

**AUSTRALIAN RAIL TRACK CORPORATION LTD**

**2008 INTERSTATE ACCESS UNDERTAKING**

**VARIATION TO INCORPORATE THE SOUTHERN SYDNEY FREIGHT LINE  
AND APPLICABLE INDICATIVE ACCESS CHARGES**

**SUPPORTING SUBMISSION**



Auburn Road looking East

**September 2012**

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# 1. Executive Summary

Terms used in this supporting submission are as per the definitions in ARTC's 2008 Interstate Access undertaking (2008 IAU) unless otherwise obvious from the context.

Section 2.1(c) of the 2008 IAU provides for the 2008 IAU to be extended to include the Southern Sydney Freight Line (SSFL) when:

- a) the SSFL is completed and commissioned for rail operations; and
- b) the Indicative Access Charge (IAC) applicable to the SSFL has been submitted by ARTC to the ACCC (at least 6 months prior to the commissioning of the SSFL) and accepted by the ACCC in accordance with section 2.4(b).

ARTC expects that the SSFL will be fully completed and commissioned for rail operations at or around the end of February 2013. Some operations may commence prior to this date, even though the project will not be fully complete.

In developing the relevant IAC for the SSFL, ARTC has considered the benefits that the SSFL will provide in terms of: removal of the curfew for freight in to Sydney; reduction in transit times for the North South corridor; improved reliability; additional capacity; and more flexibility in timetabling. Additionally, ARTC is of the view that there will be a further flow on effect of these benefits to rail operators in the form of potentially reducing certain operating costs. After consideration of the above factors, ARTC proposes an IAC which is approximately 20% above the estimated current market price for access charges from Macarthur to Sefton Park East Junction.

It is proposed that the IAC for the SSFL apply from the 1st March 2013, by which time ARTC expects that the SSFL will be fully completed and commissioned.

For the purposes of revenue modelling (provided to the ACCC on a confidential basis), notional access charges for non-indicative services have been included however these are not subject to formal ACCC approval as part of this variation and do not significantly impact on the Ceiling Limit test at section 4.4(a) of the 2008 IAU. Access charges for non-indicative services will be determined with reference to the IAC following its endorsement by the ACCC.

At this time ARTC does not intend to apply an excess network occupancy charge for services on the SSFL.

ARTC has sought to vary the 2008 IAU in order to incorporate the SSFL and to give effect to the IAC applicable to the SSFL. This has required a number of amendments to the 2008 IAU that seek to:

- include a new Segment, Southern Sydney Freight Line;
- include new IAC applicable to the SSFL; and
- address consequential matters including:
  - removal of the references to this variation;
  - removal of separate definition of the SSFL;
  - incorporation of the SSFL in relevant illustrative maps; and
  - recognition of the SSFL for the purposes of Performance Indicator reporting.

## **2. Background & Context**

### **2.1 Relevant 2008 IAU Development**

Section 2.1(c) of the 2008 IAU provides for the 2008 IAU to be extended to include the SSFL when:

- c) the SSFL is completed and commissioned for rail operations; and
- d) the IAC applicable to the SSFL has been submitted by ARTC to the ACCC (at least 6 months prior to the commissioning of the SSFL) and accepted by the ACCC in accordance with section 2.4(b).

ARTC expects that the SSFL will be fully completed and commissioned for rail operations at or around the end of February 2013.

### **2.2 The SSFL**

ARTC commenced a lease of substantial parts of the NSW rail network in September 2004. The lease covers the non-urban interstate network in NSW extending to the southern outskirts of the Sydney metropolitan area to Macarthur and the Hunter Valley coal network. The lease does not cover the Sydney metropolitan commuter network, used predominantly by passenger commuter services and shared in parts with regional and interstate freight services.

A major bottleneck in the rail freight network has existed in southern Sydney as freight trains share existing rail lines with the Sydney metropolitan passenger services and face a curfew on freight trains during morning and afternoon peak periods. As a result, freight services are prohibited from operating within the Sydney metropolitan area at optimal times. This has historically represented a substantial impediment to the competitiveness of interstate rail freight in markets where its main competitor, road transport, does not face such impediments.

The SSFL was identified in the June 2004 Tripartite agreement between the Commonwealth Government, New South Wales Government and ARTC as a required project in relation to the New South Wales lease. The project was subsequently included in ARTC's North South Strategy released in 2005.

As such, following execution of the lease, it had always been ARTC intention to deliver this substantial infrastructure improvement on the interstate rail network.

At the time of seeking ACCC acceptance of the 2008 IAU, the SSFL had not been completed and the lease in NSW terminated at Macarthur. The SSFL therefore could not be included for coverage under the 2008 IAU at that time. In consideration of this, specific provision was made in the 2008 IAU, to incorporate the SSFL into the 2008 IAU upon completion and commissioning for operations, and upon ACCC acceptance of the proposed IAC.

