

Variation to Interstate Rail Network Access Undertaking

Sydney Ports Corporation Submission to the ACCC

16 October 2012

Version DRAFT 1.1

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1 Executive Summary

Sydney Ports Corporation (Sydney Ports) provides this submission in response to the Australian Competition and Consumer Commission (ACCC) Consultation Paper: “Australian Rail Track Corporation’s proposed variation of the Interstate Rail Network Access Undertaking to include Southern Sydney Freight Line Indicative Access Charges” dated 18 September 2012.

Sydney Ports welcomes the commissioning (expected January 2013) of the Sydney Southern Freight Line (SSFL) as an important link in the freight supply chain in Sydney and NSW. This link is expected to remove rail passenger train conflicts with freight services and extend freight operations to times of day currently unavailable to freight services. In providing this new infrastructure, ARTC proposes via its variation of the Interstate Rail Network Access Undertaking to apply an Access Charge which is believed to be significantly higher than on both the RailCorp Access Charge on the existing adjacent Metropolitan South line, and also the current ARTC access charge on the recently acquired lease of the Metropolitan Freight Network.

Sydney Ports acknowledges increased user charges are justified, to contribute to the cost of new infrastructure without which, there would be less investment. Any increased user charge though, should be justified to the extent that operational benefits accrue an enhanced economic outcome to the user. In this respect Sydney Ports via this submission, seeks to clarify the economic benefits and the level to which these would support changes in Access Charges over that currently available on the adjacent network. Specifically Sydney Ports believes quantifying the following aspects of the Proposed Variation may be appropriate to assist the ACCC in making its determination on the Proposed Variation.

- The actual operating benefits to users including improved asset turnaround and Train Crew shifts avoided as a function of any transit time reductions and reliability improvements.
- Impact of the increased quantum of access charges (where access charges already constitute a significant portion of end user costs) in modal contestable markets (both interstate and port freight).
- The role of the submitted ceiling price in consideration of the appropriate Access Charge and in this respect, the quantum of the ceiling price submitted and its underlying asset base structure.

Sydney Ports would support an increase in Access Charges where there is a demonstrable benefit to users such as being able to use paths at times of day not currently available and there is demand for that time of day. Where performance levels are comparable to existing

paths, increases to rail freight access charges in a modal contestable environment may have negative impacts on rail and Sydney Ports' container volumes, and contribute to congestion on major roads around Port Botany and the Airport.

Currently the competitive position for port rail freight against road is marginal, particularly in metropolitan Sydney. Two smaller intermodal terminals have closed within the past two years, and until the larger proposed terminals at Enfield and Moorebank come on-stream, there will be no step change to increasing rail volumes and generating economies of scale to support sustainable port rail freight.

Therefore it may be appropriate to provide a differential price for Port Botany shuttles on the SSFL, to be consistent with pricing on the Metropolitan Freight Network; in order to not further erode port rails' competitive position versus road.

2 Introduction

2.1 Sydney Ports

Sydney Ports Corporation is a NSW State Owned Corporation whose activities include services to commercial shipping at Port Botany. The resulting international trade with Sydney and NSW through Port Botany has reached over 2 million TEU's¹. Growth forecasts predict this throughput to increase to over 3 million TEUs by 2020.

Growth of this magnitude requires supply chain capacity with regard to efficient outcomes, without which NSW producers, traders and consumers will be economically disadvantaged. Recognising this imperative, the NSW Government introduced the Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008. This Act expands Sydney Port's services to "port related supply chain" activities. Specifically the Act provides as one of Sydney Ports Corporation's objectives

".....improve productivity and efficiency in its ports and the port-related supply chain."

To this end, Sydney Ports Corporation has established and resourced the Port Botany Landside Improvement Strategy (PBLIS). The NSW Government has adopted a target of doubling the proportion of container freight by rail through NSW ports by 2020. In absolute terms this equates to a tripling of rail volumes. This modal shift would better utilise the existing rail infrastructure and provide some relief to the already congested road network, regardless of any other proposed infrastructure enhancements.

It is Sydney Port's view that any changes to the relative rail vs road economics be considered in the context of improving rail's competitive position (from a low base) against road, and to maximise total supply chain efficiencies.

2.2 Southern Sydney Freight Line (SSFL) & the adjacent RailCorp Corridor

The port related supply chain links metropolitan and rural shippers of freight to ships at Port Botany. In respect to rail this includes in part the Metropolitan Freight Network (MFN) providing a rail link to metropolitan Sydney and rural NSW through the RailCorp, ARTC and Country Rail Networks.

The Southern Sydney Freight Line (SSFL) has been developed adjacent to part of the existing RailCorp network. This development will provide a link exclusively for self propelled

¹ Twenty foot Equivalent Units. eg One forty foot shipping container is considered to be two TEU's.

train services² from the ARTC network where it currently terminates at Macarthur NSW with the Metropolitan Freight Line beginning at Sefton Park Junction.

