

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

The small component of the HVCN that is owned by TAHE consists of the five sectors between Newstan Junction and Woodville Junction (the **TAHE HVCN**), as shown in Table 1 and Figure 1. It comprises a total of 52 track kms and represents 3.2% of the TAHE metropolitan rail network which is managed, operated and maintained by Sydney Trains.

Table 1 – HVCN Sectors

| 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 |

Figure 1 - TAHE Component of the HVCN



In June 2021 TAHE as the current RIO owner lodged the compliance submissions for the financial years 2018-19 and 2019-20 which had not been lodged by the previous infrastructure owner. This document is TAHE's Compliance Submission for the financial year 2020-21.

Executive Summary

TAHE acknowledges the advice provided by IPART in its final decision on the 2019-20 Compliance Submission and recognises that IPART has limited discretion to amend matters within the methodology required of the NSW Rail Access Undertaking. TAHE has noted it has a difference of opinion with several aspects of the final decision. However, TAHE has committed to address IPART's final recommendations.

Key changes to approach since the last submission

In its most recent decision, IPART found that TAHE had not complied with the Undertaking in a number of areas including:

- the asset valuation roll forward principles
- compliance with the ceiling test
- the assessment of the appropriate full economic cost on a standalone network
- the operation of the unders and overs account

In its response to the draft decision by IPART, TAHE acknowledged that the advice provided by IPART on the current regulatory framework placed limitations on IPART's flexibility to consider alternative asset lives. TAHE has continued to support its position that it had applied the theoretical standalone freight only network model as guided by the Undertaking.

TAHE has accepted IPART's final decision that there has been an over recovery for 2018-19 and 2019-20 period of approximately \$2.9 million. TAHE has acknowledged that this will result in an accumulated over recovery balance of \$10,955,852 as 30 June 2020.

Asset valuation roll forward principles

TAHE will amend the 2019-20 closing balance of the Regulatory Asset Base (RAB) in line with IPART's recommendations in the final decision.

For the financial year 2020-21, TAHE will determine the remaining asset life based on the 2040 terminal date that IPART nominated in its 2019 review of Mine Life. This remaining asset life will subsequently be used to determine the appropriate depreciation charge in the roll forward of the RAB for 2020-21. The roll forward of the RAB valuation is shown in Table 2.

Table 2- RAB Roll Forward 2020-21

| RAB Component | IPART | | | TAHE Proposal |
|-------------------|------------|------------|------------|---------------|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Opening RAB | 14,564,098 | 14,338,286 | 14,080,485 | 13,642,901 |
| Opening RAB x CPI | 294,292 | 293,672 | 232,915 | 141,886 |

| | IPART | | | TAHE Proposal |
|-------------------|------------|------------|------------|---------------|
| Add CAPEX | - | - | | |
| Add Additions | - | - | | |
| Less Depreciation | -520,325 | -551,473 | -670,499 | -770,080 |
| Less Disposals | - | - | - | - |
| Closing RAB | 14,338,286 | 14,080,485 | 13,642,901 | 14,554,867 |

Assessment of full economic cost on a standalone basis

TAHE supports its position that it has appropriately applied the theoretical standalone freight only network calculations as required by the Undertaking. TAHE submits that for the 2020-21 compliance submission the ceiling test should be considered for the following 3 groups of access seekers:

1. Combined Coal and General Freight
2. Coal
3. General Freight

TAHE has applied a number of IPART's assumptions in developing the maintenance profile for the calculation of appropriate maintenance costs for a hypothetical standalone freight network.

TAHE, using the standalone methodology and specific assumptions articulated by IPART in 2019-20 final decision, submit that there has been an under recovery of full economic cost for each of the nominated access seeker groups in the financial year 2020-21 as shown in Table 3.

Table 3 – HVCN Under Recovery 2020-21

| 2020-21 | Combined | Coal | General Freight |
|----------------|--------------------|--------------------|--------------------|
| Under recovery | \$2,295,474 | \$3,392,580 | \$5,189,567 |

Access revenue for the combined group of Coal and General Freight access seekers failed to cover the full economic cost for access provision by \$2,295,474 in 2020-21. As a result of the under recovery from this group of access seekers, TAHE has reduced the over recovery balance as at 30 June 2021 to \$8,660,378. The account balance for the remaining access seeker groups of the Coal and the General Freight also reflects that access revenue from these groups failed to cover the full economic cost of the access provision by \$3,392,580 and \$5,189,567 respectively.

Ceiling Test

The Undertaking requires infrastructure owners to demonstrate compliance with the Ceiling Test. The Test requires that, for any access seeker or group of access seekers, access revenue must not exceed the full economic cost of providing that access on a standalone basis.