The SSFL will provide a dedicated freight line for a distance of around 34.76 kilometres between Sefton Park East Junction (inner metropolitan Sydney near Chullora) and Macarthur in southern Sydney, allowing passenger and freight services to operate independently.

Figure 1 shows a map of the SSFL alignment.

Figure 1

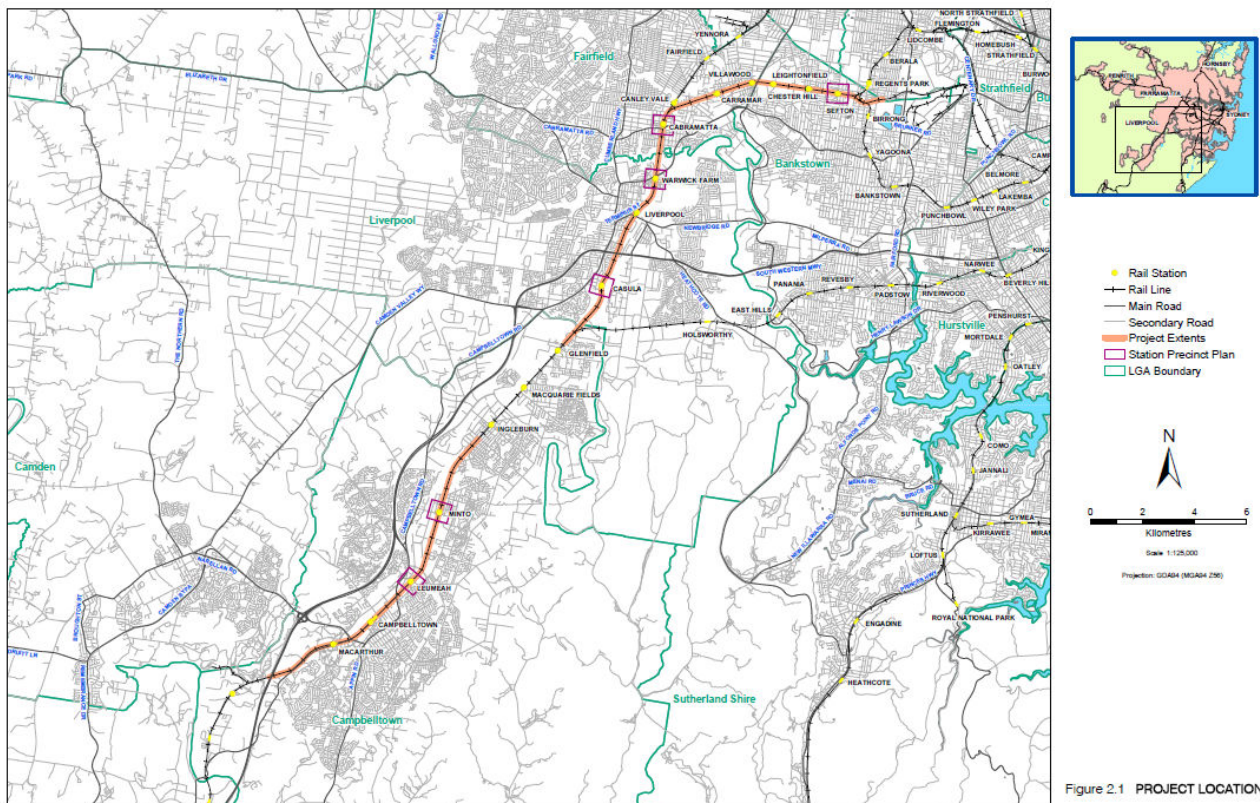


Figure 2.1 PROJECT LOCATION



### **2.2.1 Project objectives and benefits**

The key objectives and benefits of the SSFL are to:

- Provide a single dedicated freight line;
- Break the existing curfew south of Sydney during peak periods which restricts arrivals or departures of rail freight to only 15 hours in any 24 hour period;
- Remove restrictions placed on freight movements into Sydney due to conflicts with passenger services;
- Provide direct connection for southern freight to terminals and ports, including future connections;
- Deliver improved transit times to Melbourne, Sydney and Brisbane customers;
- Provide additional capacity for freight enabling growth from current 30 freight trains per day to 60 trains per day by 2018;
- Removal of the impact on service reliability for Railcorp passenger services due to freight trains;
- Free up train paths on the Railcorp network, increasing its capacity without further investment; and
- Reduce road traffic for major routes.

### **2.2.2 Development of the SSFL**

Initial contracts to commence the development and construction of the SSFL were awarded in September 2008. The project officially commenced in October 2008 under a number of contractual arrangements but, as a result of problems arising from the complexities associated with the Railcorp interface and the extent of service relocations required along the corridor, was restructured in October 2009 to be completed in stages.

In reaching the decision to restructure the project it was necessary to undertake activity to specified works at existing sites, complete partially constructed road bridges, and other third party works. This phase is referred to as Stage 1 of the project.

