. above inflation) from 2006/07 to 2011/12, driven by EBA & CPI increases, PPP costs and a maintenance backlog

CityRail forward estimates (2006/07 – 11/12F*)

CAGR % (06/07–11/12F)

Billions of dollars



Operating cost increases (2008B^–2012F)

Category	Percentage Increase***
EBA & CPI	11.7
PPP Cost^^^	5.8
Maintenance Backlog	3.7
Steel Price	1.5
Maintenance New Assets	1.3
Other**	2.8

Operating cost decreases (2008B^–2012F)

Category	Percentage Decrease***
Work Reduction^^	2.4
PPP Savings^^^	1.0
Other	3.5

Note: Assumed inflation 2.4% p.a. ^ Budget data for 2007/08; * Forecast data from November 2007; ** Includes Tcard, Electricity & Bussing and ECRL (includes train crew, stations, train operations and timetable) ^^ Reduction in current cost due to work decreasing on ECRL and Clearways *** Overall percentage increase / decrease from 2008B; ^^^while PPP costs are increasing at a higher rate than forecast PPP savings over period 2008-12, the PPP savings are expected to increase over time (beyond the 2008-12 period)

Source: RailCorp Data; L.E.K. Analysis

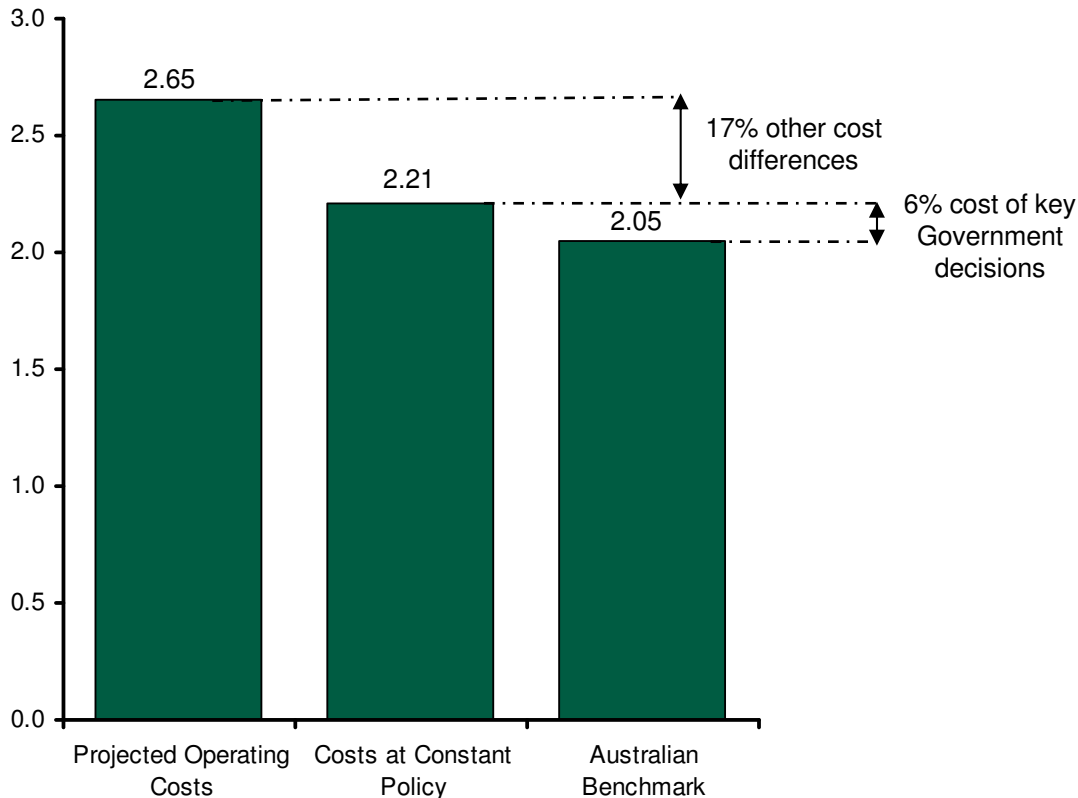
The results presented in this report have been derived from benchmarking CityRail's costs against other operators in Australia and overseas

- Costs have been compared against two other Australian operators (Connex in Melbourne and Citytrain in Brisbane)
- Costs for each CityRail functional area have been clustered to achieve comparability with available benchmark information
- Costs have also been compared against other international benchmark operators to provide a view of the magnitude of difference from international best practice and provide context to the Australian benchmarks. Two sources of data were made available to us
 - median of a subset of comparable cities in the CoMET Nova
 - a benchmark from a June 2006 benchmarking study conducted by an International Operator
- Underlying structural factors have been reviewed to improve the comparability of cost ratios and constraints to efficiency have been identified
 - this has been based on RailCorp interviews and internal reports, information from other operators and secondary research
- The cost efficient position has been calculated based on a selection of the most appropriate benchmark operator in each category

After like-for-like comparison, the operation of CityRail at benchmark costs would be approximately 23% lower than projected, i.e. ~\$610m in 2011/12, of which 6 ppt (\$160m) reflect key Government policy decisions

Projected and benchmark cost positions (2011/12F)

Billions of dollars



One area in which Government policies affect RailCorp is in customer services. Analysis of customer service choices* made by the Government shows that:

- Guards on trains generate costs of approximately \$100m p.a. above benchmark
- By staffing of stations with very low patronage CityRail incurs an extra cost. Currently CityRail has 57 non staffed stations, which see less than a hundred passenger per day. There are 132 stations with a patronage lower than 1,000 passengers per day and another 47 with patronage of between 1,000 and 2,000 per day
- Not staffing stations with daily patronage lower than 2,000 passengers, which is the threshold used by another Australian rail operator, would result in a saving of approximately \$30m pa

Note: * Station staffing and guards are just one of a number of government policies affecting RailCorp; others areas affected include infrastructure and rolling stock maintenance

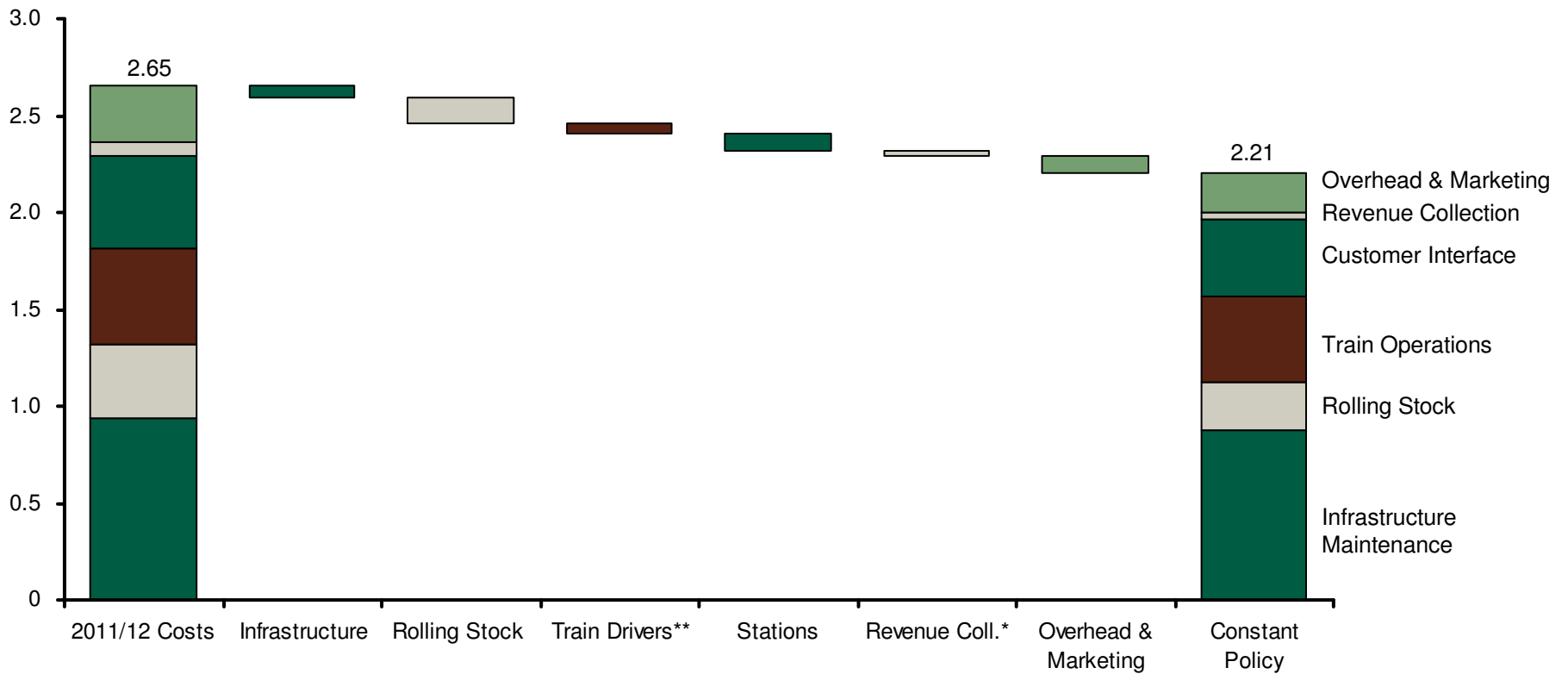
Source: L.E.K. Analysis

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The remaining 17% (~\$450m) cannot be explained by key Government decisions regarding customer service and are primarily found in station staffing, rolling stock maintenance and overhead costs

Benchmark at constant policy cost position (2011/12F)

Billions of dollars

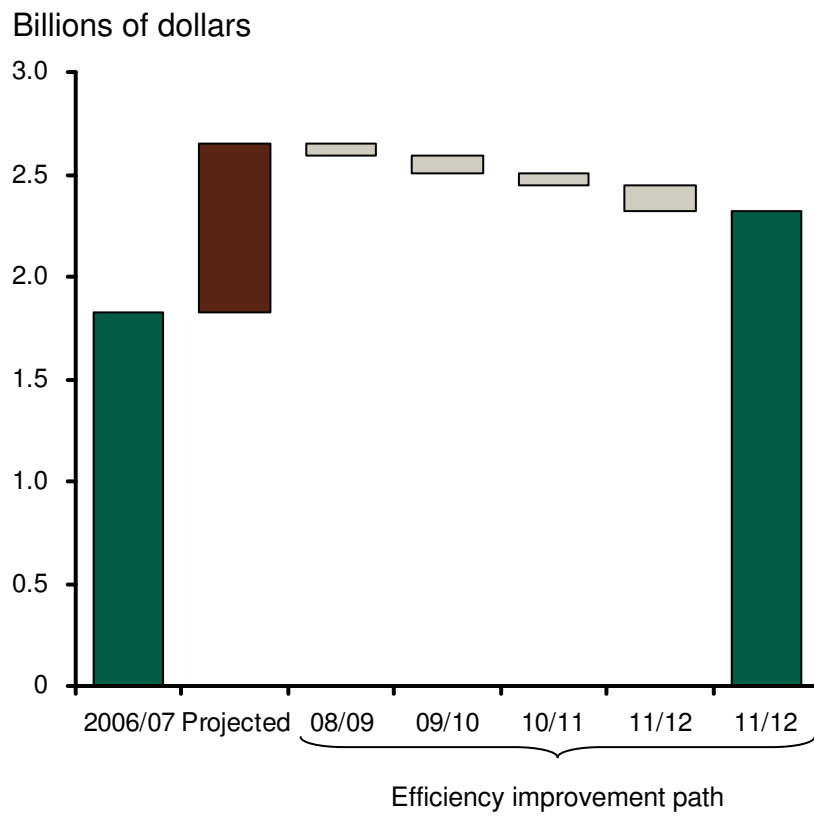


Note: * assume 50% of transit officers are allocated to revenue protection ** in this category, the cost difference vs benchmark, ranges from 21%-41% with 30% being assumed here

