

RAIL

ACCESS
CORPORATION

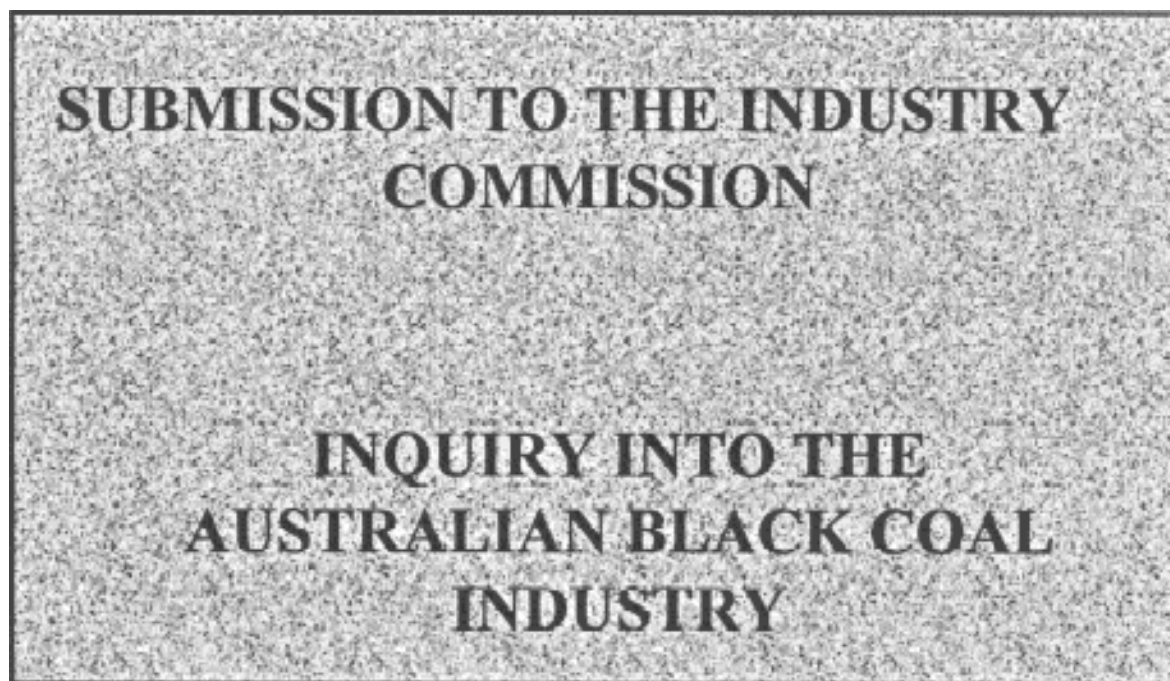


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1. INTRODUCTION

This submission has been prepared by the Rail Access Corporation (RAC) as input to the Industry Commission's review of the Australian black coal industry.

The RAC owns and manages rail infrastructure facilities in New South **Wales**, **including the** track, signals, bridges and associated 'network' facilities which are used in the rail transport of coal from mines to export ports and domestic customers. Coal transport is the RAC's most important commercial business. In 1997/98, the Corporation's budgeted revenue for coal transport operations is some \$ 1 64 million or 25% of total revenues.

The RAC is committed to facilitating further improvements in the competitiveness and efficiency of rail transport in NSW, recognising the importance of rail infrastructure and rail transport to many sectors of the State's economy. Indeed, the Corporation owes its very existence to the NSW Government's structural reforms aimed at exposing the State's railway sector to greater competition. This submission addresses issues relevant to the Commission's investigation of the performance of coal infrastructure.

The submission is structured into 5 further sections:

- Background and Policy Context of the Rail Access Corporation;
- Cost of Transport;
- Access Arrangements;
- Infrastructure Ownership and Investment; and
- Conclusions

2. BACKGROUND AND POLICY CONTEXT OF THE RAC

2.1 Background to the RAC

The RAC is a State Owned Corporation. It was corporatised on 1 July 1996 and is governed by the State Owned Corporations Act. RAC has its own Board of Directors which is

appointed by the Shareholding Ministers.

