2011 Hunter Valley Coal Network Access Undertaking

Further Response to ACCC Follow up Questions re 2015 Compliance Assessment Draft Decision

March 2019
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Train Km. Can ARTC confirm which allocator it used for COMMS and PROP in 2015 and 2016?

13. For PROP, WIK recommended Train km but it is Track Km in Schedule I. ARTC says it accepts WIK’s view for Train Km. Could ARTC confirm it sees benefits in varying Schedule I to reflect this?

14. ARTC’s submission to the Draft Determination states that PROP is no longer a corporate function and resides within ARTC’s individual business units. Can ARTC confirm what date this occurred?

15. What work and time would be involved in ARTC amending the Overhead Models and compliance spreadsheet to change overhead allocators either to WIK or Schedule I?
A. Introduction

ARTC provides the following responses to the ACCC’s further questions received on 14 March 2019. As agreed during a discussion with ACCC representatives on 19 March 2019, to enable a timely response, ARTC’s comments relate directly to the 2015 Compliance Assessment. Information relating to 2016 will be provided later and in the context of ARTC’s 2016 Compliance Assessment submission.

B. Interest during construction - risk

1. Can ARTC provide policy documents or agreements regarding customers’ trade-off between initial cost and risk in ARTC’s project contracting approach?

There is not a specific agreement; however, a North West (ie Pricing Zone 3) Producers and ARTC forum was established for the purpose of detailed engagement with the Pricing Zone 3 Producers on the capacity development options, initiatives to reduce capital cost for the benefit of the Customers, progress, operational, maintenance and safety risks and complexities. The forum allowed for significant detail on Pricing Zone 3 to be discussed outside of the RCG meetings which includes participants from the other Pricing Zones.

Attached on a confidential basis are documented minutes from 2013 to 2015 for this forum that demonstrate the extent to which ARTC and the Pricing Zone 3 Producers were working together at a detailed level on the progress and cost of capacity development and the operational, maintenance and safety risks. The level of detail and discussion around the trade-off of these items was valued by the Customers, with Whitehaven noting its appreciation for the work ARTC was doing on 30TAL in the Hunter Valley (refer minutes of meeting 12 February 2014).

Also attached on a confidential basis is a letter from ARTC to Whitehaven dated 20 November 2013 outlining the options for 30TAL being considered between the parties with the maintenance and operational factors considerations and risks for each.

2. For the Gunnedah Yard upgrade, what options were put to RCG in 2014 for avoiding the delay in commissioning to 2015?

The delay in commissioning for Gunnedah Yard arose just prior to the planned November 2014 closedown. The delay related to signaling aspects of the project only; with all track and civil work completed as planned. ARTC considered options to progress with the commissioning and flag trains through the yard however this option was not progressed due to safety, cost and adverse operational impacts for Customers. As referenced in ARTC’s response to a previous ACCC information request, ARTC made temporary arrangements to enable 30TAL trains to traverse the Gunnedah Yard at a reduced speed of 25km/hr which allowed Customers to benefit from the newly installed track.
infrastructure. This was important for Customers who had also put in place arrangements with their rail haulage providers for the commencement of 30 TAL operations from 1 January 2015 to meet their increasing volume requirements, including the commencement of the Maules Creek mine.

C. Loss on disposal spreadsheet

3. Can ARTC provide further explanations to how the RAB values have been determined?

<table>
<thead>
<tr>
<th>ACCC Question</th>
<th>ARTC Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 0936AN for rerailing, this includes a discount for 85 per cent, how is this factor determined?</td>
<td>The 85% represents a “discount” factor to account for the regulatory value of the asset base in Pricing Zones 1 and 2 from the initial Independent regulatory valuation performed by Booz Allen &amp; Hamilton in 2001 using Depreciated Optimised Replacement Cost (DORC) principles determined under the NSWRAU. In accordance with the HVAU, the RAB is indexed by CPI and reduced for depreciation over the remaining mine life. The discount factor combines both the accumulated CPI indexing and depreciation from the valuation date to 2015.</td>
</tr>
<tr>
<td>2. 0947O7 for turnout renewal, a hardcoded value is included, how was this determined?</td>
<td>0947O7 consists of two hard coded figures in the spreadsheet previously supplied to the ACCC, being DORC value $103,216 and RAB value $175,574. The DORC value is as advised by Booz Allen &amp; Hamilton for the turnouts in this line segment. The RAB value is calculated as $103,216 * 2 turnouts disposed * 85% discount factor = ~ $175,574.</td>
</tr>
<tr>
<td>3. 0936P7 for track strengthening, a hardcoded value is included, how was this determined?</td>
<td>0936P7 consists of two hard coded figures:- DORC value $137 and RAB value $93,072. ARTC has reviewed the DORC value per metre which should be $68, not $137, due to</td>
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### Further Response to ACCC Follow up Questions re 2015 Compliance Assessment Draft Decision