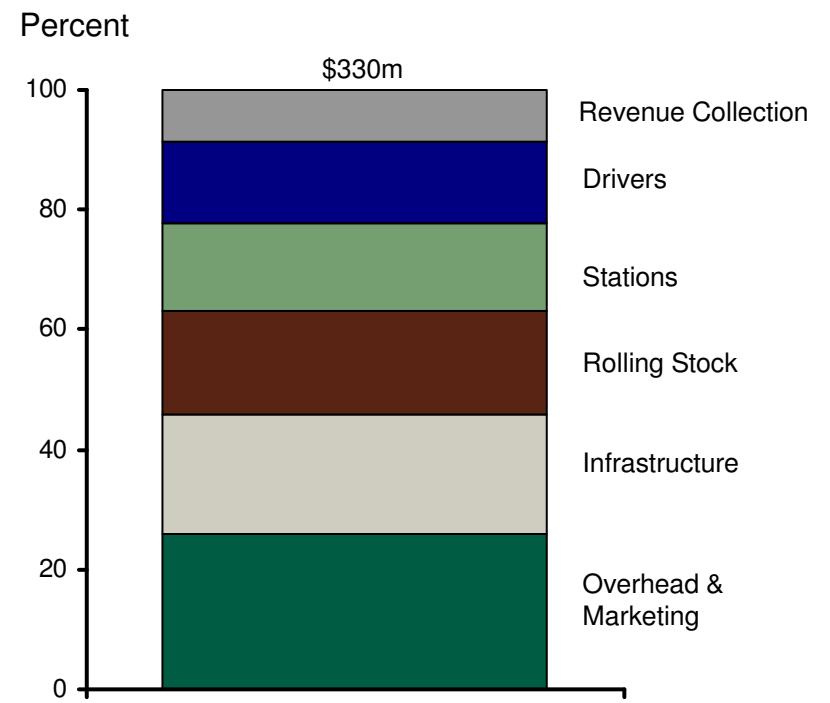
Source: RailCorp, Connex, QueenslandRail, L.E.K. Analysis

CityRail cannot achieve benchmark costs in all areas immediately, or even within a 5 year period. It is estimated that a reduction of circa 12% of projected 2011/12 costs could be targeted without making changes to key Government policy decisions

**Possible efficiency path
(2006/07 – 11/12F)**



**Key areas of reduction
(2011/12F)**



There are a series of contextual issues which are likely to have a significant bearing on the ability of RailCorp's management to pursue reforms

Short Budgeting Time Horizon

- Although progress is being made on the budgeting cycle with budgets being now negotiated with a three-year time horizon, the absence of a longer term government funding framework for RailCorp still generates a set of issues:
 - a focus on short term fixes rather than long-term strategic decisions with delayed but sustainable pay-back
 - a myriad of small projects with a low probability of coherence from one year to the other
 - unfavourable commercial terms with suppliers of large capital projects due to an inability to engage in multi-year project planning and commitment of funds

Constraining Transport Appeal Process

- The mechanism by which employees can appeal against dismissal, although legitimate in its concept, anecdotally forces RailCorp too often (in excess of 80% of cases) to reinstate employees even when removed for a lack of performance or misconduct
- Furthermore, the ability to appeal against the promotion of colleagues limits the incentive to perform above expectations
- This has resulted in a sense of impunity against sanctions that is prejudicial to the ability of management to instate a meritocratic culture or even control the size of its labour force

Complex Stakeholder Management

- Compared to other Australian operators, RailCorp has to manage requirements and expectations of a very diverse set of authorities and regulators
- This diversity increases the volume and complexity of reporting but also, and more importantly, the number of KPIs and the set of expectations with regards to what is required from management
- Beyond the actual cost of employing dedicated staff, stakeholder management also diverts management attention

Lack of Integration Between Capex and Opex Decisions

- The current mechanism for large infrastructure (ECRL, Clearways) delivery through TIDC does not appear to provide RailCorp with a sufficient line of sight to equipment and construction choices that may affect the life cycle cost of the assets
- Improved consideration could be paid to integration of infrastructure after construction by TIDC through better consultation between TIDC and RailCorp - TIDC is focussed on managing project cost and delivery timescales while RailCorp, as the ultimate owner, has an ongoing interest in lifecycle costs

In the past, reforms that have achieved cost reductions have involved smaller parts of the business and have been supported by Government

- Following up on the recommendations laid out in the Parry Report, RailCorp undertook a series of reforms in its CountryLink operations
- Notable aspects of this reform included
 - replacement of the reservation system to allow for internet sales, automated processing and fare flexibility
 - relocation and downsizing of the reservation call centre from Sydney to Newcastle
 - significant reduction in the number of service centers in Sydney metropolitan and regional areas
 - reduction in staffing levels at regional stations whilst maintaining station hours of operation and staffing at departures and arrivals of trains
- These reforms achieved material savings such as reductions in the order of 30% in call centre and a 12% in station staff
- All of these reforms implied a significant IR aspect but were successfully carried through. The key factors that made this possible were
 - support from the State Government
 - a strong case around sustainability of an operation with decreasing revenue
 - proactive communication around mutual commitments: management would invest in revenue growth and the unions would accept that costs and staffing levels would be reduced

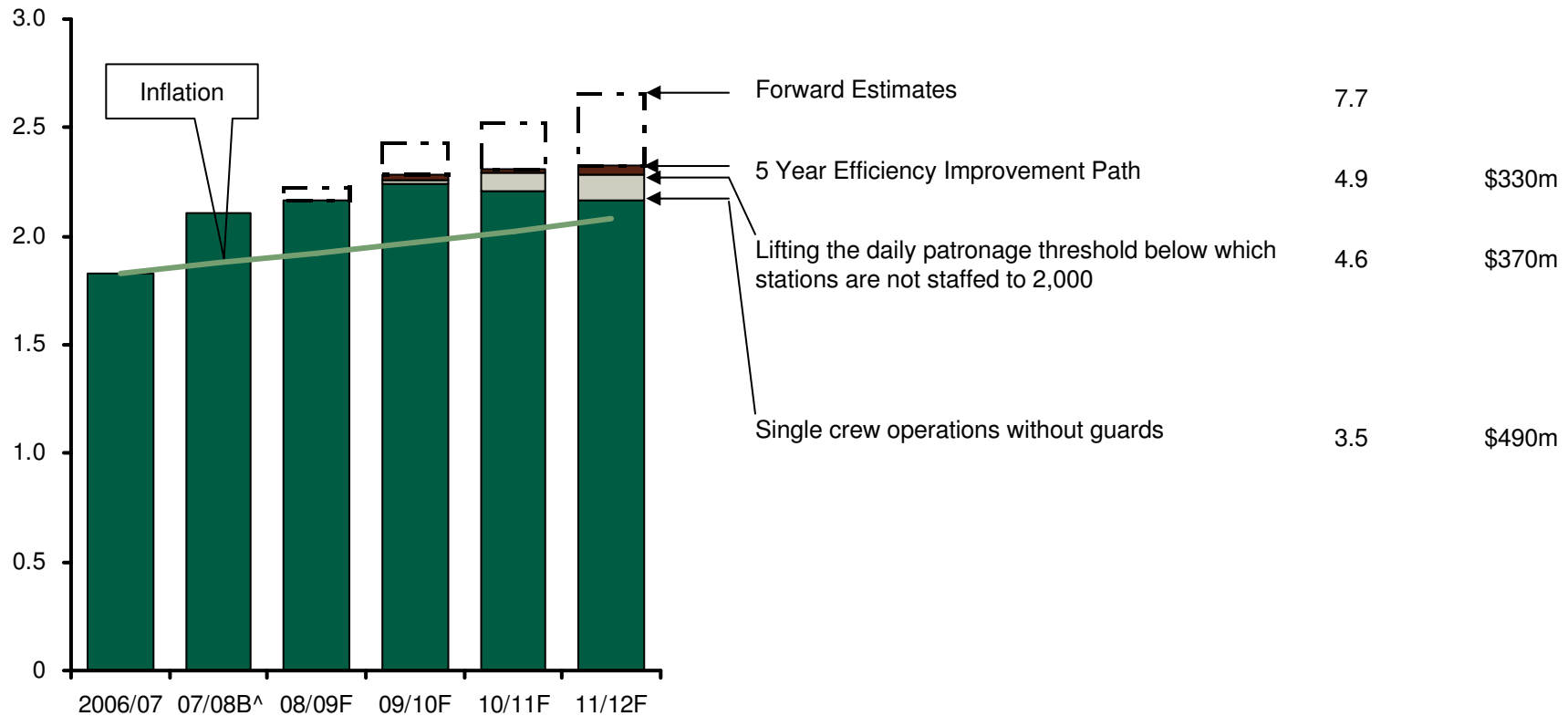
These examples reinforce the importance of having State Government support for the delivery of major reforms

Based on the degree of Government support to pursue operational efficiency and cost savings, operating cost growth could be reduced from a projected ~7.7% p.a. down to ~3.5% pa

Five year efficiency improvement path (2006/07 – 11/12F)

CAGR % (06/07–11/12F)	Savings in 2011/2012
7.7	
4.9	\$330m
4.6	\$370m
3.5	\$490m

Billions of dollars

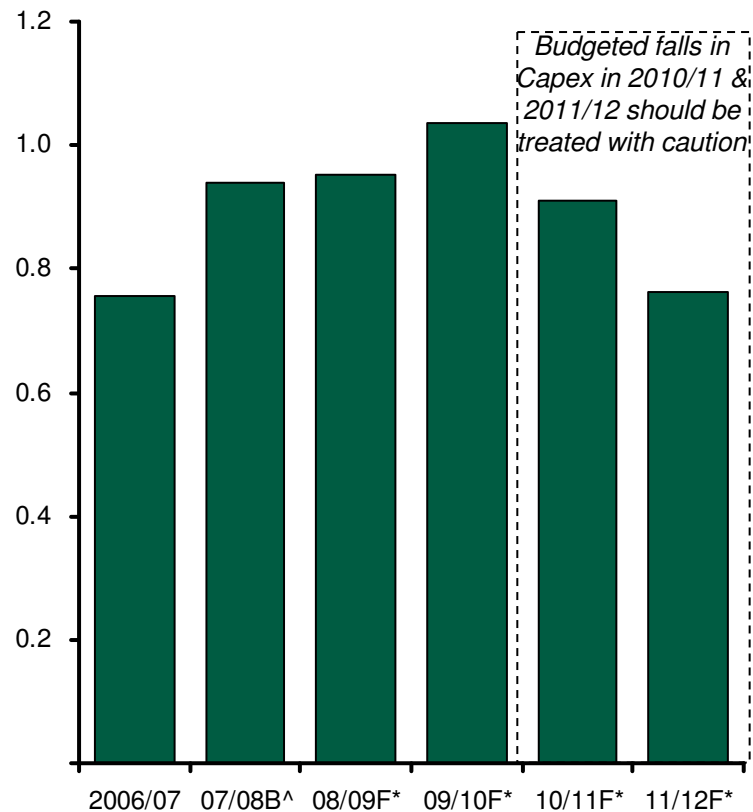


Note: ^ Budget data for 2007/08
 Source: RailCorp Data; L.E.K. Analysis
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However, pursuing reductions in operating costs in some areas of the organisation would require increases in one-off capital expenditures