With effect from the 1 st July 1996, the former State Rail Authority (SRA) was restructured as set out in the *Transport Administration Amendment (Rail Corporatisation and Restructuring) Act 1996* ("TAA"). At this time, ownership and management of all of the rail infrastructure

assets of the SRA (including track, signals, bridges, electrification equipment, fencing and

communication facilities) became the responsibility of the Corporation. The RAC also

became responsible for the Train Control function which is presently sub-contracted back to the SAR 1.

The RAC is to operate commercially with its principal revenue stream to come from access fees paid by rail operators for use of the Corporation's network. The Government may also provide payments for specific Community Service Obligations undertaken by the

Corporation, such as maintaining light density rural branchlines. The RAC's principal costs are the payments to contractors undertaking network maintenance, renewal and development activities and network control activities.

The RAC is to provide access to all operators on a fair and equitable basis. The Minister for Transport's second reading to Parliament stated that role of the RAC was to "provide access to all accredited operators on equitable commercial terms"². To ensure the Corporation

remains neutral, it is prevented from participating in above-rail operations in competition with other rail operators in NSW.

The principal statutory objectives and functions of the RAC and the RAC's 1997 Corporate Plan are attached as Appendices A and B.

2.2 Policy context

The process of micro-economic reform in NSW is increasingly being undertaken within the framework of the national competition policy (NCP). Implementation of competition-based policies has led to government-owned monopolies in sectors such as electricity, water, gas

and transport being opened up to competition.

1 After restructuring, the State Rail Authority has retained operations responsibility for Sydney commuter services (CityRail) and country passenger services (Countrylink).

2 Second Reading of the Transport Administration Amendment (Rail Corporatisation and Restructuring) Bill 1996. at p.6.

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In restructuring the SRA, the NSW Government has adopted a pro-competitive structural model, separating the potential competitive elements of rail transport (the above rail operations) from the natural monopoly components (railway infrastructure). Apart from the creation of the RAC, the reforms also created a new State Rail Authority which has become the NSW Government's passenger carrier; FreightCorp its freight carrier, and the Rail Services Authority which is to bid for maintenance work from these entities, or for any other work it can identify.

Over time, the new structure is expected to deliver a range of benefits, including:

- Competition and contestability in above rail operations;
- Greater cost transparency;

- Cultural change and reduced overheads from the old SRA; and
- A built in mechanism to achieve efficiencies (i.e. outsourcing of maintenance) which would have been difficult to achieve in the old SRA vertically integrated structure.

Legislative changes introduced with implementation of NCP have resulted in previously exempt government businesses becoming subject to the Trade Practices Act. Competition between public and private sector businesses is to be, as far as possible, on an equal footing. Of significance to the rail transport of coal, the RAC's access charges are now subject to regulation under the NSW Access Regime, with arbitration and dispute resolution processes in place should the need arise. Previously no regulation of SRA freight charges (either in full or in part) existed.

2.3 RAC coverage of the coalnetwork

The Corporation's jurisdiction covers all of the rail network in NSW which was previously owned by the SRA (more than 9,000 kilometres of track). Some trackwork, sidings and loops are privately owned.

Almost all of the rail network used for the transport of coal is under the RAC's management. The exceptions include the Wongawilli line (about 5 kilometres of line south west of Wollongong), Kemeira line (about 8 kilometres of line near Newcastle) and the South Maitland railway north of Newcastle. Balloon loops and spur lines into mines are mainly held privately. The RAC owns the mainlines into the port terminal areas. The NSW coal carrying network is illustrated in Figure 1.

There are no interstate movements of coal of any significance and therefore no multi-jurisdictional issues for access.

A key feature of the NSW rail network is that coal traffics do, for the most part, share mainlines with other freight and passenger traffics. This issue is particularly significant in the Sydney metropolitan area where coal trains from western coal fields en-route to Pt Kembla are constrained by passenger trains. A curfew is in place which prevents any access by freight trains to the metropolitan mainlines during peak commuter times.