Following a re-tendering and re-contracting process, Stage 2 of the project commenced in July 2010. The objective of Stage 2 was to complete the service relocations and eliminate most of the risks associated with the interface with RailCorp.

The third and final stage of the project, which was separately tendered, included completion of civil works, construction of 27.5kms of new track, modification to RailCorp's trackwork,



completion of the signalling system and commissioning and handover is currently scheduled for finalisation and full commissioning by the end of February 2013.

### 2.2.3 Project cost

The total forecast final cost for the SSFL Project as at 31 July 2012 is as follows:

*Table 1*

Total SSFL Project	\$'000's
Stage 1	\$340,225
Stage 2	\$269,963
Stage 3	\$425,212
<b>Total SSFL</b>	<b>\$1,035,400</b>

Final cost will not be available until after the SSFL is finalised and commissioned. The above costs represent ARTC's best estimate of final cost at the time of this submission.

At the time of this submission the costs associated with the SSFL are not finalised as the project is yet to be completed. ARTC has already indicated to the ACCC that it will be providing cost information as a package under Schedule H of the IAU once all works are complete.

ARTC is not seeking a prudency assessment of the project cost at this time. It is the view of ARTC that the results of a prudency assessment would be unlikely to impact the Ceiling Limit to such an extent that it would affect the proposed IAC. In this application ARTC has sought ACCC approval with respect to the IAC applicable to the SSFL and ARTC recognises that it must demonstrate that the IAC is such that revenue derived on the SSFL will not exceed the Ceiling Limit. As part of the ACCC's assessment of the 2008 IAU, ARTC provided estimates of Capital Expenditure at the time (included at Schedule H of the 2008 IAU) and used those estimates in confidential financial modelling provided to the ACCC to demonstrate that indicative access charges were developed in accordance with the Pricing Principles in the 2008 IAU. The ACCC conducted a high level review of ARTC's approach and procedures prior to accepting the 2008 IAU.

ARTC has adopted the same approach in this application.

### **3. Development of the Indicative Access Charge (IAC) applicable to the SSFL**

#### **3.1 Market Overview**

The North – South Corridor services three distinct interstate general freight markets.

##### Melbourne – Brisbane

The Melbourne – Brisbane corridor has the smallest tonnage of the three markets at around 5 million tonnes per annum. However, it is the market where rail is most competitive. Both road and rail offer second morning availability for freight leaving in the late afternoon, despite road being significantly faster than rail.

##### Melbourne – Sydney

The Melbourne - Sydney market is estimated at approximately 11 million tonnes per annum, making it by far the largest general freight market in Australia. Rail currently has a negligible share of this market. The market has an expectation of late afternoon dispatch with early next morning delivery. Road achieves this where rail has fallen short of these expectations.

With such a large market available, relatively small changes in market share translate into significant volume growth, making this an important market for rail to improve its competitive position.

##### Sydney - Brisbane

Rail enjoys a greater share of the Sydney – Brisbane market than it does Melbourne – Sydney. Constraints to road operations on the Pacific Highway have tended to enable rail to remain competitive for a small segment of the market despite offering poor departure and arrival times. At 7 million tonnes, the market is smaller than the Melbourne – Sydney market.

The SSFL will service a range of traffics including those that operate in the highly competitive markets of:

- Sydney to Melbourne
- Brisbane (and Queensland) to Melbourne
- Sydney to Perth
- South-west Sydney to Port Botany

Of these traffics Brisbane to Melbourne and South-west Sydney to Port Botany are the traffics that are most keenly aligned to road competition.

The distance of the SSFL is such that the price will not have any significant impact on the Sydney – Perth price and on this corridor rail offers a price that is generally superior to road.

Rail is largely priced above road on the Melbourne to Sydney corridor and the margin is such that a low price on the SSFL is unlikely to be a significant factor in closing the gap to road.

The two relevant markets in which, as a general principle, there is relatively close alignment between road and rail pricing are Melbourne to Brisbane and south-west Sydney to Port Botany.

### **3.2 Competition.**

The key source of competition for the SSFL will be from road freight, particularly in the key markets of Melbourne to Brisbane and south-west Sydney to Port Botany.

A number of factors will influence the road market:

- Oil prices. Fuel makes up a significantly smaller share of rail transport costs than it does for road;
- Heavy vehicle charges;
- The effect of “chain or responsibility” legislation, random drug testing and other initiatives that aim to ensure compliance with safety regulations;
- The effect of major road improvements and the extent to which these will be adequately funded by heavy vehicle charges and / or tolls; and
- Future heavy vehicle productivity improvement.

### **3.3 Improvement in service levels (prior ARTC investment and SSFL)**

The SSFL is part of a package of projects selected to optimise rail’s ability to transfer market share from road. Quantification of the benefit of the SSFL as an individual project is complex. The results of ARTC modelling of transit times for the North-South Corridor projects, including the SSFL, have been published in ARTC’s North-South Corridor Strategic Investment Outline<sup>1</sup>.

