



**AUSTRALIAN RAIL TRACK CORPORATION LTD**

*AMcMJ012004004*

4 April 2012

Mr Jonathan Vandervoort  
Chief Executive Officer  
Hunter Valley Coal Chain Coordinator  
PO Box 101  
Carrington NSW 2294

Dear Jonathan

**AUSTRALIAN RAIL TRACK CORPORATION LTD  
2011 HUNTER VALLEY COAL NETWORK ACCESS UNDERTAKING**

**DEVELOPMENT OF THE FINAL INDICATIVE SERVICE AND  
PRICING UNIT**

**PROPOSED FRAMEWORK**

ARTC is seeking to engage with the HVCCC to assist with the development of the Final Indicative Service and Pricing Unit in accordance with Section 4.18 of ARTC's 2011 Hunter Valley Coal Network Access Undertaking (2011 HVAU), ARTC has certain obligations to develop characteristics of the Final Indicative Service (as defined in the 2011 HVAU), and consider an appropriate pricing unit to encourage efficient consumption of Capacity for submission to the ACCC for approval by 31 December 2013.

ARTC recognises that in order to meet its obligations under the 2011 HVAU in this respect, it is necessary to engage and consult closely with the HVCCC and utilise, and rely substantially on, the expertise of the HVCCC in Coal Chain Capacity modelling.

Given the nature of tasks, ARTC sees there being two separate, but related, strands of work that it believes may be best dealt with in different ways. The first relates to the development of the characteristics of the Final Indicative Services, which ARTC

sees as being heavily reliant on the development and analysis of robust coal chain modelling utilising resources with specific expertise in this area (operations research, optimisation, system development). ARTC sees engagement and close consultation with the HVCCC in carrying out this work at a detailed level, with reference to regular and broader industry stakeholder review and advice as important to achieving an effective outcome.

The second relates to the consideration as to whether gtkm is the most appropriate pricing unit to encourage efficient consumption of Capacity. In this regard, Capacity relates to the capability of the Network to carry train services (including non-coal) based on and applying certain system assumptions relevant to utilisation of the Network for coal, and other assumptions for non-coal. As ARTC pricing is only applied to relevant utilisation of the Network (as opposed to other parts of the coal chain), ARTC is likely to be in the best position to consider the merits of pricing unit options, but involving consultation with the HVCCC and other industry stakeholders as required under the 2011 HVAU. ARTC also recognises that outcomes arising from the development of the Final Indicative Service may be a factor relevant to the consideration of the appropriateness of a pricing unit applicable to utilisation of the Network.

As a first step towards meeting these obligations, ARTC has prepared the attached framework document for the HVCCC's information and for further discussion. The framework document sets out ARTC's relevant obligations under the 2011 HVAU in detail, how ARTC sees the HVCCC being involved, and some proposed principles in relation to the conduct, organisation and resourcing of these developments, including consultation with other stakeholders.

ARTC would appreciate the opportunity to further discuss this document with the HVCCC in a week or two once you have been able to review and consider the document, and will contact your office accordingly to arrange a suitable time.

Yours sincerely

Alex MacKenzie  
Executive General Manager  
Hunter Valley

# **Requirement under the ARTC 2011 Hunter Valley Access Undertaking (2011 HVAU) to develop the Final Indicative Service, alternative pricing unit and Final Indicative Access Charges**

## **1. ARTC's RELEVANT OBLIGATIONS UNDER THE 2011 HVAU**

Under Section 4.18 of ARTC's 2011 HVAU, ARTC has certain obligations to develop characteristics of the Final Indicative Service, and an appropriate pricing unit to encourage efficient consumption of Capacity associated Indicative Access Charges and submit these for ACCC approval, as prescribed in the relevant excerpts below. Specific required activities are italicised.

### **'4.18 Determination of the Final Indicative Services (efficient train configuration)**

- (a) *ARTC will develop, in consultation with the HVCCC, the proposed characteristics of the indicative services which ARTC considers will deliver the optimum utilisation of Coal Chain Capacity, given certain System Assumptions ("Final Indicative Services"). The intention is that this process will be a more robust modelling exercise than that used for selecting the Initial Indicative Services and will include scenarios under which System Assumptions are also varied in addition to the Coal Train configurations.*
  
- (b) Within 30 months of the Commencement Date, ARTC will:
  - (i) *consult with the HVCCC, Access Holders and Operators on the proposed characteristics of the Final Indicative Services and whether gtkm is the appropriate pricing unit to encourage efficient consumption of Capacity;*
  
  - (ii) *submit to the ACCC proposed characteristics of the Final Indicative Services developed in consultation with the HVCCC and, having reasonable regard to submissions arising from the consultation at subsection (i) above, if ARTC considers that*

