Decision and statement of reasons

16 March 2018

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 2016-17. The relevant non-HVCN sectors are:

- Turrawan to Boggabilla
- Goobang Junction to Merrygoen
- Merrygoen to Gap
- Merrygoen to Ulan
- Sydney metropolitan freight network (Sefton Park Junction/Flemington South to Port Botany Yard) (Sydney MFN).

Reasons for decision

IPART's assessment of ARTC's compliance

In making our decision, we have reviewed a submission provided by ARTC dated 31 October 2017 and additional information provided in February 2018 which demonstrate compliance with clause 5(f) of Schedule 3 of the Undertaking for its non-HVCN assets for 2016-17. The submission covers the following non-HVCN sectors:

- Turrawan to Boggabilla
- Goobang Junction to Merrygoen
- Merrygoen to Gap
- Merrygoen to Ulan
- Sydney MFN (Sefton Park Junction/Flemington South to Port Botany Yard).

ARTC submitted that it had undertaken a review of Access revenue, Full Economic Costs and cost recovery information for the non-HVCN sectors. The relevant information demonstrated that there had 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 submitted that in demonstrating compliance with the Undertaking for 2016-17 it applied the same modelling approach as in previous compliance years.

In relation to the Sydney MFN, ARTC submitted that it adopted an "indicative Regulatory Assets valuation based on Depreciated Optimised Replacement Cost (DORC) methodology" for the sector 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 DORC basis.

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

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 requirements for infrastructure such as bridges and noise barriers are higher. Therefore the indicative 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.

Assessment of compliance for 2016-17

We reviewed the ARTC submission including Full Economic Costs and Access revenues of its non-HVCN sectors. We benchmarked ARTC unit costs over time and against other relevant freight networks.

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 2016-17 under clause 5(f) of Schedule 3 of the Undertaking.

Assessment of compliance for 2017-18

Given the low recovery rate for sectors other than the Sydney MFN, we request that ARTC 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 by 31 October 2018. If there are material changes for any sector, ARTC should provide information on those changes.

Given the growth of traffic on the Sydney MFN, ARTC should submit Ceiling Test information for this sector in accordance with clause 5(f) of Schedule 3 of the Undertaking by 31 October 2018.

March 2018