
H The network manager and investment in the interstate track

Central to this inquiry is the issue of investment in the rail network. As noted in this report, existing institutional arrangements have failed to secure adequate investment in some parts of the rail network. In the case of the interstate track, the Commission has proposed a mechanism that would take into account (or internalise) network effects and facilitate appropriate investment in the system on a timely and self-financing basis (chapter 10).

This appendix outlines — at a conceptual level — how investment would occur in the interstate network under the single network manager model. Determining the full detail of the manager’s responsibilities and functions would require further development.

Under this approach, a network manager would be established to manage the operation of the interstate track on behalf of both train operators and track owners. To prevent conflicts of interest, the manager would not be permitted to own (or lease) any track or rollingstock. A formal code of conduct would be developed, setting out the manager’s functions. This code would need to be approved by the Australian Competition and Consumer Commission. It is envisaged that, among its key responsibilities, the manager would:

- administer pricing and allocation of train schedules; and
- facilitate planning and investment in the network.

There is an important interdependency between these functions — information derived from the process of schedule allocation can be used to signal when and where investment in the network is warranted.

Where train schedules are allocated by auctioning or other market trading methods (as suggested in chapter 8), prices reflect the value that bidders place on their use of the track. The prices bid for a given capacity are a direct measure of the strength of user demand. For instance, where there is excess demand for schedules, auctioning would result in rising prices. As prices surpass costs so that higher profits are being earned, this acts as a trigger for further investment.

An important role of the network manager would be to disseminate the price data generated by auctioning as well as other planning information. These data would assist potential investors — be they existing track owners or other parties — in identifying profitable investment opportunities. The onus is on potential investors to assess the viability of projects and bear the risks if the projects are undertaken. The network manager does not bear any investment risks and would not be held liable for the use of its planning information in project evaluations.

Once proponents are satisfied that a project is viable, they would prepare investment plans for the purpose of public consultation — a process that could be coordinated by the network manager. Following this process and providing that any major concerns are addressed, the investment would then proceed.

To facilitate commercial investment, the code of conduct for the manager would need to allow for different pricing and allocation arrangements depending on the extent to which new investment is expected to meet or exceed user demand.

- For projects aimed at addressing congestion problems, it may be possible for investment to be undertaken up to a point where some demand pressures remain. Although congestion would be eliminated (as auctioning ‘clears’ the market), excess demand still persists owing to the targeted level of investment. Because the access prices obtained from auctioning reflect an ‘excess demand’ component, they are still likely to generate a reasonable rate of return for the investor.
- As some infrastructure is large and indivisible, investment in such assets may eliminate congestion and extinguish excess demand. Where there is significant spare capacity, the use of auctioning would be likely to result in prices falling below the cost of provision and investors incurring losses (at least in the short term). In such cases, it may be appropriate to introduce posted prices which are set in relation to average costs incorporating a return on capital. Over time, as demand grows and spare capacity is taken up, auctioning could then be re-introduced.

In sum, flexible pricing arrangements would facilitate investment by taking into account the characteristics of infrastructure assets. In both cases, the methods for determining access prices provide scope for a normal rate of return to be earned. Importantly, these arrangements do not necessarily guarantee revenue streams or returns — investors still bear all of the commercial risks.