

RailCorp

Submission to the Independent Pricing and Regulatory Tribunal

Hunter Valley

Roll Forward of Regulatory Asset Base

Ceiling Test

Unders and Over Account

Financial Year 2014/15

Introduction

The NSW Rail Access Undertaking (NSWRAU) is the framework within which a Rail Infrastructure Owner is to grant access to the NSW Rail Network. In particular, pricing principles are identified in Schedule 3 with specific application to the Hunter Valley Coal Network (HVCN). The NSWRAU requires a Rail Infrastructure Owner to submit to the Independent Pricing and Regulatory Tribunal (IPART) documentation demonstrating compliance with the Asset Roll Forward Principles and operation of an Unders and Overs Account for each financial year.

Schedule 6 of the NSWRAU defines the HVCN.

In 2004, control of the NSW Rail Network was allocated between the Rail Infrastructure Corporation (RIC), Rail Corporation NSW (RailCorp) and the Australian Rail Track Corporation (ARTC). The NSW component of the Interstate Rail Network and the majority of the HVCN were leased to ARTC. The NSW Government vested ownership of the greater Sydney rail network to RailCorp which, on behalf of the NSW Government, has also operated commuter and long distance passenger rail services.

The RailCorp network includes the following sectors which form a small subset of the HVCN as shown in Table 1:

Table 1

Sector	Name
405	Newstan Jct to Cockle Creek
406	Cockle Creek to Sulphide Jct
490	Sulphide Jct to Adamstown
407	Adamstown to Broadmeadow (via Main)
497	Broadmeadow to Woodville Jct

In July 2013 RailCorp, granted to Sydney Trains an agency to manage the RailCorp network including the HVCN sectors owned by RailCorp. RailCorp also granted an agency to Transport for NSW (TfNSW) which included the development of this compliance submission to enable Sydney Trains, on behalf of RailCorp to lodge the submission in accordance with the NSWRAU. Hence this compliance submission has been developed by TfNSW, as an agent of RailCorp.

This submission relates to the financial year 2014/15 and follows the IPART determination for the financial year 2013/14.

Roll Forward of Regulatory Asset Base

The roll forward of the Regulatory Asset Base (RAB) has been conducted in accordance with the principles contained in the NSWRAU.¹

Depreciation

The depreciation rate for 2014/15 was calculated based on the remaining mine life of 30 years and is set out in Table 2

Table 2

Year	Remaining Mine Life	Depreciation %
2014/15	30	3.333%

CPI

The CPI rate to be used for 2014/15 was calculated in accordance with the NSWRAU as per Table 3 (further detailed in Table 8 at the end of this document).

Table 3

Quarter / Year	2012/13	2013/14
September	102.2	104.3
December	102.3	105.0
March	102.7	105.6
June	103.1	106.0
Average	102.575	105.225
	13/14 Average / 12/13 Average	1.025
	CPI %	2.584%

Capital Expenditure

The RailCorp sectors of the HVCN are not a dedicated coal network, with an array of different traffic using the network. It is therefore unlikely that capital expenditure on this network would be undertaken on a completely stand alone coal basis. However, capital works undertaken in the RailCorp component of the HVCN have and will continue to benefit coal operators and to this extent these users can be expected to contribute to the cost of these capital works. In the case of capital works that are for the sole benefit of coal operators RailCorp will expect those works to be fully funded by the end beneficiaries.

In 2014/15 no capital works were carried for the sole benefit of coal operators.

¹ NSW Rail Access Undertaking, Schedule 3, Clause 3 – Regulatory Asset Base

RAB Roll Forward Results 2014/15

TfNSW has used the Closing Value that was calculated in the IPART determination of 2013/14 as the Opening Value of the Regulatory Asset Base for the financial year 2013/14. TfNSW has calculated a Closing and Average Values for the RAB of \$15,093,975 and \$15,157,559 respectively as per Table 4 and 9.

Table 4

Opening Value	RABt-1	\$15,221,143
CPI increase	RABt-1xCPIt	\$393,314
Depreciation	Dept	\$520,482
Disposals	Dispt	
Closing Value	RABt	\$15,093,975
Average Value		\$15,157,559

Capital Consultation

During 2014/15, as in previous years, RailCorp & its agents have held a number of customer relationship meetings with operators at which the general capital works program and its implementation were discussed. RailCorp believes that the obligations under the NSWRAU in relation to the RailCorp portion of the Hunter Valley Network.

Ceiling Test

In accordance with the NSWRAU, IPART is required to determine whether “the Rail Infrastructure Owner has complied with the ceiling test having regard to the operations of its Unders & Overs account”².

It is noted that IPART in its 2013/14 Decision determined that RailCorp did not comply with the ceiling test in regards to the operation of the Unders and Overs account and indicated that the access revenue exceeded the Full Economic Cost by \$1,349,298.³ TfNSW, as RailCorp agent notes that IPART has referred to clause 2.2(c) of the NSWRAU and the need for “the use of a hypothetical network using efficient costs as the appropriate methodology to determine operating costs”. TfNSW, as RailCorp agent remains of the opinion that RailCorp’s previous submissions and advice to IPART disputing IPART’s methodology and operating cost determinations remain valid notwithstanding the final determination by IPART on the 2013/14 financial year.

