ARTC Public Response to ACCC information request dated 20 September 2018

30 October 2018

ARTC

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This submission sets out ARTC's response to the information requests in the ACCC's letter of 20 September 2018.

Request Number: 1

Request:

The ACCC seeks the following further information as well as the data for the 2017–18 year:

The underlying calculations and data demonstrating how the Ceiling Limits and Floor Limits have been calculated based on actual Gross Tonne Kilometres (**GTK**), actual costs and actual revenue for all Segments for all years between 2007–07 and 2017–18.

Response:

ARTC has previously provided, both through this 2018 IAU process and also in the approval of the 2008 IAU, the Ceiling and Floor Limit Models for each segment that underpinned the approved Indicative Tariff in the 2008 IAU.

This Indicative Tariff was assessed against a ceiling based on a RAB, WACC and forward forecasts of maintenance and opex determined at the time of the 2008 IAU approval, that is, it represented an ex ante assessment of these costs at that time. The RAB did not reflect the value of capital projects proposed in Schedule H as these projects had yet to be completed. Critically, due to the 10 year fixed escalation (linked to CPI) in the 2008 IAU, there was no requirement within the IAU for the ACCC to assess cost efficiency or capital prudency on an annual basis. Accordingly, ARTC did not, nor was there any requirement to, annually update the Ceiling and Floor calculations based on actual costs incurred.

The relevant ceiling and floor for the purposes of the 2008 IAU were therefore those provided to the ACCC at the time of the approval of the 2008 IAU. Based on these ceiling and floor limits, ARTC under recovered its economic costs over the term of the 2008 IAU. This analysis also highlighted that actual revenue tracked the forecast revenue utilized in the 2008 IAU approval very closely.

ARTC, therefore, has not maintained a ceiling and floor model updated to reflect actual costs as there is no process to approve the efficiency of these costs for inclusion on an ex-post basis. As a result, ARTC does not have this data requested by the ACCC.

Further, the ACCC's definition of All Segments includes those segments which were not covered by the IAU for the period which the ACCC is seeking information on. There is no floor and ceiling for these periods as they were not covered by the 2008 IAU.

Request Number: 2

Request:

The ACCC seeks the following further information as well as the data for the 2017–18 year:

The annual actual access revenue, Ceiling Limit and Floor Limit for the 2017–18 year for all Segments.

Response:

ARTC has updated all models previously provided to the ACCC on a confidential and public basis to include the final 2017-18 data.

As explained above in the response to "Request Number: 1", ARTC does not maintain updated Ceiling and Floor Limit models, however 2017/18 revenue has been incorporated into the following updated model (which is provided on a confidential basis):

- *Revenue Ceiling and Floor limits 0708 to 1718 Updated October spreadsheet*

Request Number: 3

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

Actual maintenance expenditure for all Segments for the 2017–18 year disaggregated into MPM and RCRM by activity.

Response:

ARTC has updated all models previously provided to the ACCC to include the final 2017-18 data. These are attached with the Fixed and variable Maintenance spreadsheet provided on a confidential basis.

Request Number: 4

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

Clarification over whether the following project activities are MPM or RCRM: 103, 280, 707, 778, 109, 326, 711, 779, 142, 329, 720, 780, 157, 700, 726, 780, 252, 702, 776, 791, 260, 703, 777, 793

Response:

This information is provided in the attached spreadsheet:

- *Q4 Activity Codes Descriptions and Categorisation spreadsheet*

Please note that some of these codes have changed over time, which ARTC has reflected in this spreadsheet attached.

Request Number: 5

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

The date that ARTC began applying a 10 per cent margin on RCRM activities.

Response:

As identified in the response above to "Request Number: 1", the actual costs incurred by ARTC are not relevant to the operation of floor and ceiling under the 2008 IAU given the ex-ante nature of the 2008 assessment of the Indicative Tariff.

