

# **Mike Smart**

15 July 2024

**Chief Economist Independent Pricing and Regulatory Tribunal** PO Box K35 Haymarket Post Shop NSW 1240

#### Email:

## **Re: IPART Draft Report: Review of Mine Life and Rate of Return**

The Transport Asset Holding Entity of New South Wales (TAHE) welcomes the opportunity to provide comment on the Independent Pricing and Regulatory Tribunal (IPART) June 2024 Draft Report on the Review of Mine Life and Rate of Return (Draft Report) as required by the NSW Rail Access Undertaking (the Undertaking).

TAHE owns various NSW rail network assets which are regulated by the Undertaking and these assets will be subject to the IPART Final Report on Mine Life and Rate of Return. These two parameters are inputs to TAHE's estimate of costs<sup>1</sup> for the purposes of assessing compliance with the pricing principles within the Undertaking.

## **Mine Life**

In its April 2024 response to the IPART Consultation Paper, TAHE sought that the IPART decision on mine life be based on the best current information available on the expected lives of Eraring and Vales Point power stations.

The Draft Report position is that the mine life (and hence the economic life of the HVCN) will end on 30 June 2029. This position is based on available information on the expected lives of Eraring and Vales Point power stations.

TAHE supports the Draft Report position for mine life.

The Draft Report mine life position will better enable cost recovery and reduce the risk of asset stranding.

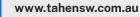
Any decision to establish the mine life beyond 2029 requires evidence of substantial and ongoing coal operations on the HVCN beyond this date, such that HVCN cost recovery remains highly likely. If IPART receives such evidence prior to making its final decision, TAHE requests the opportunity to respond to this evidence.

TAHE recognises that the mine life outcome will largely depend on future decisions by power station owners and governments. If new evidence on the life of Eraring and Vales Point power stations becomes available following IPART's final decision and prior to the next review, TAHE would consider supporting

<sup>&</sup>lt;sup>1</sup> The terminal date for mine life is a driver of the TAHE Hunter Valley Coal Network depreciation calculations. The rate of return is a driver of the cost of capital calculation for TAHE rail networks.



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IPART re-opening the mine life assessment process to ensure an appropriate outcome for TAHE and our customers.

#### **Rate of Return**

In determining the appropriate rate of return, the Draft Report uses the standard IPART rate of return model consistent with the approach taken in previous rail rate of return reviews.

In its April 2024 response to the IPART Consultation Paper TAHE sought that the IPART position on rate of return continue to use appropriate comparators and financial data. Additionally, we sought IPART consider whether to include an additional risk premium to recognise the costs of financing coal-related assets.

The 2019 IPART Final Report on Rate of Return and Remaining Mine Life (**2019 Final Report**) established a range for the rate of return of 5.2% to 5.3% real post tax. The 2019 Final Report then established that a 5.3% real post tax should be used.<sup>2</sup>

The Draft Report has established a range for the rate of return of 4.2% to 5.8% real post tax. This range is substantially broader that the range determined in 2019 and indicates an increased level of variability and / or uncertainty in some variable inputs used in the rate of return calculation, including the risk-free rate and cost of debt.

The Draft Report has proposed that the relevant rate of return for 2025-2029 is 5.0% real post tax. This value is in the middle of the broad range for the rate of return determined by IPART.

TAHE recognises that the rate of return is not unreasonable but considers that there are arguments that may support a rate of return above the midpoint of the range. TAHE considers that due to the broad range of rate of return outcomes arising from the wide variability of several parameters, and the potential debt risk premium for coal businesses that the rate of return could be increased within the range. In relation to the debt risk premium TAHE notes that IPART states that their 45% debt gearing ratio takes this higher risk into account but TAHE notes that this debt gearing position is unchanged from the 2019 Final Report where this matter was not raised.

TAHE's contact for this submission is Stuart Ronan, who is available to discuss further on

Yours sincerely,

Lyndal Punch Acting Chief Executive Officer Transport Asset Holding Entity

<sup>&</sup>lt;sup>2</sup> IPART 2019 Rate of Return and Remaining Mine Life 2019-2024.