



## ARTC's Non-Hunter Valley Networks compliance with the NSW Rail Access Undertaking – 2022-23

# Final Report

May 2024

Transport >>



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## **Acknowledgment of Country**

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

## **Tribunal Members**

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair  
Jonathan Coppel

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## **The Independent Pricing and Regulatory Tribunal**

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from [IPART's website](#).

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## Overview of our assessment of ARTC's compliance

The NSW Rail Access Undertaking ('the Undertaking') provides for third-party access to certain parts of the NSW rail network. One of its functions is to limit the amount of revenue that rail owners can charge these third-party businesses to use the network. Rail owners cannot receive more revenue than the economic costs of providing the service. This requirement, known as 'the ceiling test', is intended to ensure that monopoly track owners provide prices and conditions of access to existing and future access seekers on reasonable terms.

IPART is required to assess ARTC's compliance with the ceiling test. This compliance assessment relates to the 2022-23 financial year.

We published our Draft Report in February 2024 and received one submission only which was an anonymous submission from an individual.

That submission was concerned that high prices for rail freight movements would divert freight to truck movements on the roads and this would lead to an increase in greenhouse emissions. While this concern is relevant to freight policy generally, it is not a matter we can address as part of ARTC's compliance with the NSW Rail Access Undertaking.

The purpose of the ceiling test is to ensure that the rail infrastructure owner does not exercise monopoly power on its network and recover more than its reasonable economic costs. The ceiling test works to moderate access prices, which is in the spirit of that submission.

### ARTC has complied with the ceiling test

The [NSW Rail Access Undertaking](#) (the Undertaking) limits the revenue that rail infrastructure owners can earn each year (the "ceiling test").<sup>1</sup> Rail infrastructure owners cannot earn more than the economic costs of providing access.

This is intended to ensure that monopoly track owners provide prices and conditions of access to existing and future access seekers on reasonable terms. IPART is responsible for determining whether rail infrastructure owners have complied with this requirement.

The Australian Rail Track Corporation (ARTC) submitted its 2022-23 compliance information for its non-Hunter Valley Coal Network sectors:

- Turrawan to Boggabilla (248.9 km)
- Goobang Junction to Merrygoen (244 km)
- Merrygoen to The Gap (182.5 km)
- Merrygoen to Ulan (103 km)
- Sydney Metropolitan Freight Network (66 km)
- Inland Rail North West Link (6 km).

The ARTC has demonstrated to IPART's satisfaction that access revenue for each sector is less than the total operating and maintenance cost for those sectors. We did not need to assess capital costs as this would only increase the gap between full efficient cost and access revenue for each of the sectors.

## ARTC has complied with the floor test

The Undertaking also requires that the access revenue from every access seeker at least meets the direct cost imposed by that access seeker. This is known as the floor test.<sup>2</sup> The floor test ensures that rail infrastructure owners do not cross-subsidise loss-making operations. ARTC's implied access prices for each of the 6 networks exceed the direct cost, so the floor test is met.

### Final Decisions

1. ARTC has complied with the ceiling test for its 6 Non-Hunter Valley Coal Networks.
2. ARTC has complied with the floor test for its 6 Non-Hunter Valley Coal Networks.

## Non-Hunter Valley freight networks

Six sectors of ARTC's freight network outside the Hunter Valley are accessed by freight trains to transport goods to domestic and export markets. They carry a diverse range of goods, including grain, cotton and containerised freight. The specific segments considered in this report are:

- Turrawan to Boggabilla
- Goobang Junction to Merrygoen
- Merrygoen to The Gap
- Merrygoen to Ulan
- Sydney Metropolitan Freight Network
- Inland Rail North West Link.

These segments are treated as hypothetical standalone networks for the purposes of the Undertaking. This ensures freight operators are only charged the efficient cost of using the network (i.e. so that costs attributable to passenger trains are not passed on to freight trains).

### How we assessed ceiling test compliance

For the last 4 years IPART has assessed ARTC's compliance under clause 5(f) of Schedule 3 of the Undertaking. This clause removes the need for a detailed compliance assessment each year if ARTC can demonstrate to IPART that access revenue is no more than 80% of the full economic cost for that sector. In this case, IPART requires that the ARTC submits detailed ceiling test information every 5 years. We therefore asked ARTC to submit more detailed information for 2022-23 demonstrating its compliance with the asset valuation roll forward principles and ceiling test as required by the Undertaking.

There can be significant cost involved for ARTC to undertake detailed asset valuations each five years. This was unnecessary for 2022-23 as ARTC demonstrated that its access revenue for each of the 6 sectors was below the total operating and maintenance cost for the respective sectors. Therefore, the ceiling test was passed without the need to include any capital costs.

### ARTC's access revenue is below total operating and maintenance costs.

In late October 2023, the ARTC submitted a compliance report and we sought additional information.

We consider that the operating and maintenance costs are reasonable, as explained in the next section.

