

Hunter Valley Coal Network Access Undertaking  
2022 Annual Compliance Assessment

ATTACHMENT 2: Capital Consultation

Submission To

Australian Competition & Consumer Commission

27 March 2024

PUBLIC VERSION

ARTC



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## 1. INTRODUCTION

As part of its obligations under the Hunter Valley Coal Network Access Undertaking as varied on 2 June 2021 (**HVAU Version 8**), Australian Rail Track Corporation (**ARTC**) is required to engage in consultation with relevant stakeholders regarding capital expenditure programs for the Hunter Valley rail network. This document forms Attachment 2 to ARTC's 2022 Compliance Submission and is provided to the ACCC for the purpose of demonstrating the consultation undertaken during the 2022 compliance periods in support of the capital expenditure program including:

- a detailed description of the capital consultation process undertaken in 2022 and an explanation of how it met the requirements of the HVAU; and
- evidence of Access Holders' endorsement of proposed capital expenditure.

The name, address, contact details (including email address) of relevant stakeholders has been included as Appendix F to ARTC's 2022 Compliance Submission.

## 1. CAPITAL CONSULTATION PROCESS

### 2.1 Compliance Scope

Under HVAU section 9.2, ARTC is obliged to convene and conduct regular monthly meetings of the Rail Capacity Group (**RCG**). The RCG is a regular industry forum to ensure Access Holders, prospective Access Holders and other industry stakeholders are provided relevant input to identify, prioritise and evaluate future network investments and refine the capital works programme.

To achieve this objective, ARTC has a consultation process that incorporates the following:

- ARTC's planning approach, including the trade-off between routine maintenance and major periodic maintenance and capital expenditure;
- identification of the proposed capital investment needs for the forthcoming year and forecast capital expenditure for the following 10 years;
- explanation of the inputs to and outcomes of the evaluation undertaken for the proposed capital expenditure for the forthcoming year;
- assessment of the impact of the proposed capital expenditure on the Regulatory Asset Base (RAB);
- identification of the projects that will be funded or partly funded by capital contributions; and
- establishment of a process for Access Holders' input.


## 2.2 Industry Approach to Capital Consultation

### 2.2.1 Overview

Since taking responsibility for the NSW Hunter Valley Network in September 2004, ARTC has maintained its approach to consult all industry stakeholders with an interest in the movement of coal on the Hunter Valley rail network.

ARTC consistently demonstrated its ongoing ability to be flexible and adaptable throughout 2022 in response to ongoing weather impacts and significant inflationary pressures that impacted the price of labour and materials. The extreme weather conditions encountered in 2021 extended into 2022. Ground conditions, already saturated from La Nina conditions were particularly susceptible to flooding and instability, even in small rainfall events. Further to this, in July 2022 a major rainfall event experienced in the Maitland region caused extensive flooding across the Hunter Valley Network, prompting the temporary closure of the network at Maitland for 8 days and the subsequent need to postpone the scheduled July 2022 shutdown to September 2022. Notwithstanding these challenges, ARTC continued to demonstrate its commitment to maintain asset reliability and maximum network throughput for Customers by prioritising changes to the live network possession plan and pivoting to complete three consecutive shutdowns in the second half of the year.

ARTC also consistently communicated to the RCG throughout the year in respect to challenges posed by escalating labour, equipment, and material costs resulting from the rising inflationary macro-economic environment. Throughout 2022, at the overall network level, ARTC observed a significant rise in tendering package costs, averaging an increase of 14-19%. This increase was slightly above the comparable industry data reported by the Australian Bureau of Statistics (ABS), who attributed these cost escalations to the continued upward trend in prices for diesel, construction materials (including steel), ongoing labour shortages and high import costs. ARTC, where possible implemented strategies to mitigate these economic impacts.



In response to the unprecedented inflationary environment, ARTC took a purposeful approach and completed a comprehensive review of the 2022 and 2023 Sustaining Capital Programs, as it became apparent due to change in market conditions that the program as a whole, while reliably estimated at the time of endorsement, was now severely underbudgeted relative to current tender pricing. This review included the implementation of effective intervention strategies, considering market pressures, with a primary emphasis on competitive tendering to engage with the market to extract the best value for money. In October 2022, as committed, ARTC presented its reforecast of the H2 2022 and 2023 Sustaining Capital Program and, in conjunction, sought successful endorsement for a reforecast of 2022 capital works to account for unavoidable increases in costs primarily relating to signalling, re-railing, track upgrade, turnout renewal and culvert replacement projects.