Currently freight rail services utilise the RailCorp corridor from Macarthur to access the Metropolitan Freight Network at Sefton Park Junction. This capacity is provided subject to the terms and conditions of Access Agreements between Rail Operators and RailCorp. These Agreements include passenger priority provisions consistent with the NSW Transport Administration Act. An Access Charge is also payable. Sydney Ports understands the rate structure to be a fixed cost per train kilometre for specific train configurations.

At present RailCorp is increasing its rail passenger fleet to meet growth in demand. As RailCorp increases the number and frequency of their services on the RailCorp network, there is expected to be a corresponding reduction in available capacity for Freight Services.

3 Undertaking

The ACCC has published a Consultation Paper containing “The Proposed Variation”. The Proposed Variation effectively extends the provisions provided under ARTC’s “Interstate Rail Network Access Undertaking” to the SSFL, albeit with a new Access Charge. The Proposed Variation provides ARTC’s substantiation of the proposed access fees.

The substantiations in the Proposed Variation are not quantified. However they can be essentially separated into two groups. They are as follows.

3.1 Improved Service Levels and Economies Flowing to the Access Seeker

The SSFL will:

1. Increase capacity available for freight services.
2. Provide more flexibility in timetabling. Ie: For departure and arrival times at Sefton Park Junction, freight will no longer be subject to passenger priority;
3. Provide a reduction in transit times for the North South Corridor; and
4. Improve reliability.

3.2 Access Charges

5. The proposed Access Charges are consistent with the pricing principals of the existing Interstate Rail Network Access Undertaking. That is, the proposed Access Charges sit between the Floor and Ceiling prices established for the SSFL by ARTC.

² The SSFL is not being constructed with any overhead power lines. RailCorp commuter services for example are powered by a 1,500 Vdc overhead wires on the adjacent RailCorp network.

4 Review of Proposed Access Undertaking Variation

Sydney Ports Corporation makes this submission on the basis of information available to it at the time. Sydney Ports notes that not all project costing details are available nor the traffic volumes and capacity modelling upon which the Variation uses to support the proposed Access Charges. As such the following sub-sections provide commentary rather than detailed analysis on the benefits of the SSFL and the structure and impacts of the proposed Pricing Variation.

4.1 Rail Capacity.

The Proposed Variation states that the SSFL will increase capacity for freight services entering and exiting the MFN at Sefton Park Junction though without quantification. Nevertheless it is Sydney Ports understanding that ARTC expects the SSFL to meet all current freight demand on the adjacent RailCorp Metropolitan South lines and provide for market growth. Further that the SSFL will provide for access to existing and proposed intermodal terminals along the line (such as the proposed Moorebank terminals). Sydney Ports makes the following observations in this respect:

- In April 2012 the Federal Government committed to the development of an Intermodal Terminal at Moorebank. Planning approval for the movement of one million TEU's to/from road to rail is being sought.
- Four to six return paths a day to intermodal terminals along the SSFL have been notionally assigned for future growth. This is estimated to provide approximately 20% of the above expected throughput. .
- Opposing train movements on single rail lines restrict capacity, though 'fleeting' trains in the same direction one after another reduces this limitation. Exacerbating this limitation further is the practical capacity of a single line is typically much lower than dual lines before late running knock on effects add exponentially to delays.

It is also Sydney Ports understanding that existing capacity provided for freight services on the adjacent RailCorp Metropolitan South lines is expected to be utilised in future by RailCorp for its passenger services as and when freight services migrate to the SSFL.

This understanding comes about from the following observations.

- RailCorp's current passenger fleet is nearly fully utilised and has demand for more services.
- A fleet expansion is currently underway and is expected to be completed in 2014.
- This increased usage is expected to absorb RailCorp network spare capacity. This includes capacity on the Metropolitan South line adjacent to the SSFL.

4.2 More flexibility in timetabling

The absence of a freight curfew does indeed provide increased timetable flexibility. Where there is demand to operate during the passenger commuter peak there may be a basis to apply an Access Charge premium. Where service characteristics are similar to current, this does not support a step change in Access Charges.

4.3 Reduction in transit times for North South Corridor.

Transit time reductions are expected for through services presently interrupted by the Sydney freight curfew on either the Southern or Northern Metropolitan lines. This will be alleviated only where North - South path synergies can be delivered with the SSFL in place. Transit time reductions for Port bound traffic may not be assured.

4.4 Improved Reliability

Improved reliability is an outcome of extra capacity to provide for service interruption recovery and the avoidance of conflicts with priority (passenger) traffic, which the SSFL provides to a degree. Previous comments stated in respect of capacity under section 4.1 are applicable here.

4.5 Floor and Ceiling Price

The Proposed Variation makes reference to a floor and ceiling price to illustrate the proposed Access Charge is compliant with Pricing Principles established in the current Interstate Rail Network Undertaking. In a modal contestable non-bulk market though, the proposed ceiling price is not a conceivable proposition as it would price the rail mode out of the market. There is a risk that in attempting to link an Access Charge to this ceiling price, even at a large discount, that it may create unintended consequences.