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<sup>1</sup> Available at <http://www.artc.com.au/library/North-South%20Corridor%20Strategic%20Investment%20Outline.pdf>  
Interstate Access Undertaking – SSFL Variation

### 3.4 Existing ARTC pricing (Tottenham to Macarthur)

In accordance with the 2008 IAU Pricing Principles, the current ARTC structure of charges for Superfreighter traffic (the Indicative Service) is based on a flagfall/GTK pricing structure.

The following table demonstrates the historical access pricing on this corridor since 2009/10 and projected pricing to 2016/17 based on an estimated annual increase of CPI at 2.5% from 2013/14 to 2016/17.

Table 2

Tottenham to Macarthur								
	Actual				Projected			
ARTC Access pricing	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
CPI					2.50%	2.50%	2.50%	2.50%
<b>All Freight</b>								
Variable price \$ per '000 GTK	2.477	2.549	2.633	2.675	2.742	2.811	2.881	2.953
<b>Flagfall price \$ per train km</b>								
Super Freight	0.986	1.015	1.048	1.065	1.092	1.119	1.147	1.176
Express Freight	1.044	1.074	1.109	1.127	1.155	1.184	1.214	1.244
Regular Freight	1.663	1.711	1.767	1.795	1.840	1.886	1.933	1.981
Standard Freight	0.61	0.628	0.649	0.659	0.675	0.692	0.709	0.727

#### 3.4.1 Existing Market prices

Whilst ARTC does not have access to the current Railcorp pricing structure, internal estimates based on general discussions with industry to approximate likely 2012/13 indicative pricing has been developed. ARTC understands that the existing Railcorp pricing structure differs from the ACCC endorsed 2008 IAU pricing structure in that it is premised on a rate per train km dependent on train length. ARTC's pricing structure has been predicated on the principle of providing incentives to longer trains to encourage the most efficient use of capacity on this corridor.

After consideration of market feedback, assuming a 3,300 gross tonne 1500m long train travelling 34.76 kms (the full length of the SSFL), ARTC's analysis suggests that the current ARTC access charge (based on Superfreighter rate Tottenham (Melbourne) to Macarthur) is approximately 30-40% of the estimated market access charge for the same movement.

The ARTC Tottenham (Melbourne) to Macarthur Superfreighter rate if applied to the SSFL would therefore result in a considerably lower rate than ARTC would estimate that the market

is currently paying. Given the substantive benefits arising to users and the operating and capital cost of the SSFL as described, there would seem to be no basis (on market or competition grounds) for applying the lower ARTC pricing between Melbourne and Macarthur to the SSFL. Resulting revenue would be lower than the Revenue Limit for the SSFL.

### **3.5 IAC Objectives**

#### **3.5.1 Regulatory Floor and Ceiling Limits.**

The 2008 IAU requires the IAC for the SSFL to be set so as to ensure that the access revenue generated from this Segment covers the incremental operating costs of the SSFL, but does not exceed the Ceiling Limit for the Segment.

#### **3.5.2 Rail competitiveness.**

In establishing the IAC for the SSFL, ARTC has sought to ensure that the competitive outcome for rail is maximised. The SSFL will deliver a number of benefits which will significantly improve the competitiveness of rail on the North-South Corridor. These benefits are expected to result in operational cost savings for rail users of the corridor. ARTC is seeking to set the IAC at a level above current market prices in recognition of the added value that the SSFL provides to the North-South Corridor freight task in conjunction with the expected cost savings for rail users. The resulting IAC is not expected to erode rail's competitive position on the North South corridor.

The IAC has been structured so as to encourage efficient use of capacity by maximum corridor length (1800 metre) trains.

#### **3.5.3 SSFL is an enabler for market growth.**

ARTC has a growth led approach to its business, pursuing growth in the first instance to secure the role of rail in the Australian land transport task. ARTC believes that success in growing the business will then deliver increased revenues which will in turn underpin the long-term commercial sustainability of the business. This strategy has already proven successful on the East-West Corridor where rates of volume growth have exceeded expectations, leading to strong and sustainable revenue growth.

The SSFL is one project in a package of works detailed in ARTC's 2006 North-South Corridor Strategy designed to optimise the ability of rail to achieve a transfer market share from road. It

is a key enabler for the entire North-South Corridor operations and it is not expected that the revenue generated by the SSFL would approach the Ceiling Limit on a stand-alone basis.

### **3.6 Financial Modelling & Forecasts**

#### **3.6.1 Reference to Financial Model (confidential)**

In conjunction with this submission, ARTC has provided the ACCC with a confidential financial model to demonstrate that the development of the proposed IAC for the SSFL is consistent with the Pricing Principles in the 2008 IAU.

#### **3.6.2 Modelling assumptions**

ARTC maintain a whole of network revenue model which is used in developing annual budgets and forecasts as well as capacity analysis and infrastructure planning. For each operational segment, the expected number of services and average service size (in gross tonnes) are used to forecast annual GTK's and revenue.

