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**AUSTRALIAN RAIL TRACK CORPORATION LTD****Ref No:**

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Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

**QR's DRAFT AMENDING ACCESS UNDERTAKING
COAL SYSTEM MAINTENANCE COSTS****ARTC COMMENTS**

ARTC notes the QCA's Draft Decision in relation to QR proposed revised reference tariffs for the central Queensland coal region (CQCR), as well as the consultancy assessing QR's maintenance costs carried out by GHD for the QCA.

In principle, ARTC considers that QR's claim for an increased maintenance allowance for 2004-05 due to higher volumes and higher than anticipated input cost increases appears reasonable. ARTC has noted cost increases in recent associated with some construction labour and materials to be running in excess of inflation.

With regard to QR's claim in relation to increased maintenance due to increasing coal fouling of ballast, ARTC agrees that these costs can be substantial, can vary with a number of factors, sometimes unforeseeable. ARTC is not familiar enough with the particular circumstances of QR's maintenance strategies and practices in this area to be able to comment authoritatively on GHD's view in relation to the avoidability of the present situation in the CQCR. ARTC notes that GHD are themselves not fully aware of efforts made in the past to deal with occurrence of coal contamination.

ARTC notes that GHD have sought to undertake a benchmarking exercise of comparing QR's unit maintenance costs with comparable systems in Australia. GHD have chosen to compare with published figures for the ARTC and WestNet networks. There are a number of reasons (some identified by GHD) which make benchmarking of coal network maintenance costs with those of networks that do not carry coal and are less heavily utilised difficult. ARTC recognises that such assessments are difficult given that unit maintenance costs are not often made known for legitimate commercial reasons given the highly competitive infrastructure maintenance industry. Nevertheless, ARTC cautions the QCA in reading too much into conclusions drawn by GHD in this regard.

GHD has used figures that ARTC publishes on its website in accordance with its

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access undertaking that relate to ARTC maintenance in relation to its non-NSW network. This maintenance is undertaken largely through alliance contracts with major infrastructure maintenance partners established through an open and competitive tendering process.

More recently, as part of an application for approval of its 2007 Interstate Access Undertaking, ARTC commissioned WorleyParsons to undertake an independent assessment of what it considered to be the efficient cost and scope of maintenance activity needed on various parts of ARTC's interstate network.

WorleyParsons derived a set of unit costs for maintenance activity applicable to the efficient maintenance of the ARTC interstate network. The method uses a zero based approach that applies unit maintenance rates to necessary individual activities and the frequency of those activities. Major assumptions made by WorleyParsons were:

- The approach to maintenance was for long term sustainability of the asset.
- Maintenance is regarded as like for like replacement or repair.
- The approach to maintenance in the past has been for long term sustainability of the asset.
- The traffic characteristic for a line is that which has been definitively committed for the next five years.

WorleyParsons efficient cost benchmarks on the ARTC interstate network are shown below.

	East-West ARTC Interstate Network	North-South ARTC Interstate Network	Total ARTC Interstate Network
Maintenance Expenditure (excluding overheads)			
\$ per 000GTK	1.72	3.18	2.17
\$000 per km	16.5	27.5	20.2

ARTC prepared a comparison of its actual maintenance expenditure per GTK and per kilometre against the WorleyParsons benchmarks. This comparison has been published by the ACCC on its website¹. The comparison shows that ARTC actual and forecast unit costs compare favourably with the benchmarks. Further the benchmarks are higher than the ARTC figures used by GHD. This is due to timing, input cost increases in recent years, and differences in the network to which the maintenance figures relate.

¹

<http://www.accc.gov.au/content/item.phtml?itemId=797807&nodeId=bac89d8ea3796d20a079243c7e61cb07&fn=Assessment%20of%20ARTC%20maintenance%20cost%20relative%20to%20efficient%20industry%20practice.htm>

26 OCT 2007

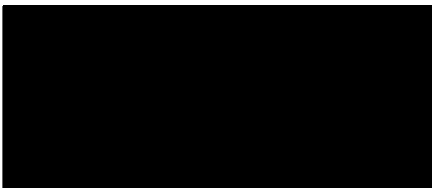
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The benchmarks show significant difference in relation to ARTC's north-south and east-west network. This could be expected given the more difficult terrain and climate, substantially higher curvature and pre-dominance of timber sleepers (the east-west network is largely concrete sleepered). Nevertheless, the comparison shows the substantial difference even between the maintenance cost of networks that are largely used for the same purpose, resulting from configuration, terrain and alignment. It should be noted that these difference dissipate somewhat following ARTC's concrete re-sleepering of the north-south interstate network between Melbourne and the Queensland border.

Notwithstanding its earlier caution, ARTC has sought to inform the QCA of its more contemporary assessment so as to add some value to the benchmarking work already undertaken.

These comments contains no information considered 'commercial-in-confidence'. A copy of the submission has also been forwarded to your office via email.

For further information regarding the preparation of these comments, could you please contact Mr. Glenn Edwards, (08)82174292 (Ph), (08)82174578 (Fax), gedwards@artc.com.au (Email).



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