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The RAC's enabling legislation³ directs the RAC to maintain reasonable priority to passenger services. This limits the Corporation's ability to accommodate coal trains at certain times on some parts of the network (mainly metropolitan Sydney). The Corporation's access pricing policy reflects this constraint with access prices for passenger services reflecting the priority they receive. Access arrangements are discussed further in Section 4.

3. COST OF TRANSPORT

3.1 Introduction

Rail transport costs are a significant component of the total cost of black coal delivered to domestic customers or to the ports of Newcastle and Pt Kembla for export. Rail transport costs typically account for between 10 and 20% of the fob cost of black coal exports in NSW. The RAC's access charges will in turn account for around one-half of the total rail freight rate or between 5 and 10% of the free-on-board cost of coal.

Historically, coal companies have negotiated rail freight rates directly with the monopoly state railway. Competitive pressures on the railway were relatively weak, although we understand that over the last 10 years, coal companies have had some success in negotiating declining real freight rates on the back of considerable increases in committed tonnage.⁴

The recent reform of the railway sector in New South Wales has meant that the rail transport of coal in this State is now exposed to much greater competitive pressures. For the first time, operators are separated from ownership of the State's rail infrastructure and network. This Section discusses some of the issues related to the cost of rail transport for coal in NSW, specifically:

- Competition and contestability benefits above rail; and
- Efficiency improvements below rail

3.2 Competition and contestability benefits above rail

The RAC is required to actively market access to rail infrastructure facilities in NSW to potential rail operators. FreightCorp, the incumbent government-owned freight operator, is now subject to competition (or at least the threat of competition) from potential new entrants. As above-rail operations typically account for two-thirds of the total cost of rail transport, the increase in competition should be of significant benefit to the Australian black coal industry.

The principal impact of greater competition is likely to be further reductions in the price of rail haulage services. The reliability and effectiveness of rail services are already high and unlikely to be greatly affected as a result of greater competitive access.

3 Transport Administration Amendment Act (Rail Corporatisation and Restructuring) Bill 1996

4 Actual freight rates are kept commercially confidential by FreightCorp.

The extent of the potential competitive benefits actually achieved will depend on how effective the new structural model is in minimising barriers to entry and facilitating access. The access arrangements will be pivotal in this regard and these are discussed in detail in the next Section

Despite it still being 'early days' under the new industry structure, competitive benefits have already been achieved. Coal & Allied, for example, negotiated a very attractive lease and user agreement for a rake of coal wagons it purchased. Although the business was won by FreightCorp, success of the new competitive industry structure is not to be measured by the number of new operators brought onto system. Achieving competitive outcomes is the primary objective.

3.3 Efficiency improvements below rail

The Corporation has been established to focus on its core business of owning, managing and providing access to rail infrastructure.

The RAC's track management function is a natural monopoly. Given **the relatively light** traffic densities in NSW, it is unlikely that it would be economical for anyone to duplicate components of the rail network to create competitive routes. Even in the highest density coal corridors, availability of suitable land and the operational synergies from an integrated network are likely to make it uneconomical to duplicate the RAC network. Economies of scale and scope are significant in the provision of rail track and this general proposition also applies in the case of the coal carrying network. Fixed (non-usage related) costs generally account for 70-80% of total infrastructure costs, although this percentage is lower in some of the coal carry network because of the higher traffic volumes.

Because of the need to minimise its own costs and ensure competitive supply of infrastructure services, the RAC has commenced a program to competitively tender its key maintenance and engineering works. This mirrors similar practices being implemented in the mining industry and reflects the RAC's commitment to commercially-based practices and creating opportunities for private sector participation in the rail sector.

Outsourcing strategy

With an annual maintenance schedule of \$550 million and a capital works programme of around \$250 million, the RAC holds one of the largest engineering portfolios in Australia. The Government has stipulated a four year transition to a fully contestable system for these works, with the Rail Services Authority progressively competing with the private sector for the responsibility of maintaining and up-grading the Corporation's track and associated infrastructure.

A core feature of the Corporation's contracting strategy is the use of "alliance" contracts instead of traditional adversarial forms of contracting. The focus is on performance-based specifications or requirements rather than the RAC producing highly detailed technical specifications.