In developing the Ceiling Test for the financial year 2020-21, TAHE submits the following access seekers for the TAHE HVCN:

1. Combined Coal and General Freight
2. Coal
3. General Freight

TAHE developed the full economic cost using the maintenance profile, network control, corporate and system overheads, depreciation and return on assets based on a standalone network and the assumptions contained in IPART's final decision for 2019-20. The full economic cost items applied in the Ceiling Test are documented in Table 4. The Ceiling Test was met in each of the three separate access seeker groups. Access revenue did not exceed the full economic cost.

Table 4 – HVCN Ceiling Test 2020-21

| | 2020-21 |
|--------------------------------|-----------|
| Combined | \$ |
| Maintenance costs | 4,461,392 |
| Network control costs | 579,837 |
| Corporate and system overheads | 478,215 |
| Depreciation | 770,080 |
| Return on assets | 747,241 |
| Full economic cost | 7,036,764 |
| Access revenue | 4,741,291 |
| Under recovery | 2,295,474 |
| Coal only | |
| Maintenance costs | 4,072,231 |
| Network control costs | 579,837 |
| Corporate and system overheads | 442,992 |
| Depreciation | 770,080 |
| Return on assets | 747,241 |
| Full economic cost | 6,612,381 |
| Access revenue | 3,219,801 |
| Under recovery | 3,392,580 |
| General freight | |
| Maintenance costs | 4,174,641 |
| Network control costs | 579,837 |
| Corporate and system overheads | 439,259 |
| Depreciation | 770,080 |
| Return on assets | 747,241 |

| | 2020-21 |
|--------------------|------------------|
| Full economic cost | 6,711,057 |
| Access revenue | 1,521,490 |
| Under recovery | 5,189,567 |

Maintenance Costs

TAHE has developed the submission for 2020-21 for the HVCN using the theoretical standalone freight network methodology¹ together with the maintenance rates that were used by IPART in the final decision on the 2019-20 financial year, increased by CPI.

Maintenance rates

For the financial year 2020-21, TAHE has applied the fixed maintenance cost (per km of track) and the variable cost (per thousand gtk) that IPART used in its final decision for 2019-20. These rates have been increased by CPI to determine the appropriate fixed and variable maintenance cost rates as per the Undertaking requirements for the financial year 2020-21. These are shown in Table 5.

Table 5 - HVCN Maintenance Rates 2020-21

| | 2017-18 - IPART | 2018-19 - IPART | 2019-20 - IPART | 2020-21 - TAHE |
|--|-----------------|-----------------|-----------------|----------------|
| Combined Group | \$ | \$ | \$ | \$ |
| Fixed maintenance cost (per km of track) | 68,861.00 | 70,679.00 | 72,220.00 | 73,305.55 |
| Variable cost (per thousand gtk) | 1.58 | 1.63 | 1.66 | 1.68 |
| Coal Group | | | | |
| Fixed maintenance cost (per km of track) | 68,861.00 | 70,679.00 | 72,220.00 | 73,305.55 |
| Variable cost (per thousand gtk) | 1.58 | 1.63 | 1.66 | 1.68 |
| General Freight Group | | | | |
| Fixed maintenance cost (per km of track) | 68,861.00 | 70,679.00 | 72,220.00 | 73,305.55 |
| Variable cost (per thousand gtk) | 1.58 | 1.63 | 1.66 | 1.68 |

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

Maintenance cost

TAHE has used the determined fixed and variable maintenance rates in Table 5 to calculate the maintenance cost for each nominated access seeker group. These are shown in Table 6.

Table 6 - HVCN Maintenance Cost 2020-21

| | Combined | Coal | General freight |
|------------------|-------------|-------------|-----------------|
| IPART determined | \$ | \$ | \$ |
| 2017-18 | 4,491,905 | 4,010,751 | 4,061,912 |
| 2018-19 | 4,475,468 | 4,081,991 | 4,068,782 |
| 2019-20 | 4,549,757 | 4,172,581 | 4,132,601 |
| TAHE's proposal | | | |
| 2020-21 | \$4,461,392 | \$4,072,231 | \$4,174,641 |

Network Control Costs

The IPART final decision for 2019-20 applied network control costs of \$2.86 per train kilometre for the combined group of access seekers. IPART adopted the same estimates for each of the nominated access seeker groups for the 2019-20 financial year.

TAHE has used the IPART methodology for the 2020-21 submission and adjusted the figures to include CPI. This is shown in Table 7.