**March 2019**

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<td><strong>4</strong></td>
<td>0955X6 for culvert replacement, a hardcoded value is included, how was this determined?</td>
<td>a spreadsheet error. The loss on disposal however is correct and remains unchanged. The DORC value was advised by Booz Allen &amp; Hamilton as the value per metre for this line segment for this activity. The RAB value is calculated as $68 \times 1600m \times 85% = \sim 93,072$.</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>0961V7 for power supply upgrade, a hardcoded value is included, how was this determined?</td>
<td>0936P7 consists of two hard coded figures: - DORC value $9,818$ and RAB value $8,350$. The DORC value was advised by Booz Allen &amp; Hamilton as the average value for the culverts in this line segment. The RAB value is calculated as $9,818 \times 85% = \sim 8,350$.</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>0971KX for rerailing, this includes a discount for 85 per cent, how is this factor determined?</td>
<td>0961V7 consists of two hard coded figures: - DORC value $31,250$ and RAB value $26,579$. The DORC value was advised by Booz Allen &amp; Hamilton as the average value for the culverts in this line segment. The RAB value is calculated as $31,250 \times 85% = \sim 26,579$.</td>
</tr>
<tr>
<td><strong>7</strong></td>
<td>0963DQ for rerailing, this includes a discount for 50 per cent, how is this factor determined?</td>
<td>0971KX is not included on the spreadsheet summary provided to the ACCC, ARTC assumes the ACCC was referring to 0973KX Refer response to item 1 above.</td>
</tr>
</tbody>
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0963DQ is in Pricing Zone 3. The DORC for rail is based on track metres. Applying 50% converts rail metres to track metres which is the basis of the DORC.
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<tr>
<td>8</td>
<td>- 8668 for the Gunnedah Yard upgrade, a hardcoded value is included, how was this determined?</td>
<td>8668 is in Pricing Zone 3 and includes a hardcoded discount factor of 92%. The 92% represents a discount factor to adjust the regulatory value of the asset base in Pricing Zone 3 from the Independent valuation to the current calendar 2015 value. This regulatory value of the asset base is determined from the Evans &amp; Peck Independent Valuation Report accepted by the ACCC in June 2014 applying DORC principles. In accordance with the HVAU, the RAB is indexed by CPI and reduced for depreciation over the remaining mine life. The discount factor combines both the accumulated CPI indexing and depreciation from the valuation date to 2015.</td>
</tr>
<tr>
<td>9</td>
<td>- 0963ES for track strengthening, this includes a discount factor of 65 per cent, how is this factor determined</td>
<td>0963ES included timber sleepers which were disposed. 65% of these sleepers were disposed, the remainder being reused on the network.</td>
</tr>
<tr>
<td>10</td>
<td>- 0963AS for culvert replacement, this includes a multiplying factor of 25.353, how is this factor determined?</td>
<td>0963AS is in Pricing Zone 3. The DORC value for culverts in this Pricing Zone is on a per metreage rate. The culvert disposed was 25.353 metres in length.</td>
</tr>
<tr>
<td>11</td>
<td>- 0963AX for culvert replacement, this includes a multiplying factor of 11.17, how is this factor determined?</td>
<td>0963AX is in Pricing Zone 3. The DORC value for culverts in this Pricing Zone is on a per metreage rate. The culvert disposed was 11.17 metres in length.</td>
</tr>
<tr>
<td>12</td>
<td>- 0964NG for culvert replacement, this includes a multiplying factor of 27, how is this factor determined?</td>
<td>0964NG is in Pricing Zone 3. The DORC value for culverts in this Pricing Zone is on a per metreage rate. Three culverts of 9 metres each in length were scrapped i.e. 3 * 9 metres = 27 metres.</td>
</tr>
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</table>
4. Where is the database used for the DORC per Unit column?

