

Reference: T2021/1405 SE-2-25-2

Date: 8 June 2021

To: Minister of Finance (Hon Grant Robertson)
Minister of Transport (Hon Michael Wood)
Minister for State Owned Enterprises (Hon Dr David Clark)

Deadline: 8.00am, 9 June 2021

Meeting with KiwiRail on 9 June to discuss Project iReX

You are scheduled to meet with KiwiRail's Acting Chair Sue McCormack, and Group Chief Executive Greg Miller, at 8.00am on 9 June 2021 to discuss Project iReX. Project iReX involves the replacement of KiwiRail's Cook Strait ferries with two large, bespoke rail-enabled ferries, and the development of associated landside infrastructure in Picton and Wellington.

This meeting note provides brief background information on the context of the meeting, your previous concerns around Project iReX, and questions that you may wish to ask.

Context of the meeting

KiwiRail aims to sign a build contract with Hyundai Mipo Dockyard (HMD) to purchase two large rail-enabled ferries before 30 June 2021. A Letter of Intent with HMD, locking in key terms and price, expires on this date.

Ministers have previously requested to be consulted before key decisions on Project iReX are made. As a result, KiwiRail provided Ministers with documents on 3 June 2021. Ministers are asked to:

- a. **endorse** a Detailed Business Case (DBC) approved by the KiwiRail Board
- b. **provide** KiwiRail with further Crown funding of \$257m (of which it proposes \$132m be repurposed insurance proceeds that KiwiRail currently holds, which was received following the 2016 Kaikoura earthquake)
- c. **approve** Project iReX as a major transaction, as defined by the Companies Act 1993 (KiwiRail's shareholding Ministers only).

KiwiRail provided a briefing (attached as **Annex One**) outlining these matters. KiwiRail also requested a meeting with you to discuss these documents and answer any questions you may have.

Concerns around Project iReX

You have previously communicated your concerns with Project iReX to KiwiRail. You wrote to KiwiRail in April 2021 requesting further information on the project (letter is attached as **Annex Two**) and declining a request for \$34.9m of appropriated funds as a DBC had not yet been finalised and costs remained uncertain. At around the same time, a Budget 2021 bid seeking \$565m in further Crown funding was declined.

\$435.1m in Crown funding was appropriated for Project iReX through Budgets 2019 and 2020. The Budget 2020 funding was provided on the expectation that no further Crown funding would be required.

Given the DBC and associated documentation was only received on 3 June 2021, the Treasury and the Ministry of Transport have not completed an assessment of these documents. Officials will provide you with our advice by 21 June 2021, focusing on:

- a. whether the project is able to be undertaken on a commercial basis
- b. value-for-money and strategic fit of any further Crown funding
- c. an analysis of whole-of-life costs for the project
- d. how the project aligns with the Government's wider transport priorities
- e. costs of reconfiguring the road and rail networks that connect to the ferry terminals, and implications for the National Land Transport Fund
- f. potential implications for competition across Cook Strait, and how that may impact on transport outcomes or create risks to the Crown.

We note that KiwiRail's negotiations with HMD are well advanced, and there is reasonable cost certainty in this respect. However, commercial negotiations are not finalised with the Picton and Wellington port companies, ^[38]

Once the ship contracts are signed, the ships' specifications are effectively locked in. This constrains landside infrastructure options, ^[38]

Questions you may wish to ask KiwiRail

Key questions

- a. How will you protect the Crown's interests and KiwiRail's interests if the ship contract is signed before you sign contracts with the port companies?
- b. What assurances has the KiwiRail board sought on this project and its remaining risks?
- c. How would the KiwiRail board respond if shareholders approved the board to enter into the transaction, but did not commit to further Crown funding? How would KiwiRail prioritise its work and what would be the implications of this?
- d. We note that this project is estimated as NPV positive and KiwiRail is looking to meet ^[37] in costs through 'enterprise stretch'. What capacity does KiwiRail have to take on a Crown loan, as opposed to further Crown funding being provided by way of equity injection?
- e. What costs were taken out in the recent design sprint? What confidence do you have that these costs will not be reintroduced through whole-of-life costs?

If there is time in the meeting

- f. We note that KiwiRail has not provided a Benefit to Cost Ratio, on the basis that this is typically not undertaken for commercial projects. However, as KiwiRail is seeking Crown funding for this project we ask you to work with our officials to identify which costs and benefits can be measured.
- g. What further rail and roading infrastructure will be required to support Project iReX?

Daniel Madley, Analyst, Commercial Performance, [35]

Ann Webster, Acting Manager, Commercial Performance, [35]