



AUSTRALIAN RAIL TRACK CORPORATION LTD

# 2013 CAPITAL CONSULTATION

## HUNTER VALLEY COAL NETWORK

### May 2014

1.	Introduction.....	2
2.	Capital Consultation Process .....	3
2.1.	Compliance Scope.....	3
2.2.	Industry Approach to Capital Consultation .....	5
2.2.1.	Overview .....	5
2.2.2.	Rail Capacity Group .....	6
2.2.3.	Hunter Valley Coal Chain Coordinator .....	7
2.2.4.	Contact Details of Stakeholders .....	8
2.3.	Development of the Hunter Valley Network Improvement Strategy .....	9
2.3.1.	ARTC Approach.....	9
2.3.2.	Strategy Development.....	9
2.4.	Project Consultation .....	11
2.4.1.	Project Consultation Process .....	11
2.4.2.	Project Endorsement .....	13
2.4.3.	Major Capital Projects .....	14
2.5.	Compliance with the Undertaking.....	16
3.	Conclusion .....	17

#### ATTACHMENTS

1. 2013-2022 HUNTER VALLEY CORRIDOR CAPACITY STRATEGY CONSULTATION DOCUMENT
2. 2013 CAPITAL WORKS PROJECT DETAIL

## **1. Introduction**

Australian Rail Track Corporation (“ARTC”) commenced a lease of certain parts of the NSW Rail Network (including the Hunter Valley Coal Network) on 5 September 2004. Under this lease, on 1 July 2011 ARTC committed to operating under the Hunter Valley Access Undertaking 2011 (HVAU) approved by the Australian Competition and Consumer Commission (ACCC).

In accordance with the Undertaking<sup>1</sup>, ARTC must submit to the ACCC by 30 April each year in respect of the calendar year completed on 31 December of the previous year:

- i. documentation detailing roll-forward of the RAB and the RAB Floor Limit, and comparisons between RAB and RAB Floor Limit; and
- ii. where documentation in (i) above demonstrates that RAB is at or below RAB Floor Limit, documentation detailing calculations relevant to reconciliation of Access revenue with the applicable Ceiling Limit and calculation of any allocation of the total unders and overs amount.

ARTC is responsible for meeting all obligations under the Hunter Valley Access Undertaking 2011 for the calendar year 2013 (Compliance Period).

In determining whether ARTC has complied with the Asset Valuation Roll Forward Principles, ACCC may have regard to the activities undertaken by ARTC as part of the capital expenditure consultation process described in the Undertaking<sup>2</sup>. This document is provided to the ACCC for the purpose of supporting those aspects of the Asset Valuation Roll Forward Principles, including:

- a detailed description of the capital consultation process undertaken in 2013 and an explanation of how it met the requirements of the Undertaking;
- evidence of any Access Holders’ endorsement of any proposed capital expenditure, where relevant;
- the name, address, contact details (including email address) of stakeholders considered by Owners to be Access Holders (noting which of those are Access Holders) and other parties consulted regarding compliance matters.

---

<sup>1</sup> SCHEDULE G - Annual Compliance Assessment -information provision and timing

<sup>2</sup> 4.10 Annual ACCC compliance assessment

## **2. Capital Consultation Process**

### **2.1. Compliance Scope**

Under the 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.

The objectives of the consultation process are to:

- inform Hunter Valley Coal Chain participants of Additional Capacity requirements and investment strategies;
- provide a process for Hunter Valley Coal Chain participant input aimed at, among other things the alignment of projects to provide Additional Capacity with projects to expand capacity at the coal terminals at the Port of Newcastle; and
- provide a process for the applicable industry participants to participate in the development and management of projects and to endorse Capital Expenditure incurred by ARTC in providing Additional Capacity or incurred in relation to the Network as Prudent.

In determining whether ARTC has complied with the Asset Valuation Roll Forward Principles, ACCC may have regard to submissions from users to the capital consultation process. However, Capital Expenditure has been endorsed by the RCG in accordance with section 9 of the HVAU, the ACCC will not consider whether that Capital Expenditure is Prudent<sup>3</sup>.

ARTC recognises that the scope of compliance in 2013 relates to both capital works commissioned in 2013 and incorporated in the 2013 Asset Valuation Roll Forward in addition to consultation in relation to ARTC's investment in the Hunter Valley Coal Network to be commissioned in 2013 and in future years.