Projected CityRail capital expenditure 2005/06 – 2011/12F

Billions of dollars



- The achievement of some cost savings will require significant investment in Capex
- These requirements vary across areas of the organisation

Category	Capex Type	Indicative Capex
Infrastructure	Training facilities to address skill shortage	
Rolling Stock	Refurbishment of Tangaras	
Train Drivers	Investments are substantive and may cover further sectorisation, change over station facilities, improved rostering system, ...	
Stations	Credit card/EFTPOS TVMs at unstaffed stations may be required	
Revenue Coll.	Limited investment required	
Overhead	Investment in systems	
Guards	Platform monitoring equipment	

	less than \$50m		\$50m to \$100m		\$100m to \$500m		in excess of \$500m
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Note: ^ Budget data; * Forecast data
 Source: RailCorp Management; L.E.K. Analysis
 Independent Pricing and Regulatory Tribunal

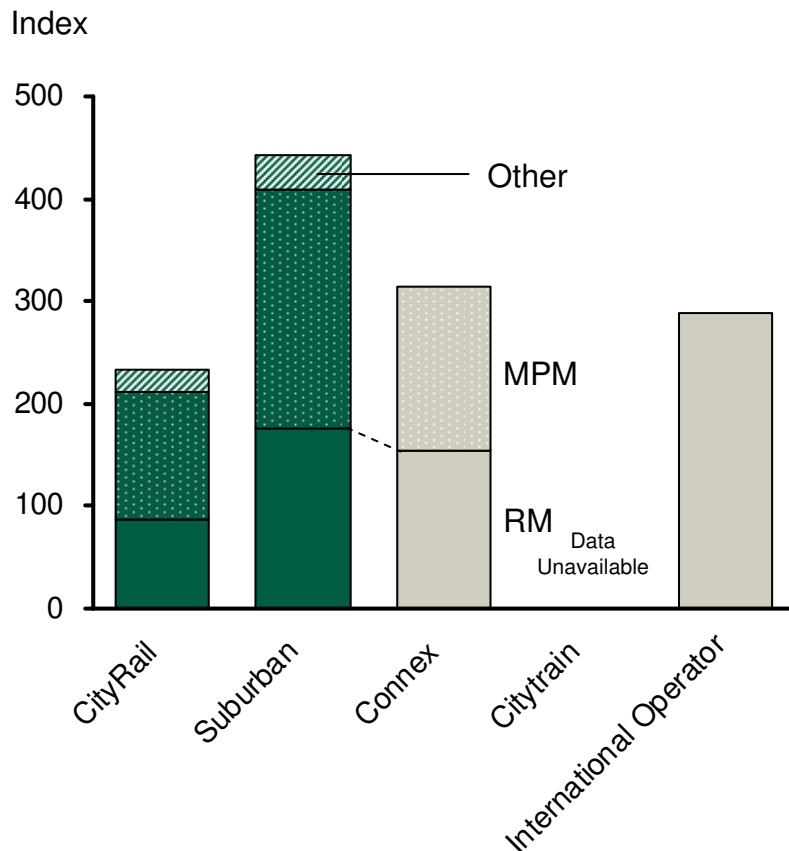
Appendix

This section presents a more detailed analysis of the five main areas of the organisation

- Infrastructure
- Rolling stock
- Crewing
- Stations
- Overheads

Drawing conclusions from comparisons against other operators is difficult due to the inability to normalise for structural drivers, which set levels of routine maintenance (RM) and major periodic maintenance (MPM)

Total Infrastructure Maintenance Costs per Track Km (2006/07*)



- Comparisons between the CityRail suburban network, Connex and the International Operator costs suggest that there may be scope to reduce routine maintenance costs costs in the efficient case to Connex levels
 - it is, however, assumed that the density of assets on the track may not allow such a reduction
 - the frequency of checks required is driven by the exact specification of assets in place on the track
- MPM spend is driven by age and time since previous maintenance work was carried out, asset density, and asset usage
 - the level of MPM is highly dependent on the degree to which a maintenance backlog has built up
 - Railcorp has historically had a back log, which required additional MPM spend of \$35m in 2006/07
 - this might be larger than Connex's maintenance backlog, suggesting that benchmarking to this level may not be a true reflection of what an efficient cost position for CityRail could be

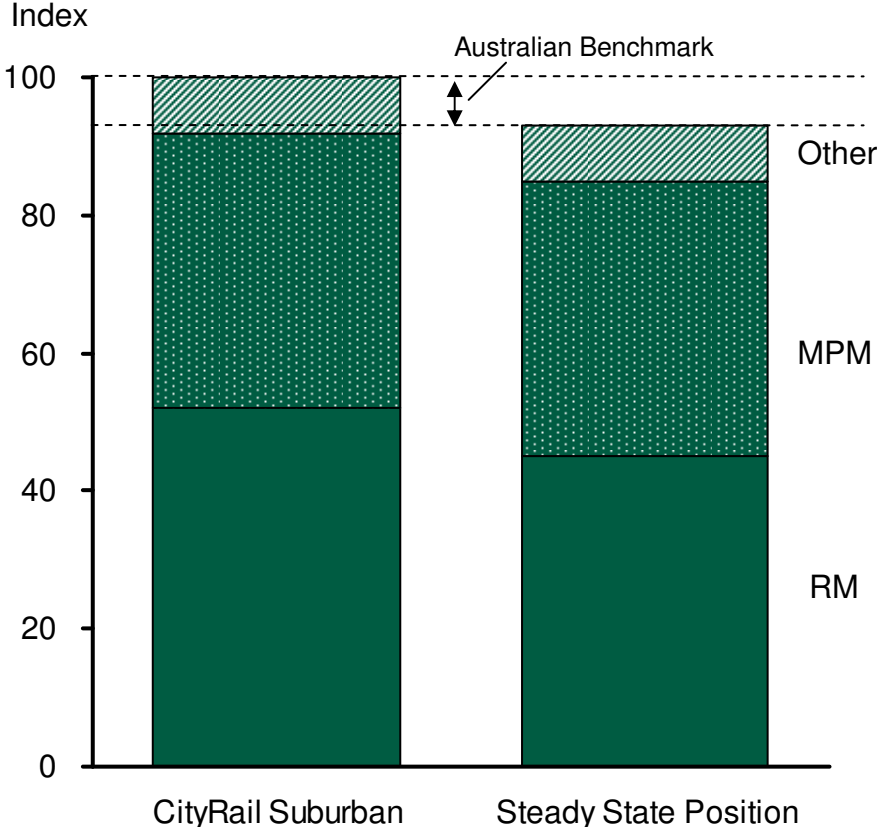
Note: * 2005/06 costs for other Australian operators increased at a train transport producer price index, CityRail costs as labeled

Source: RailCorp data; Connex; Queensland Rail; L.E.K. analysis

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In the context of a 5 year timeframe, CityRail MPM costs have been adjusted back down to their steady state position, saving \$34m p.a.

CityRail Efficient Infrastructure Costs



Total Cost Difference (2006/07)

	Australian Benchmark
Suburban	\$24m
CityRail	\$34m

Source: RailCorp Data; L.E.K. Analysis
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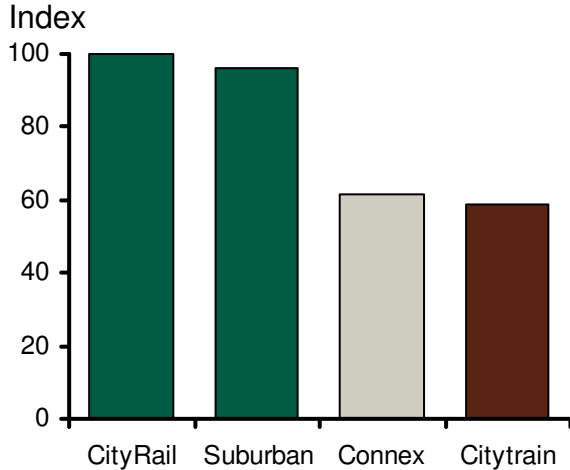
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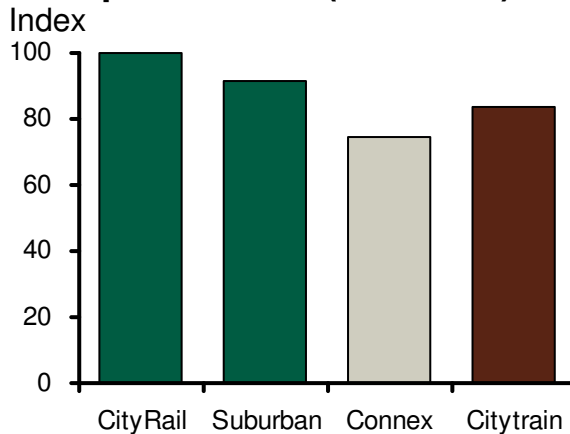
- Infrastructure
- Rolling stock
- Crewing
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The suburban subnetwork’s rolling stock costs are higher than the Australian benchmarks on all dimensions, with 35% higher costs on a gross tonne km basis

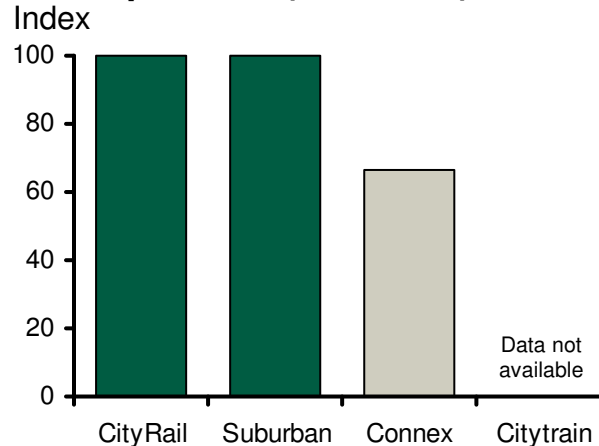
Cost per car service Km (2006/07)**



Cost per seat Km (2006/07)**



Costs per GTK (2006/07)**







- CityRail carriages are larger and more complex than the carriages of the other Australian operators, so are likely to be more costly to maintain
- Although seat km are a proxy of the overall size of the cars, they may not be the most accurate measure of carriage size
 - operators may choose to have fewer seats in a carriage, even if they have space for more, to provide additional standing capacity in the peak
- Therefore the average weight of a car appears to be an appropriate proxy for measuring its overall size and costliness to maintain the fleet

Note: * For RailCorp this is calculated based on gross tonne km / car service km. For Connex it is the average weight of their cars; ^ Preliminary data; ** 2005/06 costs for Australian operators increased at a train transport producer price index; CityRail costs as labeled

Source: RailCorp data; Connex; Queensland Rail; L.E.K. analysis

The fact that CityRail has an older fleet may be disadvantaging it against Connex; however this difference will be corrected within 5 years as the new PPP rolling stock is delivered to CityRail