The annual Hunter Valley Corridor Capacity Strategy remains the primary information source for forecasted Network demand. ARTC's sustaining capital program is built to sustain Network capacity requirements whilst maintaining network reliability in an efficient and reliable manner. The 2022 Hunter Valley Corridor Capacity Strategy document was released for consultation in August 2022 and published in its final form in September 2022 (refer to Attachment CAP1.1)<sup>1</sup>. This consultative process, which

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<sup>1</sup> Also available as a download from the ARTC website <https://www.artc.com.au/uploads/2022-HVCCS-Final.pdf>



includes discussion at the RCG and feedback from stakeholders, continues to provide ARTC with significant insight and understanding of stakeholders' expectations of the rail infrastructure.

With the focus from industry now firmly on optimising existing network infrastructure, the consultative process for capital expenditure on the Network facilitated through the RCG is principally focused on sustaining capital rather than expansion capital expenditure. Industry endorsement is necessary before ARTC will proceed with project implementation. Formal endorsement for the value of the project to be added to the asset base occurs through the RCG.

This consultation process remains designed to provide maximum opportunity to work with Access Holders to identify and prioritise network investment and to refine capital work programs.

### 2.2.2 Rail Capacity Group (RCG)

Changes effective on implementation of HVAU (version 8) mean that the RCG is now formally comprised of senior customer representatives from all coal producers (i.e. Glencore, Yancoal, Whitehaven, Hunter Valley Energy, Bengalla, Bloomfield, Centennial, Maxwell, Peabody, Mach and Idemitsu). In addition to these voting members, there are representatives from the Hunter Valley Coal Chain Coordinator (HVCCC) and respective above rail operators who haul coal on the Network (Aurizon, One Rail, Pacific National and SSR), whilst terminal operators attend as guests. In addition to the Chair, ARTC is represented by personnel from Assets, Customer Service, Finance and Operations.

The RCG meets each month and has a standing agenda that covers:

- asset replacement and sustaining capital works on the Network; and
- operational and strategic items relating to network operations, asset management and possession planning.

The RCG also considers industry volume forecasts over a 10-year horizon and beyond to inform the Hunter Valley Corridor Capacity Strategy.

The RCG deals with the detail of investment proposals. ARTC provides detailed project submissions to the RCG for their review and input. Expenditure of a sustaining capital nature is presented for review and approved annually by the RCG in advance of the work being undertaken. Endorsement for sustaining capital is generally on the basis of the total package of works, recognising that the nature of the programme is subject to a greater degree of variation at the individual project level compared to expansion capital projects where the scope is more predictable across a smaller number of projects. Some sustaining capital projects may also be presented to the RCG on an individual basis due to emerging circumstances, timing considerations or the complexity of a particular project.

ARTC utilises its internal governance processes and delegations to manage variability for sustaining capital at an individual project level. This includes allowing underspends from approved budgets at a project-by-project level to be utilised to fund overspends on approved budgets at a project by project level, with variances reported to the RCG. This internal variation process has been communicated to the RCG.

ARTC provided quarterly updates to the RCG on the progress and cost of the sustaining capital package including details of significant variations to scope and cost.

- The consultation documents provided to the RCG in this regard during 2022 form confidential Attachments CAP2.1, CAP2.2, CAP2.3 and CAP2.4 to this document.

ARTC uses a professional and standardised approach for classification of maintenance and capital expenditures. ARTC uses internal definitions and classifications of routine corrective and reactive maintenance (**RCRM**), major periodic maintenance (**MPM**) and capital expenditure, which are made clear to the RCG. However, when there is not a clear treatment, the issue is brought to the RCG for consultation and guidance.

There has been no change to ARTC's capitalisation policy.

### **2.2.3 HVCCC**

The HVCCC is an independent legal entity whose membership includes all current Hunter Valley coal chain producers as well as service providers. ARTC is a member of the HVCCC. The HVCCC's mission is to plan and co-ordinate the co-operative daily operation and long-term capacity alignment of the Hunter Valley Coal Chain.