In relation to consultation on minor Capital Expenditure projects, section 9.1 of the HVAU provides that, where ARTC considers that a project is minor in its scope or cost, ARTC will consult on the group of minor projects rather than each minor project individually. A project would typically be considered minor in scope or cost if it relates to ongoing annual programmes for asset replacement rather than a project to deliver

---

<sup>3</sup> 4.10 (d)(iii) *Annual ACCC compliance assessment*

Additional Capacity and if a project does not relate to an ongoing annual programme for asset replacement, then ARTC may only consult on it as part of a group of minor projects with the consent of the RCG<sup>4</sup>.

---

<sup>4</sup> 9.1(e)(ii) *Industry Consultation*

## **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 (the “Network”), and every effort to provide a comprehensive understanding of, and have input into, ARTC’s overall strategy for the Network has occurred. This strategy was detailed in the document entitled *2013-2022 Hunter Valley Corridor Strategy Consultation Document* (refer to Attachment 1), which was released for consultation on 20<sup>th</sup> June 2013.

This consultative process continues to provide ARTC with significant insight and understanding of stakeholders’ expectations and has led to improved interaction between ARTC, Access Holders and prospective Access Holders along with a clearer and more precise methodology of dealing with project endorsement. Historically the consultative process has principally been facilitated through a number of industry forums attended by rail operators and coal producers, including:

- Rail Capacity Group (“RCG”)
- Hunter Valley Coal Chain Coordinator Board and associated Sub-Committees

The purpose of each of these forums are discussed in more detail in Sections 2.2.2 to 2.2.5 below.

All capital expenditure on the Network is subject to one of the two consultative processes depending on the type, value and strategic significance of projects. For significant and strategic capital enhancement projects (e.g. Maitland to Minimbah 3<sup>rd</sup> Road project), consultation is undertaken through a number of strategic and operational forums with industry participants. Through this process, ARTC seeks input from Access Holders to ensure that the overall *Hunter Valley Corridor Capacity Strategy* reflects industry requirements.

In relation to less significant asset replacement or minor operational improvements projects, ARTC is of the view that consultation through a single, operational forum is most appropriate. The RCG is currently such a forum. This process ensures a disproportionate amount of industry resources is not consumed when seeking endorsement of asset replacement or minor operations capital works and is explicitly contemplated at section 9.1(e)(ii) of the HVAU.

At either level of consultation, industry endorsement is necessary before ARTC will proceed to project implementation phase and formal endorsement for the value of the project to be added to the RAB occurs at the RCG.

This consultation process is 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**

The RCG comprises a senior executive representative from large coal producers (BHP, Glencore {formerly Xstrata}, Rio Tinto & Whitehaven) and one representative from the smaller producers (Idemitsu). In addition to these members with voting rights, there are representatives from HVCCC and rail operators hauling coal on the network (Aurizon, Freightliner, Pacific National & SSR) ARTC HV Executive General Manager chairs the forum and is also represented by the personnel from Asset Management, Operations and, as necessary, by representatives from the project delivery and strategic group.

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

- asset replacement and minor capital works on the Network
- major capital investment on the Network
- strategic proposals necessary to meet coal industry forecast in the coming ten (10) year horizon and beyond.

The RCG deals with the detail of investment proposals. ARTC provides detailed and extensive project submissions to the RCG for their review and inputs. At each of the monthly meetings, considerable discussion has focussed on identifying not only the projects required to deliver enhanced capacity but assessment of whether the projects were the right projects and the priority of delivery to meet demand or service the industry need operationally.

As discussed above, the RCG is currently the forum for consultation on & endorsement of all minor capital investment that is not included in the *Hunter Valley Corridor Capacity Strategy*. Expenditure of a minor capital nature is presented for review and approved annually by the Rail Capacity Group in advance of the work being undertaken<sup>5</sup>.

ARTC does not 'trade off' expenditures; rather ARTC uses a professional and standardised approach for classification of maintenance and capital expenditures. It uses the internal ARTC definitions and classifications of reactive corrective routine maintenance, major periodic maintenance and capital expenditure, which is made clear to the RCG. However, when there is not a clear treatment, the issue is brought to the RCG for consultation and guidance.

