INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

Statement of reasons for decision on the compliance of Australian Rail Track Corporation with Schedule 3, clause 5(f) of the New South Wales Rail Access Undertaking for the 2011/12 financial year

DECISION

In accordance with clause 5(f) of Schedule 3 of the NSW Rail Access Undertaking (the **Undertaking**), we have determined that Australian Rail Track Corporation (**ARTC**) has demonstrated to our reasonable satisfaction that access revenue of its non- Hunter Valley Coal Network (**non-HVCN**) sectors is not more than 80% of the access revenue likely to be derived by the application of the Ceiling Test (as defined in the Undertaking) of each sector for 2011/12. The relevant non-HVCN sectors are:

- Turrawan – The Gap;
- Turrawan – Boggabilla;
- Goobang Junction – Merrygoen;
- Merrygoen – The Gap;
- Merrygoen – Ulan;
- Sefton Park Junction – Enfield West; and
- Port Botany Yard.

REASONS FOR DECISION

IPART's assessment of ARTC's compliance

In making our decision we have reviewed 2 submissions from ARTC, which are dated 31 October and 21 November 2012, demonstrating compliance with clause 5(f) of Schedule 3 of the NSW Rail Access Undertaking (the **Undertaking**) for its **non-HVCN** assets for 2011/12.

The 31 October submission presents the costs and access revenue of the following non-HVCN assets:

- Turrawan – Boggabilla (non-metropolitan);
- Goobang Junction – Merrygoen (non-metropolitan);
- Merrygoen – The Gap (non-metropolitan);

- Merrygoen – Ulan (non-metropolitan);
- Sefton Park Junction – Enfield West (metropolitan); and
- Port Botany Yard (metropolitan).

In this submission ARTC has demonstrated that access revenue of each of the sectors for 2011/12 was below 80% of the operating expenditure of each sector, comprising fixed maintenance, variable maintenance, maintenance overhead, network control and corporate overheads.

We have assessed the costs information for these sectors against comparable industry benchmarks for freight railways and we are satisfied that the submitted costs are reasonable. We also compared the submitted access revenue for each sector against access prices published by ARTC for these sectors. The reported revenue was consistent with the published access prices for 2011/12.

We noted that the 2 metropolitan sectors (Sefton Park Junction to Enfield West and Port Botany Yard) incurred higher network control costs relative to the non-metropolitan sectors. ARTC submitted that the high cost of maintenance was due to the high concentration of assets (per track kilometre) of these sectors and limited maintenance windows afforded by the high volume of traffic. Maintenance activities were largely undertaken outside regular working hours.

ARTC's submission of 21 November demonstrates compliance of the Turrawan – The Gap sector with the Undertaking. ARTC reported that the sector's coal revenue recovered less than 80% of the Full Economic Cost for 2011/12 based on ARTC's estimate of the Depreciated Optimised Replacement Cost (DORC) of the sector.

We have assessed the revenue and operating costs of the sector used in the Ceiling Test. We are of the view that the operating costs are broadly comparable with best practice benchmarks. The DORC valuation (per track kilometre) of the sector is reasonable compared with the average of the ARTC's Hunter Valley Coal Network (HVCN), noting the recent track improvements made for the growth in coal traffic.

We noted that non-coal revenue and costs were not included in the Ceiling Test applied to the Gap to the Turrawan sector. ARTC argued that the revenue is broadly matched by the direct cost allocated to the sector. However, we had regard to both coal and non-coal revenues and costs for the purpose of considering compliance with Schedule 3,clause 5(f) of the Undertaking. We found that the combined coal and non-coal revenue still recovered less than 80% of the corresponding Full Economic Cost for 2011/12.

Overall, we are satisfied that ARTC has demonstrated that access revenue of each of its non-HVCN sector is no more than 80% of the access revenue likely to be derived by application of the Ceiling Test for 2011/12 under clause 5(f) of Schedule 3 of the Undertaking.

We note that in ARTC's 31 October submission, ARTC proposed to not submit capital costs for the non-HVCN Assets (other than the Turrawan – The Gap sector) and to not undertake asset valuation as the access revenue in relation to these assets would be less than 80% of that derived by application of the Ceiling Test, even if these assets were valued at zero. In any event, where access revenue is less than 80% of operating costs, this necessarily implies, in our view, that access revenue is less than 80% of Full Economic Costs (a larger number when capital costs are positive).

In light of the information provided by ARTC we are satisfied that, for 2011/12, access revenue is no more than 80% of the access revenue likely to be derived by application of the Ceiling Test.

From 2012/13 onward (unless notified otherwise), ARTC should submit to IPART:

(i) every 5 years, Ceiling Test information for each of the non-HVCN sectors; and

(ii) each year (unless required to provide Ceiling Test information for that year under paragraph (i) above), confirmation that there have been no material changes to the access revenue and Full Economic Costs of each sector that would cause revenue to approach the 80% threshold.

However, given the growth of coal traffic on the Turrawan – The Gap sector, access revenue for the sector may reach the 80% threshold in the short term. Given this, ARTC may need to submit Ceiling Test information for this sector for 2012/13 in accordance with Schedule 3, clause 5 of the Undertaking.

29 January 2013