INDEPENDENT PRICING AND REGULATORY TRIBUNAL

OF NEW SOUTH WALES

Statement of reasons for decision on the compliance of Australian Rail Track Corporation (ARTC) with Schedule 3, clause 5(f) of the New South Wales Rail Access Undertaking for the 2013/14 financial year.

DECISION

In accordance with clause 5(f) of Schedule 3 of the NSW Rail Access Undertaking (the Undertaking[1]), we have determined that ARTC has demonstrated to our reasonable satisfaction that access revenue of its non-Hunter Valley coal network (non-HVCN) sectors is no more than 80% of the Full Economic Cost of the individual sector for 2013/14. The relevant non-Hunter sectors are:

- Turrawan to Boggabilla
- Goobang Junction to Merrygoen
- Merrygoen to Gap
- Merrygoen to Ulan
- Sydney metropolitan freight network (MFN).

REASONS FOR DECISION

IPART's assessment of ARTC's compliance

In making our decision we have reviewed a submission and additional information provided by ARTC dated 8 December 2014, demonstrating compliance with clause 5(f) of Schedule 3 of the Undertaking for its non-HVCN assets for 2013/14. The submission covered the following non-HVCN sectors:

- Turrawan to Boggabilla
- Goobang Junction to Merrygoen
- Merrygoen to Gap
- Merrygoen to Ulan
- Sydney metropolitan freight network (MFN).

1 Terms in the Undertaking have the same meaning in this Statement of Reasons as they have in the Undertaking unless otherwise defined.

For sectors other than the Sydney metropolitan freight network

ARTC's submission provided confirmation that it had undertaken a review of Access revenue, Full Economic Costs and cost recovery information for the following non-HVCN sectors:

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

We note ARTC's 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 under schedule 3, clause 5(f) of the Undertaking. Having regard to that confirmation, we are reasonably satisfied that Access revenue of these sectors is no more than 80% of the Access revenue likely to be derived by application of the Ceiling Test for 2013/14.

For the Sydney metropolitan freight network (MFN)

ARTC's submission also addressed compliance of the Sydney MFN with the Undertaking. We are reasonably satisfied that the sector's Access revenue recovered less than 80% of the Full Economic Costs for 2013/14 as required by clause 5(f) of Schedule 3 of the Undertaking.

We note that ARTC now manages the rail assets from Sefton Park Junction and Flemington South Junction through to Port Botany Yard, and all traffic to and from Port Botany Yard on the Sydney MFN. ARTC submitted that both Access revenue and operating cost of the sector increased in 2013/14. However, Access revenue under-recovered the Full Economic Cost of the sector.

In compliance with clause 5(f) of Schedule 3 of the Undertaking, ARTC has provided an "indicative Regulatory Assets valuation based on Depreciated Optimised Replacement Cost (DORC) methodology" for the Sydney MFN. The indicative value of the Sydney MFN is based on the regulatory asset base (RAB) of comparable freight networks valued on DORC basis. ARTC is of the view that the Sydney MFN assets are more complex than the benchmark networks given that it passes through the Sydney metropolitan area and the requirement for infrastructure such as bridges and noise barriers are higher. Therefore the RAB value for the Sydney MFN is conservative.

In calculating the return for the Sydney MFN assets, ARTC has proposed to apply the Rate of Return of 8% (real, pre-tax) determined under the Undertaking for the HVCN, noting that the Rate of Return has been determined by reference to the risks associated with a predominantly coal network.

In assessing ARTC's compliance with clause 5(f) of Schedule 3 of the Undertaking, we are reasonably satisfied with ARTC's proposed indicative value, the Rate of Return and the Full Economic Cost for the sector.

Assessment of compliance for 2013/14

Overall, we are reasonably satisfied that ARTC has demonstrated that Access revenue of each of its non-HVCN sectors is no more than 80% of the Access revenue likely to be derived by application of the Ceiling Test for 2013/14 under clause 5(f) of Schedule 3 of the Undertaking.

Assessment of compliance for 2014/15

For the 2014/15 compliance year, we request that ARTC continues to provide an annual confirmation that there have been no material changes to the Access revenue and Full Economic Cost for each non-HVCN sector that would cause Access revenue to approach the 80% threshold (as set out in clause 5(f) of Schedule 3 of the Undertaking) for each of its sectors for the relevant compliance year. If there are material changes of any sector, we request that ARTC provides us with information on those changes.

December 2014