---

<sup>5</sup> The only exception to this is when for either safety or urgent operational needs, an expenditure of a capital nature is necessary. The details of such expenditure are advised to the RCG (No such events occurred in 2013)

ARTC acknowledges the contribution the producers can make through direct consultation however concludes that it is inefficient and impractical for ARTC to consult with every individual coal producers on the specifics of each investment. As such, ARTC relies on the small producer representative (currently Idemitsu Australia) to take back any relevant information pertaining to infrastructure investment that their constituents may have an interest in, in order to ensure the successful and timely delivery of all projects.

In addition to the Industry Representatives in attendance at RCG meetings, ARTC recognises the importance of input from all coal producers, particularly at the strategic level. As part of the consultative process, ARTC seeks input from coal industry senior executives or their representatives at the following forums:

- Hunter Valley Coal Chain Coordinator Board and associated Sub-Committees

These forums also provide the opportunity for ARTC to keep all coal producers and stakeholders including Terminals and Newcastle Port Corporation fully informed of the status of various projects, including delivery timelines and expected value of capacity enhancements.

### **2.2.3. Hunter Valley Coal Chain Coordinator**

On 27 August 2009 the Hunter Valley Coal Chain Coordinator Limited (HVCCC) was incorporated as a new independent legal entity and formally replaced the HVCCLT (Hunter Valley Coal Chain Logistics Team). The membership of the HVCCC has been expanded to include all current Hunter Valley Coal Chain Producers as well as Service Providers.

ARTC is a member of the Hunter Valley Coal Chain Coordinator ("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. Its strategic objectives include;

- To plan and schedule the movement of coal through the Hunter Valley Coal Chain in accordance with the agreed collective needs and contractual obligations of Producers and Service Providers
- To ensure minimum total logistics cost and maximised volumes through the provision of appropriate analysis and advice on capacity constraints (whether physical, operational or commercial) affecting the efficient operation of the Hunter Valley Coal Chain; and
- To advocate positions, on behalf of Producers and Service Providers, to other stakeholders and governments on issues relevant to the efficient operation of the Coal Chain in order to maximise opportunities for improved co-ordination and/or further expansion of the Coal Chain.

ARTC works very closely with the HVCCC in the delivery process of the major capital works as the impact of the works can be significant. The HVCCC assist with any modelling to determine benefit on a throughput basis and assessment on timing of projects to meet other coal chain expansion.

As an integral part of managing each project, ARTC undertakes a process review of effects on network throughput impacts and consults with the HVCCC on options to mitigate or reduce the impact wherever possible. HVCCC is also involved with ARTC in the coordination of works and track possession closedowns.

Additionally, the board of the HVCCC consisting of senior executives from each member group meets each month to discuss coal industry requirements for expansion and other strategic development. ARTC provides this group with regular updates of project progress, cost and benefits associated with infrastructure investment.

In providing the HVCCC detail of ARTC's strategic investment intent, it allows a comprehensive understanding of the linkages of investment in the supply chain. ARTC considers the approach to include the HVCCC in this process a vital cog in the mechanism to ensure the investment fits cohesively with other coal chain development.

#### **2.2.4. Contact Details of Stakeholders**

As described in Section 2.2 above, ARTC has consulted widely within the coal industry, particularly through the various industry forums. An updated list of the RCG members has been included in confidential Attachment 3 accompanying the 2013 ACCC Compliance submission with contact details for the RCG members listed in Appendix G of the 2013 ACCC Compliance submission.



## **2.3. Development of the Hunter Valley Network Improvement Strategy**

### **2.3.1. ARTC Approach**

The development of the 2013-2022 *Hunter Valley Coal Corridor Capacity Strategy* involved:

- assessments of the capacity of the existing Hunter Valley rail network for transporting export coal to the Newcastle ports and domestic coal to Hunter Valley power stations
- update demand forecasts by obtaining revised industry forecasts and views
- comparisons of this capacity with anticipated demand, to identify existing and future likely constraints
- reviews of 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*.

Since taking up the lease of the NSW rail network in September 2004, ARTC has continued to gain a better understanding of the Network and the expectations of ARTC as a rail track owner. As a consequence of this and the supply of information relating to specific growth areas, several key changes in the now current version of the Network Improvement Strategy document have been made. ARTC formally briefed all stakeholders prior to publication of a Draft Strategy on 1 June 2013. Stakeholders were asked to respond to the Draft Strategy with subsequent follow-up meetings being held with individual respondents and a final version being published on the 29<sup>th</sup> of June 2013

The major changes to *2012-2021 version* of the strategy document (as previously outlined) included:

- Fully revised volume forecasts based on indicative contracted volumes & prospective volumes.
- Assumed that port capacity will accommodate producer volumes.
- Project timing adjusted as required.