The model is validated regularly against actual data to ensure that the base data on which forecast assumptions are applied is reflective of the current market conditions.

Using the base data, to which growth and operational efficiency improvements are applied, provides for the determination of the forecast traffic levels for future periods.

Growth forecasts have been determined as part of the corridor investment strategy which considers general economic growth forecasts, modal shift opportunities and specific industry trend knowledge. The growth rate for North-South Corridor intermodal business assumes a future modal shift from road to rail as a result of the corridor investment.

Operating expenditure is assumed to be in line with ARTC internal budgets covering the current planning period 2012/13 to 2016/17.

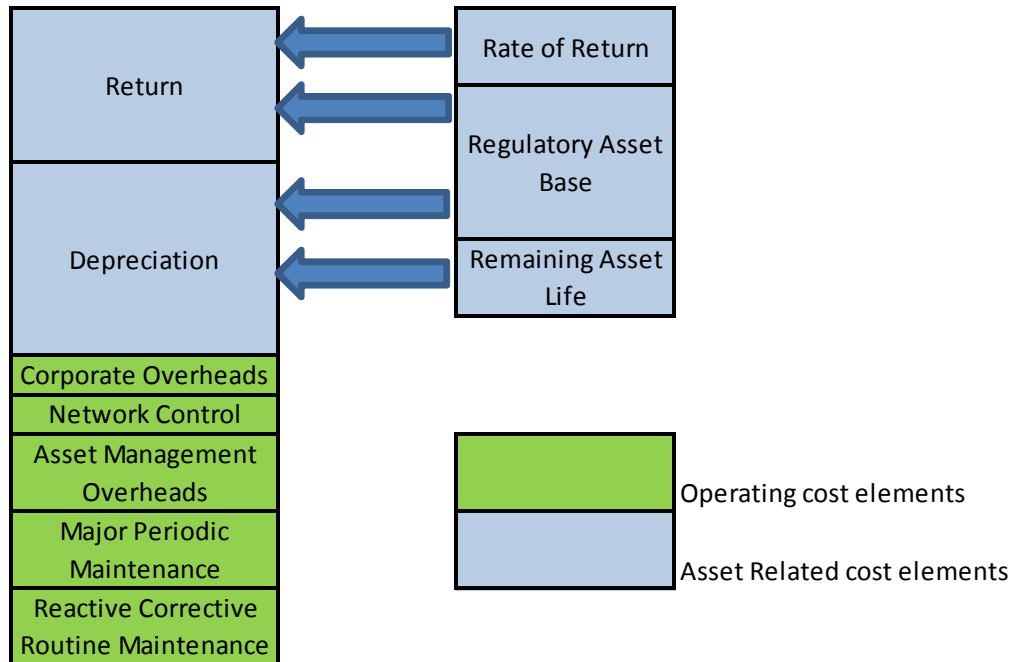
It is assumed that no further CAPEX will be incurred on the SSFL following commissioning for the period 2012/13 to 2016/17.

Access prices have been assumed to increase annually by CPI. For the purpose of revenue modelling CPI has been assumed at 2.5% pa. for the period 2013/14 to 2016/17.

### 3.6.3 Development of Cost Base in accordance with 2008 IAU.

Figure 2 below shows the cost elements that make up ARTC forecasted cost base for 2012/13.

Figure 2



## Operating Cost Elements

### Corporate Overheads

This type of expenditure is often identified as relating to a certain level of activity around the network such as a segment (SSFL), a region (NSW) ARTC network-wide and incurred at certain locations (eg Sydney, Adelaide etc). Depending on these elements, corporate overhead expenditure will be allocated over certain parts of the ARTC network on the basis of train kilometres or GTK as applicable associated with that level of activity in accordance with section 4.4(g)(iii)(B) of the 2008 IAU.

For example, corporate overhead expenditure associated with NSW and incurred in Sydney will be allocated to the SSFL on a prorata basis of train kilometres (SSFL)/train kilometres (NSW lease region). A further example is expenditure relating to ARTC's Finance &



Procurement incurred in Adelaide. As this relates to the whole of the ARTC network, it is allocated to the SSFL on a prorate basis of train kilometres (SSFL)/train kilometres (whole of ARTC network).

Expenditure identified as relating exclusively to other parts of the ARTC network in NSW, or outside of NSW (such as the ARTC East – West Corridor) is not allocated to the SSFL.

Importantly, ARTC's approach seeks to ensure that:

- Indirect expenditure that does not relate to the SSFL is not allocated to the SSFL; and
- Expenditure that is related to the SSFL is allocated to the SSFL on an appropriate prorate train kilometre or GTK basis in accordance with the 2008 IAU.

The approach used by ARTC is consistent with the approach used to allocate indirect and overhead expenditure to the remainder of interstate network covered by 2008 IAU in confidential financial modelling provided to the ACCC as part of its application in 2007, and subsequently endorsed by the ACCC in 2008.

