



23 April 2008

Mr James Cox  
Chief Executive & Full Time Member  
Independent Pricing And Regulatory Tribunal  
PO Box Q290, QVB Post Office NSW 1230

Your Reference: 07/541

Dear Mr Cox

**RAILCORP COMPLIANCE WITH NSW RAIL ACCESS UNDERTAKING 2006/07**

Thank you for your letter of 13 March, regarding compliance by RailCorp with the NSW Rail Access Undertaking (Undertaking) in 2006/07, inviting comment from Asciano.

Asciano does not claim any confidentiality over this document. These comments may be made public and published as IPART considers appropriate.

As a general comment, the RailCorp submission is notable for the paucity of data contained in the publicly available version. It is most unhelpful that RailCorp is claiming confidentiality over data that, by virtue of Schedule 5 of the Undertaking one might consider to be publicly available information, or at least information that ought to be publicly available. The failure to provide basic information such as asset values, operating costs, system usage by line sector, all of which are provided for under Schedule 5, make it impossible to make an informed comment on whether or not the pricing principles of the Undertaking have been complied with. Asciano is therefore not in a position to comment on whether RailCorp has complied with the ceiling limit in 2006/07.

Asciano accepts that RailCorp has not sought to include any capital expenditure into the Regulatory Asset Base and therefore has complied with the consultation aspects of the Undertaking.

Asciano has several specific concerns regarding the RailCorp submission and these are discussed below.

**DEPRECIATION**

The depreciation amount of \$519,285 in the RailCorp submission is close to (but not exactly) a 32 year life and is 3.12% of the escalated opening value. Hence one might conclude that RailCorp has intended to apply a 32 year life or an approximation thereof to the remaining value of the asset. However, the text suggests (in Table 2 of the RailCorp submission) that RailCorp is using a 33 year life and proposes a depreciation rate of 3.0303% that is commensurate with a 33 year life.

It is Asciano's view that the correct calculation of depreciation based on a diminishing value (as appears intended by RailCorp) would require use of a 33 year remaining life, ie the opening value (ie as at July 2006), escalated. It is recognised that the Undertaking does not explicitly set out how depreciation should be calculated, and that this is an economic rather than simple accounting depreciation and therefore the Undertaking may be open to a

different interpretation. However, if 32 years is used, depreciation in the final year would be \$0 and this would be inconsistent with the initial 35 year life. It would therefore appear incorrect to use 32 years for 2006/07.

Regardless of the method, the text and the values appear inconsistent. The application of 3.0303% to derive a depreciation of \$519,285 implies an asset value of \$1,713,642. This value exceeds both the fully escalated opening and undepreciated closing values (which in this instance are the same) and therefore the depreciation calculation cannot be correct if it is intended that the values in the text reflect the calculation.

From the above one must conclude that there are two problems with the RailCorp submission:

- a) The text is inconsistent with the calculation.
- b) The calculation is inconsistent with the Undertaking in that it is based on a 32 year life when the diminishing value method would require use of 33 years.

While it is accepted that the overall outcome is not material, it is concerning that even the few numbers that are provided in the submission raise questions of accuracy and appropriateness. Table 1 provides analysis and commentary on the RailCorp depreciation calculation.

**TABLE 1: ANALYSIS OF RAILCORP DEPRECIATION CALCULATION**

	\$	Notes
(a) Opening value	16,155,120	Closing value from IPART 05/06 Determination.
(b) Inflation	484,654	This is 3.0% of the opening value and equates with the value in the RailCorp submission.
(d) Escalated opening asset value	16,639,774	Equates to RailCorp submission.
(c) Additions/cap ex	0	From RailCorp submission.
(e) Closing value before deprec.	16,639,774	
(f) Depreciation on escalated opening asset value (d)	519,285	This is 3.12% or equivalent to 1/32 of the escalated asset value (d) and closing value (e). Alternatively it is 3.21% of the unescalated opening value (a). In neither circumstance does this conform with the text which suggests depreciation at 3.0303%.
(g) Closing value after depreciation	16,120,489	Equates with the value in the RailCorp submission.
Implied asset value from depreciation	1,713,642	Implied asset value based on RailCorp depreciation rate of 3.0303%.

It is concerning that IPART has indicated in the letter of 13 March that it is minded to accept the RailCorp position without comment on this questionable calculation. Asciano is concerned that this might indicate an inappropriate level of analysis of the RailCorp submission in a situation where most of the details are confidential and stakeholders are wholly reliant on IPART to perform due diligence on our behalf. Again it is emphasised that the issue is one of confidence in the accuracy and appropriateness of the calculations, not the materiality of the apparent error.

## **CEILING TEST**

It is unhelpful that RailCorp has not disclosed what the Full Economic Cost of the relevant line sections is. It is impossible for Asciano to comment on whether the ceiling test has been met without any data.

The previous comment regarding the apparent level of analysis that has gone into the RailCorp submission is clearly applicable also to the ceiling test. If the critical data is not provided, stakeholders cannot provide any meaningful commentary. This is less of a concern if stakeholders have confidence that IPART has conducted an appropriate level of due diligence. However, for stakeholders to have that confidence, IPART must demonstrate that it has conducted the appropriate analysis and is satisfied as to the accuracy and correctness of RailCorp's submission.

Given that RailCorp is obliged under the Undertaking Schedule 5 to provide most, if not all, of the critical inputs to the calculation of the ceiling test, one must question the claim of confidentiality over this information. In Asciano's view this is inappropriate and serves to frustrate legitimate stakeholder review of a significant part of the regulatory process.

Yours sincerely

A handwritten signature in black ink, appearing to read "Paul Bugler". The signature is fluid and cursive, with the first name "Paul" and last name "Bugler" clearly distinguishable.

**Paul Bugler**

Access & Regulation

cc Julia Williams  
Tony Gausden