However, the ceiling and floor calculations advanced in 2008 incorporated a margin of 10% on all maintenance activities reflecting the margin provided for in alliance partnerships that underpinned ARTC's maintenance of the network at that time. These ex ante cost forecasts formed part of the ACCC's assessment of the 2008 IAU and therefore can be considered the efficient price for maintenance services on the Interstate Network.

On 1 January 2012, ARTC implemented its strategy to insource maintenance services on the Interstate Network. As highlighted previously, the efficient market price is independent of ARTC's structure and actual costs, therefore this change had no impact on that efficient market price.

As addressed in "Request Number: 20", unlike the Hunter Valley where RCRM is insourced and MPM is outsourced, the vast majority of maintenance on the Interstate is insourced and the relevant split for budgeting purposes is between fixed and variable maintenance and where the margin is only applied to variable maintenance costs.

The only time that this 10% margin is therefore relevant for the Interstate Network is in the forecast efficient variable maintenance costs incorporated into the proposed floor and ceiling calculations which have previously been provided to the ACCC. This efficient market price is therefore not used for ARTC's internal accounting purposes as the insourced cost is fully contained within the profitability of the Interstate network. Therefore ARTC was required to utilize a model which calculated the allocations by IAU segments and added the 10% margin. This model incorrectly double counted the 10% charged by its Alliance partners prior to 1 January 2012.

The updated historic cost models provided above have been updated to reflect this amendment.

Request Number: 6

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

The dates that ARTC began allocating maintenance expenditure to the following Segments:

- MFN
- Queensland Border – Acacia Ridge
- SSFL

Response:

Maintenance expenditure was incurred once ARTC was responsible for the operation of the segments. These dates are:

- MFN on 29 September 2013
- Queensland Border-Acacia Ridge on 15 January 2010
- SSFL's first train was on 23 December 2012

Request Number: 7

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

To the extent available, actual opex for all Segments for each year between 2007–08 and 2017–18 disaggregated into asset management, network control and corporate overheads.

Response:

ARTC does not internally account for the Interstate Network based on IAU segments. This is because there is no regulatory accounting requirement to allocate such costs on an actual basis under the IAU.

ARTC, therefore, does not have opex allocated to Segments on an actual annual basis.

Request Number: 8

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

To the extent available, actual opex for each year between 2007–08 and 2017–18 disaggregated into asset management, network control and corporate overheads for the following Segments:

- MFN
- Queensland Border – Acacia Ridge
- SSFL

Response:

See above response to "Request Number: 7".

Request Number: 9

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

The dates that ARTC began allocating opex to the following Segments:

- MFN;
- Queensland Border – Acacia Ridge;
- SSFL.

Response:

ARTC does not allocate opex to individual segments for its internal Interstate account purposes as this is not required under the IAU due to the 10 year fixed escalation of limits in the 2008 IAU and consequently ARTC's acceptance of 100% of the cost risk under the IAU.

The segments listed in "Request Number: 9" were included in the calculation for the allocation of opex to the Interstate Business Unit on the dates when ARTC was responsible for those segments to ensure only single recovery of opex across the entire ARTC business, being:

- MFN on 29 September 2013
- Queensland Border-Acacia Ridge on 15 January 2010
- SSFL's first train was on 23 December 2012

Request Number: 10

Request:

The ACCC seeks the following information as well as data for the 2017–18 year:

The underlying calculations and data demonstrating how ARTC has allocated opex between the Interstate Rail Network and ARTC's other businesses.

Response:

ARTC has provided its overhead models for the years 2010-2018 on a confidential basis.

Prior to this period, ARTC's structure which did not then consist of separate network business units did not require an overhead model as there was neither a regulatory nor a management accounting need for such a detailed model. Therefore, no such data is available.

ARTC

Request Number: 11

Request:

The ACCC seeks the following information on volume and train services as well as data for the 2017–18 year:

For the three time periods provided by ARTC (1 May 2015–30 June 2015; 1 July 2015–30 June 2016; 1 July 2016–30 June 2017) plus the 2017–18 year, for all Segments, the actual annual:

- train paths
- GTKs
- Train Kms
- track kilometres

Response:

ARTC has previously provided data out of the billing system as agreed with the ACCC and the following spreadsheet is provided on a confidential basis:

- *ARTC Interstate Billing Transactions for 01072017 to 30062018 spreadsheet*

ARTC does not run its billing system based on IAU segments but on origin to destination. Therefore, this information is not available from ARTC's systems and ARTC does not have the data available on a Segment basis.

