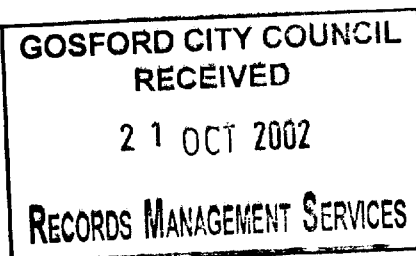




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16 October 2002

Rod Williams,
Director Water and Sewerage,
Gosford City Council
PO Box 21
GOSFORD DX 7211



Dear Rod,

LIGHT RAIL PROJECT

We have been vastly enriched by reading the 1996 Feasibility Study on this project. The comments on gradients on Page 35 caused some furrowed brows but we really appreciated the author's style!

Whilst some of the contents may have been overtaken by the passage of time, we have picked out a few salient features around which we have based our initial appraisal. I am sure you will appreciate the relationship between the accuracy of the data with which we are working and that of our tentative conclusions.

With effectively no patronage data to work with, we have adopted the view that, on a worst-case basis, revenue from users of the LRP would be sufficient to cover direct operating costs of the service. This may be a courageous assumption but a necessary one nonetheless. If there should be a surplus, that would be applied towards reducing Council's obligations.

Our approach has then been to review the likely capital cost of one of the lines (say Gosford to Terrigal at \$125Million) and convert that into an annual Community Support Obligation ("CSO") to be paid by Council over 20 years.

Step 2 has been to identify and cost various ways of either reducing capital expenditure or funding the CSO. In effect we have taken up a range of possible no-cost/low cost benefits before moving to more complex areas such as procurement options and PPP proposals which will require significant research and thus cost to Council.

What we are trying to assess is whether the project is viable on the strength of the available data. We can see no benefit in incurring substantial costs to Council developing refined numbers if the overall position is not acceptable or within Council's resource and risk limits.

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The effect of this methodology is to develop a cascade rather like this:

	Notes	Capital Expenditure (\$M)	CSO (\$M) pa
Base Case		\$125.0	\$11.8
Less : Financing Efficiencies	(1)	(\$5.0)	
Private Sector Support/ Sponsorship	(2)	(\$2.5)	
Governments (State & Federal)	(3)	(\$12.5)	
		\$105	\$9.9
Traffic Measures Revenue	(4)		\$4.4
Net CSO payable pa by Council			\$5.5M

The Note references are explained more fully below:

1. Given the assets concerned, we can arrange to purchase them via a foreign tax jurisdiction, thus saving ourselves this amount upfront in cash.
2. Since the LRP goes straight past Erina Fair, there should be some recovery/sponsorship possible from the owners.
3. We should be able to pull out some contribution of this order from both senior levels of Government.
4. This amount is an estimate of the approximate value of parking/ traffic/ car park surcharge that we should be able to generate. It seems to us to be important to provide the LRP at a price which is equivalent to the all day car park price near Gosford Station. There are also no very good reasons why that pricing should not be pushed up to manage passengers into using the LRP.

Clearly as we drive down the cost of capital expenditure, the net CSO declines. On the other side, property values have increased and will continue to do so. At this stage we have no way of quantifying the increased revenues flowing to Council from higher rates income derived from such increases in value.

The next phase is to start firming up all of the numbers but particularly those for Patronage / Direct Operating Costs and Capital Expenditure. At this stage, we have



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included an arbitrary \$12.5M from Governments but might hope that the NSW Government's "Connecting the Central Coast" initiative would be more generous.

This analysis gives us a starting point and identifies an approximate order of magnitude of the likely CSO. If Council has a particular level of ongoing support in mind for this project, it will need to be of similar magnitude.

Give me a call if we need to clarify any of these comments.

With best wishes,

A handwritten signature in black ink, appearing to read "Jonathan Wright". The signature is fluid and cursive, with a large initial 'J' and 'W'.

Jonathan Wright
Principal