*gtkm is not an appropriate pricing unit to encourage efficient consumption of Capacity, an alternative pricing unit that ARTC considers will encourage efficient consumption of Capacity; and*

(iii) *seek the approval of the ACCC to vary this Undertaking to provide for the adoption of the proposed characteristics as those of the Final Indicative Services and the alternative pricing unit (if any).*

(c) In consulting with the HVCCC, Access Holders and Operators, ARTC will:

(i) *assist the HVCCC to undertake modelling; and*

(ii) *will follow the principles of consultation set out in Schedule F,*

with the objective of determining the Coal Train configuration which will deliver optimum utilisation of Coal Chain Capacity and ARTC will use its best endeavours to agree with the HVCCC the characteristics to be submitted to the ACCC as the proposed Final Indicative Services.

(d) In support of its application to vary the Undertaking for the adoption of the characteristics proposed in section 4.18(b) as the Final Indicative Services, ARTC will submit to the ACCC:

(i) proposed characteristics of the Final Indicative Services which it considers will deliver optimum utilisation of Coal Chain Capacity including:

(A) maximum train axle load;

(B) maximum train speed;

(C) train length; and

(D) section run times;

- (ii) the proposed indicative access charges for the proposed Final Indicative Services; and
  - (iii) supporting documentation.
- (e) If the ACCC accepts the characteristics proposed by ARTC in consultation with the HVCCC as the Final Indicative Services, and accepts the variation sought by ARTC to this Undertaking, ARTC will:
- (i) promptly publish on its website:
    - (A) the characteristics proposed under section 4.18(b) as the Final Indicative Services; and
    - (B) the indicative access charges accepted by the ACCC for the Final Indicative Services as the Indicative Access Charges, in the format set out in section 4.14(c);
  - (ii) offer the Indicative Access Charges to Applicants seeking Coal Access Rights for the Final Indicative Services (including Access Holders seeking to vary their Access Holder Agreements so as to operate Final Indicative Services on existing contracted Train Paths) to apply in the year immediately following the date the variation to the Access Undertaking accepting the Final Indicative Services and Indicative Access Charges comes into effect and the annual process for the finalisation of Indicative Access Charges under section 4.20 will not apply to the determination of Indicative Access Charges for that year; and
  - (iii) *determine Charges for Coal Access Rights other than Access Rights for the Final Indicative Services to apply in the year immediately following the date the variation to the Access Undertaking accepting the Final Indicative Services and Indicative Access Charges comes into effect, in accordance with section 4.15 and in doing so will take into account the Indicative Access Charges accepted by the ACCC in determining those Charges.*

- (f) If the ACCC does not accept the characteristics proposed by ARTC as the Final Indicative Services, ARTC will, within a timeframe reasonably specified by the ACCC (not to be less than 3 months) having regard to the need for further modelling and industry consultation, submit revised characteristics to the ACCC and seek the approval of the ACCC to vary this Undertaking to provide for the adoption of the revised characteristics as the Final Indicative Services.'

In developing the characteristics of the Final Indicative Service, ARTC is required to have regard to the provisions of Section 4.14 of the 2011 HVAU as follows:

#### **'4.14 Indicative Access Charge**

- (a) ARTC will determine for each year the Indicative Access Charges for Coal Access Rights with the characteristics of applicable Indicative Services (being Initial Indicative Services in section 4.17 and Final Indicative Services to be determined in accordance with section 4.18), having regard to the System Assumptions. System Assumptions applicable to the Indicative Services will include the following:
  - (i) maximum axle load;
  - (ii) maximum speed;
  - (iii) Train length; and
  - (iv) section run times.
- (b) There may be more than one Indicative Service and Indicative Access Charge within a Pricing Zone. Indicative Service assumptions and Indicative Access Charges would apply to all Segments within a Pricing Zone. Indicative Service assumptions and Indicative Access Charges may both vary between Pricing Zones.

- (c) Once Indicative Access Charges for Indicative Services are finalised each calendar year in accordance with section 4.20, ARTC will publish Indicative Access Charges on its website in the following format:

Note: These Charges are exclusive of GST.