Where a project will change the infrastructure on the Network, ARTC undertakes a process review of effects on network capacity and consults with the HVCCC on options to understand, mitigate or reduce the impact on the Coal Chain wherever relevant.

The HVCCC plays a consultation role in this process through modelling the capacity impacts resulting from infrastructure changes and other network capacity development initiatives on the Hunter Valley Coal Chain.

## **2.3 Hunter Valley Corridor Capacity Strategy Development**

### **2.3.1 ARTC Approach**

The development of the annual Hunter Valley Coal Corridor Capacity Strategy involves:

- assessment of the capacity of the existing Hunter Valley rail network for transporting export coal to the Newcastle ports and domestic coal to Hunter Valley and Lake Macquarie power stations;
- updating demand forecasts by obtaining revised industry forecasts and views;
- comparing the available capacity with anticipated demand, to identify existing and future likely constraints;
- reviewing the options previously proposed to address these constraints;
- where necessary, the development of additional or refined options; and
- the selection of preferred actions to address each of the identified constraints.

### 2.3.2 Strategy Development

ARTC has continued to review and develop changes where necessary to the Hunter Valley Corridor Capacity Strategy.

ARTC continually refreshes its understanding of customer expectations for the organisation and the network through regular and ongoing discussions throughout the year.

In 2022, as in prior years, ARTC sourced forecast information from all coal producers, domestic customers and prospective customers and presented the aggregate profile for review to the RCG. ARTC followed a similar process formally briefing stakeholders prior to publication of the draft Strategy document and engaging in a comprehensive discussion process and incorporation of stakeholder feedback prior to the publication of the final version.

The ongoing development and publication of the Hunter Valley Corridor Capacity Strategy document provides the Coal Chain with increased certainty on capacity pathways, timeline for delivery of projects and updated projected costs and as such offers options to resolve constraints and understand how coal producers can better manage their proposed course of action to increase coal throughput.

ARTC will continue to monitor and review the strategy to ensure proposals for infrastructure change are developed ahead of demand.

## 2.4 Project Consultation

### 2.4.1 Project Consultation Process

ARTC undertakes a comprehensive capital consultation process for all capital projects through the RCG. There are generally three categories of capital projects:

- expansion capital capacity projects;
- sustaining capital in relation to major asset renewal projects; and
- sustaining capital (also referred to as minor capital) projects.

The expansion capital capacity projects are those designed to enhance capacity, that introduce significant technological change, add operational flexibility or otherwise form part of the Hunter Valley Corridor Capacity Strategy described in section 2.3 above, while the other projects are classified as sustaining capital relating to major asset renewal projects or minor capital projects.

For expansion capital projects, consultation and endorsement is generally performed in stages to ensure that stakeholders are progressively informed before final endorsement for implementation is sought. The RCG is provided with detailed analysis of key elements of each project stage and all major projects' sign-off endorsements include details of:

- project aim;
- timing – start / finish;
- benefits and deliverables (e.g. capacity improvement, operational performance improvement, safety, cost savings);
- diagrams / document references;
- cost and contingency to RAB and loss on disposal where applicable; and
- endorsement signatory.

For expansion asset renewal or replacement projects, a submission detailing the projects objectives, options, financial and risk management aspects is provided for review and endorsement by the RCG. This endorsement process is often iterative, and ARTC works closely with the industry in providing all necessary information for evaluation.

For sustaining capital projects, the programme of smaller projects is typically submitted collectively for consultation and endorsement to the RCG. Customers are also directly engaged in the proposed corridor capital programme in advance of it being submitted to the RCG for endorsement.

## 2.4.2 Project Endorsement

Confidential Attachment CAP3 to this document shows the details for all projects (expansion and sustaining capital) which are being included in the RAB for the 2022 calendar year.

Expensed projects are capital projects previously endorsed by the RCG which, due to changes in the demand profile or other circumstances, will not proceed in the foreseeable future. Typically, this relates to projects on which initial planning work has been carried out, but the project has not proceeded to actual construction, though it may be the case that preliminary works have been carried out. The amount expensed represents the value of work in progress up to the point at which the project was suspended. For the 2022 compliance periods, there were 4 expensed projects totalling \$2.2m. These included:

**Table 1: Expensed Projects**

Location	Expensed Projects
Aberdeen Loop Extension	\$149,821
Blandford Loop Phase 1	\$152,378
Bells Gate South	\$206,292
Ardglen to Kankool Duplication	\$1,691,769
<b>Total Expensed Projects</b>	<b>\$2,200,260</b>

For each of these projects it was deemed the additional network capacity that would have been enabled by the completion of the works was no longer required to achieve the forecast throughput needs of customers and the network. Detailed information relating to the expensed projects is included in the 2022 Compliance Assessment Submission Attachment 1: Hunter Valley Network Operating Costs.

