

Hunter Valley Coal Network Access Undertaking

Further Submission for ARTC's 2017 Compliance Assessment

July 2020

ARTC



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1 Introduction

ARTC provides this further submission relating to the 2017 Compliance Assessment in response to:

- Matters raised in a submission by AGL Energy Limited (AGL); and
- Matters raised in a submission by Pacific National Pty Ltd (PN) that relate to 2017.

2 AGL Submission

Given the existing Hunter Valley Access Undertaking (HVAU) drafting prescribes the process and timing for the Compliance Assessment process, ARTC notes that the matters raised by AGL are more relevant to the discussions currently underway for the 2022 HVAU.

3 PN Submission

3.1 Major Periodic Maintenance (MPM) and Routine Corrective and Reactive Maintenance (RCRM)

ARTC provides the following points of clarification in relation to PN's cost report references:

- During 2017, ARTC continued to build on the transparency and reporting of maintenance cost information to the Rail Capacity Group (RCG). When the maintenance cost reporting was initially developed, the reported information was provided on a financial year basis and aligned with existing internal reporting. In the second half of 2017, the reporting transitioned to a calendar year basis to align with the financial model under the HVAU. PN has drawn a comparison between the movement in costs between the 1 June 2017 cost report (reflecting costs for the financial year ending 30 June 2017) and the 2 November 2017 cost report (reflecting costs for calendar year ending 31 December 2017), however these reports do not relate to the same 12-month period; and
- The cost report dated 2 November 2017 includes cost data as at 30 September 2017 and the cost report dated 1 February 2018 includes cost data as at 31 December 2017. The references by PN to cost changes across a one-month period are not accurate.

As part of the ACCC's 2015 operating cost review, WIK-Consult conducted an extensive review of ARTC's asset management planning processes. WIK concluded that "ARTC's maintenance activities generally represent common and widely applied procedures which can be seen as the current best available methods. ARTC's approaches appear efficient from a technical point of view. Therefore,

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WIK and TÜV reckon that the assessed projects and activities were realised on an efficient basis and the maintenance opex reported in the General Ledger accounts are considered efficient".¹

WIK also considered that "ARTC applies very detailed and complex procurement strategies and methods, recorded in several internal directives, guidelines and regulations. The internal processes are very well defined and applied in every day works. ARTC's overall approach to procuring suppliers for maintenance activities shows its deep understanding of the Hunter Valley coal chain operations, its clients' needs, the current cost structures of suppliers and its network's quality status"².

ARTC's asset management planning and procurement processes for 2017 are unchanged from those assessed by WIK and ARTC has continued to provide the ACCC with its 10-year asset management plan, asset strategies for major maintenance activities and demonstrated the application of procurement policies.

Given the age, characteristics and dynamic loads on the network, the asset management planning process is not static. The asset management and maintenance processes aim to prevent failures, ensure rapid response to defects, coordinate close-downs and possessions across the network and align with the coal chain. There is ongoing review of asset condition information, work scopes and priorities post the setting of a budget to maintain the safety and reliability of the network and meet Customer network availability needs. Cost movement against budget does not indicate that the maintenance activities were inefficient.

From a technical perspective, ARTC advises that:

- Ultrasonic inspections of rail in the Network occur at fixed intervals and that some internal rail defects grow exponentially between testing intervals for various reasons linked to track and rollingstock condition. This cannot always be predicted and immediate attention to address the defect may be required for safety or reliability reasons;
- ARTC adopts a holistic approach to its maintenance and reviewing individual maintenance activities in isolation should be avoided as many of these activities are interrelated. Ballast undercutting and tamping solutions are deployed as short to medium term solutions in managing track geometry conditions on the Network (due to foul ballast), whereas track reconditioning is a long-term solution. Budgets are based on forecasts at a point in time, however the solution deployed at each location on the Network is based on review by ARTC engineering personnel of the data sets available, prevailing in situ conditions and priority of the location with respect to Network and Customer operations. This delivers a contextualised response in deploying the best maintenance intervention for the condition of the asset; and
- Ballast Cleaning in Pricing Zone 3 is part of a multi-year strategy to screen out the fine material build up in the ballast and restore the drainage to the rail formation. ARTC was able to deliver more scope than forecast in 2017 due to favourable machine cutting rates. This has the effect of lowering overall unit rate in the context of the multiyear program and results in a more efficient outcome, compared with parking up the machine when planned scope for the year was completed. Costs were also impacted by lower ballast returns which necessitated more fresh ballast material to be inserted during the ballast cleaning process.