The approach is also consistent with the approach used to allocate indirect and overhead expenditure underpinning the cost base submitted by ARTC to IPART as part of its annual revenue compliance assessment under the NSWRAU in each year since ARTC's lease on NSW commenced. The approach was endorsed by IPART initially in 2004-05 as part of a detailed public review of ARTC's costs in that year to satisfy stakeholder concerns. ARTC is not aware of any further concerns in relation to the approach in subsequent years.

The approach was also used to allocate indirect and overhead expenditure underpinning the cost base submitted by ARTC to the ACCC as part of its compliance assessment under the Hunter Valley Coal Network Access Undertaking to cover the period 1 July 2011 to 31 December 2011.

**Corporate management and support** expenditure primarily includes labour related expenditure associated with ARTC's information systems, property management, legal services, human resources and training, billing/credit and financial management, security and property management, safety and risk management, executive, research and regulation, customer and access contract management functions and the Board. Expenditure also includes some non-labour related expenditure such as insurance, external consultancies and systems.

This expenditure has been allocated to the SSFL on the basis of train kilometres in accordance with section 4.4(g)(iii)(B) of the 2008 IAU.

Ongoing drivers of Non-Segment Specific Costs allocated to the SSFL are anticipated to be:

- changes in SSFL volumes (GTK) and activity (train kilometres) compared to other parts of the ARTC network;
- wages inflation;
- changes in activities (eg level of regulatory and customer interaction); and
- productivity improvements.

**Network Control** expenditure primarily includes labour related expenditure associated with delivery of network control, signalling, path scheduling and incident management.

Expenditure relating to the SSFL is primarily incurred in ARTC's Junee Train Control Centre. Network control costs are apportioned to the SSFL on the basis of area of coverage of the network control and signalling function and where this is not relevant, on a train kilometre basis.

Junee Train Control Centre consists of six Network Control Boards of which one board services the SSFL in addition to other network segments. On a train kilometre basis, the proportion of this board allocated to SSFL is 56%.

**Asset Management** expenditure included in the cost base relates to:

- maintenance related expenditure that cannot be directly identified with the SSFL (eg provisioning centres);
- local asset management and support (for example, management, project staff, office support staff); and
- ARTC management and support (eg management, asset performance, systems and standards).

This expenditure has been allocated to the SSFL on the basis of gtkm in accordance with section 4.4(g)(iii)(A) of the 2008 IAU.

### ***Maintenance Expenditure (costs directly identified with a Segment)***

Maintenance expenditure includes major periodic maintenance (“MPM”) and reactive corrective routine maintenance (“RCRM”). Actual MPM cost, rather than a ‘levellised’ cost has been used, in line with current accepted practice. Both RCRM and MPM costs have been budgeted for each Segment of the Network, and so are directly associated with Segments. These costs are included in the Economic Cost of a Segment in accordance with section 4.4(a)(i) of the 2008 HVAU.

### **Asset related cost elements**

#### ***Asset Valuation***

The SSFL is an asset which has been under construction since 2008 and is scheduled for completion in February 2013. As a new asset constructed using the commercially efficient application of best known currently available technology, and purpose built for the exclusive carriage of freight traffics, ARTC proposes that the full project cost of constructing the SSFL form the Opening Asset Base.

Clause 2.4(b) of the 2008 IAU requires submission of the IAC that will apply to the SSFL at least six months prior to commissioning for operations. ARTC recognises that this requires pricing to be set such that resulting forecast revenue will lie between the Floor and Ceiling Limits. As a result, ARTC is not seeking a prudency assessment of the project cost. At the time of this submission the costs associated with the SSFL are not finalised as the project is yet to be completed. ARTC has already indicated to the ACCC that it will be providing cost information as a package under Schedule H of the 2008 IAU once all works are complete.

In this submission and, in accordance with the requirements of Clause 4.4 of the IAU, ARTC is seeking to demonstrate that the IAC has been set such that the resulting revenue is between the Ceiling and Floor Limits. It is the view of ARTC that the results of a prudency assessment would be unlikely to impact the Ceiling Limit to such an extent that it would affect the proposed IAC.

#### ***Rate of Return***

As the 2008 IAU will extend to include the SSFL when completed and commissioned for rail operations and the IAC has been accepted by the ACCC, the Rate of Return applicable to the Interstate Access Undertaking – SSFL Variation

2008 IAU will apply to the SSFL. The current Rate of Return under the 2008 IAU is 11.76% on nominal, post-tax basis.

### ***Depreciation***

The 2008 IAU provides for depreciation to be calculated on a straight line basis based on the remaining useful life of the asset. Depreciation on the Interstate Network is only charged on signalling and communications assets. The assumption for non-signalling assets is that they are available in perpetuity and Major Planned Maintenance provides for asset replenishment.