ARTC has provided the mapping of origins and destinations to pricing segments to assist the understanding of the ACCC in respect of the train path data provided by ARTC. This is provided in the attached spreadsheet:

- *Location to Pricing Segment Mapping spreadsheet*

ARTC also attaches a spreadsheet detailing speed and axle loads for each train type:

- *Train Type_Axle Load_Speed spreadsheet*

Request Number: 12

Request:

The ACCC seeks the following information on volume and train services as well as data for the 2017–18 year:

For the three time periods provided by ARTC (1 May 2015–30 June 2015; 1 July 2015–30 June 2016; 1 July 2016–30 June 2017) plus the 2017–18 year, the following characteristics for all train services:

- Axle load
- Maximum speed
- Length.

Response:

See above response to "Request Number: 11".

Request Number: 13

Request:

The ACCC seeks the following information on volume and train services as well as data for the 2017–18 year:

For each train service included in the three time periods provided by ARTC (1 May 2015–30 June 2015; 1 July 2015–30 June 2016; 1 July 2016–30 June 2017) plus the 2017–18 year, the total number of:

- train paths
- GTKs
- Train Kms
- access charges.

Response:

See above response to "Request Number: 11".

Request Number: 14

Request:

The ACCC seeks the following additional information in respect of capex:

In instances where ARTC received a government grant for a project:

- the financial years that these grants were received
- the associated funding agreements for each project (including the rate of return that ARTC used to assess whether to undertake the associated project)
- the approval documents for each stage of each project

Response:

Federal Government Grants

The data in respect of the grant receipts and capital expenditures related to grant funded projects is provided in the attached spreadsheet titled *"Federal Government Grant Funded Details.xls".*

Please note that specific figures for the amounts received in each financial year are not available, however the period over which the funds were provided is detailed in Column K - titled Grant Receipts.

In respect of specific projects, ARTC makes the following points:

- ARTC has provided extensive detail on the Tottenham to Dynon projects and has no additional detail to provide.
- Detail in respect of the funding of projects related to the MFN and Port Botany Rail Line are addressed in the response to "Request: Number 17" below.

In respect of Funding Agreements, ARTC has attached, on a confidential basis, the following documents which are correspondence with the Federal Government in respect of the Boom Gates for Level Crossings Program in SA and NSW and the Hexham Loops project in respect of the segment from Newcastle to the Queensland Border:

- *(09 2665) Copy of letter dated 9 February 2009 from Minister for Infrastructure, Transport, Regional Development and Local Government to Minister for Roads*
- *(09 3722) Letter dated 8 March 2009 from Neil Williams, Department of Infrastructure re Boom Gates for Rail Level Crossing Programs*
- *(09 4690) Letter dated 19 March 2009 from Anthony Albanese, Minister for Infrastructure*

- *(11 70139) Letter dated 1 July 2011 from Department of Infrastructure and Transport re Freight Rail Upgrades between Sydney and Newcastle - Hexham Freight Loop National Network Project Approval*

In respect of the Boom Gates project, as highlighted in the letter, this funding was initially provided to the State Governments of NSW and SA and then to ARTC. The Project Proposal Reports (PPR's) requested were provided by the State Governments and not ARTC and therefore cannot be provided by ARTC in response to the ACCC's requests for information.

In respect of the Hexham Loops Project, ARTC attaches the following document:

- *Hexham Loop Supplementary BCA 110325.pdf*

Please note in respect if the Hexham Loop project, the forecast costs of $16.6 million versus the final project cost of $15.4m demonstrating the project implementation (and hence capital management) efficiency of ARTC in delivering this project.

