

# INDEPENDENT PRICING AND REGULATORY TRIBUNAL OF NEW SOUTH WALES

Statement of reasons for decision on the compliance of Australian Rail Track Corporation with the New South Wales Rail Access Undertaking for the 2008/09 financial year

## DECISION

1. In accordance with clause 5(b)(i) of Schedule 3 of the NSW Rail Access Undertaking (the Undertaking<sup>1</sup>), we have determined that Australian Rail Track Corporation (ARTC) has complied with the Asset Valuation Roll Forward Principles for the 2008/09 financial year. Therefore, we accept the closing Regulatory Asset Base (RAB) value at 30 June 2009 proposed by ARTC and shown in Table 1:

**Table 1 Closing RAB values at 30 June 2009 (\$nominal)**

	2008/09
ARTC – Constrained group of sectors	601,119,386
ARTC – all assets	692,113,396

2. In accordance with clause 5(b)(ii) of Schedule 3 of the Undertaking, we have determined that ARTC has complied with the ceiling test and the operation of the Unders and Overs Account for the 2008/09 financial year. The closing balance of the Unders and Overs Account as at 30 June 2009 is an 'over recovery' of \$1,267,179. This is allocated to Pacific National and QR National as follows:
  - ▼ QR National - \$167,662 (over-recovery)
  - ▼ Pacific National - \$1,099,517 (over-recovery).

## REASONS FOR DECISION

### IPART's consultative process and stakeholder submissions

In making this decision, we undertook a consultative process to ensure that ARTC and relevant access seekers had reasonable opportunities to make submissions to IPART on relevant matters. We considered all submissions received, including submissions and additional information from ARTC, Asciano (holding company of Pacific National), QR National and the NSW Minerals Council.

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<sup>1</sup> All capitalised terms in this Statement of Reasons have the meaning given to them in the Undertaking unless otherwise defined.

### Asciano's submission on ARTC's compliance with the Undertaking

In its response to our consultation process, Asciano submitted that:

1. it believed that ARTC consulted adequately on capital expenditure in 2008/09. However, it declined to endorse the capital expenditure for a common user provisioning facility at Rutherford (project was abandoned in 2009/10 following feasibility assessment)<sup>2</sup>;
2. it did not oppose the inclusion of the financing costs in the RAB as proposed by ARTC as long as the costs are efficient and that they are capitalised rather than expended; and
3. the inclusion of the duplicated track between Drayton Junction and Antiene in the RAB is acceptable.

### QR National's submission on ARTC's compliance with the Undertaking

QR National supported the capital expenditure that ARTC proposes to include in the RAB. It is also satisfied that ARTC has complied with the ceiling test and accepts the overs and unders account for 2008/09.

### The NSW Minerals Council's submission on ARTC's compliance with the Undertaking

In relation to ARTC's capital consultation process the NSW Minerals Council submitted that:

- ▼ ARTC has consulted adequately on capital expenditure in 2008/09;
- ▼ given the increase in the number and size of the capital expenditure projects there is a greater need for adequate consultation and more vigorous consideration by IPART; and
- ▼ it believed that ARTC's future corridor capacity strategy development and capital expenditure consultation process should be integrated.

In relation to the inclusion of financing costs in the RAB it submitted that:

- ▼ if interest for delays in commissioning projects is allowed, there is no incentive for ARTC to complete a project in a timely manner; and
- ▼ the calculation of financing costs should not include any interest for capital projects completed within a single year and for projects where delays have occurred, interest should only be calculated from the mid-point of that year to mid-point of the year of commissioning to be consistent with calculation of return on the RAB under the Undertaking.

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<sup>2</sup> ARTC advised that the work undertaken on the common user provisioning centre at Rutherford in 2008/09 was part of a feasibility assessment only and was not included as an addition to the RAB. Following completion of the feasibility study in 2009/10, the industry decided not to proceed with this project.

