

INDEPENDENT PRICING AND REGULATORY TRIBUNAL OF NEW SOUTH WALES

Statement of reasons for decision on the compliance of Australian Rail Track Corporation pursuant to clauses 5(b)(i) and 5(b)(ii) of Schedule 3 of the New South Wales Rail Access Undertaking for the 2007/08 financial year

DECISION

1. In accordance with clause 5(b)(i) of Schedule 3 of the NSW Rail Access Undertaking (the **Undertaking**¹), IPART determines that Australian Rail Track Corporation (**ARTC**) has complied with the Asset Valuation Roll Forward Principles for the 2007/08 financial year. Therefore, we accept the closing RAB value at 30 June 2008 proposed by ARTC and shown in Table 1:

Table 1 Closing RAB values at 30 June 2008 (\$nominal)

	2007/08
ARTC – Constrained group of sectors	442,044,854
ARTC – all assets	533,364,572

2. In accordance with clause 5(b)(ii) of Schedule 3 of the Undertaking, IPART determines that ARTC has complied with the ceiling test and the operation of the Unders and Overs Account for the 2007/08 financial year. The closing balance of the Unders and Overs Account as at 30 June 2008 is an ‘over recovery’ of \$989,650.50. This is allocated to Pacific National and QR National as follows:
 - ▼ QR National - \$260,648.25 (over-recovery)
 - ▼ Pacific National - \$729,002.25 (over-recovery).

REASONS FOR DECISION

IPART’s consultative process and stakeholder submissions

In making this decision, IPART undertook an extensive consultative process to ensure that ARTC and relevant access seekers had reasonable opportunities to make submissions to IPART on relevant matters. IPART considered all submissions received, including submissions and additional information from ARTC (dated 13 February 2009, 23 June 2009 and 21 July 2009), Asciano (holding company of Pacific National) (dated 11 March 2009) and QRNational (dated 13 March 2009).

¹ All capitalised terms in this Statement of Reasons have the meaning given to them in the Undertaking unless otherwise defined.

Asciano's submission on ARTC's compliance with the Undertaking

In its response to IPART's consultation process, Asciano submitted on behalf of Pacific National (PN) that:

1. the capital expenditure that ARTC incurred in 2007/08 should be included in the Regulated Asset Base (RAB) of the Hunter Valley Coal Network (HVCN);
2. the Ulan and Wilpingjong sectors should be included in the constrained group of the network;
3. IPART should examine the building block components submitted by ARTC in particular the significant increase in some operating costs;
4. ARTC should not recover the finance cost of \$0.74m associated with the capital projects at Mangoola and Wollar from the access customers in 2007/08, given that the sectors were commissioned in August 2008 which therefore fell into the following financial year (2008/09) and that normal accounting practice requires such costs to be capitalised in the asset base or incorporated in the debt margin;
5. despite a request by Asciano and the Hunter Rail Access Task Force (HRATF) in December 2008 seeking full details of the proposed finance costs, ARTC did not respond to the request;
6. the amount of finance costs proposed by ARTC is different to the amount of \$1.125m that it proposed to the Rail Infrastructure Group (RIG) in October 2008; and
7. IPART should reject ARTC's proposal as it does not conform to the requirements of the Undertaking and ARTC's Overs and Unders Account Policy.

QRNational's initial submission on ARTC's compliance with the Undertaking

In its response to IPART's consultative process, QRNational confirmed that:

1. the level of consultation undertaken by ARTC complies with the Undertaking and it endorses the capital projects that ARTC seeks to include in the RAB roll forward
2. the Ulan and Wilpingjong sectors should be included in the constrained network for 2007/08;
3. the finance costs relating to the capital projects at Mangoola and Wollar should be recovered by ARTC and the roll forward of the RAB for 2007/08 should be accepted; and
4. it accepts the calculation of the Unders and Overs Account for 2007/08 and is satisfied that ARTC has complied with the ceiling test specified by the Undertaking.