State Government Grants

ARTC has previously provided detail in respect of state government grants in the 22 May 2018 information request. Therefore, this response has focused on providing information in respect of Federal Government grants. ARTC has, however, updated the spreadsheet to reflect the annualized expenditures of the relevant projects:

- *Annualized State Government Funded Details spreadsheet*

Grant fund timing records are not available.

There is no further information available in respect of State Government funded projects.

Request Number: 15

Request:

The ACCC seeks the following further information on new Segments:

All approval documents for all capex, including project management, planning processes and associated Budget Investment Committee or Board documents, for the following Segments: □ MFN □ Queensland Border to Acacia Ridge □ SSFL.

Response:

ARTC has previously provided all relevant documentation in respect of the MFN under the 22 May 2018 information request and for the purposes of "Request Number: 17" below.

ARTC has provided all relevant documentation in respect of the SSFL and Queensland Border to Acacia Ridge with the 22 May 2018 information request and therefore there is no additional data for ARTC to provide.

Request Number: 16

Request:

The ACCC seeks the following further information on new Segments:

Explanation of the criteria and process ARTC uses to attribute corridor capital and documentation demonstrating the scope of all corridor capital, for the following Segments:

- MFN
- Queensland Border to Acacia Ridge
- SSFL

Response:

The required level of corridor capital is established based upon a condition assessment and determined as part of the annual budget determination process as reflected in "Response Number: 22" below.

The attribution of corridor capital is driven by the application of ARTC's Fixed Assets Policy, *FCA-PO-004*. This policy applies to all ARTC assets and is therefore constant across all ARTC networks – both Interstate and Hunter Valley. ARTC has provided this policy on a confidential basis to the ACCC.

Through the response to "Request Number: 25", the provision of the 10 Year Asset Management Plan and the provision of ARTC's forecast maintenance and capital works, ARTC has provided extensive detail in respect of its forward corridor capital and maintenance programs. The operation of the Interstate Network does not require the extensive capital project documentation for corridor capital that is required under the HVAU. Therefore, ARTC has no further documentation beyond the data outlined above.

Request Number: 17

Request:

The ACCC seeks the following further information on new Segments:

The Project Proposal Reports for the following projects: MFN in 2011–12 costing $21.2 million Port Botany Rail Upgrade Stage 1 in 2009–10 costing $6 million Port Botany Rail Upgrade Stage 3 in 2017–18 costing $52.9 million.

Response:

The MFN in 2011-12 and Port Botany Rail Upgrade Stage 1 are effectively the same project.

ARTC has provided, on a confidential basis, the funding agreement letters associated with all stages of the MFN and Port Botany Rail Line project which are attached as:

- *(09 10743) Letter dated 16 June 2009 from the Department of Infrastructure, Transport re Nation Building Program Port Botany Rail Line Upgrade Stage 1 - Construction Phase, Australian Rail Track Corporation (ARTC) – National Network Project Approval*
- *(039256-09SA-NP) - Letter dated 27 May 2010 from the Department of Infrastructure, Transport re Nation Building Program Port Botany Rail Line Upgrade Stage 2 - National Network Project Approval*
- *Letter dated 21 November 2014 from the Department of Infrastructure and Regional Development to ARTC re Funding and milestones for PBRL Stage 3 – Scoping and Development Phases (MFN Stage 3 Funding Letter)*
- *Letter dated 30 January 2014 from Department of Infrastructure and Regional Development to ARTC re Government commitment*

The Project Proposal Report for Stage 1 is provided in the following documents (noting this was initially referred to as Stage 2 in the attached documentation as it followed the MFN as Stage 1):

- *Botany & MFN Project Proposal Report Dec 07.pdf*
- *PPB Port Botany Rail Line Upgrade Stage 2 FINAL April 2010.pdf*

The Project Proposal Reports for Stage 3 are provided in the following documents:

- *Port Botany Rail Line (PBRL) Stage 3 – Capacity Study Scoping Phase*
- *Port Botany Rail Line (PBRL) Stage 3 – Track Upgrading Development Phase*

This project is yet to be completed. Therefore all documentation in respect of PBRL Stage 3 is provided on a confidential basis.