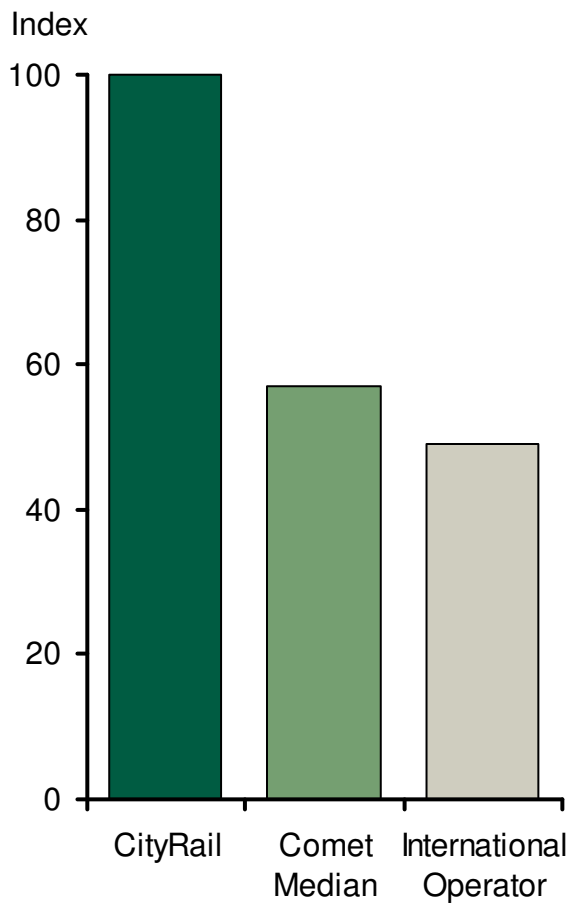
City	CityRail Suburban	Connex	Citytrain	Impact on CityRail Costs vs Connex	Rationale
Average Age of Fleet %					A very old fleet (>15 years old) is likely to be more expensive to maintain
< 3 years old	4.9	21.6	n/a	 (mainly until PPP rolling stock is delivered)	However new trains (<3 old) are likely to be costlier than trains of 3-15 years old because there are additional features that need ongoing maintenance
3-15 years old	19.6	17.5	n/a		
> 15 years old	75.5	60.7	n/a		
Route km / Stations	1.8	1.8	1.4		Slightly lower station density will mean less braking and accelerating, reducing wear and tear
Peak Occupancy*	124%	149.8%	121.0%		A higher rate of occupancy will lead to more wear and tear, but the occupancy data may not be truly comparable*
Seats per carriage	113	89	77		Seats represent <2% of MainTrain maintenance costs, so the number of seats per carriage are not a significant driver of costs

Note: * For CityRail this is measured during morning peak hour at CBD cordon during the busiest hour; for Connex it is the rolling hour average, according to franchise agreement and 6 car constitution; for Citytrain it is the loading of peak services leaving/departing Central

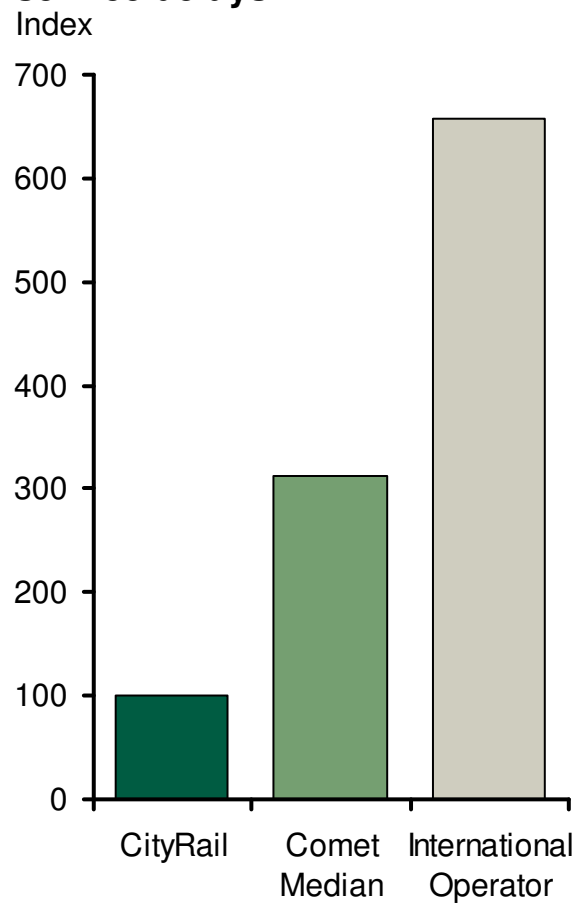
Source: RailCorp data; Connex; Queensland Rail; L.E.K. analysis

CityRail rolling stock costs appear even higher relative to international benchmarks, while rolling stock reliability is well below both Comet Nova and the International Operator

Rolling stock costs per car Km



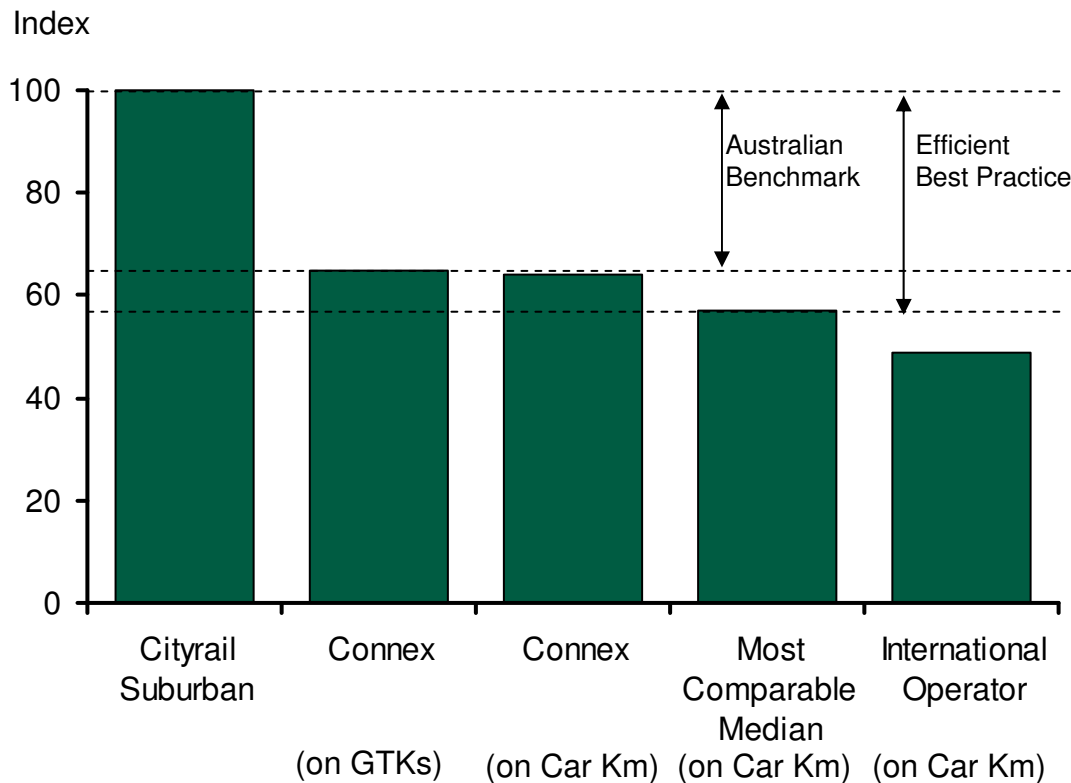
Rolling stock car Km between service delays



- CityRail is outsourcing over 70% of its maintenance costs in contracts that will last until 2009
 - this provides less ability for CityRail to influence a larger proportion of its own costs (in the short term), than might be the case for other operators
- RailCorp performs a light component change out (CCO) every 6 years, compared to 3-4 years at the International Operator and other major railways
 - there is a maintenance backlog of up to 2 years, focusing the organisation on reactively fixing failures rather than proactive preventative maintenance
- Tight EBA constraints are likely to be pushing up labour costs vs other international operators

Moving to an efficient industry best practice cost position would yield savings of over 50%, equating to \$114m in annual rolling stock maintenance costs; reaching Connex levels would represent a saving of \$88m

Rolling stock cost ratios*



Total Cost Difference (2006/07)

	Australian Benchmark	Efficient Best Practice
Suburban	\$62m	\$80m
CityRail	\$88m	\$114m

Australian Benchmark

- IR environments are fairly similar across Australian states; therefore with government support it could be expected that Connex levels should be attainable

Efficient Best Practice

- IR environments across Comet Nova members might be less restrictive

Note: RailCorp have been asked to quantify the level of Capex required to deliver such savings; *PPP maintenance will achieve savings for 621 cars
 Source: International Operator benchmarking study; RailCorp, Connex, QueenslandRail, L.E.K. Analysis

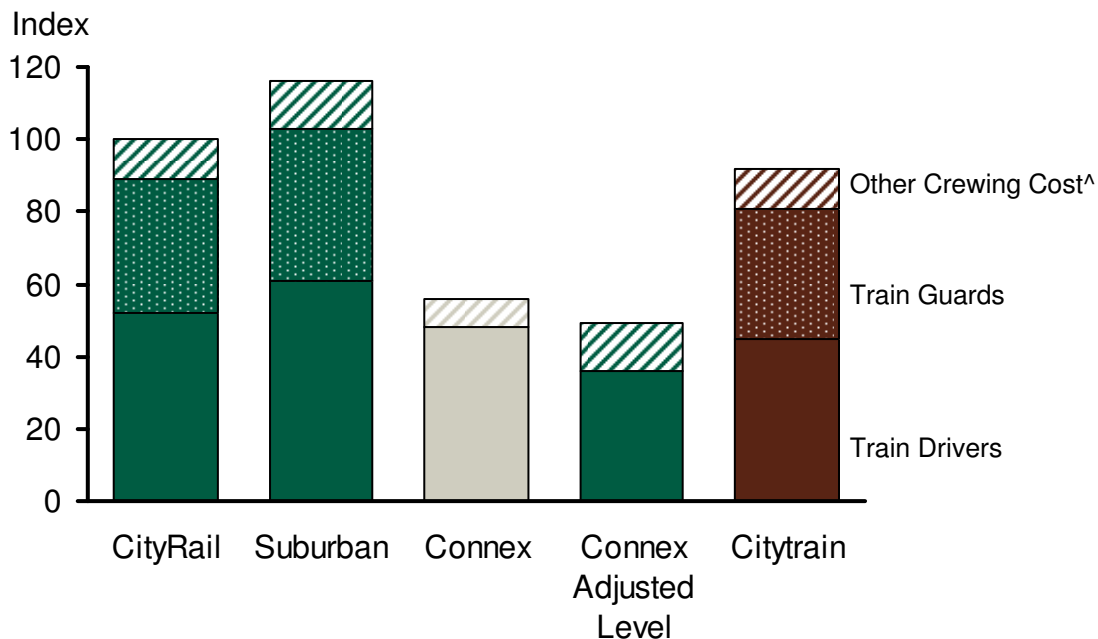
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Crewing costs per service km are significantly higher for CityRail and Citytrain than for Connex due to dual crew operation. Driver only costs are estimated at between 21% and 41% more expensive than Connex for the suburban network

**Crewing Cost per Service Km
2006/07***



- Guards are used on CityRail and Citytrain to facilitate the movement of passengers in and out of trains
- Train driver costs differ between operators due to
 - structural differences between each network such as speed and run length
 - other factors such as EBA constraints and overall efficiency levels
- An adjustment of Connex driver costs to reflect the faster, longer runs of CityRail Suburban has also been made, with other crewing costs being held at CityRail levels

42.2	37.2	29.6	56.8	Average Speed (km/hr)
54.8	48.4	45.0	NA	Run duration (Minutes)
41	41	42	44	Pay rate / hour (\$)

