



28 June 2024

Mike Smart

Chief Economist
Independent Pricing and Regulatory Tribunal

Level 16, 2-24 Rawson Place
Sydney NSW 2000

Email: [REDACTED]

Dear Mr Smart

Re: IPART Draft Report on Estimating the Direct Cost of Rail Access

Background

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**) May 2024 Draft Report on Estimating the Direct Cost of Rail Access" (**Draft Report**).

TAHE makes the following observations on the Draft Report:

- » IPART notes that ensuring prices are above floor prices may provide protection for third party rail operators against vertically integrated operators using cross subsidies to favour related rail operators.¹ While TAHE recognises the economic principle, in New South Wales there are currently no vertically integrated freight rail operators. Passenger operations are vertically integrated in the sense that they are operated by different New South Wales government entities, but there is currently no competition in the urban passenger market.² This would mitigate the concern of cross-subsidies arising.
- » IPART notes that TAHE's March 2024 submission to this regulatory process identified four instances of Australian regulators using engineering approaches³ to estimating floor costs, noting that "*some of these studies yielded widely varying estimates, limiting their usefulness*".⁴ While TAHE does not necessarily endorse these studies, they should not be dismissed due to their widely varying estimates. Given these studies occurred at different times on different networks, the wide variation in costs is likely to reflect differing cost drivers on various Australian railway networks rather than a

¹ Draft report, p. 1.

² TAHE recognises that private passenger operations occur on our networks, but these operations are interstate passenger rail travel and are not in direct competition with the suburban rail operations undertaken by Sydney Trains.

³ At page 3, the Draft Report identifies three methods to measure rail infrastructure marginal cost, namely a model-based engineering approach, a judgement based engineering approach and an econometric approach.

⁴ Draft report, p. 6.



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defect in any given study. The wide range of outcomes is indicative of the difficulty in determining a single estimate of costs relevant to a broad range of rail networks.

- » A lack of data for non-coal networks should not be used as the principal rationale for using coal network costs as the only input used in setting floor prices for non-coal networks. IPART should recognise that the costs (including direct costs) of coal networks are not necessarily representative of the costs of other rail freight and passenger networks.
- » The application of IPART's direct cost benchmark, established by regression analysis of historical data from Australian Rail Track Corporation (ARTC) and Aurizon coal networks, should be limited. This could be used as a cross check of established direct costs (including those using engineering approaches) and potentially trigger queries for network owners. However, IPART should recognise the limitations and note that stakeholders should be wary drawing conclusions when applied to non-comparable (non-coal) networks, such as passenger networks.⁵ The wide direct cost estimates from previous regulatory processes noted above would support this.
- » The Draft Report expresses direct costs as a rate of dollars per thousand gross-tonne-kilometres (**gtk**) and notes that this cost benchmark can then be directly compared to access prices if they are expressed in the same units.⁶ For the Sydney metropolitan rail network, TAHE prices in kilometres travelled and not in gtk. The use of the IPART direct cost benchmark is therefore problematic in determining a floor price on this network as it involves assumptions regarding train weight.

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

Yours sincerely,

[REDACTED]

Chris Stewart

Head of Pricing and Regulation
Transport Asset Holding Entity

⁵ As TAHE set out in its 27 March 2024 submission, coal rail and passenger rail networks have different service standards, safety requirements and cost drivers. When compared to passenger networks comparator coal networks have lower track standards, less costly signalling, less costly track inspections and slower response times. Coal networks are not an ideal basis for determining costs for passenger networks and lighter axle-load freight networks given their different transport tasks, different locations (regional vs urban), different requirements for safety and different levels of network congestion and complexity. Additionally, the use of tonnes as a base measure may be problematic as coal networks are designed to move tonnes of commodity whereas passenger networks are designed to move people. Using tonnes as the base measure of costs is likely to skew towards the network designed to move tonnes rather than passengers.

⁶ Draft report, p. 1.