In respect of actual capital expenditure, ARTC provides the following documents on a confidential basis given the ongoing nature of the project:

- *(190918-004) Port Botany Stage 3 Quarterly Review September.pptx*
- *PBRL-TU-046 June 18 (002) v2 Final*

Please note that Stage 3 also includes amounts allocated to the Cabramatta Loops project and those amounts have not been included into the proposed RAB roll-in. Further detail on this project has therefore not been provided.

Request Number: 18

Request:

The ACCC seeks the following further information on new Segments:

Evidence supporting actual capex amounts for the MFN Segment, such as project Close-out reports.

Response:

This information has been provided in the suite of responses to MFN questions above and in the 22 May 2018 information request.

Request Number: 19

Request:

The ACCC seeks the following further information on new Segments:

Explanation and supporting documentation of why the Port Botany Rail Line Upgrade Stage 2 was classified as entirely track capex.

Response:

This allocation reflected an allocation error in ARTC's models. Following detailed analysis and review, the capital has been split between track capex and signals and updated in the relevant capital and ceiling models which are provided on a confidential basis:

- *Ceiling Test IAU 2018 – Oct 18 Update spreadsheet*
- *CAPEX act and fcst by segment – Oct 18 Update spreadsheet*

The analysis undertaken by ARTC in responding to this question has highlighted a variance in the reporting systems which ARTC has been unable to reconcile. In the interests of conservatism, ARTC has utilized the lower figure for MFN capital in the updated documentation.

Request Number: 20

Request:

The ACCC seeks the following information on forecast maintenance expenditure, opex and capex:

Explanation of why ARTC has applied a 10 per cent margin to all variable costs of all forecast maintenance activities, rather than only RCRM activities.

Response:

The application of the 10% margin to reflect the efficient price of maintenance services should be applied to all insourced maintenance. Under the HVAU, this is the RCRM component and ARTC has, in error, used this terminology in respect of the Interstate for continuity.

Variable maintenance is performed by insourced crews and, whilst a majority of fixed maintenance is also performed by insourced crews, there is some that is outsourced under ARTC's procurement

processes (and the costs of which implicitly includes a margin). ARTC does not separately account for such work on the Interstate, therefore ARTC does not have the necessary accounting systems to separate in and outsourced work within the fixed category. As a result, ARTC took the conservative approach and limited the application of the margin to variable maintenance given it could not accurately apply it to fixed maintenance. However, as noted above, this was referred to as RCRM in error to provide a sense of continuity of references but in actual fact, despite this terminology ARTC has foregone its application to fixed maintenance given an inability to specifically support the share of insourced and outsourced work under fixed maintenance on the Interstate network.

Request Number: 21

Request:

The ACCC seeks the following information on forecast maintenance expenditure, opex and capex:

Forecast maintenance expenditure for all Segments over the term of the 2018 IAU by Train Km.

Response:

Maintenance expenditure is not a function of TKm.

ARTC is happy to provide TKm data by Segment provided in the spreadsheet below. Please note, as these are forecasts reflecting ARTC's view of future use of the network, this data is provided on a confidential basis.

- *TKm by segment spreadsheet*

Request Number: 22

Request:

The ACCC seeks the following information on forecast maintenance expenditure, opex and capex:

Explanation and supporting documentation demonstrating how ARTC calculated the forecast maintenance and open values provided in its response to question 25 of the 22 May 2018 information request.

Response:

ARTC determines the maintenance spend on the interstate network based upon a condition assessment of the line which establishes a quantum of work required to be undertaken. This incorporates an assessment of the mandatory work that is required to be undertaken for compliance with ARTC's lease and rail safety obligations plus the work which is required to meet ARTC's contractual obligations and maximise network availability. The budget reflects an assessment of staff and resource availability, forecast traffic and potential work priorities and is finalised through the annual budget process (as approved by ARTC's Budget and Investment Committee).

