

11 July 2023

Mr Matthew Schroder  
General Manager  
Infrastructure & Transport – Access & Pricing Branch  
Australian Competition and Consumer Commission

Email: [transport@acc.gov.au](mailto:transport@acc.gov.au)

Dear Mr Schroder,

**Australian Rail Track Corporation's compliance with the Hunter Valley Coal Network Access Undertaking financial model for 2021**

I write on behalf of the Hunter Rail Access Taskforce (**HRATF**) in relation to the ACCC's assessment of the Australian Rail Track Corporation's (**ARTC**) compliance with the Hunter Valley Coal Network Access Undertaking (**HVAU**) financial model for 2021.

**HRATF welcomes the increased transparency being provided by ARTC**

The HRATF would like to acknowledge the recent positive steps that have been taken by ARTC towards providing users with greater transparency around its costs, financial models and the annual compliance process. The HRATF welcomes ARTC's efforts to provide greater transparency, including the workshops held over the past year and sharing of information with users. Greater transparency has allowed users to gain better insight into network cost drivers, trade-offs and the operation of ARTC's financial models. The HRATF and its members look forward to continuing and improving this engagement with ARTC.

The HRATF would also like to acknowledge and thank the ACCC for its ongoing work to promote greater transparency and constructive industry engagement.

Notwithstanding this greater transparency, there continue to be some areas in which the HRATF feels constrained in its ability to participate in the annual compliance process. In particular, the HRATF is limited in its ability to test the efficiency and prudence of ARTC's expenditure, the accuracy of its financial models, and the appropriateness of its overhead allocation methods. This is partly due to limitations on the information and modelling that can be shared by ARTC with users. For example, the HRATF notes that ARTC has identified errors in the modelling previously submitted to the ACCC, requiring material adjustments to the RAB Opening Balance.<sup>1</sup> However without access to full versions of the financial models, the HRATF cannot verify ARTC's proposed adjustments or test for other possible errors in its modelling.

The industry therefore remains substantially reliant upon the ACCC to test prudence and efficiency of operating expenditure in particular, the accuracy of ARTC's financial models, and compliance with the HVAU more generally.

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<sup>1</sup> ARTC, Hunter Valley Coal Network Access Undertaking 2021 Annual Compliance Assessment Submission, 11 April 2023, p 3.

In the remainder of this brief submission, we highlight some elements of ARTC's expenditure that we consider warrant close review by the ACCC.

### **Corporate overheads and business unit management costs**

The HRATF notes the recent findings of ARUP regarding ARTC's reported overhead and business unit management costs. ARUP found that, for 2019 and 2020, ARTC's 'Total Overheads'<sup>2</sup> (including business unit management) were significantly higher than comparator businesses on a normalised basis.<sup>3</sup>

There was a further increase in ARTC's 'Total Overheads' (including corporate overheads and business unit management) in 2021. This appears to have been largely driven by a change in the accounting treatment of certain software costs.<sup>4</sup> These 'Total Overheads' now account for over 30% of ARTC's operating expenditure.

The HRATF has previously expressed concern around ongoing increases in the amount of overhead costs allocated to the Hunter Valley Network. We have also noted the apparent potential for shifting of costs between different cost categories and different parts of ARTC's business.<sup>5</sup>

Given the findings of the ARUP review, the HRATF would encourage the ACCC to closely review ARTC's overhead and business unit management costs, including how these are allocated to the Hunter Valley Network. On its face, the ARUP review would suggest the ARTC is allocating a higher amount of 'Total Overheads' to the Hunter Valley Network than would be appropriate for a prudent operator.

### **Network control**

The HRATF notes that ARTC's Network Control Optimisation (**ANCO**) program is yet to demonstrate any tangible cost savings. ARTC has previously indicated that one of the benefits that justified the commercial case for the ANCO program was a reduction in network control operating expenditure through automation of some manual work tasks, data capture and a decrease of work effort and associated operational overheads.<sup>6</sup> This expectation has also been noted by the ACCC.<sup>7</sup>

Industry's expectation is that as ANCO moves out of the implementation phase, network control cost savings will start to be realised. The HRATF would encourage the ACCC to keep this under review, to ensure that users realise the full benefit of the ANCO investment.

### **Maintaining and improving service levels**

Finally, the HRATF wishes to acknowledge the measures that have been implemented by ARTC to maintain and improve service levels. In particular, the HRATF supports measures to improve track utilisation levels, in line with ARTC's commitments during the last HVAU review.<sup>8</sup>

Maintaining and improving service levels is at least as important to users as cost efficiency. The HRATF will generally support programs designed to improve network utilisation, provided that the cost of these programs is prudently and efficiently incurred.

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<sup>2</sup> In this submission we adopt ARUP's definition of 'Total Overheads', including ARTC's 'corporate overheads' and 'business unit management' categories.

<sup>3</sup> ARUP, ARTC –Hunter Valley | Operating cost benchmarking: Final Report for the ACCC, September 2022.

<sup>4</sup> ARTC, Hunter Valley Coal Network Access Undertaking 2021 Annual Compliance Assessment – ATTACHMENT 1: Hunter Valley Network Operating Costs, 11 April 2023, p 46.

<sup>5</sup> Refer to HRATF's submissions on the 2019 / 2020 compliance review.

<sup>6</sup> ACCC, 2019 and 2020 HVAU Compliance Final Determination, p 47.

<sup>7</sup> ACCC, 2018 HVAU Compliance Final Determination, p 36.

<sup>8</sup> ARTC, Hunter Valley Coal Network Access Undertaking Version 8 Explanatory Guide, December 2020, p. 9.

**Next steps**

The HRATF thanks the ACCC for the opportunity to participate in the compliance review process. We look forward to further constructive engagement with ACCC and ARTC going forward.

Please contact me if you would like to discuss this matter.

Yours sincerely,



Frank Coldwell  
Chair, Hunter Rail Access Task Force