A fundamental tenet of RAC's contracting strategy is that the successful proponent should only earn its profit through improving the performance of NSW infrastructure works and maintenance, and that profit will be at risk in the event of a failure by the successful proponent to meet agreed key performance indicators (KPIs). KPIs have been established which cover cost, system safety, service reliability, access availability, compliance measures (against statutory obligations, asset condition, RAC standards, practices and procedures) and schedule.

The major coal carrying infrastructure in the Hunter Valley will be competitively tendered in July 1998. Tendering of components of the western coal system (e.g. Waterfall to Bomaderry) are currently underway with tendering of all of the coal related network expected to be completed by the end of 1998. Benefits from savings in maintenance and works expenses will flow through to access prices almost immediately for most mines in the Hunter Valley (Category 1 mines)

It will not be possible to quantify the extent of the likely cost savings until the contracts are let, but the Corporation is expecting substantial reductions (up to 30%) which will be of material benefit to our stakeholders, including the Australian coal industry.

Costs and efficiency by geography

Costs, efficiency and service quality can vary considerably by geography. Within NSW, significant variations in efficiency and service standards exist between the Hunter Valley coal transport system and the Western and Southern coal systems.

The Hunter Valley rail infrastructure is generally of a higher standard with 30 tonne axle loads, compared with 19-25 tonnes elsewhere in the system. Higher axle loads will allow more efficient above rail operations. Other freight and passenger traffics are also less intrusive on the coal operations in the Hunter Valley, unlike the western coal services which must contend with Sydney commuter services en-route to Port Kembla.

It will not be cost effective to implement a single service quality standard across the entire NSW rail network. The RAC's asset management process is designed to involve key stakeholders in network upgrade plans to ensure that decisions are made which are commercially-based and reflect the needs of the Corporation's customers. This is discussed further in Section 5

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4. ACCESS ARRANGEMENTS

4.1 Introduction

The key elements of access to rail infrastructure in NSW, including the pricing framework, are dictated by the NSW Rail Access Regime which is given legislative effect by the TAA. Within the parameters established by the Regime, the RAC has

been working to introduce price and non-price access arrangements which facilitate open and fair access to NSW railway infrastructure.

This Section outlines some of the key components of the rail access arrangements currently being administered by the RAC, covering:

- effectiveness of the access regime;
- ..
- access pricing principles; and
- non-price barriers to entry.

4.2 Effectiveness of the Access Regime

The National Competition Council (NCC) has been examining the effectiveness of the NSW Rail Access Regime following an application by the NSW Minerals to have the Hunter Valley Rail Network 'declared' as an essential facility under the relevant sections of the Trade Practices Act (TPA). A service cannot be declared if it is already the subject of an effective access regime.

The NCC recommendation on the Application by the NSW Minerals Council was due 1 st September 1997. The Premier of NSW has until the end of October to make a decision whether to accept or reject the NCC's recommendation.

Notwithstanding the concerns of the NSW Minerals Council, The RAC has been negotiating with a number of prospective rail operators in a variety of markets, including coal haulage services. Currently, two existing rail operators and a major logistics company are well advanced in negotiations with coal companies and the RAC. It is important to appreciate that the RAC is not vertically integrated and its statutory objectives and functions centre upon the provision of access to rail operators. It is not a rail operator itself and is prevented from being so by the NSW Rail Access Regime.

The NSW Government has submitted the NSW Regime to the NCC for certification as "effective" under sections 44M and 44N of the TPA. The Corporation is actively working with the NCC and NSW Government representatives to ensure the NSW Regime is amended to reflect key stakeholder requirements, so that it might be declared effective in the near future

4.3 Access pricing principles

The pricing framework of the NSW Rail Access Regime establishes floor and ceiling tests and access prices can only be negotiated within these parameters. Consistent with the Regime, the RAC pricing policy is to set prices such that:

Floor tests

- a) no operator will pay less than the incremental cost imposed by that operator's operation;
- b) no group of operators will collectively pay less than the incremental cost imposed by their combined operations; and
- c) the full incremental costs (including fixed costs) of any line section are met by revenues from operators traversing that line section.