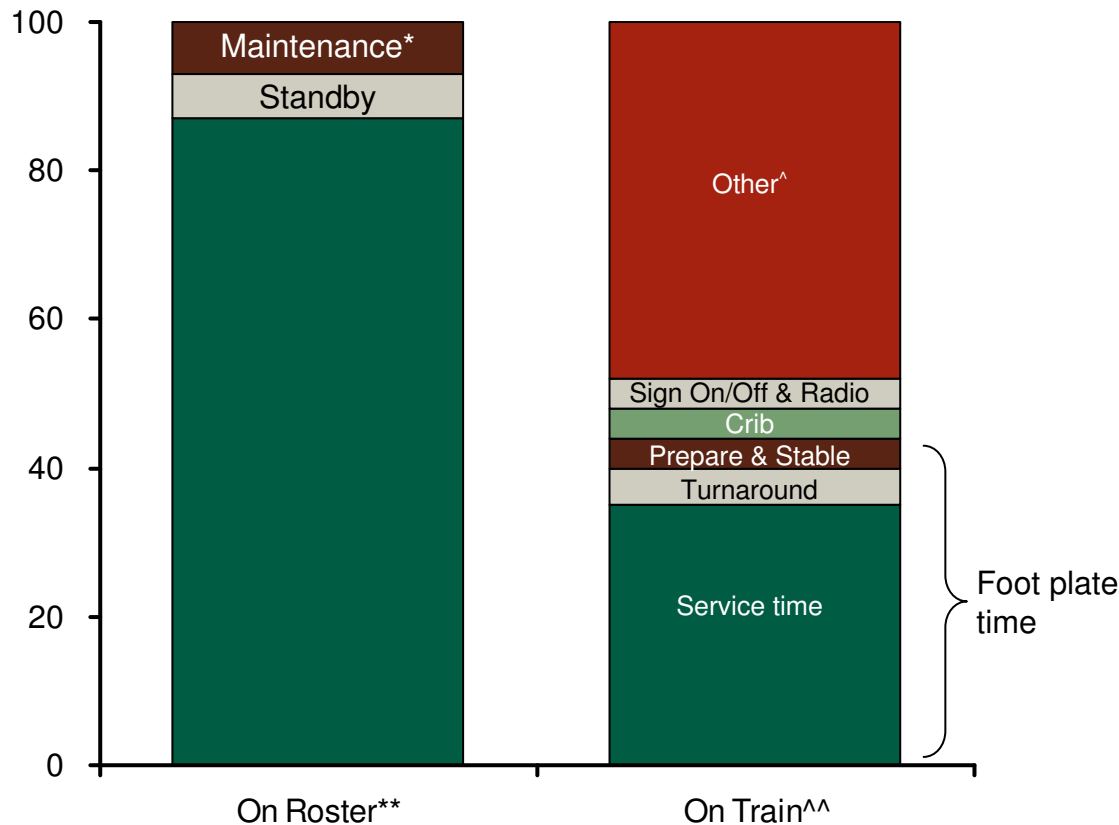
Note: * 2005/06 costs for Australian operators increased at a train transport producer price index; CityRail costs as labeled ^ Other includes administration, other staff and voluntary redundancy costs

Source: ABS; RailCorp Data; Connex; Queensland Rail; L.E.K. analysis

CityRail drivers spend only 35% of their on shift time driving scheduled services

Distribution of Total Shift Hours by Task

Percent



- Drivers spend only 35% of their shift time driving a scheduled service
- A considerable amount of time is spent on other tasks. This include time spent on other duties such as shunting, time as passengers returning to depots, walking time between activities and standing hours at the end of lines or train termination
- Other also includes drivers who are kept off-roster because they are not fit to drive

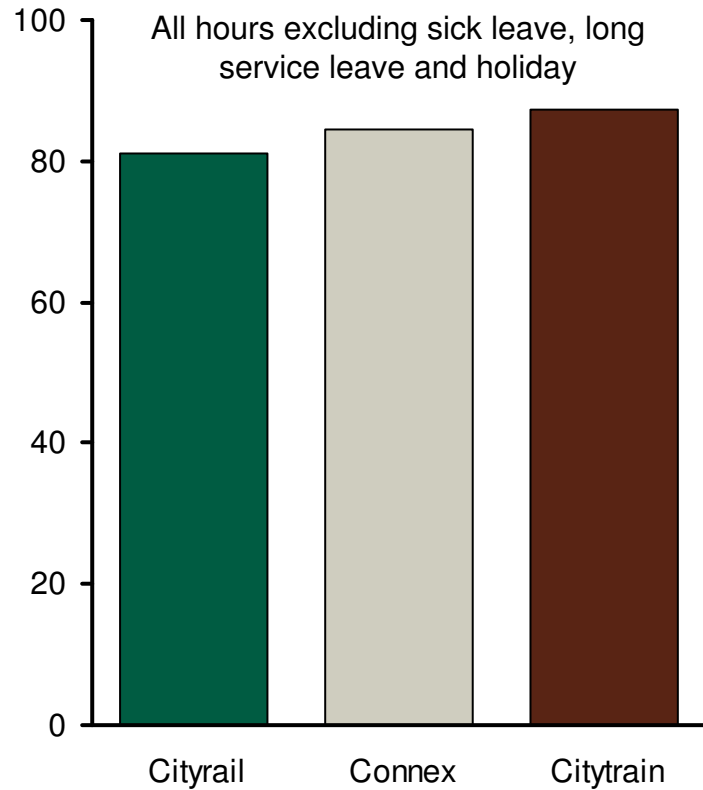
Note: * Maintenance includes train movements for Washing/Presentation, Shedding, Maintenance trials; ** Data is for a suburban driver on a weekday; ^ Other includes activities such as passenger times, taxi times, waiting at ends of shifts and between turnaround, walk times; ^^ Time between sign-on and sign-off of drivers, data is for year end 2005/06

Source: RailCorp, L.E.K. Analysis
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CityRail driver utilisation rates appear low when compared to other Australian operators, particularly when comparing footplate time

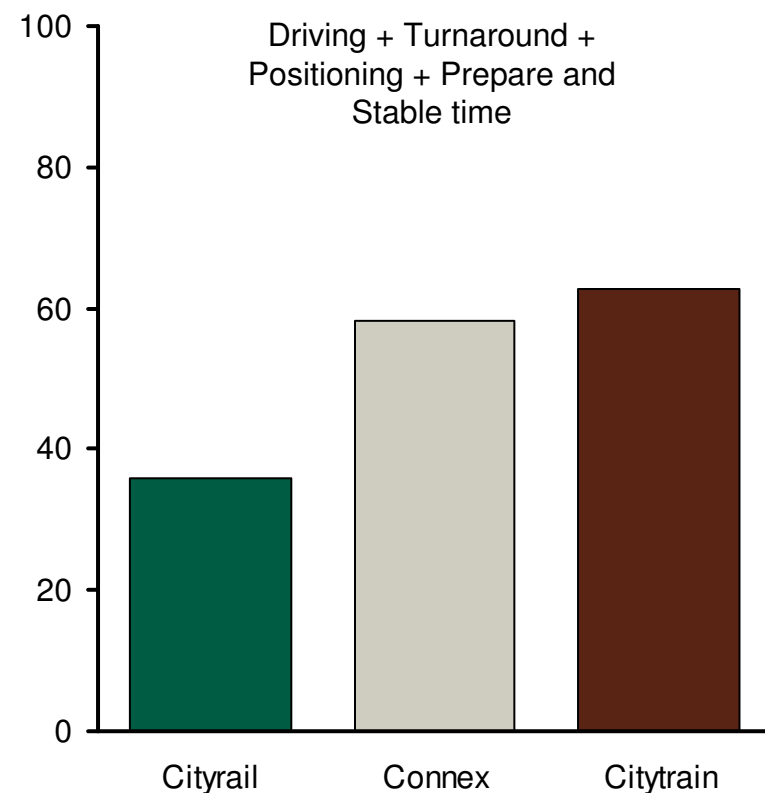
2006 Working Hours vs Paid Hours

Percent



2006 Footplate Hours vs Paid Hours*

Percent



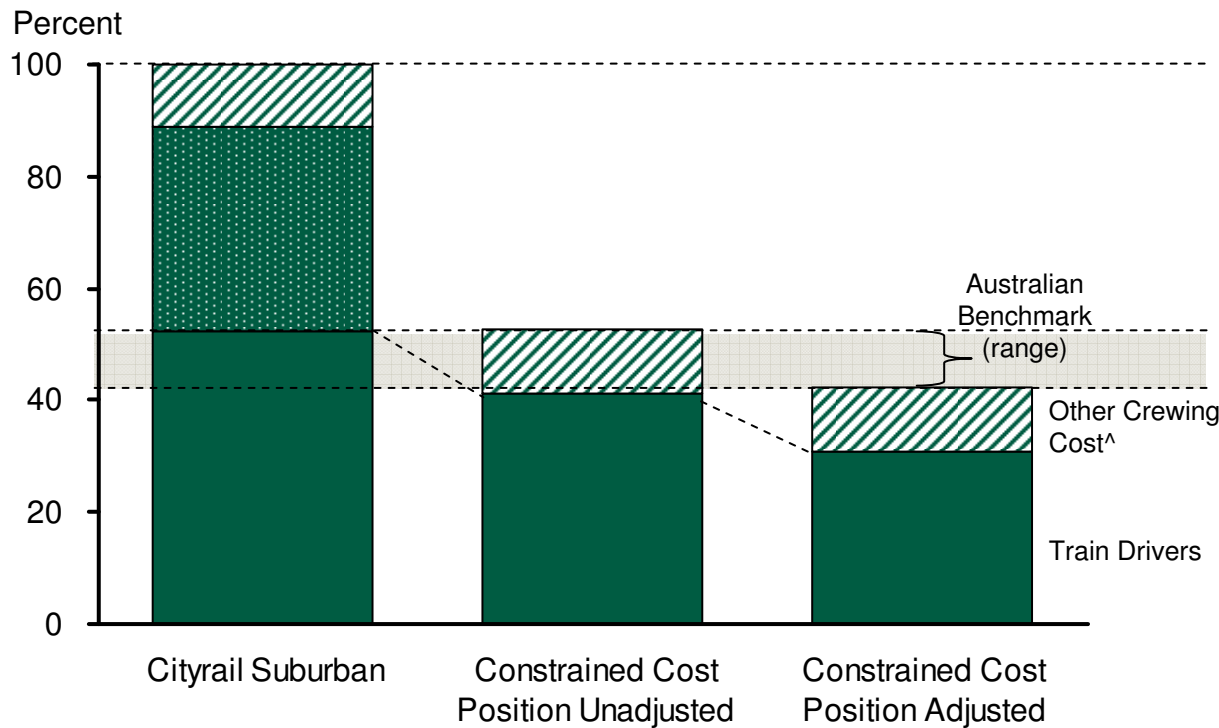
	4.4	7.8	Efficiency gap to CityRail (%)	62.1	74.1
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Note: * Citytrain also has a long distance service component, resulting in improved driver utilisation

Source: RailCorp Data; L.E.K. Benchmarking Data; L.E.K. Analysis

In summary, we estimate the constrained efficient cost position for train crewing to be 58% below current costs assuming removal of guards and investment in new infrastructure

CityRail Efficient Train Crewing



Percentage Reduction from Original (%)	47	58
Cost Reduction (\$ M)	91	111

Total Cost Difference (2006/07)