In relation to assets ascribed a regulatory asset value either under the NSW Rail Access Undertaking (NSWRAU) or as approved by the ACCC under the HVAU, ARTC has sourced the DORC per Unit column from independent valuation report databases being:

- for assets existing in 2001, with reference to the Booz Allen & Hamilton Depreciated Optimised Replacement Cost (DORC) database determined under the NSWRAU in 2001;
- for assets acquired after 2001 and prior to July 2011, with reference to the rollforward of assets as approved under the NSWRAU; and
- for assets for which a valuation has been specifically approved by the ACCC, with reference to the approved value and the underlying DORC database (e.g. Booz & Company (PZ3 - Dartbrook to The Gap line) and Evans & Peck (Old PZ4 – Gap to Turrawar) valuations).

D. Incidents

5. Why were the incident costs data provided to the ACCC on 4 March 2019 excluded from the General Ledger data provided to the ACCC on 19 June 2018?

The exclusion of the incident costs data was inadvertent. Costs for incidents are recorded in the Works Ledger component of ARTC’s general ledger. Incident costs are separated from maintenance and capital costs using a separate job number for each incident. The data query to extract the raw cost data had been set for RCRM and MPM maintenance costs only.

6. Are there other transactions excluded from the General Ledger data that was provided to the ACCC on 19 June 2018?

Transactions for costs relating to capital projects were excluded from the General Ledger data.

7. What is the source of the discrepancy between ARTC’s compliance submission provided to the ACCC on 31 August 2017 ($53,648) and the incident costs data provided to the ACCC on 4 March 2019 ($177,319)?
It appears that the original compliance submission value did not pick up net incident costs relating to four incidents totaling $117,911 and that the CAL16 GL credit journal referenced as a reconciling item in the spreadsheet provided had been captured based on an estimate of ($250,000), however the actual journal was for ($244,241), i.e. a difference of $5,759. These items combined represent the difference of $123,671.

8. In light of the revised incident costs data, when will ARTC provide its revised compliance spreadsheets? This is needed for the determination of the over/under recovery for the Constrained Network and the closing loss capitalisation balance?

The revised models have been separately provided on a confidential basis with this response.

E. Overhead Cost Allocators

9. As part for the ACCC’s assessment of the 2018 Interstate Access Undertaking application, ARTC provided its Overhead Models for between 2009–10 and 2017–18. These Overhead Models appear to indicate OPSP is primarily an interstate function under INTMP. How are these costs allocated to the Hunter Valley coal network?

These costs were allocated to the Hunter Valley from the Interstate in proportion to GTK having regard to the allocators in section 4.6 of the HVAU (as varied on 25 June 2014). Operations Planning is an essential contributor to the maintenance process and is therefore allocated in proportion to GTK as per the requirements of Clause 4.6 of the HVAU. The Operations Planning team is functionally located within the Interstate Business Unit due to its physical location in Adelaide. However, this does not change the nature of the planning work it provides for both the Hunter Valley and the Interstate Networks. The importance of this work to the performance of maintenance was referenced in ARTC’s submission in response to the draft decision.

10. ARTC’s submission to the Draft Determination lists OPSP as allocated on a GTK basis in Schedule I. Which cost category in Schedule I does OPSP fall under?

As per Question 9 above, ARTC has allocated OPSP for 2015 Compliance using GTK as an allocator based on section 4.6 of the HVAU (as varied on 25 June 2014) and OPSP’s relationship to Maintenance. ARTC notes that OPSP is not a specific category listed under Schedule I but believes that GTK continues to be the appropriate allocator as highlighted in its previous response. ARTC will
provide further detail on this at the appropriate time in future Compliance Assessments, noting Schedule I is not relevant to the 2015 Compliance Process.

11. ARTC’s 2015–16 Overhead Model appears to apply the allocators under Schedule I. In the context of the HVAU, these allocators are not applicable until 1 July 2017. Can ARTC confirm the Overhead Model does not apply the Schedule I allocators for 2015 and 2016?