To ensure it had the best possible understanding of forecast volumes, ARTC sourced forecast information from:

- All Producers

- Aurizon
- Pacific National
- Freightliner
- HVCCC

The strategy has given the coal chain increased certainty with timeline delivery of the projects along with 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.

Consultation undertaken between 1 January 2013 and 30 December 2013 has been maintained from the previous year.

ARTC will continue to monitor and review the strategy to ensure proposals for infrastructure change are developed ahead of demand. ARTC has updated annual profiles of coal industry haulage demands to further develop future strategy requirements based on a rolling ten year horizon.

## **2.4. Project Consultation**

### **2.4.1. Project Consultation Process**

ARTC undertakes a comprehensive capital consultation process for all capital projects through RCG.

There are generally three categories of capital projects:

- major capital capacity projects
- major asset renewal projects; and
- minor capital projects

The major capital capacity projects are those which are capacity enhancement projects that form part of the *Hunter Valley Corridor Capacity Strategy* described in Section 2.3 above, while the other projects are classified as either asset replacement or asset enhancement projects.

For major capital capacity projects, consultation and endorsement is performed in stages to ensure that stakeholders are fully informed before final endorsement for construct is provided. The RCG is provided with detailed analysis of key elements of each project stage and all major projects sign off endorsements includes 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
- endorsement signatory.

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

For the minor capital projects, the programme of smaller projects is typically submitted collectively for consultation and endorsement to the RCG. Additionally for the minor capital projects where the classification between regulatory capital and maintenance is unclear, guidance is sought from the RCG.

Following the 2012 Annual Compliance submission, ARTC recognised that the ACCC is seeking greater clarity around the consultation and endorsement of minor capital expenditure. It is ARTC's understanding

that the ACCC is seeking increased evidence of RCG consultation in relation to the minor capital programme and variations to it as described earlier in order to determine whether minor capital expenditure has been incurred on a Prudent basis.

ARTC had proposed that in the future RCG be kept informed of the progress of the endorsed minor capital program where material variations are identified. That is, projects showing a forecast variance to cost to complete of +/- \$50,000 of the amount endorsed or have encountered material change to timely delivery. It is intended that updates regarding delivery of the minor capital program will routinely be provided on a six monthly basis.

ARTC has initiated the process to amend the current RCG consultation and endorsement process accordingly. In the April 2014 RCG meeting, a report detailing variations in minor capital projects between January 2013 and June 2014 was tabled before the members.

ARTC will continue to present a similar report to the RCG every six months and it hopes this will assist in informing relevant stakeholders and the ACCC in coming to a view as to whether expenditure in relation to the minor capital works program has been incurred on a Prudent basis

## **2.4.2. Project Endorsement**

Confidential Attachment 2 shows detail of project status for all projects (minor, major or asset renewal in nature).

This attachment presents:

- a) projects on the constrained network commissioned in 2013 and sought for RAB inclusion, together with disposals treatment
- b) projects on the constrained network but not completed in 2013 (i.e., WIP carried), including expenditure incurred to date.
- c) projects on the unconstrained network commissioned in 2013 and sought for RAB inclusion, together with disposals treatment
- d) projects on the unconstrained network, but not completed in 2013 (i.e., WIP carried forward), including expenditure incurred to date.

Five capital projects were completed and commissioned in 2013. ARTC is seeking to include the commissioned projects on the Network at a total value of \$161,359,307 to be added to the Regulatory Asset Base in the 2013 Asset Valuation Roll Forward.

Asset disposals of \$6,171,987 (including net values) have been determined in relation to commissioned projects in 2013.

ARTC is not able to provide the exact disposal values of the projects they related to for advanced endorsement by the RCG as the prospective values of any offset to the disposal value (arising from sale as scrap or transfer to inventory) for equipment that is replaced is not known at that time.

### **2.4.3. Major Capital Projects**

During the Compliance Period, major capital enhancement projects at a total cost of \$77,779,116 were commissioned for which ARTC is seeking inclusion of the associated expenditure in the 2013 roll forward of the RAB.