<u>With Train Guards</u>	Australian Benchmark Unadjusted	Australian Benchmark Adjusted
Suburban	\$21m	\$41m
CityRail	N/a*	\$57m

<u>Without Train Guards</u>	Australian Benchmark Unadjusted	Australian Benchmark Adjusted
Suburban	\$91m	\$111m
CityRail	N/a*	\$155m

Note: L.E.K. have requested information on capital required to allow for the removal of train guards whilst maintaining appropriate levels of safe working; ^ Other includes administration, other staff; * Connex unadjusted is not comparable to Railcorp Intercity

Source: ABS; RailCorp Data; L.E.K. analysis

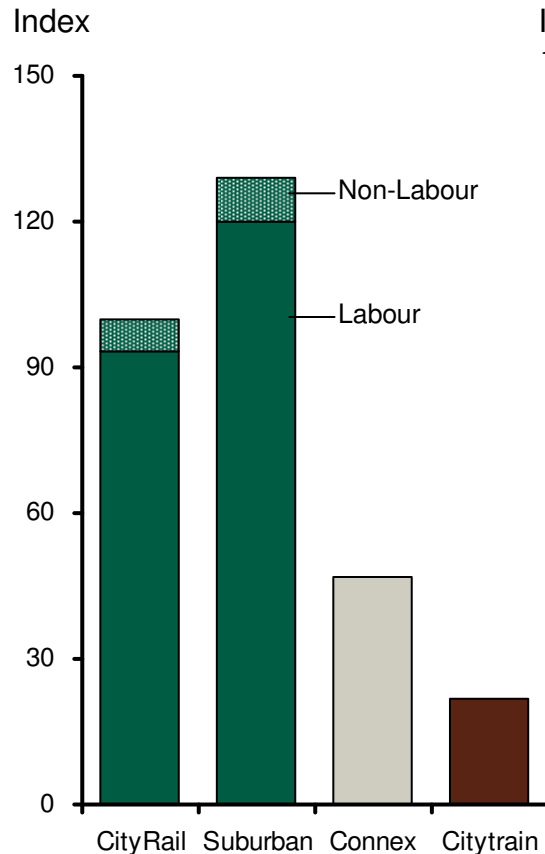
Appendix

This section presents a more detailed analysis of the five main areas of the organisation

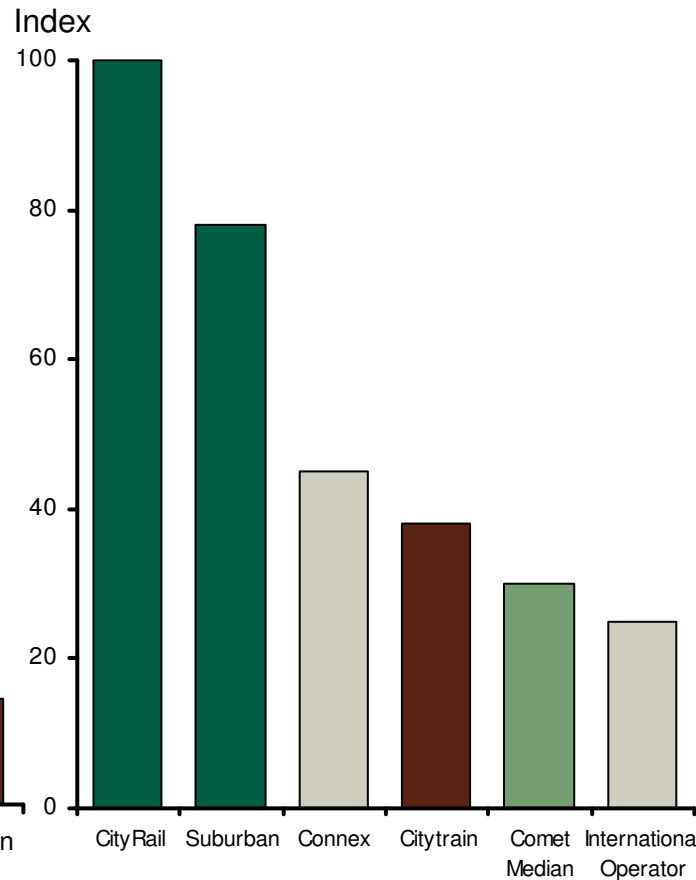
- Infrastructure
- Rolling stock
- Crewing
- Stations
- Overheads

Suburban station costs per passenger are 75% higher than Connex, and double Citytrain. Against the Comet Nova median they are 2.5 times higher

**Cost per station
2006/07***



**Cost per passenger
2006/07***



- Station costs per passenger are the most appropriate comparison as it compares the average level of station cost needed for each passenger across the network
- Even if costs per station are high, these stations may service high volumes of passengers and have lower costs per passenger
- For this reason cost per station has not been used as a comparator metric

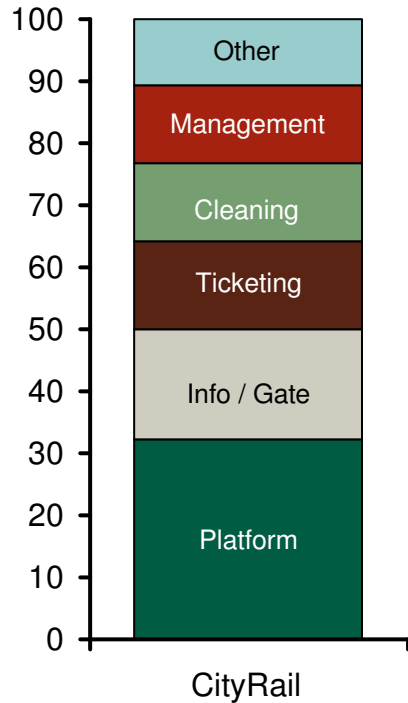
Note: * 2005/06 costs for Australian operators increased by the train transport inflation index, CityRail costs as labelled

Source: ABS; RailCorp data; Connex; Queensland Rail; L.E.K. analysis

CityRail has a low ratio of station staff to station management compared to other operators

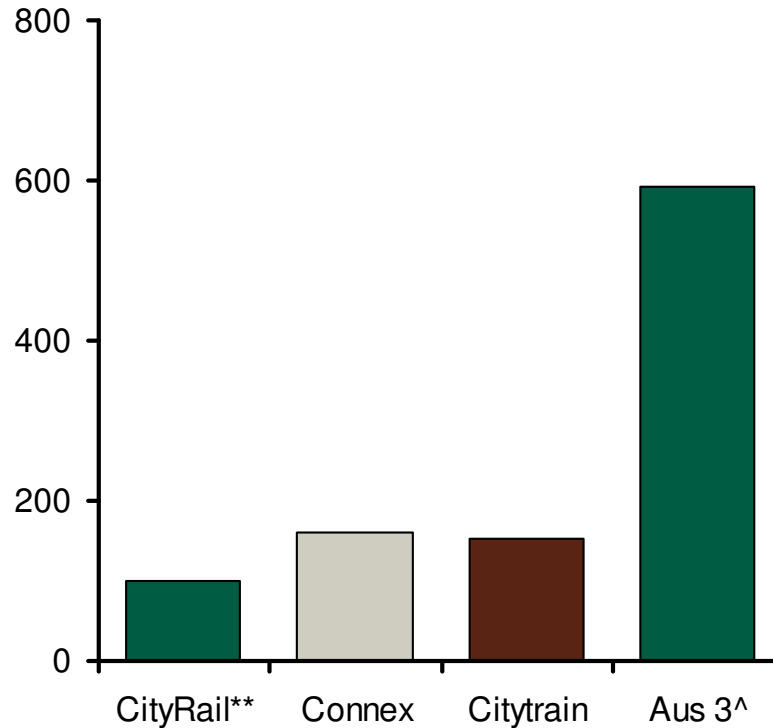
Breakdown of station staff cost by activity

Percent of costs



Station staff to management ratios

Index



7.5	2.9	2.4	n/a	Average FTE staff numbers per station*
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Note: * Excludes area and regional management and new recruits in training; ** Includes duty managers; ^ 3rd Australian operator included in RailCorp stations benchmarking study

Source: RailCorp data including RailCorp Stations Benchmarking Study

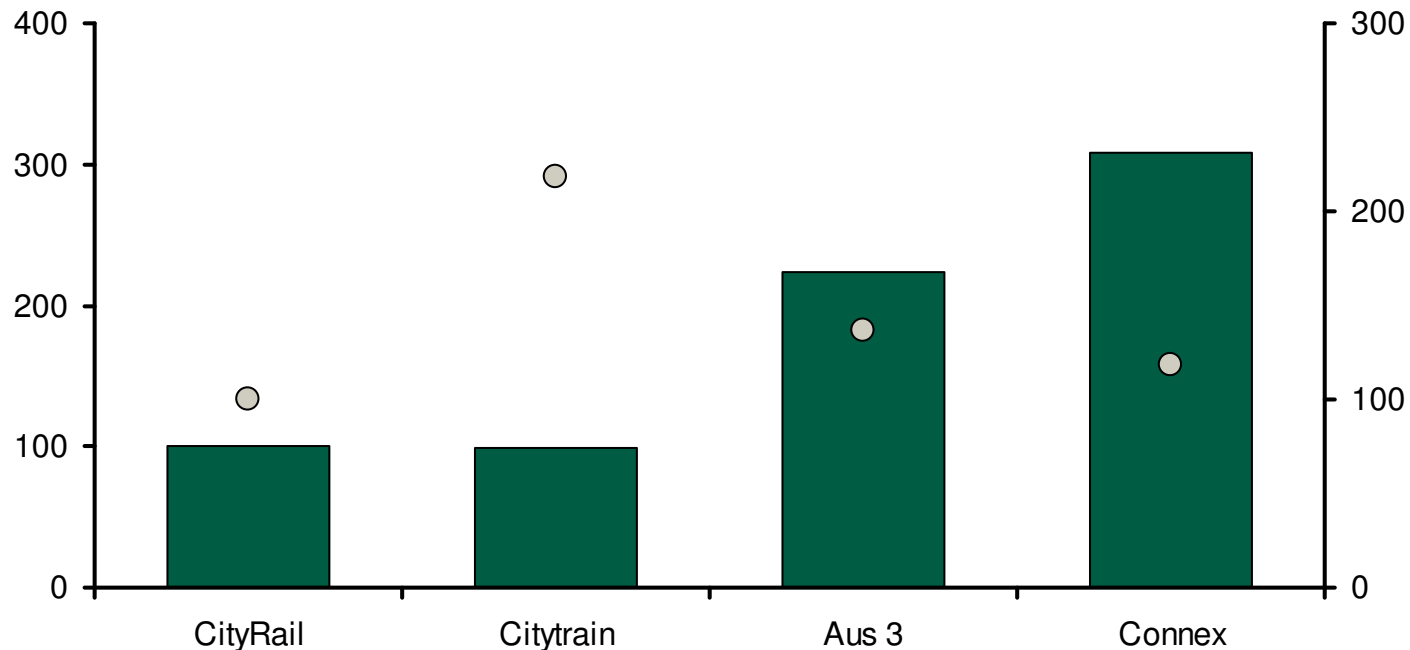
Connex has more than double the level of unmanned stations as CityRail, with only a slightly lower number of passengers per station, while Citytrain has a similar level of unmanned stations, and a significantly lower passenger density per station

Proportion of stations that are unmanned vs number of stations in the network per million passenger journeys

Index

Proportion of stations unmanned (bars)

Stations per million passenger journeys (dots)