Ceiling tests

- d) no operator will pay more than the stand-alone cost of servicing their operation;
- e) no group will collectively pay more than the stand-alone cost of servicing their combined operations; and
- f) the full stand-alone costs of any line section will only be met by operators traversing that line section.

A copy of the RAC's pricing policy is presented in Appendix C.

The RAC's view is that these general pricing principles provide for an optimum level of **price** regulation. The floor and ceiling tests provide the minimum restriction on commercial negotiation whilst preventing the RAC from entering into agreements which represent an abuse of its monopoly position.

The floor test means that RAC must set charges to at least cover the direct costs of providing access for an operator, or group of operators, preventing any cross-subsidies. The ceiling tests prevent monopoly profits. Rail Access will seek to negotiate an appropriate contribution by all operators above incremental costs up to the ceiling limits specified in the Regime.

Commercial negotiation

The NSW Regime recognises the importance of negotiation⁵. This is also reflected in the Hilmer Report⁶, the second reading speech for the Competition Policy Reform Bill 1995⁷, the second reading speech for the Transport (Rail Corporatisation and Restructuring) Bill 1996⁸ and the NSW Premier's Memorandum 95-329.

⁵ *Clause 4 of the NSW Regime*

⁶ *Hilmer Report, at pp 254-5.*

7 The Second Reading Speech of the Competition Policy Reform Bill 1995 at p7.

8 The Second Reading Speech of the Transport Administration Amendment (Rail Corporatisation and Restructuring) Bill at p9.

9 The NSW Premier's Memorandum 95-32 "Access to essential infrastructure - establishment of State regimes under the National Competition Policy", 31 August 1995 at p4

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The RAC believes that negotiation and market-based access prices will optimise the use of the State's rail infrastructure and ensure maximum overall efficiency of the rail network. Access pricing approaches which mechanistically prescribe average cost pricing (or fully distributed cost pricing) by line are inefficient and unlikely to deliver optimal outcomes.

In the provision of rail infrastructure, there is generally a high degree of common costs (i.e. costs which are common to more than one operator and which will not be avoided if any one operator was to cease operations). If it was mandated that all operators must pay an equal contribution to such costs, then some operators may be priced off the network. Operators will have different capacities to pay which should be taken into account in formulating access charges. Also different operations will have different requirements which impose different costs on the infrastructure owner. Such differences in cost imposed by different operators should be taken into account in access charges.

Price differentiation

Apart from setting the floor and ceiling tests, the NSW Regime is not prescriptive in its general pricing principles. The NSW Regime therefore allows prices to be varied to reflect alternative revenue/risk profiles (eg. seasonal/climate dependent grain traffic versus more stable coal volumes) and to take account of train priority, consumption of peak capacity and any other factors which might lead to differences in costs.

Access prices are currently being quoted on \$ per tonne basis but by July 1998, the RAC intends to introduce price differentials which reflect a range of factors, aimed at improving the pricing signals to rail operators and encouraging more efficient behaviour.

The RAC recognises the need to tailor pricing structures to reflect the characteristics of the transport task. In the case of coal transport, access charges which reflect priority running may not be appropriate. The Hunter Valley rail system operates on a "just-in-time" cargo assembly basis, that is, coal exports are assembled at the port to meet the export shipping schedule. Any operator's requirements for access to the network at peak times or for priority running are therefore essentially determined by the export shipping schedule, and are largely beyond the control of the operator in question. While the NSW Regime does permit priority charging, given the current

operation pattern of the port, it is not appropriate to vary access prices between coal operators on this basis.

Operators competing in the same end-markets are naturally concerned that they are treated equally to their competitors and if they have the same requirements (i.e. impose the same costs) they should face the same access charges. RAC supports this principle. It is not in RAC's commercial interest to support cannibalisation of traffics, i.e. allowing a new entrant to achieve a lower access charge to secure traffic from incumbent operators currently paying higher access charges. This will only dilute RAC's revenues for no material gain. Similarly, it is not in RAC's interests to give incumbent operators an advantage and so frustrate competition and prevent new entrants and potentially new traffic coming to rail.

