

Statement of reasons for our decision

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 in respect of its non-Hunter Valley Coal Network for the 2014-15 compliance year.

DECISION

In accordance with clause 5(f) of Schedule 3 of the NSW Rail Access Undertaking (the Undertaking¹), 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 2014-15. The relevant non-Hunter sectors are:

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

REASONS FOR DECISION

IPART's assessment of ARTC's compliance

In making our decision we have reviewed a submission provided by ARTC dated 30 November 2015, demonstrating compliance with clause 5(f) of Schedule 3 of the Undertaking for its non-HVCN assets for 2014-15. The submission covers the following non-HVCN sectors:

- ▼ Turrawan to Boggabilla
- ▼ Goobang Junction to Merrygoen
- ▼ Merrygoen to Gap
- ▼ Merrygoen to Ulan, and
- ▼ 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.

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

ARTC further confirmed that in demonstrating compliance with the Undertaking for 2014-15 it applied the same modelling approach as in previous compliance years.

In relation to the Sydney MFN, ARTC confirmed that it adopted an "indicative Regulatory Assets valuation based on Depreciated Optimised Replacement Cost (DORC) methodology" for the Sydney MFN in compliance with clause 5(f) of Schedule 3 of the Undertaking. The indicative value of the Sydney MFN is based on the regulatory asset base (RAB) of similar networks valued on a DORC basis.

We note that in its 2013-14 compliance submission, ARTC submitted 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 likely to be conservative for the purposes of assessing compliance under clause 5(f) of Schedule 3 of the Undertaking.

Having regard to ARTC's confirmation and our analysis, 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 2014-15.

[Assessment of compliance for 2014-15 compliance year](#)

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 2014-15 under clause 5(f) of Schedule 3 of the Undertaking.

[Assessment of compliance for 2015-16 compliance year](#)

For the 2015-16 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 the sectors for the compliance year. If there are material changes of any sector, we request that ARTC provides us with information on those changes.

January 2016