Table 1 ARTC NSW Rail Access Undertaking compliance. (\$'000)

	Turrawan to Boggabilla	Goobang Junction to Merrygoen	Merrygoen to The Gap	Merrygoen to Ulan	Sydney Metropolitan Freight Network	North West Link
Track Kms	248.9	244.4	182.5	103.4	65.5	6.3
Maintenance costs	2,120	3,437	3,234	2,147	3,039	59
Network control costs	3,910	2,764	1,423	1,100	3,740	14
Corporate and system overheads	838	1,023	330	420	505	2
Total O&M	6,868	7,224	4,987	3,667	7,283	74
O&M/Track km (\$/track-km)	27,592	29,559	27,327	35,460	111,276	11,734
GTKs (Thousand)	225,548	386,965	127,385	173,892	612,256	2,172
DORC RAB value (if available)					54,414	92,593
Return on Assets (if available)					4,353	7,407
Depreciation (if available)						
Full Efficient Cost	6,868	7,224	4,987	3,667	11,636	7,482
Access revenue	854	1,164	374	860	6,243	12
Access revenue less Total O&M	(6,014)	(6,060)	(4,613)	(2,807)	(1,040)	(63)
Access revenue less Full Efficient Cost	(6,014)	(6,060)	(4,613)	(2,807)	(5,393)	(7,470)
Indicative recovery rate	12.4%	16.1%	7.5%	23.4%	53.7%	0.2%
Effective access price (\$/'000 GTK)	3.79	3.01	2.93	4.94	10.20	5.34

Information in Table 1 was provided by ARTC in response to IPART's information requests. The two highlighted rows show IPART calculations based on that data.

ARTC stated that the revenue and components of full economic costs, including fixed and variable maintenance costs, allocations of network control and corporate costs and cost recovery were modelled consistently with previous submissions to IPART.<sup>a</sup>

- The whole of the Sydney Metropolitan Freight Network (Sefton Park Junction/Flemington South to Port Botany Yard) is included as a single sector for the purposes of the Ceiling Test assessment.
- The indicative value for the Sydney Metropolitan Freight Network is based on Regulatory Asset Base (RAB) benchmarks for similar networks valued on a depreciated optimised replacement (DORC) methodology.

ARTC also advised that it made the following assumptions in demonstrating their compliance for the Inland Rail North West Link, which are based on last year's accepted approach:

- The Inland Rail North West Link is included as a single sector for the purposes of the assessment.
- Where it has been provided, the indicative value for the assets is based on actual costs, market tested through a rigorous tender process as part of the Inland Rail Parkes to Narromine project.

## Reasonableness of operating and maintenance costs

Table 1 presents our estimate of the average operating and maintenance cost per track kilometre for each of the six sectors (first highlighted row). For the first four of the sectors, these average cost rates range from \$27,300 to \$35,500/track-km.

We consider these rates to be reasonable because they are lower than or within the range of TAHE's Country Regional Network O&M cost rates: \$47,800/track-km for FY23 and \$35,300/track-km for FY22.<sup>b</sup>

The Sydney Metropolitan Freight Network has an O&M cost rate of \$111,200/track-km. Unlike the first four sectors, which are lightly used country freight lines, this is a heavily used line in the middle of the Sydney industrialised urban area, with corresponding levels of infrastructure intensity. A better comparator for O&M rates is TAHE's HVCN. This figure is within the range of TAHE's HVCN O&M cost rate: \$122,000/track-km for FY23 and \$111,000/track-km for FY22.<sup>c</sup>

The O&M cost rate for the final sector is the lowest of the group. This result seems reasonable, given the newness of that sector. Over time we expect that O&M costs would rise as more remedial maintenance is needed.

<sup>a</sup> ARTC 2022-23 Compliance submission p.2

<sup>b</sup> TAHE's CRN has 2,386 route km of active track, most of which is single track. In FY23 the O&M cost was \$114.08m and in FY22 it was \$84.3m.

<sup>c</sup> TAHE's HVCN has 52 route km. In FY23, the O&M cost was \$6.33m and in FY22 it was \$5.76m.



## Assessment of the floor test



Clause 1 of Schedule 3 of the Undertaking requires the access revenue from every access seeker to at least meet the direct cost imposed by that access seeker. This is known as the floor test.

Direct costs are the efficient, forward-looking costs which vary with the usage of a single operator.<sup>3</sup> In parallel to this final report, we are also publishing a draft report on estimating the direct cost used in the floor test ("Direct Cost Draft Report").

The Direct Cost Draft Report responds to stakeholder submissions and further information, It presents an updated range of between \$0.69/ '000 gtk and \$1.93/ '000 gtk, based on QCA figures from 2000 adjusted for inflation, and an econometric estimate of \$0.84/ '000 gtk. Comparing the effective access prices in \$/ '000 gtk units shown in the last row of Table 1 to the endpoints of this benchmark range, it is clear that the access prices for each of the 6 networks exceed the direct cost (as proxied by the benchmark range) by more than double.

Therefore, we consider the floor test has been met by ARTC for each of its non-Hunter networks.

## Final decisions

-  3. ARTC has complied with the ceiling test for its 6 Non-Hunter Valley Coal Networks.
-  4. ARTC has complied with the floor test for its 6 Non-Hunter Valley Coal Networks.

<sup>1</sup> NSW Rail Access Undertaking, schedule 3, cl 1(l).

<sup>2</sup> NSW Rail Access Undertaking, schedule 3, cl 1(l).

<sup>3</sup> cl 2.1 of Schedule 3 of the NSW Rail Access Undertaking.

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