In relation to the inclusion of the duplicated track from Drayton Junction to Antiene, the NSW Minerals Council noted that the inclusion of the duplicated track was not the result of actual capital expenditure for assets commissioned as defined by the Undertaking. It argued that the inclusion could be seen as a precedent for the inclusion of assets not currently included in the RAB determined by IPART in 1999. It argued that if IPART considered that it is acceptable to include the duplicated track, other assets of similar nature should be identified and IPART should seek input from interested parties prior to making such decision.

### **IPART's assessment of ARTC's compliance with the Undertaking – RAB roll forward**

#### **Capital expenditure and roll forward of RAB**

We note that Asciano and QR National did not object to ARTC's proposed capital expenditure. Therefore we have concluded that the capital expenditure is reasonable and can be added to the RAB.

We have also reviewed the calculations of the asset roll forward submitted by ARTC. We are satisfied that ARTC has complied with the Asset Valuation Roll Forward Principles set out in clause 2 of Schedule 3.

#### **Inclusion of capitalised financing costs in the regulatory asset base**

We note that Asciano and QR National did not object to ARTC's proposal to capitalise financing cost associated with the six capital projects commissioned in 2008/09. We consider that ARTC's proposed treatment of the financing costs is supported by generally accepted accounting practice. In addition, ARTC's calculation of its proposed financing costs reflects the comments received by the NSW Minerals Council. Therefore, we have concluded that it is appropriate for ARTC to capitalise financing costs for undertaking large projects that take more than 1 year to complete or where delays that are beyond ARTC's control occur and to include those costs in the RAB.

#### **Inclusion of the duplicated track from Drayton Junction to Antiene**

We note that Asciano and QR National did not object to ARTC's proposal to include the duplicated track from Drayton to Antiene. We are satisfied that the inclusion of the duplicated track in the RAB is supported by increased coal traffic arising from the development on the Ulan line and planned development in the Gunnedah area. The methodology used by ARTC to establish the Optimised Depreciated Replacement Cost value of the duplicated track is consistent with valuation used by Booz & Co (formerly Booz Allen & Hamilton) in establishing the initial RAB in 1999 and the recent valuation of the line from Dartbrook to The Gap in 2008. We are satisfied that the valuation of the duplicate track is reasonable and consistent with the intent of the Undertaking.

We have considered the NSW Minerals Council comment that IPART identify other assets that had been optimised out of the initial 1999 RAB and seek further input from interested parties before making a decision. We are of the view that stakeholders have been given adequate opportunity to comment on the inclusion of the duplicated track from Drayton Junction to Antiene. If any additions to the RAB are proposed in the future we will provide stakeholders with an opportunity to comment before making a decision.

### **IPART's assessment of ARTC's compliance with the Undertaking – ceiling test**

After a review of ARTC's proposed economic costs and ceiling test, we sought additional information from ARTC to enable us to better understand the drivers of the increase in operating costs in particular corporate overheads and industry support costs that forms part of the corporate overheads.

After analysing this additional information, we are satisfied that the increase in the corporate overheads that ARTC allocated to the constrained network was consistent with the increase in train kilometres travelled across the constrained network.

The industry support costs claimed by ARTC include its contribution to the Hunter Valley Coal Chain Logistics Team, and expenses associated with the Greiner Review and the 2009 IPART review of rate of return and remaining mine life. No stakeholder objected to these costs being included in the ceiling test calculation. Therefore we decided to allow ARTC to recover the costs of financing and complying with the regulatory process in the ceiling test for 2008/09, which we consider reasonable in the circumstances.<sup>3</sup>

We have also reviewed the calculation of the full economic costs of the sectors comprising ARTC's HVCN on a stand alone basis and the Unders and Overs Account. We are satisfied that the ceiling test submitted by ARTC complies with clause 2 of Schedule 3 of the Undertaking.

2 August 2010

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<sup>3</sup> IPART retains the discretion to disallow costs which are not related to the Hunter Valley rail access undertaking or amounts which are not reasonable.