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A related issue is the extent to which access charges (and rail freight charges) can distort competition between mines, i.e. offering lower rail charges for 'expansion' tonnage at one mine which ends up substituting for tonnage at other mines. Again it is not in RAC's commercial interests to allow substitution tonnage to dilute revenues.

Transitional pricing arrangements for coal haulage

The NSW Government has specified that monopoly rents in rail freight rates (which have been transferred to the Corporation's access charges) are to be phased out over 4 years which has led to specific transitional pricing arrangements in the Regime and the so called adjustment component of rail access charges. Monopoly rents are scheduled to decline by 25% each year.

Under the NSW Regime, access prices for coal services are to comprise a base price and an adjustment component. Three pricing categories are determined:

- *Category 1* prices are above the stand alone cost ceiling and will thus include the adjustment component until 2000-2001. The stand-alone costs will then set the limit on prices.
- *Category 2* prices lie between the levels set by the stand alone cost **and the floor test** **and** therefore remain unchanged.
- *Category 3* prices are below the floor test. They are therefore required to be increased to this level.

Monopoly rents collected by the Corporation are to be remitted to the NSW Government as
`dividends

From 1 July 2000, the general pricing principles will apply for access to the rail track used for the haulage of coal.

Application of the ceiling tests

The ceiling tests effectively cap revenues so that the RAC cannot earn monopoly profits on certain traffics or sections of the network and use this to cross-subsidise loss making traffics or sections of the network. The application of the ceiling tests are of concern to the coal industry, given the history of monopoly rents embedded within rail freight charges.

The ceiling tests allow RAC to include in coal access prices a rate of return to ensure that the Corporation has incentives to reinvest and expand the rail infrastructure involved in the haulage of coal. Under the pricing principles of the Regime, operators individually and collectively are only required to pay for the infrastructure which they use. Hunter Valley coal mines for instance will not be paying for the metropolitan passenger network.

Two important elements of the ceiling test are the asset valuation methodology and the rate of return

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The asset valuation methodology is only specified in the NSW Regime for the purposes of the ceiling test. The method set out in the Regime is the current cost depreciated replacement value. The relevant Parliamentary debate indicates that this basis of valuation was selected for "simplicity and relative certainty".

For the purposes of establishing a regulated rate ceiling, a case could be argued for the use of optimised replacement cost (non-depreciated) as the basis for the valuation of assets. The regulated maximum price should be the stand-alone cost of access. The stand-alone cost of access can be defined as the hypothetical minimum cost of satisfying the demand of the person or group of persons seeking access if they were the only user of the system, which will include a return on an 'optimised' asset base valued at current prices.

Writing down the value of the assets for age and condition attempts to take account of the reduced income potential of the assets in their valuation. That is, depreciated replacement cost will lead to a lower price cap than optimised replacement cost. In practice, determining the 'optimised' asset base will present a number of difficulties. By their nature, increments in railway capacity are large and 'lumpy' and at any point in time across the network, some excess capacity is likely to exist even in the most conservative of railway systems. For example, the general level of spare track capacity in the Hunter Valley is around 30% which is not considered excessive by RAC given the projected growth in coal volumes (35% growth in tonnages from 1997/98 to 2001/02).

A 14% rate of return has been gazetted for the NSW Regime. Some in the coal industry have argued that this rate is too high and based on the application of the

Capital Asset Pricing Model (CAPM), a much lower rate is more appropriate. The application of the CAPM methodology requires estimation of certain parameters without close parallels in the commercial market (such as RAC's beta risk) and the results will therefore be subject to debate. Furthermore, the specification of the model and the treatment of dividend imputation is still subject to some academic argument, further complicating the process of establishing the appropriate rate of return for regulatory purposes.

The gazetted rate is not a required rate of return for the RAC but simply a rate of return to be applied to the ceiling test. A distinction must be drawn between a firm's Weighted Average Cost of Capital (WACC) and the ceiling rate of return for regulatory purposes. If maximum charges are capped to deliver the average WACC, then by definition, RAC will not be able to earn its required average WACC overall. If the regulatory system was to prevent an infrastructure owner from earning its average cost of capital then the outcome is likely to be disincentive for investment leading to potential capacity shortages and degradation of asset performance.