IPART's assessment of ARTC's compliance with the Undertaking

Removal of financing costs from ceiling revenue

IPART notes Asciano's concerns relating to the recovery of the financing costs proposed by ARTC and the related consultative process. We raised these issues with ARTC in a meeting held in June 2009. ARTC was advised that the proposed treatment of the financing costs was not consistent with the generally accepted accounting practice and the requirements of the Undertaking. However, we indicated that capitalisation of any interest costs that ARTC might have incurred due to the delay in commissioning of the Mangoola and Wollar crossing loops would not be inconsistent with the Undertaking.

In a further submission to IPART on 23 June 2009, ARTC indicated that it would remove the financing costs associated with the capital works at Mangoola and Wollar. ARTC re-submitted the revised Ceiling Test model and Overs and Unders Account for 2007/08 in June 2009 and the replacement tables for the Ceiling Test and the Overs and Unders Account in August 2009. The amended Tables are attached at Appendix 1. IPART will address the treatment of financing costs in its decision on ARTC's compliance for the 2008/09 year.

ARTC's operating costs

After a review of ARTC's proposal, IPART sought additional information from ARTC to enable it to better understand the drivers of the 2007/08 operating costs included in its proposal. ARTC provided the required information on 23 June 2009, followed by further information on 21 July 2009.

After analysing this further information, IPART has concluded that ARTC's proposed operating costs are reasonable and that ARTC has correctly applied the ceiling test (with the removal of the financing costs initially claimed by ARTC).

Specifically IPART's review has concluded that:

- ▼ the increases in the variable track maintenance and corporate overhead are reasonable;
- ▼ the reduction in network control costs is consistent with forecasts made in justifying the Train Control Consolidation project in 2006/07; and
- ▼ the increase in the fixed track maintenance and maintenance overheads can be substantiated by the increase in the scope of maintenance activities in 2007/08, high input costs due to lack of competition in the relevant service markets and increased cost of obtaining possession for maintenance in high traffic areas of the network.

2007/08 capital expenditure and consultation with stakeholders

IPART is satisfied that ARTC has complied with the Asset Valuation Roll Forward Principles set out in the Undertaking. In particular, we are satisfied that it is appropriate to include the Ulan and Wilpingjong sectors in the constrained group of the network. In making the decision we note that Asciano and QRNational endorsed the capital projects that ARTC is seeking to be included in the RAB and the inclusion of the Ulan and Wilpingjong in the constrained group of the network and the removal of Mussellbrook to Dartbrook sector from the constrained group. We also note that no issue was raised by the stakeholders in relation to the consultative process undertaken by ARTC in 2007/08 in compliance with clause 3.4 of Schedule 3 of the Undertaking.

29 September 2009

Table 5

		ARTC TOTAL	
		2006/07	2007/08
<i>millions</i>		Actuals	Actuals
Net tonnes			
	<i>Export</i>	67.91	80.75
	<i>Domestic</i>	1.50	3.59
	Total Net tonnes	69.41	84.33
Revenue			
	Total Revenue	76.58	106.55
Costs			
	<i>Maintenance Costs</i>	31.32	45.43
			0.00
	<i>Weighbridge Certification</i>	1.10	
	<i>Network Control</i>	7.59	5.81
	<i>Corporate Overheads</i>	4.83	6.89
	Total Operating Cost	44.84	58.13
Depreciation		8.75	13.70
Net Loss on Disposal		3.71	2.36
	Total Cost	57.30	74.19
	Profit/Loss	19.28	32.37
ROA		20.67	31.38
Full Economic Costs		77.97	105.56
Revenue - Costs		-1.39	0.99
Average Asset Base		283.18	429.81
		ARTC TOTAL	
		2006/07	2007/08
<i>millions</i>		Actuals	Actuals
ARTC Unders/Overs			
	<i>Opening Value</i>	3.45	-1.39
	<i>Refunds/Payments</i>	-3.45	1.39
	<i>Yearly adjustment</i>	-1.39	0.99
	<i>Closing Value</i>	-1.39	0.99