Breakdown of each large capital project and actual cost are;

Drayton Junction Upgrade	\$ 19,931,171
No.3 Departure Road at KCT	\$ 30,783,428
KCT Bypass Road Realignment	\$ 1,428,608
Bylong Loop Extension	\$ 25,635,909

ARTC also incurred financing costs (Interest During Construction (IDC)) of \$5,421,587, which have been included in the total value to be added to the RAB. A full summary of the IDC calculations is provided in Appendix F of the 2013 ACCC Compliance submission.

The total value of capital projects being added to the RAB in 2013 contains \$49,119,123 of post commissioning works associated with various projects, which had not been included in the RAB in previously. The breakdown of the post commissioning costs is:

Bengalla Crossing Loop	\$1,828,245
Radio Hut (Yarrawa) loop - 319 km	\$598,338
Willipinjong Loop	\$1,117,668
Koolbury Passing Loop	\$588,492
St Helliers to Muswellbrook Duplication	\$8,299
Aerosol (Murrumbo) Valley Loop - 370km	\$37,750
Parkville Loop Extension	-\$65,332
Maitland to Minimbah Third Road – Stage 1 – All Phases	-\$498,100
Maitland to Minimbah Third Road – Stage 2 – All Phases	\$33,796,814
Nundah Third Track - All Phases	\$7,767,053
Bells Gate Passing Loop - All Phases	\$73,420
Pages River Passing Loop - All Phases	\$659,537
Chilcotts Creek Passing Loop - All Phases	\$3,206,939

In addition ARTC commissioned minor capital enhancement/replacement projects at a total cost of \$29,039,480 that is also sought to be included in the RAB roll forward for 2013. A full summary of major and minor capital works and the associated cost breakdown is included at Appendix B of 2013 ACCC

Compliance submission and confidential Attachment 2, respectively. Endorsement evidence for minor capital works has been provided in confidential Attachment 3.

## **2.5. Compliance with the Undertaking**

ARTC considers that the consultation undertaken as described in Sections 2.2 to 2.4 (above), provides comprehensive evidence that ARTC has complied with the relevant requirements of the Hunter Valley Access Undertaking.

ARTC has worked very closely with Access Holders, both rail operators and coal producers, in identifying and prioritising network investments and refining capital works programs. Through this extensive consultation process, Access Holders have provided input into the major capital enhancement projects that form part of the overall *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 ten years.

ARTC has spent considerable time in communicating each project with the RCG, and have been purposeful in advising the coal industry producers at Industry Communication Sessions and at senior executive level through the HVCCC board. As is required by the undertaking, ARTC has provided comprehensive detail of each project explaining the input to and outcomes expected for the forthcoming year(s).

This has included a process where all options are assessed by the ARTC investment committee who consider the viability of each proposed expenditure before being passed forward for consideration and endorsement as capital expenditure to the RCG as an alternative to RCRM or MPM. For each project, ARTC has been consistent in the classification of works as either maintenance or capital expenditure. Importantly, where the classification is unclear, ARTC has consulted with the RCG.

ARTC has, through the consultative process, provided an assessment of the impact the proposed capital expenditure will have on the Regulated Asset Base for the forthcoming year.

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 2013.



### **3. Conclusion**

The consultation activities that ARTC has engaged in has revolved around obtaining a comprehensive understanding of new coal mine development proposals and their timing of development where increased capacity is required on the 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 2013, ARTC has found the level of co-operation and advice provided by rail operators, coal producers and the other services providers to be both informative and constructive in all aspects of managing and progressing with investment options. In particular, ARTC is satisfied it has well developed working relationships with the coal chain as a whole and looks forward to continuing the work started.

The capital consultation process is constantly improving with experience, particularly at the RCG level. Improvements made throughout 2013 include continued enhanced formalisation of information provision & sign off, and importantly the inclusion into the RCG of Industry Representatives.

ARTC considers the development of the *Hunter Valley Corridor Capacity Strategy* and the delivery of the identified projects to be an important commercial and mandatory requirement, and as such, ARTC is strongly committed to implementing each phase of the capacity plan in a timely manner.

ARTC is committed to the ongoing consultation through the various industry forums and looks forward to a continued delivery of optimal rail network solutions in the Hunter Valley Coal Network.

**2013-2023 Hunter Valley Corridor Capacity Strategy Consultation  
Document – 29 June 2013**

Available at: <http://www.artc.com.au/library/2013%20HV%20Strategy%20-%20Final.pdf>

**CONFIDENTIAL**  
**2013 CAPITAL WORKS PROJECT DETAIL**