



27 March 2024

**Mike Smart**  
**Chief Economist**  
**Independent Pricing and Regulatory Tribunal**  
Level 16, 2-24 Rawson Place  
Sydney NSW 2000

Email: [mike\\_smart@ipart.nsw.gov.au](mailto:mike_smart@ipart.nsw.gov.au)

**Dear Mr Smart**

**Re: IPART Draft Report on TAHE Compliance with the NSW Rail Access Undertaking 2022-23**

The Transport Asset Holding Entity of New South Wales (**TAHE**) welcomes the opportunity to provide comment on the Independent Pricing and Regulatory Tribunal's (**IPART**) January 2024 Draft Report on TAHE's 2022-23 Compliance with the NSW Rail Access Undertaking (**RAU**). TAHE welcomes IPART's positive engagement with TAHE in developing its Draft Report.

TAHE recognises that parallel to this compliance review IPART are reviewing TAHE's draft Unders and Overs Account Policy. The approval and implementation of the TAHE Overs and Unders Policy would address the current non-compliance in the TAHE Hunter Valley Coal Network (**HVCN**). It would also address future imbalances as envisaged by the NSW RAU.

TAHE comments on specific elements of the Draft Report are set out below.

**Train Control Costs**

The Draft Report notes that Metropolitan Passenger Network (**MPN**) train control costs are increasing at a rate greater than CPI and indicates that IPART expects these costs to fall in real terms in coming years.<sup>1</sup>

Train control costs are non-TAHE operating expenditure and are not within TAHE 's control (TAHE's licence conditions do not allow TAHE to undertake operations). For compliance reporting purposes these costs are treated as "in kind" revenue contributions<sup>2</sup>, with the same amount added to revenue as is added to costs in the ceiling test. This enables the ceiling to reflect all cost elements of providing access as per a traditional building blocks model. While we agree that it is important for train control costs to be efficient, under the current operating model, the actual level of these costs does not impact on whether access charges on the MPN are compliant. As the train control costs are incurred by Sydney Trains (who are the major access customer on the MPN), and funded directly by the NSW Government, TAHE cannot comment on expected future train control costs.

<sup>1</sup> IPART Draft Report TAHE's Compliance with NSW Rail Access Undertaking 2022-23, p 11.

<sup>2</sup> TAHE Access Pricing Compliance Submission 2022-23 p 24 identifies train control costs as a component of in-kind revenue.



## Cost Benchmarks

The Draft Report notes that TAHE figures on the MPN indicate an average direct cost rate of \$5.14 per thousand gross tonne kilometres (**gtk**) and that this estimate is high relative to the range of \$0.77 to \$1.18 per thousand gtk that IPART has estimated from analysis of coal railways.<sup>3</sup>

TAHE considers coal network costs are not an appropriate cost comparator for the costs of the MPN. Coal networks are a typically linear networks carrying a heavy, inanimate commodity from 40-50 origin mines, served by several large trains a day, to several port destinations, In contrast, the MPN carries passengers to and from approximately 170 passenger stations across a complex network where, in peak times, many of these stations are served by numerous trains an hour.

TAHE intends to comment further on cost benchmarking as part of IPART consideration of the direct cost element of the floor test.<sup>4</sup>

## HVCN Over Recovery

TAHE acknowledges the \$7.12 million balance of the TAHE HVCN unders and overs account as at 30 June 2023.<sup>5</sup> The NSW RAU recognises that, given inaccuracy in rail freight volume forecasts, it would be impractical to set access prices that would avoid over-recovery of full economic costs in every year.<sup>6</sup> Consequently, to adjust for under or over recovery of ceiling revenue, the RAU provides for the establishment of an unders and overs account and the creation of an unders and overs account policy to manage these imbalances. The expectation is that the long-term balance of this account would remain close to zero, even though it may vary from year to year.

TAHE provided a draft Unders and Overs Account Policy for the TAHE HVCN to IPART in May 2023, and following revisions, IPART is currently seeking comments on this draft policy. TAHE considers the policy will address current and future non-compliance in the TAHE HVCN consistent with the RAU.

TAHE's contact for this submission is Stuart Ronan, Senior Manager Regulatory, who is available to discuss these issues further on [REDACTED].

Yours sincerely,

[REDACTED]

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### Chris Stewart

Head of Pricing and Regulation  
Transport Asset Holding Entity

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<sup>3</sup> IPART Draft Report TAHE's Compliance with NSW Rail Access Undertaking 2022-23 p 13.

<sup>4</sup> Information on this IPART process is at <https://www.ipart.nsw.gov.au/review/transport-rail-access/measuring-direct-cost-floor-test>.

<sup>5</sup> IPART Draft Report TAHE's Compliance with NSW Rail Access Undertaking 2022-23 p 21.

<sup>6</sup> IPART Draft Report TAHE's Compliance with NSW Rail Access Undertaking 2022-23 p 20.