Many capital projects result in the disposal of existing assets. ARTC is not able to provide the exact disposal values for capital projects prior to completion of the disposal process for consideration by the RCG at the time of endorsement, as the prospective values of any offset to the disposal value for equipment to be replaced is not often accurately known beforehand. Where possible, stakeholders are provided indicative estimates of disposal values.

In some instances, new projects or variations to previously endorsed values have not been expressly endorsed or reviewed by the RCG. This can occur for a variety of reasons, including:

- the necessity to quickly address a previously unknown issue, e.g. a critical defect is identified during testing/inspection that cannot be delayed allowing for the normal work planning process and endorsement to occur;



- an opportunity to carry out work arises out of sequence from the forward program that would result in a more efficient and lower cost than if the work is carried out as programmed. For example, where it is necessary to carry out unplanned remedial work due to an incident, it may be expedient to perform work on an adjacent site that was programmed for some future period;
- the scope of a planned task was found to be insufficient and it would be inefficient to pause the project to wait for formal endorsement from the RCG; and
- the cost of the variation is not sufficiently material to seek endorsement.

In each case, such variations are only approved by ARTC management in accordance with internal delegations where it can be demonstrated that the additional cost will not cause ARTC to exceed the overall RCG endorsed sustaining capital works value for the period.

ARTC has provided to the ACCC, on a confidential basis, copies of the endorsements relating to 2022 capital expenditure provided by RCG members as a separate Attachment to this Compliance Submission.

### 2.4.3 Capital Expenditure in 2022

During 2022, \$Nil post-commissioning costs were incurred on projects previously commissioned and added to the asset base (see Appendix A for more detail).

Interest during construction for the newly commissioned projects amounted to \$Nil.

Sustaining capital of \$120.3m was commissioned during 2022.

Disposals (i.e. reductions to the asset base) were \$11.0m.

A summary of the net additions to the asset base is set out in Table 2. Details for the amounts are set out in the 2022 Compliance Submission.

**Table 2: Net Capital Expenditure Added to Network Asset Base In 2022**

	Value \$
Expansion Projects Commissioned	-
Post Commissioning Costs	-
<b>Total Expansion Project Capital</b>	-
Interest During Construction	-
Sustaining Capital	120,269,845
<b>Total Capital Added to Asset Base</b>	<b>120,269,845</b>
Disposals Removed from Asset Base	(11,042,180)
<b>Net Capital Added to Asset Base</b>	<b>109,227,665</b>

The significant increase in net capital added to the asset base in 2022 relative to 2021 can be attributed to the successful commissioning of the Muscle Creek and Hunter River Bridge at a value of \$41.1m.

The Muswellbrook Bridge Replacement Project, originally endorsed in September 2019 to improve network reliability through the replacement of three structures at Bridge St, Muscle Creek and Hunter River bridges, continued throughout 2022, with the RCG receiving regular updates on the project throughout the year. After the successful commissioning of the Bridge Street Bridge in November 2021, the Muscle Creek and Hunter River Bridge was commissioned into service in May 2022.

The project was successful in achieving its primary objective of securing the safety and reliability of the network. The successful completion of this project has enabled the following benefits:

1. Reduced maintenance intervention and reliability improvements, limiting the future need for unplanned closures of the rail network, through the replacement of three life expired structures with two concrete ballast top structures; and
2. The removal of the 20km/h Temporary Speed Restriction which was implemented in 2017 to prolong the life of the existing bridges and subsequent reinstatement of a 50km/h track speed.



**Figure 1: New Muscle Creek and Hunter River underbridge**



**Figure 2: Completed Muscle Creek Hunter River Bridge and Bridge Street Bridge**

ARTC has continued to deliver value for Customers throughout the year, including taking proactive measures to address external influences that could significantly disrupt network operations and continuity.