In 2015 ARTC undertook a detailed review of its cost allocation mechanisms across the entire business and concluded that the limitation of allocators to either GTK or Train Km did not appropriately reflect the causation of those costs. The outcome of that review was a proposed set of allocators that were implemented internally for more cost reflective allocations as highlighted in the models provided as part of the Interstate Access Undertaking (IAU) information requests; noting the allocation process for the HVAU is specifically defined by Clause 4.6 based on those limited allocators. As part of the Opex Efficiency framework work undertaken in 2017, Deloitte undertook an independent review of allocators and defined a set of allocators that more accurately reflect cost causation; which allocators were incorporated into Schedule I of the approved extension of the HVAU in June 2017. Given the relevant HVAU for the 2015 compliance process maintains the use of only GTK or Train Km based on Clause 4.6, these are the allocators that are used for this compliance process. Given this and the questions raised by the ACCC in its IAU Draft Decision in respect of providing updated actual overhead allocations by segment, ARTC considers any issue reflecting the relationship between HVAU and IAU allocations is best dealt with as part of the IAU response.

ARTC has yet to develop its 2016 Compliance submission as this relies on the finalization of 2015 Compliance to inform the opening position for 2016. Information specific to questions beyond 2015 are therefore not able to be addressed at this stage as they are not relevant to the 2015 Compliance Assessment.

12. In the cost allocation information provided to the ACCC on 15 June 2018, ARTC stated that in 2015 it allocated COMMS and PROP costs by GTK. In the 2014–15 Overhead Models, it appears that ARTC allocated COMMS and PROP costs by Train Km. Can ARTC confirm which allocator it used for COMMS and PROP in 2015 and 2016?

As above, ARTC’s internal overhead allocation reflects more causal allocators than those defined in the HVAU which provided for allocation based on its association with track maintenance. ARTC’s 2015 compliance assessment submission, referencing 4.6 of the HVAU, used GTK for COMMS and PROP. In its 4 March 2019 submission in response to the draft decision ARTC accepted WIK’s recommendation for PROP costs in 2015 to be allocated by Train Kms, however concluded that COMMS was critical to the provision of maintenance so should remain allocated by GTK. Therefore, for both COMMS and PROP the original allocator in 2015 was GTK; however ARTC has accepted the
WIK recommendation that PROP be allocated by Train Km In respect of ARTC’s position for 2016, ARTC has yet to develop its 2016 Compliance submission as this relies on the finalization of 2015 Compliance to inform the process, so therefore is not in a position to answer questions outside the 2015 process.

13. For PROP, WIK recommended Train km but it is Track Km in Schedule I. ARTC says it accepts WIK’s view for Train Km. Could ARTC confirm it sees benefits in varying Schedule I to reflect this?

ARTC believes that Track Km is the more appropriate allocator for Corporate Property costs as reflected in the provisions of Schedule I. However, given that Clause 4.6 of the HVAU relevant to 2015 limits allocators to either GTK or Train KM, Track KM is not an option available to ARTC for 2015 allocations. Therefore, ARTC’s comment on accepting Train KM relates solely to this 2015 compliance assessment and the applicable allocators under section 4.6 of the HVAU. In this instance ARTC accepted that PROP is not associated with maintenance so therefore accepted WIK’s recommendation to use Train Km. Given this, ARTC sees no benefit in varying the HVAU based on this decision and as per the response to question 14, property is no longer a corporate function.

14. ARTC’s submission to the Draft Determination states that PROP is no longer a corporate function and resides within ARTC’s individual business units. Can ARTC confirm what date this occurred?

ARTC’s Property teams transitioned into the individual business units on 1 December 2017. This change, which is aligned to ARTC’s effectiveness and efficiency priorities allows for the Hunter Valley Property team to work directly with HV Management to support operational and strategic property items in an efficient manner which add value to our Hunter Valley coal customers.

15. What work and time would be involved in ARTC amending the Overhead Models and compliance spreadsheet to change overhead allocators either to WIK or Schedule I?

For 2015, the allocator changes between GTK and Train KM can be readily flowed through the Overhead Model. A change to an allocator within the Overhead Model does not require a structural change in the compliance spreadsheet. Schedule I is not relevant for the 2015 Compliance Assessment.