The greatest driver in determining a ceiling price is the capital base of the regulated asset. Sydney Ports would suggest that ACCC consider the following aspects:

- Whether the \$1 Billion asset base valuation is appropriate.
- Whether ARTC's asset base and charging model for the SSFL is consistent across its various access regimes.
- Whether the economic benefit to end users is commensurate with the \$1 Billion asset base.
- Other appraisals for the asset base might yield a different asset valuation (such as applied for ARTC's Hunter Valley network).

- If volumes used in modeling the floor / ceiling quantum were underestimated, this could lead to increased unit rates and hence revenues. Any projected volumes should be carefully reviewed.

5 Additional Considerations in Access Charge

5.1 Modal Competitive Position

Another factor to be considered is that the SSFL serves modal contestable parts of the freight market where the alternative is road freight (interstate and port freight markets). Although the SSFL is mainly a freight extension to the current main south interstate track into Sydney, intermodal terminals servicing port freight are proposed to access the SSFL in future (in particular the two Moorebank terminals - one government, one private).

The proposed Access Charge approximately doubles that currently available. To some extent, this extra cost may be mitigated where operational benefits lead to a reduction in costs, such as train pathing through the passenger peaks. For a long distance, long interstate train, this increased charge may only represent an incremental price increase. However for a short-haul port shuttle, this increased charge represents a major increase in cost (in an area that is already a high cost of running a port train service).

As an example, Sydney Ports understands that the current access fee for a train up to 640m for a 36km section on the RailCorp network would be in the order of \$280, and on the ARTC MFN network approximately \$270. However the proposed ARTC access pricing for the SSFL for a similar train would be in the order of \$615, around a 120% increase. Are the benefits for port trains commensurate with the increased charge?

In the short term this higher charge could discourage port rail investment and put port rail freight at a further disadvantage to road freight, as this port market is dominated by road (14% current rail mode share) where road freight vehicle access is subsidised to some degree across all users.

Currently the competitive position for port rail freight against road is marginal, particularly in metropolitan Sydney. Two smaller intermodal terminals have closed within the past two years, and until the larger proposed terminals like Enfield and Moorebank come on-stream, there will be no step change to increasing rail volumes and generating economies of scale to support sustainable port rail freight.

- Therefore it may be appropriate to provide a differential access price for port shuttles on the SSFL, to be consistent with pricing on the MFN; that is, for those metropolitan and regional NSW trains servicing Port Botany.

5.2 Other Access Charges

Sydney Ports is aware of other user charge changes that have been proposed in various forums. This includes a proposal to review the Metropolitan Freight Network Access Charges. Any changes in this regard have the potential to compound rail's competitive disadvantage, and therefore should be considered carefully. Rail volumes need to reach a critical mass to support efficient access pricing, and consistency across the network is a key to sustainable port rail freight traffic. This will not occur until larger intermodal terminals such as at Enfield and at Moorebank come on-stream generating the economies of scale required.

6 Conclusion

Sydney Ports supports infrastructure development to boost rail freight capacity, efficiency and reliability. In respect of capacity and reliability it is expected that the SSFL will substitute in large part for the existing RailCorp Metropolitan Southern line. The main tangible benefit to rail operators (where a demand exists) is being able to arrive or depart the MFN during the current passenger peaks in Sydney; along with some capacity for future freight growth.

Sydney Ports acknowledges that ARTC has a current Access regime in place and seeks to make a variation as it sees suitable, with the right to recover costs for its network.

However, the NSW Government and Sydney Ports have a target to double container freight transported by rail to NSW ports by 2020; and are concerned for the competitive position versus road of metro rail shuttles in particular.

The ACCC should examine the ARTC asset base / costing is appropriate; and the charging model is consistent across Access regimes and contestable markets.

Sydney Ports notes the SSFL is mainly for interstate traffic, but is linked to the MFN and the proposed Moorebank terminals; and that the proposed new access pricing for the SSFL is approximately double the current metropolitan freight access charging regime.

Sydney Ports acknowledges a premium Access Charge may be warranted where a beneficial service differential is delivered. This will create the environment in which public and private

investments increase productivity for the benefit of the community as a whole. In regards to the SSFL this may be for paths available at times of day not currently available and there is a demand at that time. Incremental improvements in rollingstock utilisation or savings where whole Train Crew shifts may be avoided are also supported.

However for Port Botany rail traffic, Sydney Ports would expect to see consistent MFN access pricing and recommends therefore that differential pricing for port shuttles on the SSFL (or a segment of the SSFL) at a competitive price with road, may be a suitable compromise to assist both port freight rail growth and ARTC charging / revenue. This is also mitigated for perceived capacity constraints for port rail freight growth in the future.