In April 2022, ARTC obtained endorsement from the RCG for \$3.5M for the Telemetry Obsolescence Project which covers the essential capital required to upgrade 118 sites across the Hunter Valley Coal Network. This communications upgrade project has been triggered by Telstra's decision to decommission their 3G Mobile Network Australia-wide by June 2024, requiring customers to migrate to the replacement of 4G and 5G mobile networks. This national telecommunications transition is of critical importance to Hunter Valley customers, rail haulage providers and ARTC who are reliant on this technology to ensure the safe and efficient delivery of services through the Hunter Valley rail network.

ARTC utilises both wired and wireless telemetry services to facilitate reliable Centralised Train Control (CTC), level crossing and other monitoring functions across the rail network which will become obsolete upon the termination of these services. The upgrade to more advanced and compatible telecommunication services will ensure the continued provision of the communications system to provide a single, interoperable, and reliable method of operational voice communications between train crew and Network Controllers across the network, ensuring network efficiency and throughput for Customers and minimising the risk of safety for rail operators by avoiding degraded mode of operations.

The timing of the project is being driven by termination dates from Telstra and the NBN. Telstra formally advised ARTC of a final service exit date of 31 May 2022 for fixed-line services (Priority 1) and 30 June 2024 for 3G mobile services (Priority 2). ARTC was successful in managing to complete the upgrade of all Priority 1 services across 37 Hunter Valley sites by 30 April 2022, commissioning \$1.1m to the RAB. ARTC continues to keep the RCG informed regularly on the advancement of the project, and it is anticipated that telecommunications will remain an area of focus as the ongoing need to upgrade equipment in line with obsolescence is triggered by supporting telecommunication partners.

Further detail of expansion capital expenditure is provided in Appendix A. Confidential Attachment CAP3 to this document provides detail by project for both expansion and sustaining capital projects commissioned in 2022. Detail relating to disposals is set out in Appendix D and interest during construction in Appendix E of ARTC's Compliance Submission.

## **2.5 Compliance with the HVAU**

ARTC considers that the consultation undertaken as described in sections 2.2 to 2.4 provides comprehensive evidence that ARTC has complied with the relevant requirements of the HVAU.

ARTC has worked closely with Access Holders, train and terminal operators and the HVCCC in identifying and prioritising network investments and refining capital works programs. Through this extensive consultation process, stakeholders have provided input into the major capital enhancement projects that form part of the Hunter Valley Corridor Capacity Strategy. This strategy document identifies the proposed capital investment needs for the forthcoming year and includes forecasts of capital expenditure for the following 10 years.

ARTC also provides clarity in relation to projects which are intended to be partly or fully funded by capital contributions. There were no such projects in 2022.

## **2. CONCLUSION**

The consultation activities that ARTC has engaged in have been designed to obtain a comprehensive understanding of coal mine development proposals, both new mines and expansion projects, and their timing of development where increased capacity is required on the Hunter Valley network. This information is reviewed against other industry information and ARTC seeks confirmation, where applicable, that its priority of project delivery matches other Coal Chain capacity deliverables.

During 2022, ARTC has found the level of co-operation and advice provided by coal producers, rail operators, and other service providers to be both informative and constructive in all aspects of managing and progressing with investment options. ARTC believes it has well developed working relationships with the Coal Chain as a whole and looks forward to these continuing.

ARTC is committed to the ongoing consultation described in this document and looks forward to continuing to deliver of optimal rail network solutions in the Hunter Valley Coal Network.

## Appendix A Expansion Project Capital Added to Asset Base 2022

Table A1: Newly Commissioned Projects \$

Project	Description	RCG Endorsed Value \$	Cost \$	IDC \$	Total Cost Added to RAB 2022 \$
Nil					
<b>Total Newly Commissioned Projects</b>			-	-	-

Table A2: Post Commissioning Costs \$

Project Code	Description	RCG Endorsed Value \$	Cost Previously Added to RAB \$	Total Cost Added to RAB 2022 \$	Cumulative Cost Added to RAB \$
<b>Pricing Zone 1</b>					
<b>Sub-Total</b>			-	-	-
<b>Pricing Zone 2</b>					
<b>Sub-Total</b>			-	-	-
<b>Pricing Zone 3</b>					
<b>Sub-Total</b>			-	-	-
<b>Total Post Commissioning Cost</b>		-	-	-	-