



18 October 2021

Ms Carmel Donnelly
PO Box K35
Haymarket Post Shop
Sydney NSW 1240

Dear Ms Donnelly

Hunter Valley Coal Network (HVCN) Compliance Submission 2018-2019 and 2019-2020

Transport Asset Holding Entity NSW (TAHE) would like to thank IPART for the opportunity to respond to the IPART 2018-2019 and 2019-2020 draft decision.

TAHE acknowledges the advice provided by IPART in its draft decision that the Undertaking regulatory framework places limitations on IPART's flexibility to "consider stakeholder-proposed alternative asset lives" for the calculation of the depreciation charge and the Regulatory Asset Base value. In response to Recommendation 1, TAHE will amend the closing balance of the Regulatory Asset Base value to \$12,933,305 for the financial year 2019-2020 as per the IPART draft decision.

In regards to the assessment of compliance with the ceiling test, TAHE continues to support its position that it has applied the theoretical standalone freight only network model to the TAHE HVCN as guided by the Undertaking. However appreciates IPART's final decision including the calculation of the ceiling test and the subsequent over recovery for the 2018-2019 and 2019-2020 period of approximately \$3m. Based on IPART's Recommendation 2, we acknowledge this will result in an over recovery balance of \$10,955,852 which has accumulated over the previous 8 years.

In recognition of Recommendation 3 and 4, TAHE will formulate a management plan in regards to the over recovery balance, TAHE will consult with IPART to form a mutually acceptable position. This will include amongst other things the development of a plan to manage the unders and overs to a zero balance and the establishment of a policy to govern the process.

In anticipation of this, measures have already been put in place to address the over recovery balance accumulated over the previous 8 years. Transport for NSW introduced a 20% reduction in coal access fees for the TAHE HVCN for the financial year 2020-2021, this was also applied in 2021-2022. The lowering of access fees together with a fall in coal freight volumes in the same period has resulted in approximately 50% reduction in coal access revenue generated from the TAHE HVCN during the financial year 2020-2021. The revenue impact is expected to result in an under recovery of \$2.1m for the combined coal and freight access seeker group on the TAHE HVCN. The full impact of the reduced revenues will be detailed in TAHE's compliance submission to IPART for the financial year 2020-2021.

TAHE encloses its response to the IPART Report on TAHE Compliance – Hunter Valley Coal Network 2018-2019 to 2019-2020 and raise matters for consideration in anticipation of the coming review of the NSW Rail Access Undertaking.

TAHE would again like to thank IPART for the opportunity to comment on the draft decision and looks forward to the release of the final decision and the subsequent consultation with IPART.

Yours sincerely

Benedicte Colin
Chief Executive Officer

Hunter Valley Coal Network

TAHE Response to the IPART Report on TAHE Compliance
Hunter Valley Coal Network
2018-2019 to 2019-2020

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Introduction

The NSW Rail Access Undertaking (**the Undertaking**) is the framework by which a Rail Infrastructure Owner (**RIO**) is required to assess requests for access to the NSW Rail Network.

In relation to access pricing, the Undertaking requires RIOs to comply with the Asset Valuation Roll Forward Test, Ceiling Test and Floor Test, on an annual basis.

Hunter Valley Coal Network – TAHE

On 1 July 2020, the Transport Asset Holding Entity of New South Wales (**TAHE**) was established as a State-Owned Corporation. The section of the Hunter Valley Coal Network (HVCN) previously owned by RailCorp was transferred to TAHE on 1 July 2020.

This small component of the HVCN comprises the five sectors between Newstan Junction and Woodville Junction (TAHE HVCN), as shown in Table 1 which comprises 52 track kms representing 3.2% of the TAHE metropolitan rail network which is managed by Sydney Trains.

Table 1: TAHE-owned sectors of the Hunter Valley Coal Network

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

TAHE, as the RIO for the TAHE HVCN lodged the submissions for the compliance years 2018-2019 to 2019-2020 with IPART on 30 June 2021. This document is TAHE's response to the IPART draft decision on the compliance submissions.

TAHE acknowledges the advice provided by IPART in its draft decision and has committed to address the draft recommendations, as contained in TAHE's covering letter. TAHE further recognises that IPART has limited discretion to amend matters within its methodology required of the NSW Rail Access Undertaking. However TAHE notes its disagreement with several aspects of the draft decision and raise the following for consideration in anticipation of the coming review of the NSW Rail Access Undertaking.

Assessment of compliance with the asset valuation roll forward principles

IPART found that TAHE did not comply with the asset valuation roll forward principles in the Undertaking. TAHE acknowledges the advice provided by IPART in its draft decision that the Undertaking framework places limitations on IPART's flexibility to "consider stakeholder-proposed alternative asset lives" for the calculation of the depreciation charge and the Regulatory Asset Base value. TAHE will update the value of the Regulatory Asset Base as at 30 June 2020 consistent with IPART's draft decision.