The useful life for signalling and communications assets has been assumed to be 30 years aligned more so to technical life (obsolescence). This is consistent with the determination of depreciation under the 2008 IAU.

### **3.6.4 Development of Floor/Ceiling Limits**

Section 4.4 of the 2008 IAU requires that the charges formulated by ARTC for services to be such that the revenue generated by ARTC for a segment or group of segments will:

- (1) Not be lower than the Floor Limit for that segment or group of segments; and
- (2) Not be higher than the Ceiling Limit for that segment or group of segments.

#### Floor Limit for the SSFL

The floor limit means revenue for ARTC sufficient to cover the incremental cost of that segment or group of segments, incremental costs being the costs that could have been avoided if that segment was removed from the network. This includes segment specific and non-segment specific costs associated with:

- Track and signalling and communication maintenance;
- Maintenance contract support, administration and management and project management;
- Train control and communication;
- Train planning and operations administration; and
- Systems management and administration.

The incremental cost for the SSFL has been determined on a basis that is consistent with that applied during determination of the Floor Limit during development and ACCC review of the 2008 IAU.

### Ceiling Limit for the SSFL

The Ceiling Limit means the revenue sufficient to cover the economic cost of the segment or group of segments.

ARTC has calculated the revenue ceiling for the 5 year period commencing 2012/13 in accordance with the Pricing Principles in the 2008 IAU.

Current modelling (confidentially provided to the ACCC) indicates that the proposed IAC and resulting revenue, whilst being in excess of the Floor Limit, will be less than 10% of the Ceiling Limit for the current 5 Year planning period.

## **3.7 Setting the IAC applicable to the SSFL**

### **3.7.1 Consideration of objectives.**

In determining pricing for the SSFL, ARTC has taken into consideration the following factors:

- Access Revenue from the SSFL must cover the incremental operating cost (Floor Limit) of the SSFL;
- Pricing is set at such a level so as not to impact on the competitiveness of rail with competing forms of freight transport; and
- Access Revenue does not exceed the Economic Cost (Ceiling Limit) for the SSFL

### 3.7.2 Proposed IAC.

The SSFL will deliver a number of benefits which will significantly improve the competitiveness of rail on the North-South Corridor. These benefits are expected to result in operational cost savings for rail users of the corridor. After consideration of this and the above factors, ARTC has set the IAC at a level which ARTC believes is comparable with the current estimated market price.

Access charges for non-indicative services are not subject to formal ACCC approval as part of this variation. Access charges for non-indicative services will be determined with reference to the IAC following its endorsement.

The Indicative Access Charge will include the sum of the flagfall and variable components as follows:

Note: Effective as at 1 March 2013

Note: These Charges are exclusive of GST

*Table 3*

<b>Segment</b>	<b>Flagfall \$/km (exclusive of GST)</b>	<b>Variable \$/kgtkm (exclusive of GST)</b>
Sefton Park Junction - Macarthur	3.426	8.564