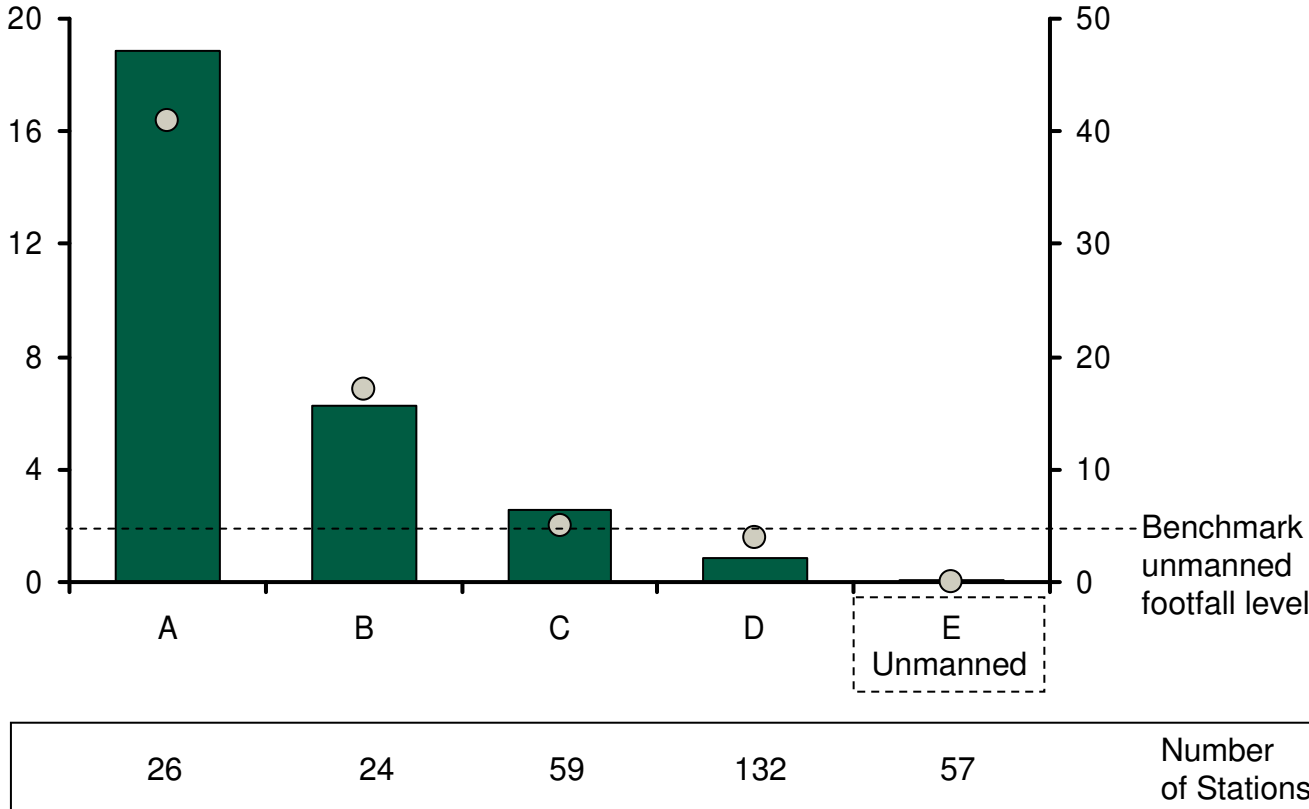


The decision about whether to staff CityRail stations is based on a station grading from level A to E set up based on historical groupings; this compares poorly to the Benchmark model in terms of cost efficiency

CityRail station grading

Average footfall (thousands per station)
(Bars)

Average staff per station
(Dots)



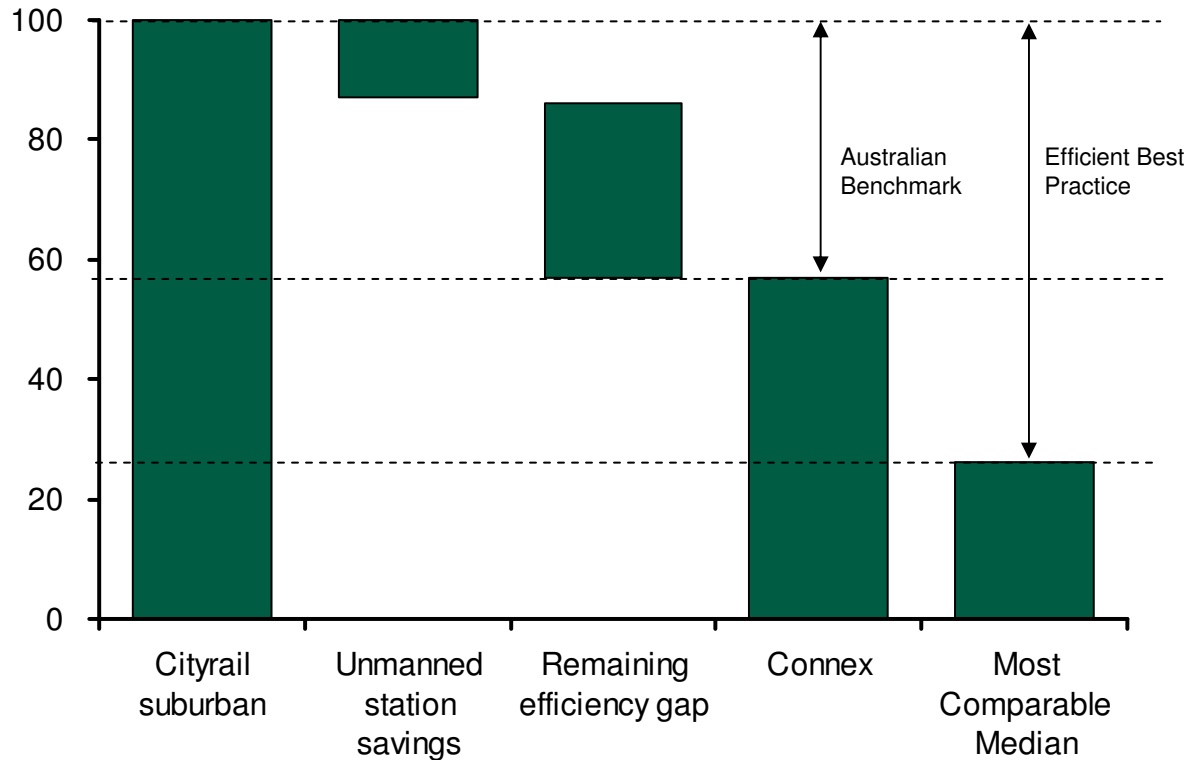
- If RailCorp increased its footfall threshold for unmanned stations to <2000 (a similar level to Connex), it would have an additional 147 unmanned stations across its network
- This would reduce staff numbers by 521 and yield station cost savings of \$30m pa
 - the level of unmanned stations would move to 67% for CityRail as a whole
 - this would equate to c.43% of the Suburban station grouping being unmanned vs 52% for Connex, the benchmark comparator

CityRail station costs are \$97m higher than the Australian benchmark and \$167m higher than efficient best practice

CityRail efficient costs benchmarked against Connex

Total Cost Difference (2006/07)

Index



	Australian Benchmark	Efficient Best Practice
Suburban	\$71m	\$122m
CityRail	\$97m	\$167m

Note: L.E.K. have requested information on capital requirements which would be needed to enable unmanned stations

Source: RailCorp Data; International Operator benchmarking; L.E.K. Analysis

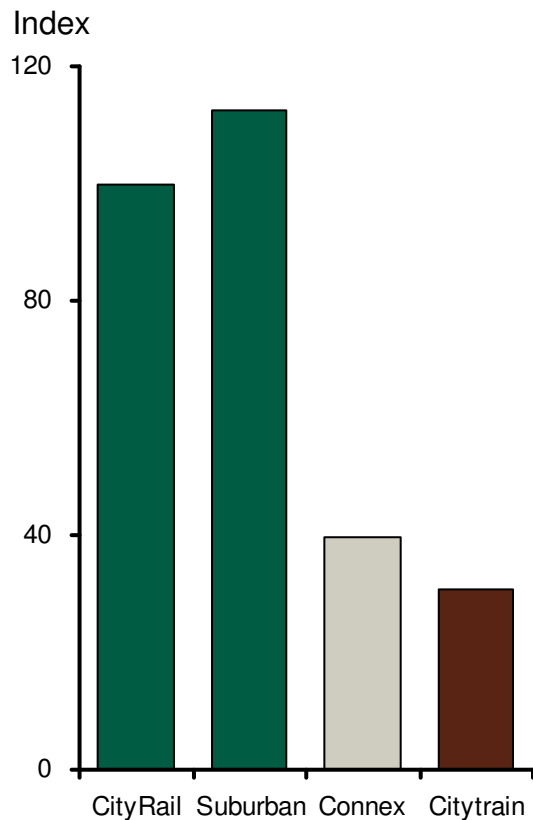
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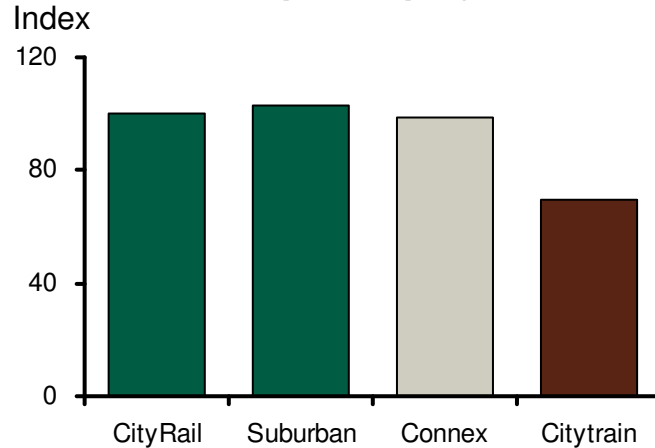
- Infrastructure
- Rolling stock
- Crewing
- Stations
- Overheads

CityRail’s overhead costs per service km are almost four times the Australian benchmark but fairly similar per employee

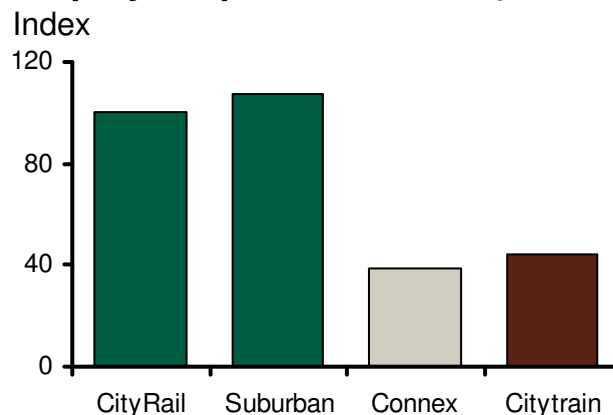
Overhead cost per service Km 2006/07*



Overhead cost per employee (2006/07*)



Employees per service km (2006/07*)



- On a per service km basis, CityRail suburban costs are almost 3 times higher than the Citytrain
- The most significant factor behind this disparity is the number of employees per service km within the three organisations
- Benchmarking to another operator on service km assumes overheads are driven by the level of services provided by an operator
- A significant reduction in overheads is likely to require addressing the efficiency issues across the rest of the organisation first