² NSW Rail Access Undertaking, Schedule 3, Clause 5,

³ IPART Final Decision 2013/14 Financial Year, page 10

Therefore TfNSW, as an agent for RailCorp, has therefore calculated the Ceiling Test for this compliance submission for 2014/15 using the methodology that RailCorp previously used and which was accepted by IPART.

Operating Costs

Following the organisational restructure involving the creation of Sydney Trains and the devolution of responsibilities from RailCorp to Sydney Trains and NSW Trains the model that developed the operating costs for the RailCorp network used in previous submissions to IPART is no longer available. Transport for NSW with the assistance of RailCorp are undertaking financial analysis in the context of the creation of the Transport Asset Holding Entity (TAHE) which will inform future compliance submissions to IPART including for the Hunter Valley sectors.

However, give the need to complete the 2014/15 submission in a timely manner and in the absence of RailCorp's infrastructure cost model, 2013/14 operating cost have been escalated by CPI for 2014/15. This is demonstrated in Table 5

Table 5

	2012/13	CPI	2013/14	CPI	2014/15
Maintenance	\$ 6,579,382	2.5%	\$ 6,739,886	2.58%	\$6,914,045
Network Control	\$ 1,601,266		\$ 1,641,297		\$1,683,708
Corporate Overheads	\$ 867,149		\$ 888,827		\$ 911,794

TfNSW has, using these escalation approach modelled operating costs undertaken the required ceiling test calculations which indicate the following costs for the RailCorp component of the HVCN for the year 2014/15:

Full Economic Cost	\$12,660,985
Coal Access Revenue	\$4,944,695
Under recovery	\$7,716,290

Details are provided in the following Table 6.

Table 6

Ceiling Test 2014/15		
Hunter Valley RailCorp RAB - Coal Standalone Basis		
Gross Tonne Kilometres (GTK)		
	Hunter Valley RAB Total GTK	-
Attributed Revenue		
	Coal Revenue (Hunter Valley RAB)	\$ 4,944,695
	Total Coal Revenue	\$ 4,944,695
Operating Cost		
	Maintenance (Modelled)	\$ 6,914,045
	Network Control (Modelled)	\$ 1,683,708
	Coporate Overheads (Modelled)	\$ 911,794
	Total Fixed Cost	\$ 9,509,547
	Direct Cost (Modelled)	
	Coal	\$ 1,494,139
	Total Operating Cost	\$ 11,003,686
	Depreciation	\$ 520,482
	Loss on Disposal	
	Rate of Return	\$ 1,136,817
	Total Cost	\$ 12,660,985
Profit/Loss		\$ (7,716,290)

Unders & Overs Account

TfNSW has developed an Unders and Overs Account reflecting the previous IPART decisions including the 2013/14 financial year. This account is shown in Table 7.

Table 7

RailCorp Unders and Overs Account			
Year	RailCorp Submission	IPART Determination Under / Over	Summary Balance
2004/05	(8,171,555)	(8,171,555)	(8,171,555)
2005/06	(9,025,325)	(9,025,325)	(17,196,880)
2006/07	(6,941,109)	(6,941,109)	(24,137,989)
2007/08	(7,097,280)	(7,097,280)	(31,235,269)
2008/09	(7,492,074)	(7,492,074)	(38,727,343)
2009/10	(6,693,920)	78,656	(38,648,687)
2010/11	(5,474,680)	1,132,108	(37,516,579)
2011/12	(5,577,026)	1,660,341	(35,856,238)
2012/13	(4,727,837)	2,125,465	(33,730,773)
2013/14	(7,087,627)	1,349,298	(32,381,475)
2014/15	(7,716,290)		

Commercial in Confidence

CPI Calculations

Table 8

CPI										
Sydney All Groups										
June to June	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
September	81.6	87.2	88.3	92.7	93.9	96.3	99.9	102.2	104.3	106.6
December	82.3	87.0	89.1	92.4	94.4	96.7	99.8	102.3	105.0	106.8
March	82.7	86.9	90.3	92.5	95.2	98.2	99.9	102.7	105.6	107.3
June	83.2	87.9	91.7	92.9	95.6	99.2	100.5	103.1	106.0	108.3
Annual indexation	0.5583	1.0582	1.0298	1.0309	1.0232	1.0298	1.0248	1.0255	1.026	1.019

RailCorp RAB Roll Forward Summary Calculations

Table 9

RailCorp Hunter Valley RAB Roll Forward	2014/15
CPI	2.580%
Dep	3.333%
Opening RAB	\$ 15,221,143
Opening Balance	\$ 15,221,143
CPI	\$ 393,314
Original Balance + CPI	\$ 15,614,457
Less disposal	
Adjusted net balance	\$ 15,614,457
Depreciation:	
% of year	
depreciation CY	-\$ 520,482
CPI on depreciation PY	
Loss on disposal acc depn	
Accumulated Depreciation	-\$ 520,462
Closing Balance	\$ 15,093,975
Average Value	\$ 15,157,559