0 Transport Administration Amendment (Rail Corporatisation and Restructuring) Bill 1996. Second Reading. 25 June 1996. Legislative Council. Hansard. p.3593 per the Hon. M.R. Egan. where he also noted that depreciated replacement value is less speculative than the optimised deprival value method and that the optimised deprival value method was hard to apply in practice.

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Impact of volume on access charges

Because of the high fixed costs in rail infrastructure provision, increased volumes will reduce average costs. The operation of the ceiling tests and RAC's pricing policy will see the benefits of increased volume reflected in access charges over time.

Coal access charges for 1997/98 have reduced compared to 1996/97. There has been a 19% reduction (on an average basis over the entire network) due to the reduction in the monopoly rent component and increased volumes. Further volume-induced efficiencies are expected. In 1996/97 Hunter Valley export coal volume was about 50 million tonnes. This increased to about 60 million tonnes in 1997/98 and is expected to increase to between 80 and 90 million tonnes by 2001/02.

Market power

Because of the RAC's ownership and control of the major coal carrying infrastructure in NSW, there is a contention that the RAC is in a position to wield substantial market power. The Corporation would first like to make the point that it has been established to facilitate competition in rail transport services and it is explicitly prevented from engaging in rail operations and competing in above rail markets by the NSW Regime. The Corporation's key objective is to foster and promote above rail competition for rail services in NSW.

As to the level of its own charges, the ceiling test places a cap on the revenue the RAC can earn from coal operations and ultimately protects rail operators from excessive charges. Within the ceiling and floor tests, the Corporation does have pricing discretion to optimise its commercial position but it is precisely this commercial objective which protects operators from exploitation (i.e. inequitable access prices which promote cannibalisation and substitution of tonnage are not in RAC's commercial interests).

Rate of return regulation of the type incorporated in the Regime has been criticised for reducing the incentives to pursue efficiency gains and innovate. The RAC has implemented an ambitious performance-based outsourcing programme which will generate contestability for its key inputs, thereby driving innovation and efficiency in its costs. RAC's administration overheads incorporate only about 100 staff, which is very lean given the magnitude of the Corporation's business.

Passenger priority

Under the TAA, the RAC is obliged to maintain reasonable priority and certainty of **access** for passenger services. This issue is most relevant to western coal services which have restricted access to the Sydney metropolitan area during peak commuter hours.

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The TAA does not dictate exclusivity for the priority of passenger services over the services of other rail operators (including coal trains) but requires other rail operators' reasonable requirements to be taken into account when passenger arrangements are negotiated between SRA and the RAC. Therefore the passenger arrangements are not unilaterally determined by the SRA's requirements.

The RAC's pricing policy provides for price differentiation to reflect the level of priority demanded

4.4 Non Price Barriers to Competition

Among the potential non-price barriers to entry are the practical operational issues faced by potential new operators and the information advantage held by incumbents.

RAC is striving to create an environment of certainty for all rail operators in terms of train pathing, operational protocols and operational performance. Workshops have been held with key stakeholders including FreightCorp, prospective operators, the Minerals Council, miners representatives and terminal operators in order to develop the protocols and procedures which are to be employed to ensure equitable access for all operators and an efficient coal delivery system. Issues will include how train paths are to be allocated, how disputes will be resolved and how the interfaces between the RAC, rail operators, miners and terminal operators are to be managed.

Performance measurement has been identified as a key issue with both FreightCorp and prospective operators. The RAC is investigating the mechanisms by which performance can be measured and the commercial arrangements that can be implemented to change behaviour and optimise the overall coal delivery system.

5. OWNERSHIP AND INVESTMENT

5.1 Introduction

A key component of the RAC's core business is the development of the State's rail infrastructure. Strong growth in coal railings is forecast to continue, especially in the Hunter Valley, which means much of the Corporation's development focus will be on accommodating the requirements of operators servicing coal customers. The RAC has implemented an inclusive asset management and investment process, consulting with various stakeholders to ensure the service requirements of rail operators and the coal industry are being met.