Information on the condition and reliability of the network is routinely reported in a monthly report through to the RCG and there is publicly available network key performance indicators published on

¹ WIK-Consult 'Assessing the Efficiency of Australia Rail Track Corporation's Operating Expenditures for the 2015 Calendar Year', page II.

² Ibid, page III

ARTC's website. The RCG is also engaged when any major issues arise. PN is a member of the RCG, regularly attends the RCG meetings and participates in the discussion. A PN representative attended all but one RCG meeting during 2017 and did not raise any of the cost report concerns referenced in its submission during the RCG meetings.

3.2 Business Unit Management and overheads – operating expenditure

ARTC undertook development of the operating cost efficiency mechanism on the understanding it was a requirement for both the ACCC and Customers for the proposed 2017 HVAU. There is a cost to the processes and specialist advice associated with economic regulation and the efficiency of the cost is not dependent on whether an individual stakeholder supports a particular element.

Whilst ARTC worked closely with a working group of Customers on the development of the mechanism, the work was discontinued prior to it being finalised at the request of Customers. The planned stakeholder engagement process, which included above rail, was not completed so that further costs were not incurred.

ARTC is currently engaging with stakeholders on the operating cost approach for the 2022 HVAU. ARTC rejects PN's assertion that ARTC may try to repackage costs from 2017 and confirms that in no way will costs incurred in 2017 be included in the costs associated with the development of the 2022 HVAU.

3.3 Corridor Capital

There is an interrelationship between different maintenance activities as noted above, and also with the sustaining corridor capital asset renewal and replacement program. ARTC adopts a holistic approach and decisions on the type and scope of work are based on condition-based data sets, root cause of issues, historical performance of the Network over time and forecast requirements.

Opportunities to combine work scopes are considered where appropriate. The example proposed by PN with respect to combining maintenance track resurfacing with rerailling activities does not necessarily translate to an opportunity as the greater efficiency is derived by having a tamping machine's work time maximised. The overlapping of work activity at the same location often results in inefficiencies in delivery by building idle time into either work program.

With respect to rerailling, there is natural variation in requirements year on year, with scope driven by two main factors – the cumulative tonnage on the rail and the geometry of the track. Sharper curves are rerailled more regularly than shallow curves and straight sections of track. However, the primary driver for the \$20 million decrease in corridor capital rerailling is the extent of rerailling for the 30TAL upgrade in Pricing Zone 3 undertaken during 2016 compared with 2017. The 30TAL rerailling program was a multi-year RCG endorsed program of work which was completed for the purpose of upgrading the Network to enable 30 TAL rollingstock to safely utilise the rail infrastructure and achieve higher volumes out of Pricing Zone 3. ARTC also notes that the upgraded rail in the prior year has also resulted in a reduction in rail breaks in Pricing Zone 3 as conveyed to the RCG in the monthly reports.³

Whilst WIK did not consider capital in detail, WIK indicated that "ARTC applies clear definitions and procedures to classify projects either as operational expenses or as capex projects. Based on the

³ See for example December 2017 RCG Monthly Report page 17.

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information available, there is neither any indication for double counting, i.e. that costs are reported as opex and simultaneously added to the RAB as a capex project, nor for wrong classifications of costs"⁴.

ARTC notes that whilst corridor capital is generally presented as an annual program, the submissions include information at a project specific level and there is consultation undertaken through the RCG on the proposed program of individual projects.

PN did not raise any concerns regarding classification of capital projects through the RCG. Given the clear definition, RCG consultation process and endorsement from the RCG, ARTC does not consider there is any basis to reclassify costs.

ARTC has continued to increase engagement and transparency on its maintenance approaches and costs. Given the cross section of RCG members (Access Holders, Above Rail Operators and HVCCC), the RCG has provided an appropriate forum for discussion on this information. ARTC also notes that it is currently engaging with stakeholders on approaches for increased transparency for maintenance costs as part of the development of the 2022 HVAU.

⁴ WIK-Consult 'Assessing the Efficiency of Australia Rail Track Corporation's Operating Expenditures for the 2015 Calendar Year', page 91