

3 October 2019

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

Sent via Email: transport@acc.gov.au

Dear Matthew

Issue Paper – Valuation approach for the Interstate Network

We have reviewed the issues paper issued on 12 September 2019 and outline below our views on the six stakeholder questions. We have confined our views only to these questions and not some of the more broader issues we see with railway access pricing and the ability for it to compete against some other modes of transportation on the back of the policy decisions that enable more favourable (subsidised) pricing and access regimes. It is becoming evident to us that some policy makers have changed their tack on dealing with social issues of congestion, road safety and carbon efficiency.

Our responses are as follows:

Q1. Do stakeholders prefer a RAB roll forward or a full DORC valuation?

Our preferred view is to adopt a RAB roll forward as this has regard for the investments made and paid for by ARTC in developing and upgrading the rail network. We also feel a RAB roll forward is a more reasonable basis of measurement to which the network owner should establish access prices and rate of financial return. Additionally, a RAB roll forward should ordinarily reflect that condition of the asset base through the depreciation rates and effective lives adopted through the roll forward process.

Q2. Do stakeholders have comments on the use of a RAB roll forward for setting the RAB for the replacement IAU?

Having regard to our preference outlined in question 1, we read with interest the ACCC comments on some of the challenges experienced to date with ARTC providing sufficient evidence and justification to support the RAB roll forward of \$10 billion for the 2018 IAU. We acknowledge that the current 2018 IAU assessment process has now been going on for a significant period of time. We further hold the view that if the period was to be extended further, we still find it somewhat unlikely that ARTC will be able to produce any further substantial evidence to provide the comfort and justification sought by ACCC. Additionally, concerning to us would be that ACCC, in conjunction with ARTC, continue to pursue a RAB roll forward and at a later point in time still form the view that sufficient evidence and justification to support the RAB roll forward was not available. To us this would be a waste of regulatory time and cost.

Q3. Do stakeholders have comments on the use of a full DORC revaluation for setting the RAB for the replacement IAU?

As intimated with our response to question two, we feel this is the only reasonable and practical alternative to establishing a RAB for the replacement IAU. Noting this we do form a view that there are some challenges with this approach that must be resolved on delivery of an outcome, as otherwise in our opinion the final valuation will be flawed. These include:

- Establishing only a valuation for the components of the network ARTC paid for and as such are entitled to earn a financial return. Where Grant funds have been utilised to construct elements of the network, we do not believe these should form part of the RAB and influence floor and ceiling prices.
- Like the above, the valuation should exclude in full or in part any components of the network access seekers part or fully funded under an arrangement with ARTC.
- The assessment of efficiency and prudence of the network and value may be somewhat different for passenger uses as opposed to freight uses. We understand this forms part of the optimisation assessment under a DORC however the floor and ceiling may not appropriately reflect these distinctions and ultimately ensure each component is appropriately priced into the future.

Q4. Do stakeholders have comments on the effect of the valuation of the RAB in setting Access Charges in future IAU applications?

As noted in our response to question three, our key concerns over the valuation process and its impact on floor and ceiling prices into the future include:

- Ensuring the cost base only includes amounts actually paid by ARTC, thus any funding contributions directly associated with upgrading the network are to be excluded. This would include contributions such as Grants or those paid directly by an access seeker.
- The determination of efficient use of the asset will be challenging as the standards and needs are somewhat different for freight tasks as opposed to passenger tasks.
- Ensuring that asset components that in reality have an infinite effective life, i.e. siteworks, are not depreciated as part of the valuation process and ultimately add to the floor and ceiling prices.

Q5. If a DORC valuation was undertaken, do stakeholders have comments on the suitability of the ACCC engaging a consultant to undertake the valuation?

Generally speaking, we do not have any concerns with a consultant being engaged to undertake the valuation. We would see it imperative that the following principles be considered as part of the brief/scope:

- Qualification and experience in valuing such assets
- Independence/Conflicts of interest
- Engagement with ARTC throughout the process to ensure that there are no expectation gaps or misinterpretations to the outcome delivered on completion
- An appropriate review process of the draft outcome by ACCC, ARTC and potentially access seekers before finalisation
- A defined timeline and scope

Q6. Do stakeholders have any other comments on the approach to valuing the RAB?

Overall, we do ask ourselves is it absolutely necessary to value the RAB for this IAU undertaking. Whilst we understand the regulatory process and the fact that the value will be utilised to determine the floor and ceiling, we also acknowledge the ARTC's undertaking to not change their published standing offer irrespective of the outcome of the RAB valuation. Therefore, after consideration of these two points we ask ourselves is the ACCC able to get comfortable, outside of a valuation, by comparing the standing offer published rates, existing floor and ceiling rate, anticipated floor and ceiling rates from a high and low valuation range threshold. Our view is that this should be able to be achieved and if so this extra regulatory cost and timing may be better dealt with when the proposed new IAU comes to its next expiry in 5 years' time. By doing this the 5 years of RAB roll forward and regulatory burden, for no real benefit can be avoided.

Should you wish to discuss our responses further please do not hesitate to contact me on 03 9931 5363.

Yours sincerely



Michael Fiteni
Company Secretary