<b>Segments</b>	<b>Non-TOP \$/kgtkm (ex GST)</b>	<b>TOP \$/kgtkm (ex GST)</b>	<b>Indicative Service Assumptions</b>
<b>In Pricing Zone 1*</b>			
Indicative Service 1	X.XXX	X.XXX	XXXXXXXXXX
Indicative Service 2	X.XXX	X.XXX	XXXXXXXXXX
<b>In Pricing Zone 2*</b>			
Indicative Service	X.XXX	X.XXX	XXXXXXXXXX
<b>In Pricing Zone 3*</b>			
Indicative Service	X.XXX	X.XXX	XXXXXXXXXX

\*Pricing Zones contain Segments as specified at Schedule E

- (d) ARTC will offer the applicable Indicative Access Charges described in section 4.14(c) above to Applicants seeking Coal Access Rights with applicable Indicative Service characteristics.'

## 2. HVCCC INVOLVEMENT

ARTC recognises that in order to meet its obligations under the 2011 HVAU in this respect, it is necessary to engage and consult closely with the HVCCC and utilise, and rely substantially on, the expertise of the HVCCC in Coal Chain Capacity modelling. Specific activities that will need to be undertaken with the HVCCC are:

By December 2013, ARTC is required to:

1. Develop, in consultation with the HVCCC, the proposed characteristics of the indicative services which ARTC considers will deliver the optimum utilisation of Coal Chain Capacity, given certain System Assumptions.
  - a. consult with the HVCCC, Access Holders and Operators
  - b. assist the HVCCC to undertake modelling
  - c. follow the principles of consultation set out in Schedule F
  - d. use best endeavours to agree with the HVCCC the characteristics to be submitted to the ACCC as the proposed Final Indicative Services

Submit to the ACCC proposed characteristics of the Final Indicative Services developed in consultation with the HVCCC.

2. Consider whether gtkm is the appropriate pricing unit to encourage efficient consumption of Capacity
  - a. consult with the HVCCC, Access Holders and Operators
  - b. follow the principles of consultation set out in Schedule F

Submit to the ACCC, having reasonable regard to submissions above, if ARTC considers that gtkm is not an appropriate pricing unit to encourage efficient consumption of Capacity, an alternative pricing unit that ARTC considers will encourage efficient consumption of Capacity.

After December 2013, ARTC is required to:

3. If the ACCC does not accept the characteristics proposed by ARTC as the Final Indicative Services, ARTC will, within a timeframe reasonably specified by the ACCC (not to be less than 3 months) having regard to the need for further

modelling and industry consultation:

- a. submit revised characteristics to the ACCC
- b. seek the approval of the ACCC to vary this Undertaking to provide for the adoption of the revised characteristics as the Final Indicative Services.

This paper seeks to set out for discussion with the HVCCC some high level principles and an overarching framework for engagement, consultation and resourcing of this development.

### 3. PRINCIPLES AND FRAMEWORK FOR DISCUSSION

ARTC understands that Hunter Valley coal stakeholders see the development of the Final Indicative Service and the application of an appropriate pricing unit to encourage efficient utilisation of Capacity as an important part of the overall commercial framework ultimately intended to incentivise users towards efficient utilisation of, and investment in, the Hunter Valley coal chain. It should be recognised however that access to the rail network access and pricing represents only one part of the Hunter Valley coal chain operating and commercial framework, and that the industry needs to consider incentives to achieve efficiency in other parts of the Hunter Valley coal chain in order to achieve the desired outcome.

Nevertheless, ARTC recognises the need for stakeholder consultation in relation to these developments.

Given the nature of tasks required above, ARTC sees there being two separate, but related, strands of work that it believes may be best dealt with in different ways. The first relates to the development of the characteristics of the Final Indicative Services, which ARTC sees as being heavily reliant on the development and analysis of robust coal chain modelling utilising resources with specific expertise in this area (operations research, optimisation, system development). ARTC sees engagement and close consultation with the HVCCC in carrying out this work at a detailed level, with reference to regular and broader industry stakeholder review and advice as important to achieving an effective outcome.

The second relates to the consideration as to whether gtkm is the most appropriate pricing unit to encourage efficient consumption of Capacity. In this regard, Capacity relates to the capability of the Network to carry train services (including non-coal) based on and applying certain system assumptions relevant to utilisation of the Network for coal, and other assumptions for non-coal. As ARTC pricing is only applied to relevant utilisation of the Network (as opposed to other parts of the coal chain), ARTC is likely to be in the best position to consider the merits of pricing unit options, but involving consultation with the HVCCC and other industry stakeholders as required under the 2011 HVAU. ARTC also recognises that outcomes arising from the development of the Final Indicative Service may be a factor relevant to the consideration of the appropriateness of a pricing unit applicable to utilisation of the Network.