TAHE, however does not consider the current means for determining the depreciation charge of the regulatory asset base reflects the nature of a shared network. The current framework would benefit with added flexibility to enable RIO's to respond to uncertainty in regards to power station and mine lives and the future demand for coal leading to the potential for stranded assets.

Assessment of compliance with the ceiling test

In the draft decision IPART agrees that TAHE had calculated the ceiling test for the appropriate groups of access seekers (coal and general freight). However IPART did not accept the estimate of full economic cost proposed by TAHE. IPART developed its own lower estimate of the full

economic cost. As a result the draft decision by IPART found that TAHE had not complied with the ceiling test for either 2018-2019 or 2019-2020.

The IPART draft decision finds that there was both under and over recovery resulted from the lower IPART estimate of the full economic cost. The coal and combined group (coal and general freight) of access seekers generated revenues exceeded full economic cost. There was an under recovery from the freight group of access seekers of \$5,087,553.

Assessment of full economic cost on a standalone basis

The IPART draft decision states that the main difference between IPART and TAHE estimations of the full economic cost are the maintenance costs of the HVCN. TAHE developed its submission based on the HVCN being a standalone freight network.¹ It applied the conventions that Transport for NSW (**TfNSW**) had used in the HVCN compliance submissions for 2015-2016 to 2017-2018 based on the analysis from SNC Lavalin.

In regards to TAHE's estimation of maintenance cost a standalone freight only network maintenance profile was developed for TAHE and involved a number of assumptions including:

- Only assets for a standalone freight network had been included in the analysis. The costs associated with electric traction, passenger facilities, stations and rolling stock had been excluded
- Asset classes were selected based on rail network requirements for standalone freight rail network (track, civil and signalling) with appropriate adjustments (signalling assets were reduced by 50% to reflect the requirement of a standalone freight network)
- Alternate passenger transport costs for replacement passenger services have been excluded as a theoretical coal/freight only network would not require alternate passenger transport
- Turnout renewals and track reconstruction programs had been excluded as they are asset upgrading rather than normal maintenance
- The following additional programs had been excluded as it was judged that these programs were not required for this section of track or not required for the TAHE HVCN:
 - Turnout removals
 - Concrete slab track
 - Expansion switches
 - Station track cleaning
 - Capital fencing
 - Remove redundant equipment (civil and signals)
- Costs are based on the steady state maintenance program which is based on the asset life cycle
- An MPM overhead of 13.7% applied by Sydney Trains has been applied to MPM programs; and
- Similar assumptions were adopted for the determination of routine maintenance costs.

¹ TAHE submission to IPART – Hunter Valley Coal Network – Submission on compliance with the NSW Rail Access Undertaking 2018-19 to 2019-20 pages 6 & 7

Sydney Trains has been unable to provide the actual costs in sufficient granularity to separately allocate costs to freight lines and passenger only lines for, the Metropolitan Rail Network or for the TAHE HVCN. Maintenance data was therefore aggregated across the total 1643km of the Sydney Trains maintained network. This requires the maintenance figures for the TAHE HVCN to be derived using network averages.

TAHE acknowledge that the lack of granularity to segment costs specific to lines, or smaller geographical areas of a network such as the TAHE HVCN is likely to reflect a higher cost structure, typical of a larger shared network despite adopting the theoretical freight only standalone methodology. TAHE considers it would be more equitable and transparent, for mixed rail networks to calculate the maintenance costs on efficient actual costs, rather than a theoretical construct currently applied by the Undertaking.

Operation of unders and overs account

The draft decision by IPART finds that, based on IPART's calculations of full economic cost and the subsequent ceiling test that as at 30 June 2020 there is an over recovery balance of the unders and overs account equal to \$10,955,852.

IPART recommends that TAHE update its unders and overs balance in accordance with the IPART finding and that TAHE develop a plan to return the balance to zero each year and develop an unders and overs policy.

TfNSW had introduced a 20% reduction in coal access fees for the TAHE component of the HVCN for the financial year 2020-2021. The lowering of access fees together with a fall in coal freight volumes has resulted in approximately 50% reduction in coal access revenue generated from the TAHE HVCN during the financial year 2020-2021.

Early analysis based on a standalone freight network and using the IPART estimations of maintenance indicates there will be an under recovery in the order of \$2.1 million in 2020-2021 for the combined group of access seekers. The full impact of the reduced revenues will be detailed in TAHE's compliance submission to IPART for the financial year 2020-2021.

TAHE will update its unders and overs balance in accordance with IPART's draft decision recommendations.