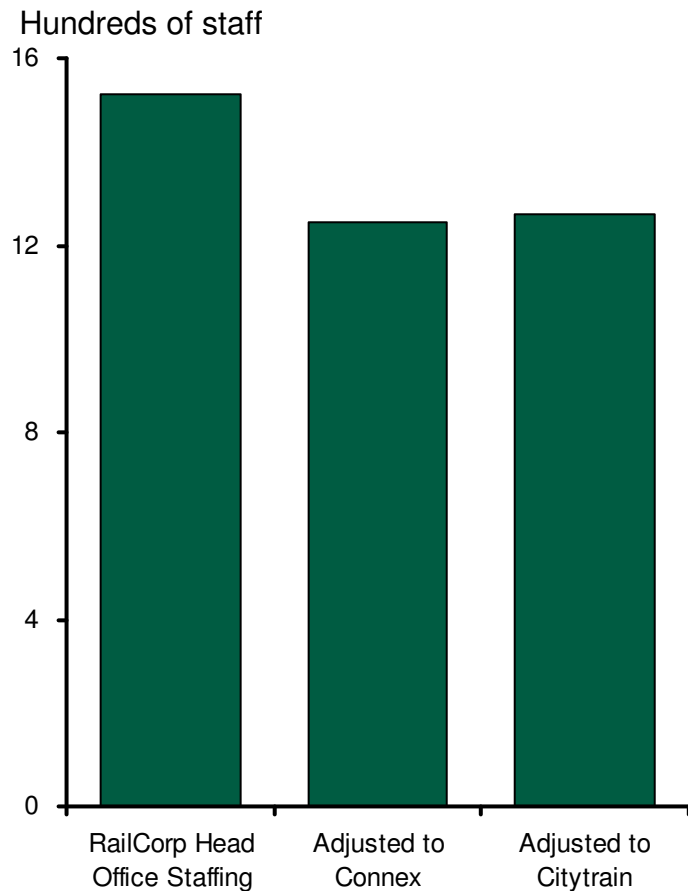
Benchmarking overhead costs on a per service km basis to Citytrain suggests a 2 step process

Note: * 2005/06 costs for Australian operators increased at a rail transport producer index, CityRail costs as labelled

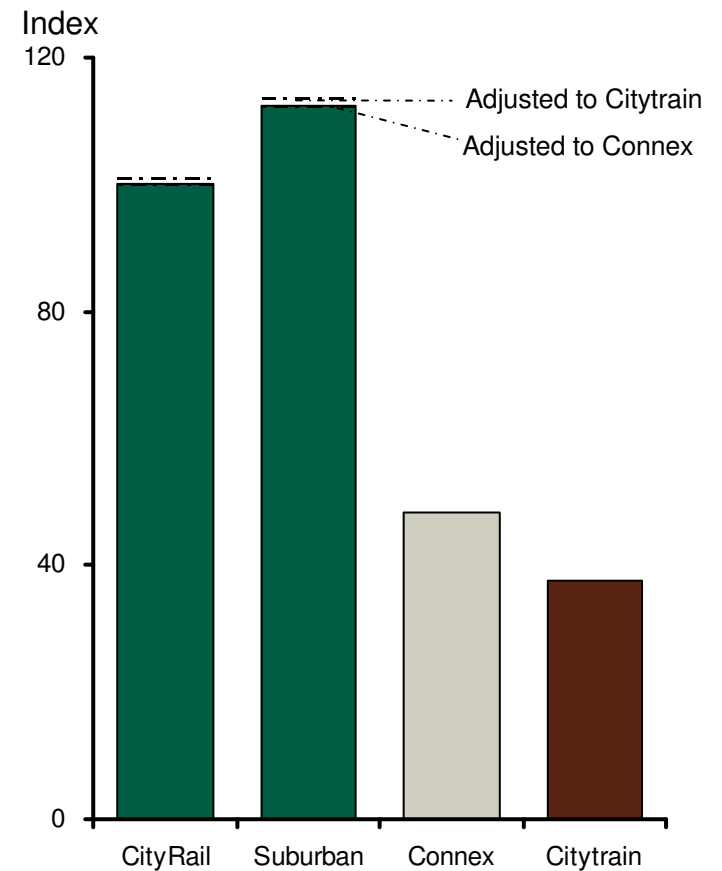
Source: ABS; RailCorp data; Connex; Queensland Rail; L.E.K. analysis

Having adjusted for functions that are not carried out by the other operators' head offices, Connex and Citytrain's overhead costs per service km are 57% and 65% lower, respectively

Adjusted head office headcount



Adjusted head office cost per service Km

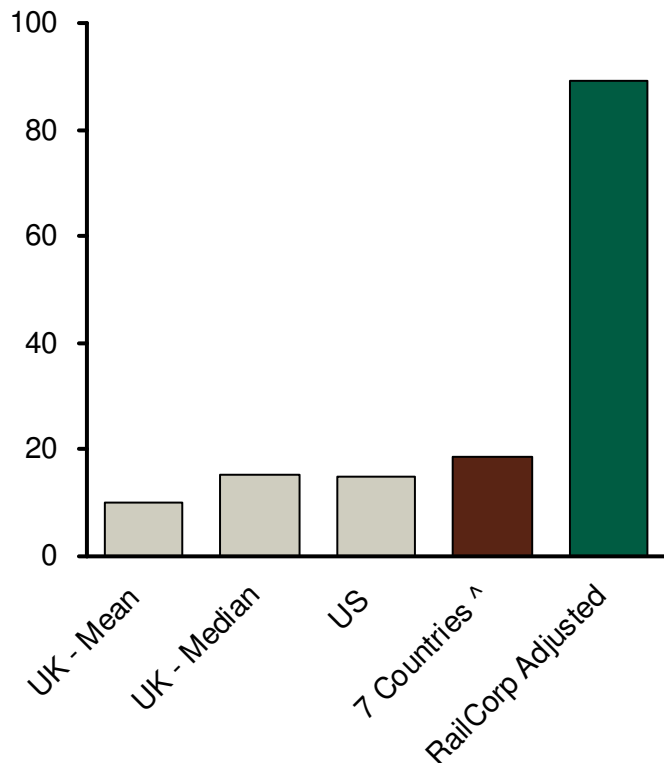


Source: RailCorp Data; L.E.K. Analysis
Independent Pricing and Regulatory Tribunal

Compared to other international benchmarks, total levels of corporate staff for CityRail are also very high. However, this suggests lower savings at ~40%

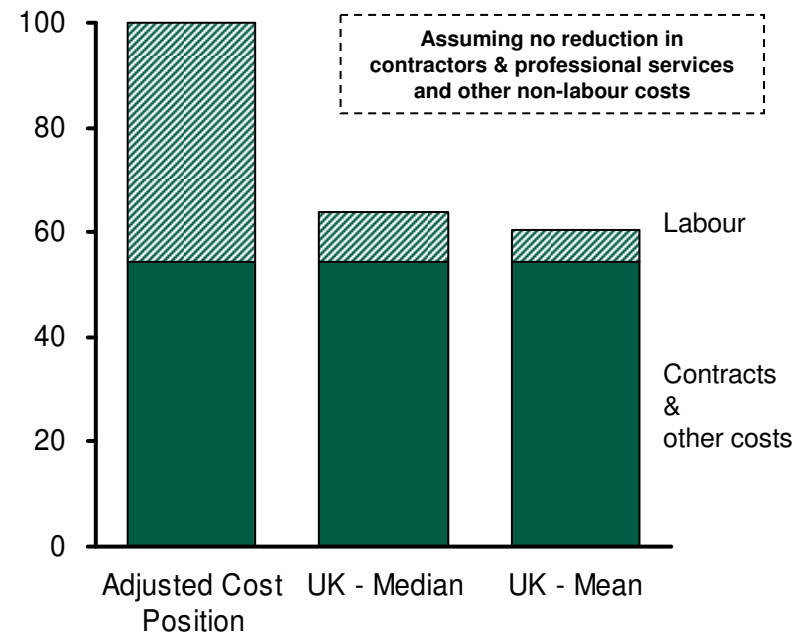
Head office employees relative to total organisation size*

Index of HQ Employees per Employee



CityRail labour costs benchmarked against UK benchmarks

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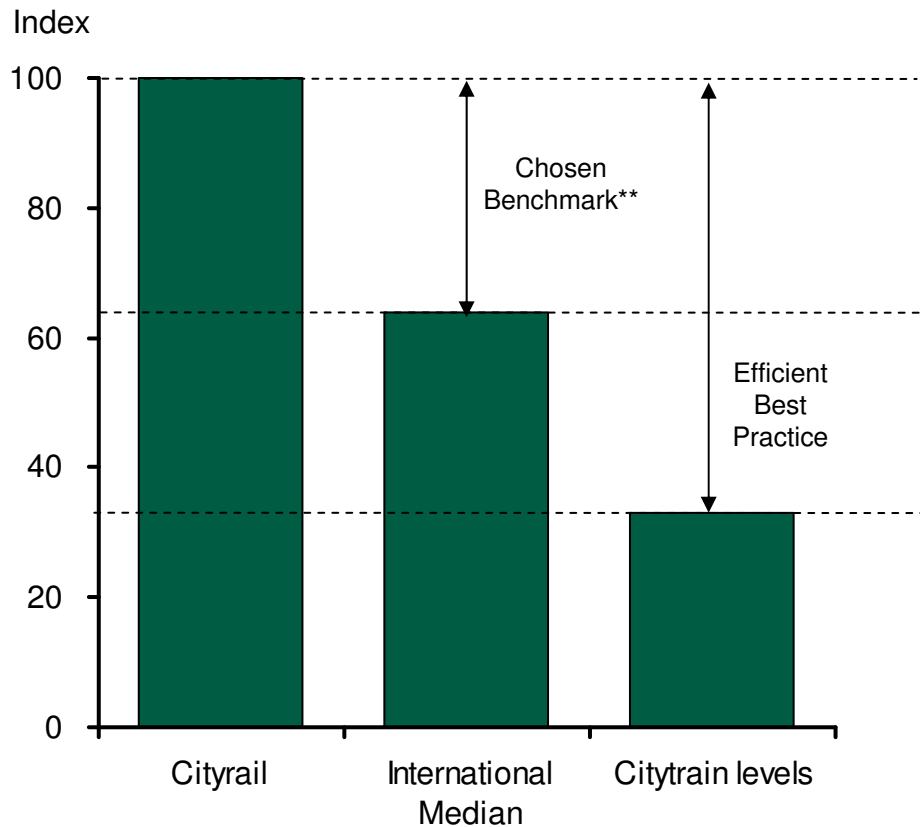
Percentage Reduction (%)	36	40
Cost Reduction (\$ M)	79	86

Note: * International comparables are for a range of organisations not specifically rail operators. Comparables are also large organisations with 2,000+ employees. UK is the most direct comparable with mean employees of 10,800 and turnover of 2.17 billion; ^ The seven countries included are France, Germany, Netherlands, UK, USA, Japan and Chile

Source: RailCorp Data; Strategic Management Journal; L.E.K. Analysis

Comparisons to an international median benchmark suggests the potential for overhead savings of ~\$80m, with a best practice case of \$145m

CityRail efficient overhead* costs



Total Cost Difference (2006/07)

	Chosen Benchmark**	Efficient Best Practice
Suburban	\$55m	\$101m
CityRail	\$79m	\$145m

Note: *L.E.K. requested benchmarking materials from RailCorp on overhead costs but with the exception of limited information on finance none was provided. Overhead cost scale and analysis of the allocation of funding costs should be undertaken ** Usually, the chosen benchmark is equal to the Australian Benchmark and thus the Australian comparator. Here, though, the international comparator was used as chosen benchmark

Source: RailCorp Data; L.E.K. Analysis