## 3.1 Final Indicative Service (FIS) development

### 3.1.1 FIS development organisation and resourcing

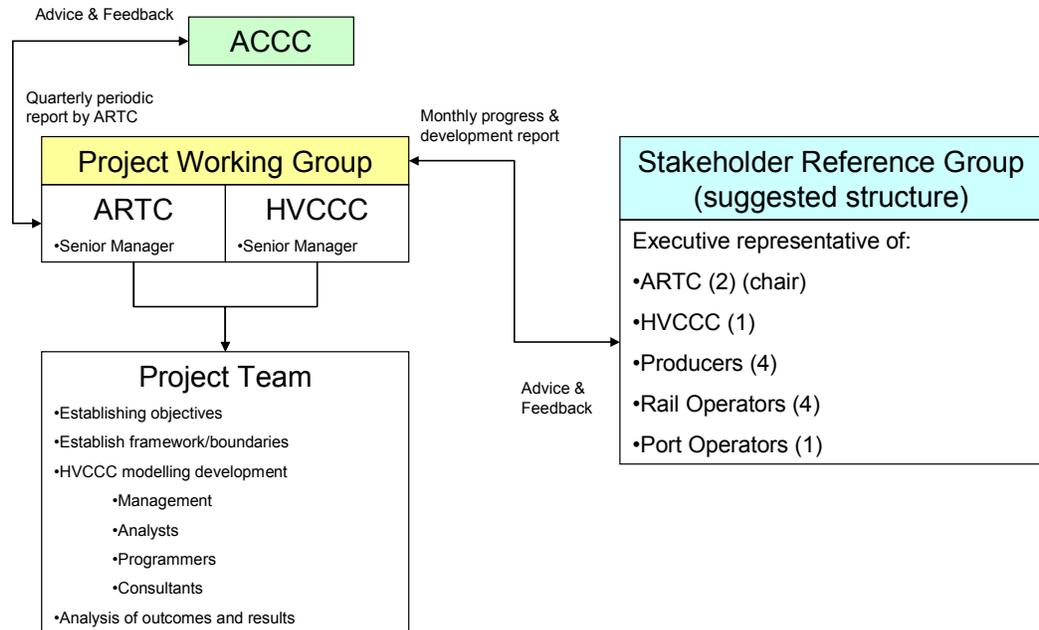
#### Principles

ARTC considers that the following principles are appropriate.

- Detailed development activity including establishing the objectives, framework/boundaries for FIS consideration and modelling, model development, determining appropriate measurement and detailed analysis of outcomes is best undertaken jointly by ARTC and the HVCCC with specific utilisation of HVCCC (and external) resources with expertise in these areas.
- Regular reference to a wider industry group representing stakeholder groups through progress information and consultation. Such a group would act in an advisory capacity rather than in a project management capacity.
- Development costs incurred by ARTC are recovered through regulated access pricing.
- Development costs incurred by the HVCCC (including any external costs) are recovered through existing cost recovery mechanisms (HVCCC rail user levy).

## Organisation

ARTC considers that the following organisation for this development is appropriate:



### *3.1.2 Some FIS development elements*

#### Objectives

- What are we trying to achieve – common view?

#### Framework/constraints

- How far into the future are we looking?
- What parts of the coal chain do we put constraints on?
- What aspects of System Assumptions do we put constraints?

#### Model development

- Do we want an optimisation model or a scenario testing model?
- Cost/benefit?

## Measurement and analysis

- Basis of measurement of 'optimal'?

### **3.2 Appropriate Pricing Unit (APU) development**

For the reasons described earlier, ARTC considers the following approach to the development of the APU is appropriate.

1. *Identify APU options* – ARTC will identify a number of options for pricing assess to rail networks, including the gtkm approach currently used under the 2011 HVAU and any approaches proposed by stakeholders in submissions during the ACCC consultation process.
2. *Evaluate APU options* – ARTC will consider the merits of the gtkm approach currently used under the 2011 HVAU relative to alternative options to form a view on whether gtkm is the appropriate pricing unit to encourage efficient consumption of Capacity. Based on this view, ARTC will prepare a stakeholder consultation document for discussion with the HVCCC. ARTC will, where possible, have regard to any relevant aspects of the FIS development in preparing the stakeholder consultation document.
3. *HVCCC consultation* – ARTC will, following consultation with the HVCCC on its stakeholder consultation document in accordance with the consultation principles at Schedule F of the 2011 HVAU, and in particular in relation to any relevant aspects of the FIS development, finalise the document for stakeholder consultation.
4. *Stakeholder consultation* – ARTC will invite submissions from Access Holders and Operators in relation to its stakeholder consultation document and will have regard to those submissions in preparing its ACCC submission.
5. *Keeping the ACCC informed* – ARTC will provide the ACCC with an indicative timetable for APU development and will provide a copy of the final stakeholder consultation document to the ACCC for discussion if needed.