Table 7 - HVCN Network Control Costs 2020-21

| | Combined | Coal | General freight |
|-------------------------|----------|---------|-----------------|
| IPART determined | \$ | \$ | \$ |
| 2017-18 | 626,903 | 626,903 | 626,903 |
| 2018-19 | 564,403 | 564,403 | 564,403 |
| 2019-20 | 571,250 | 571,250 | 571,250 |
| TAHE's proposal | | | |
| 2020-21 | 579,837 | 579,837 | 579,837 |

Corporate and System Overhead

IPART, in its final decision for the 2019-20 financial year, determined that an efficient level of corporate and system overhead would be equal to 9.2% of the sum of maintenance and network control costs. IPART indicated in the final decision that this figure had been derived from industry benchmarking commissioned in 2009-10 which had been increased each subsequent year. TAHE previously noted its concern that the 9.2% figure derived from benchmarking in 2009-10 with annual increases does not reflect efficient overheads.

In line with its response to IPART's draft decision on the 2019-20 compliance submission, TAHE for the purposes of determining the 2020-21 corporate and system overhead costs has used the amount calculated by IPART in 2019-20 increased by CPI. This amount is shown in Table 8.

Table 8 – HVCN Corporate and System Overhead Cost 2020-21

| Year | Combined | Coal | General Freight |
|-------------------------|----------|---------|-----------------|
| IPART determined | | | |
| 2017-18 | 470,930 | 426,324 | 431,371 |
| 2018-19 | 463,668 | 427,468 | 426,253 |
| 2019-20 | 471,133 | 436,432 | 432,754 |
| TAHE proposed | | | |
| 2020-21 | 478,215 | 442,992 | 439,259 |

Depreciation and Return on Assets

TAHE acknowledged that the current regulatory framework limits IPART's flexibility to consider stakeholder proposed alternative asset lives. TAHE, for the 2020-21 Compliance Submission, has calculated the remaining asset life based on the 2040 terminal date that IPART nominated in its 2019 review of Mine Life². This remaining asset life will be used to calculate the depreciation charge in the roll forward of the RAB. The Compliance Submission has also utilised the rate of return of 5.30% p.a. as determined by IPART in 2019.

Table 9 - HVCN Depreciation and Return on Assets 2020-21

| | Combined | | Coal | | General freight | |
|------------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | Return on assets | Depreciation | Return on assets | Depreciation | Return on assets | Depreciation |
| IPART determined | \$ | \$ | \$ | \$ | \$ | \$ |
| 2017-18 | 852,620 | 520,325 | 852,620 | 520,325 | 852,620 | 520,325 |
| 2018-19 | 838,354 | 551,473 | 838,354 | 551,473 | 838,354 | 551,473 |
| 2019-20 | 734,670 | 670,499 | 734,670 | 670,499 | 734,670 | 670,499 |
| TAHE proposed | | | | | | |
| 2020-21 | 747,241 | 770,080 | 747,241 | 770,080 | 747,241 | 770,080 |
| | | | | | | |

² Final Report – Review of rate of return and remaining mine life from 1 July 2019 – 2024, 9 July 2019

Unders and Overs Account

The outcome of TAHE's Ceiling Test calculations indicated that there was no over recovery for any of the nominated groups of access seekers. There was an under recovery of the full economic cost, from each group of access seekers. The under recovery for each group of access seekers is demonstrated in Table 10.

Table 10 - HVCN Unders and Overs Account 2020-21

| Year | Group of access seekers | | |
|--------------------|-------------------------|--------------------|--------------------|
| 2020-21 | Combined | Coal | General Freight |
| Full economic cost | \$7,036,764 | \$ 6,612,381 | \$6,711,057 |
| Access revenue | \$4,741,291 | \$3,219,801 | \$1,521,490 |
| Under recovery | \$2,295,474 | \$3,392,580 | \$5,189,567 |

In TAHE's 2019-20 submission it advised IPART that TfNSW had introduced a 20% reduction in coal access fees for the TAHE HVCN for the financial year 2020-2021. TAHE has maintained the 20% reduction in coal access fees for the 2021-22 financial year.

Unders and Overs Account Balance

The final decision by IPART on the 2019-20 Compliance Submission was that there is an accumulated over recovery balance of \$10,955,852 over the previous 8 years.

The under recovery of access revenue during the 2020-21 financial year has resulted in the over recovery balance for the combined group of access seekers being reduced to \$8,660,378, as at the 30 June 2021. IPART advised in its final report for 2019-20 that the Undertaking does not permit for separate unders and overs account balance for each access seeker group. However, in the interest of transparency TAHE has separated the unders and overs for each group in Table 11.

Table 11 - HVCN Unders and Overs Account Balance

| | Combined | Coal | General freight |
|-------------------------|--------------|------|-----------------|
| IPART decision | | | |
| Balance at 30 June 2020 | \$10,955,852 | | |
| TAHE proposed | | | |
| Balance at 30 June 2020 | \$10,955,852 | | |

| | Combined | Coal | General freight |
|---------------------------------------|--------------|--------------|-----------------|
| 2020-21 under recovery | -\$2,295,474 | -\$3,392,580 | -\$5,189,567 |
| Over recovery balance at 30 June 2021 | \$8,660,378 | n/a | n/a |