SYDNEY PORTS
FIRST PORT, FUTURE PORT

26 February 2013

Mr Matthew Schroder
General Manager - Fuel, Transport & Prices Oversight Branch
Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001

Email: transport@accc.gov.au

Dear Matthew,

RE: VARIATION TO THE INTERSTATE RAIL NETWORK ACCESS UNDERTAKING: SUBMISSION IN RESPONSE TO ACCC DRAFT DECISION

Thank you for the opportunity to respond to the ACCC Draft Decision dated 6 February 2013 in regards to ARTC's proposed variation of the Interstate Rail Network Access Undertaking.

Sydney Ports in its original and supplementary submissions (dated 16th October 2012 and 13th November 2012 respectively) noted the existing RailCorp corridor currently charges approximately 50% of the Indicative Access Charge ARTC proposes for the SSFL. This contestability for potential SSFL traffic will dissipate as RailCorp reclaims freight paths for expanding its own passenger operations over the next 2 years and moves its rates in line with the SSFL. The end result will be one predominate access provider at rates significantly higher than now available.

This latest cost pressure is in addition to others being added to rail including a recently introduced Port Botany Yard Access Charge and shunt restrictions imposed by the rail network manager at Port Botany.

As RailCorp withdraws from providing freight paths and rail operators face increased charges, the impact will be felt most keenly on metropolitan freight traffics, presently 98% of imports from Port Botany. Rail is already a marginal freight proposition from Port Botany as reflected in its 14% modal share. Increasing end customer rail freight rates by 15% will render proposed rail intermodal terminals in Sydney's south west unviable, metropolitan freight will move to road and government rail modal targets become unachievable. Indeed current metropolitan rail volumes will be decimated with this cost impost.

Market failure for metropolitan traffics will be assured during the remaining five year life of the current Interstate Rail Network Access Undertaking and long term damage done to rail modal share. This will be felt more keenly as Port Botany container throughput increases from 2m TEU to 3m by 2020.

An option exists to provide metropolitan freight a differential Rail Access Charge to allow continued competition with road. Sydney Ports urges ACCC's consideration of these important issues[1] and is happy to provide further information.

Yours sincerely,

Lachlan Benson
Executive General Manager Industry Relations and Logistics

[1] Re: competition issues raised. Also provided in Attachment 1 is a high level review of SSFL revenues & ceiling.

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Attachment 1 – SSFL Revenues and Ceiling Review

Purpose: Determine whether a detailed assessment of ceiling revenues is warranted.

Current Status: The predominate view is that modelled revenues are so far below the modelled ceiling price submitted to ACCC as to make any detailed assessment superfluous. This review of both revenue and ceiling assumptions tests this proposition.

Premise: SSFL demand meets expectations[2] with the proposed access rates in place.

Revenue Assumptions

Proposed Variation of the Interstate Rail Network Access Undertaking

- ARTC has submitted to ACCC revenues of $5 million (**$7.5 million** in 2016/17)
- This assumes 17 to 22 trains per day. Ie:
  $5 million ($7.5m 2016/17) / average $800 access charge per train[3] ($920 in 2016/17)

Reference Material

- 60 trains per day were anticipated in ARTC's Environmental Impact Assessment – Chapter 7 Operation of the Proposal[4].

Outcome

- Revenues would be in the order of **$20 million** pa by 2016/17 based on this volume.

Ceiling Revenue Assumptions

Proposed Variation of the Interstate Rail Network Access Undertaking

- Ceiling Revenue is modeled at $110 million (2016/17)
- A significant portion of this is based on a $1 billion cost of the SSFL.

ACCC Draft Decision

- *"ACCC also has not approved the $1 billion cost of the SSFL for inclusion in the Regulatory Asset Base."*
- *"…..revenue expected to be generated ……..is substantially below even a conservative ceiling based on the original $242 million forecast cost of the SSFL."*

Reference Material

- The following optimised replacement costs (ORC) were benchmarked against recent project delivery[5].
  - $0.6 million (2008 $) per kilometre for track and signaling.
  - Earthworks up to $2 million (2008$) per kilometre depending on terrain.
  - An average ORC of $1.65 million (say $2m 2012)
- The SSFL estimate of $242 million included the Casula bridge flyover and other cost items directly related to the accommodation of RailCorp's assets and their operations during and post SSFL construction.

Assumptions

- Cost items directly related to accommodating RailCorp operations comprised $100 million of the original $242 million estimate.
- The subsequent project cost escalation followed 2 years of delays, demobilsation and remobilsation and significant additional works on RailCorp assets.

Outcome

- Even allowing for significant escalations above previously established ORC's, a RAB of $100 - $150 million is conceivable following a prudency or asset optimisation assessment.
- The resulting ceiling revenue would be in the order of **$10 to $15 million**

Conclusions

1. The revenue of $20 million would breach a ceiling based on $150 million RAB.
2. Train path demand and hence revenues should be verified.
3. An appropriate RAB should be established.

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[2] Assumes other interstate rail efficiencies offset SSFL access charge. No metropolitan traffics exist on line.
[3] Based on the Indicative Access Charge, an average train of 900m length / 2,200 tonnes and 3.5% escalation pa.
[4] http://www.ssfl.artc.com.au/_docs/docs/approved/Chapter%207%20-%20Part%20B.pdf tables 7.4 and 7.5
[5] Page 10, 7th paragraph 'FINAL REPORT ARTC Standard Gauge Rail Network DORC June 2008'