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The RAC has already commenced various initiatives in consultation with our customers. The Corporation is building a 1.6 kilometre extension of the existing rail system at Mt. Thorley aimed at overcoming the existing inefficiencies of a combined road/rail haulage task. Other initiatives being considered are the extension of Whittingham Loop and the upgrading of Kooragang Junction. The RAC continues to look for opportunities to improve the operation of the coal chain

5.2 Asset Management Process

It is the RAC's responsibility to work with rail operators to identify short, medium and longterm requirements for infrastructure maintenance and growth and to secure revenues to support those requirements. The Corporation produces Line Management Plans and Asset Management Plans which provide the strategic framework for its investment plans. Preliminary plans are reviewed by customers to ensure they meet their needs before passing to the RAC Board and other stakeholders.

The RAC recognises that its investment strategy must be aligned with those of the other stakeholders to ensure that capital is spent on projects that provide the best overall economic benefit to the coal chain and the lowest life cycle cost, irrespective of whether the investment is made in rail infrastructure, rollingstock or port facilities. Historically, industry participants have tended to optimise only their own parts of the coal chain, many times to the cost of other participants and overall efficiency. The RAC has already commenced working with Pt Waratah Coal Services to investigate the optimisation of infrastructure development and programming in the Hunter Coal Region.

Operators may make submissions to RAC for the carrying out of upgrading or investment works on the rail network. The method of funding these works will be

negotiated between RAC and the operator or operators concerned. Options may include direct funding by operator(s), funding by RAC or other arrangements as agreed.

Where a proposed upgrading or investment work is to be funded by RAC, and the work will have a substantive impact on access charges, RAC will advise operator(s) of the impacts on access charges prior to work proceeding. Where an upgrading or investment is partially or totally funded by an operator or operators, access prices will recognise the operator(s) contribution to the project.

As mining companies have the option of directly investing in their own rail infrastructure, RAC must provide equal or superior value if they are to own and manage additions to the network. A recent example is the Jerry Plains extension, where RAC negotiated with a mining company for the right to construct a new connection from its mine to the mainline, with the costs to be recovered in access charges. The alternative was for the mining company to directly fund construction of its own line.

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6. CONCLUSIONS

The RAC is actively marketing access to rail infrastructure facilities in NSW to potential rail operators, including those interested in operating coal services. FreightCorp, the incumbent government-owned freight operator, is now subject to competition (or at least the threat of competition) from potential new entrants. As above-rail operations typically account for two thirds of the total cost of rail transport, the increase in competition should be of significant benefit to the coal industry.

Success of the new industry structure is not to be measured by the number of new operators brought onto the network. Achieving competitive outcomes is the primary objective. Despite it still being early days under the new industry structure, some success has already been achieved with a major Hunter Valley coal producer, for the first time, being able to negotiate an innovative wagon leasing arrangement.

The Corporation has developed a market-based access pricing policy based on commercial negotiation principles. The RAC recognises the need to tailor pricing structures to reflect the characteristics of the transport task but also supports the principle that competitive operators are treated equally if they have the same requirements (i.e. impose the same costs).

Because of the need to minimise its own costs and ensure competitive supply of infrastructure services, the RAC has commenced an ambitious outsourcing programme and will be progressively tendering its annual maintenance and works spend of some \$800 million dollars over the next 4 years. Savings of up to 30% are expected when the programme is fully implemented.

One of the Corporation's core functions is the development of the State's rail infrastructure. The RAC has implemented an inclusive asset management and investment process, consulting with stakeholders to ensure the service requirements of rail operators and the coal industry are being met. The RAC continues to work with current and prospective operators and other industry participants to find more efficient ways to deliver the lowest cost transport and logistics services to the coal industry.

The restructuring of the SRA has created a pro-competitive rail industry structure in NSW which should deliver considerable benefits to the Australian black coal industry. The Rail Access Corporation, which owes its existence to the NSW Government's competition-based reforms, is committed to facilitating further improvements in the competitiveness and efficiency of rail transport in NSW.

Rail Access Corporation 24th October 1997.