



30 March 2022

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

Dear Ms Donnelly,

**Hunter Valley Coal Network (HVCN) Compliance Submission 2020-21**

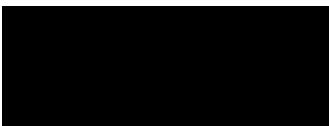
The Transport Asset Holding Entity NSW (**TAHE**) would like to thank IPART for the opportunity to respond to the IPART 2020-21 draft decision on the HVCN compliance and encloses its formal response.

The response identifies several concerns with IPART's recommendation that the over recovery balance be reduced to zero within 12 months and suggests an alternative approach.

The response notes that TAHE is prepared to develop an appropriate unders and overs account policy.

If you have any further questions or would like additional information do not hesitate to contact Peter Crimp, Executive General Manager Finance and Business Performance.

Yours sincerely



**Benedicte Colin**  
Chief Executive Officer

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# **TAHE Response to IPART's Draft Decision on the Hunter Valley Coal Network Compliance 2020-21**



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# Introduction

The NSW Rail Access Undertaking (the **Undertaking**) is the regulatory 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. Submissions on these aspects are to be made to the Independent Pricing and Regulatory Tribunal (**IPART**).

On 1 July 2020, RailCorp was renamed the Transport Asset Holding Entity of New South Wales (**TAHE**) and was converted to a State-Owned Corporation. TAHE was stood up with an independent Board and Chief Executive. The metropolitan rail network that was previously owned by RailCorp, which includes a small section of the wider Hunter Valley Coal Network (**HVCN**) is an asset of TAHE.

This document is TAHE's response to IPART draft decision on the TAHE 2020-21 compliance submission which was released in February 2022.

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# Response

Transport Asset Holding Entity NSW (TAHE) would like to thank IPART for the opportunity to respond to the IPART 2020-21 draft decision.

TAHE acknowledges that the draft decision by IPART finds that TAHE has complied with the asset roll forward principles of the NSW Rail Access Undertaking in determining the value of the regulatory asset base to be used in the calculation of the ceiling test.

TAHE also notes that IPART, in its draft decision has found that TAHE had assessed the ceiling test for the relevant access seeker groups being:

- Combined coal and general freight
- Coal
- General freight

The draft decision confirms that TAHE has meet the ceiling test for each of these access seekers. In fact, IPART identifies that TAHE has significantly under recovered the Full Economic Cost of providing access to these access seekers groups as demonstrated in the table below.

Access Seeker Group	2020-21 Under Recovery
Combined coal and general freight	\$2,154,638
Coal	\$3,251,164
General freight	\$5,061,306

Note: red figures are negative

This under recovery has resulted in the previous over recovery balance of \$10,955,852 for the combined coal and general freight group being reduced to \$8,801,2013 as at 30 June 2021. TAHE has previously taken steps to reduce the over recovery balance through a 20% reduction of coal prices on the TAHE component of the HVCN effective from 1 July 2020.

The recent announcement by Origin of the closure of the Eraring power station in 2025 has highlighted to TAHE the emerging issues related to the asset life of the TAHE component of the HVCN and specifically the opportunity to recover the value of this asset.

## IPART Draft recommendation 1

This draft recommendation suggests that TAHE makes a plan to return the unders and overs account to zero within 12 months and maintain a balance within 5% of forecast revenue (while attempting to return the balance to \$0 each year).

The unders and overs balance has been driven by a difference of view between TAHE and IPART regarding the appropriate level of maintenance costs to be considered in the ceiling test. TAHE continues to support the position it has applied the theoretical standalone freight network methodology correctly as required by the Undertaking. It however remains of the opinion that the maintenance rates nominated by IPART are low in the context of a mixed traffic network dominated by the passenger task. Notwithstanding this difference of opinion TAHE has applied the maintenance rates nominated by IPART noting that a review of the Undertaking is being undertaken.

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Access revenue from the combined group of coal and general freight for 2020-21 was \$4,741,291. The implication of this draft recommendation is that over a 12-month period no access charges should be levied on the combined group of coal and general freight access seekers that use the HVCN while a further rebate of approximately \$4million would need to be made to the same access seekers. Alternatively, IPART is suggesting that the current accumulated over recovery balance of \$8.8m is distributed to current rail operators using the HVCN.

Both alternatives involve equity and practicality issues given the over recovery balance has accumulated since 2011-12 during which time rail operators and end customers have changed. Further it is not clear that in returning the over recovery balances to current rail operators, it would benefit the end customers such as coal mine owners who would have incurred the original transportation costs.

It also does not acknowledge that TAHE, as the current network owner has taken substantial steps to address the existing over recovery balance through the previously outlined price reductions.

For these reason TAHE believes that a more appropriate recommendation would be for the over recovery balance to continue to be addressed and reduced over a period of 4 years based on the current price reductions but subject to volume change.

## **IPART Draft recommendation 2**

This recommendation suggest that TAHE establishes an unders and overs account policy in consultation with access seekers and submits it to IPART for approval. TAHE is prepared to, in consultation with IPART, develop an unders and overs account policy which would address the appropriate reduction of the current over recovery balance over an appropriate time period of say four years.