### 3.7.3 Revenue comparisons with Floor/Ceiling Limits

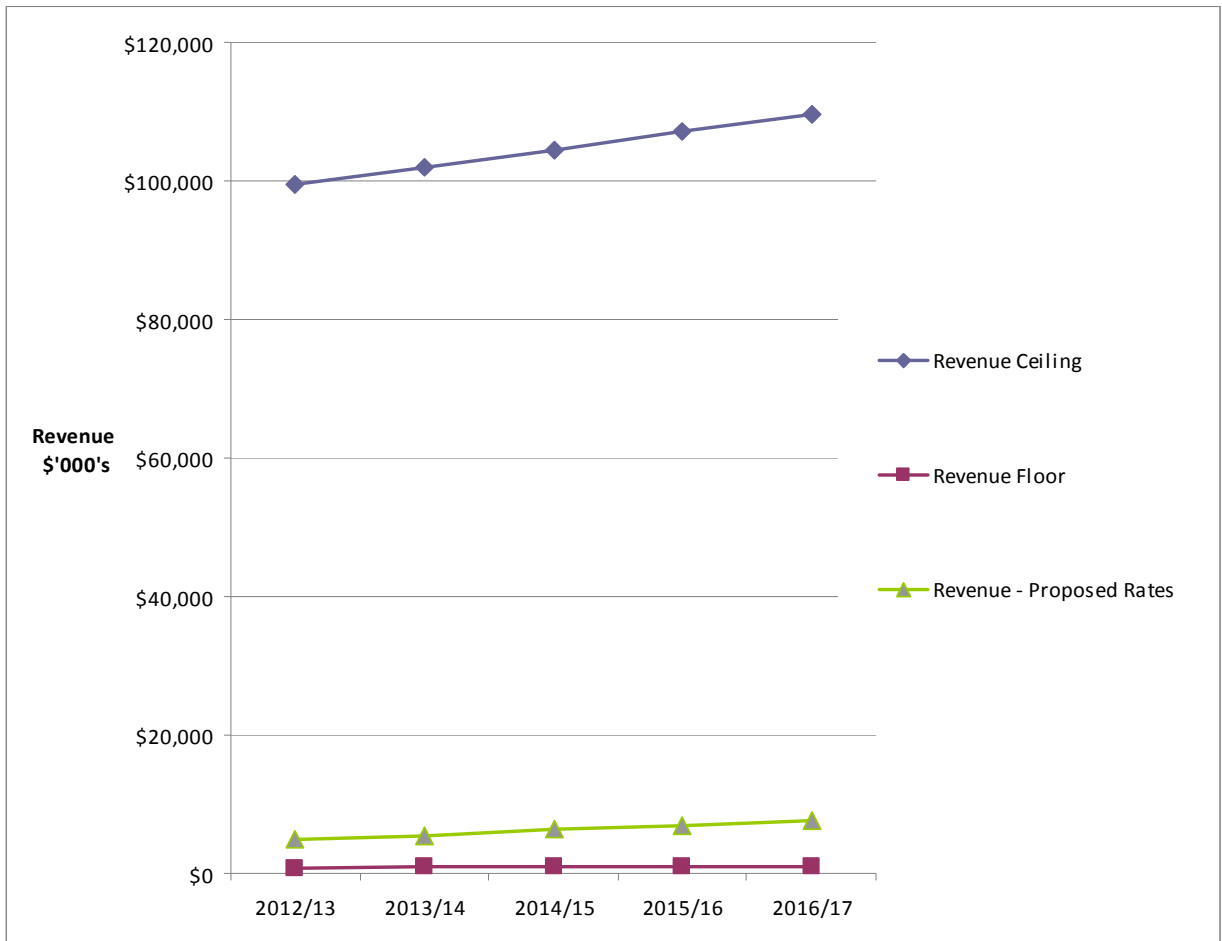
Confidential modelling provided to the ACCC has been used to compare projected access charge revenue based on the proposed IAC with calculated Floor and Ceiling Limits determined in accordance with the Pricing Principles in the 2008 IAU.

The results of this analysis are provided in the table and graph below.

*Table 4*

<b>Revenue \$'000's</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Revenue Ceiling	\$99,494	\$101,996	\$104,464	\$107,133	\$109,727
Revenue - Proposed Rates	\$4,980	\$5,433	\$6,344	\$6,943	\$7,582
Revenue Floor	\$735	\$877	\$894	\$994	\$1,038

Figure 3



### 3.7.4 When the IAC is proposed to take effect and reasons.

It is proposed that the IAC for the SSFL apply from the 1st March 2013, by which time ARTC expects that the SSFL will be fully completed and commissioned.

### 3.7.5 Future variation of the IAC.

Once accepted by the ACCC, the IAC will be subject to the provisions for annual variation of the IAC in accordance with section 4.6 (d) of the 2008 IAU.



### **3.8 Other Charges relevant to the SSFL**

For the purposes of revenue modelling (provided to the ACCC on a confidential basis), notional access charges for non-indicative services have been included however these are not subject to formal ACCC approval as part of this variation and do not significantly impact on the Ceiling Limit test at section 4.4(a) of the 2008 IAU. Access charges for non-indicative services will be determined with reference to the IAC following its endorsement by the ACCC.

At this time ARTC does not intend to apply an excess network occupancy charge for services on the SSFL.

#### **4. Proposed Variation to the 2008 IAU – Incorporation of the SSFL and applicable IAC**

ARTC has sought to vary the 2008 IAU in order to incorporate the SSFL and to give effect to the IAC applicable to the SSFL. This has required a number of amendments to the 2008 IAU that, by and large, seek to:

- include a new Segment, Southern Sydney Freight Line;
- include new IAC applicable to the SSFL; and
- address consequential matters including:
  - removal of the references to this variation;
  - removal of separate definition of the SSFL;
  - incorporation of the SSFL in relevant illustrative maps; and
  - recognition of the SSFL for the purposes of Performance Indicator reporting.

An amendment to Schedule D – Indicative Access Agreement is also required to recognise the SSFL as a new Segment on the Network.

Appendix 2 provides a detail listing of proposed amendments to the 2008 IAU and reasons for those amendments.



## Appendix 1 Distance Detail

### SSFL Distance Detail

Start	Location references	Distances via			Distance	Distance (cumulative)
		MFN	Main South (via Regents Park)	Main South (via Granville)		
Sefton Park East Jct	MFN/SSFL Interface	21.285				
Sefton Park West Jct		22.304	20.660		1.019	1.019
Leightonfield Yard			23.025		2.365	3.384
Leightonfield Yard			23.722		0.697	4.081
Cabramatta Jct			28.210	31.774	4.488	8.569
Macarthur	SSFL/ARTC Interface			57.965	26.191	34.760

**Total SSFL Length            34.760**

## **Appendix 2 Proposed Amendments to the 2008 IAU**