The application of the efficiency dividend within this process, as addressed in "Request Number: 23", is demonstration that ARTC seeks to maximise the amount of work undertaken based upon limited resources.

The maintenance and corridor capital budgets reflect key asset strategies. For the purposes of the 2017/18 process upon which ARTC's application was based, these strategies included:

- Addressing rail squats between Goulburn and Sydney;
- Targeting key mud hole hotspots in the north-south corridor;
- Brining all interstate level crossing signalling to a similar standard;
- Short term safety issues;
- Medium term reliability issues; and

- Long term sustainability issues.

The medium and long term capital requirements are reflected in the 10 year Asset Management Plan ("AMP").

This annual process to approve the budget for maintenance expenditure, based upon forecasts traffics (as well as the different categorisation of accounting between incremental and fixed maintenance versus RCRM and MPM), creates some variance between the AMP and the annual budget. However, in instances where ARTC's annual expenditures are driven by the budget and long term network needs, these are reflected in the AMP.

Please note that, due to the regulatory model in place under the 2008 IAU as described above, ARTC accepts all risk in respect of under and over spends on operating cost on the interstate network, as well as all risk for network operational performance.

ARTC's budgeted amounts for maintenance, opex and capex have previously been provided to the ACCC and therefore has no additional data to provide.

Request Number: 23

Request:

The ACCC seeks the following information on forecast maintenance expenditure, opex and capex:

Explanation of what the 'Interstate Efficiency Dividend' and 'E&I Corridor Management (South)' is and why associated adjustments to forecast maintenance expenditure should be considered efficient.

Response:

As highlighted above in the answer to "Request Number: 22", ARTC determines its maintenance budget based around a condition assessment which incorporates a number of factors including forecast traffic and revenue.

'E&I Corridor Management (South)' represents expenditure on the southern section of the north-south corridor (i.e. Melbourne to Sydney and including the Moss Vale to Unanderra section) that has been budgeted for maintenance activities but has not been allocated to specific projects or line segments.

The 'Interstate Efficiency Dividend' then represents a drive for efficiency on maintenance activities which is applied at an aggregate level.

ARTC is subject to substantial competitive pressure on the interstate network from other modes of freight transport (such as ships and roads) which is reflected in the under recovery of full economic costs on all segments of the network. Due to this under recovery, ARTC bears all the risks of its maintenance costs on the interstate network as customer revenue is completely independent of costs. This risk ensures that ARTC is efficient in its maintenance expenditure as it directly links to the profitability of the network.

In respect of the efficiency dividend, ARTC notes that a common feature of operating cost allowances in other regulatory systems is the imposition of an efficiency framework, such as CPI-x escalation of costs, to promote more efficient operation of networks which are considered natural monopolies (on the assumption that the lack of competition encourages inefficient operation).

ARTC therefore has imposed an efficiency dividend on its maintenance activities to reduce costs and improve the profitability of the network.

These adjustments should therefore be considered efficient as they are specifically focussed on improving the efficiency of the profitable and reliable operation of the network and, given the absence of linkage between price and cost, ARTC holds 100% of the maintenance cost on the network ensuring efficiency.

Request Number: 24

Request:

The ACCC seeks the following information on forecast maintenance expenditure, opex and capex:

Explanation of why ARTC has allocated opex to the following non-IAU Segments:

- Portland – Maroona;
- Oaklands Benalla.

Response:

ARTC earns revenue from providing maintenance services to these segments, therefore Opex is allocated to them to ensure ARTC's full opex is fairly allocated across all businesses and there is no over recovery from any business unit.

Request Number: 25

Request:

The ACCC seeks the following information on forecast maintenance expenditure, opex and capex:

ARTC's latest 10 year Asset Management Plan

Response:

This information is provided in the attached model on a confidential basis:

- *20180412-IAMKFCMACNSNNSS-ProjectData spreadsheet*

Please note, due to the differences in regulatory accounting, ARTC does not translate the 10 year AMP into the budget by regulatory segment for budget purposes. However, ARTC does utilise a model which undertakes the segment splits for fixed and variable maintenance.