


NSW New South Wales WWG

WORKING with GOVERNMENT

New South Wales
TREASURY

GOVERNMENT'S INTERACTION WITH THE COAL INDUSTRY

Danny Graham
Director, Private Projects
NSW Treasury



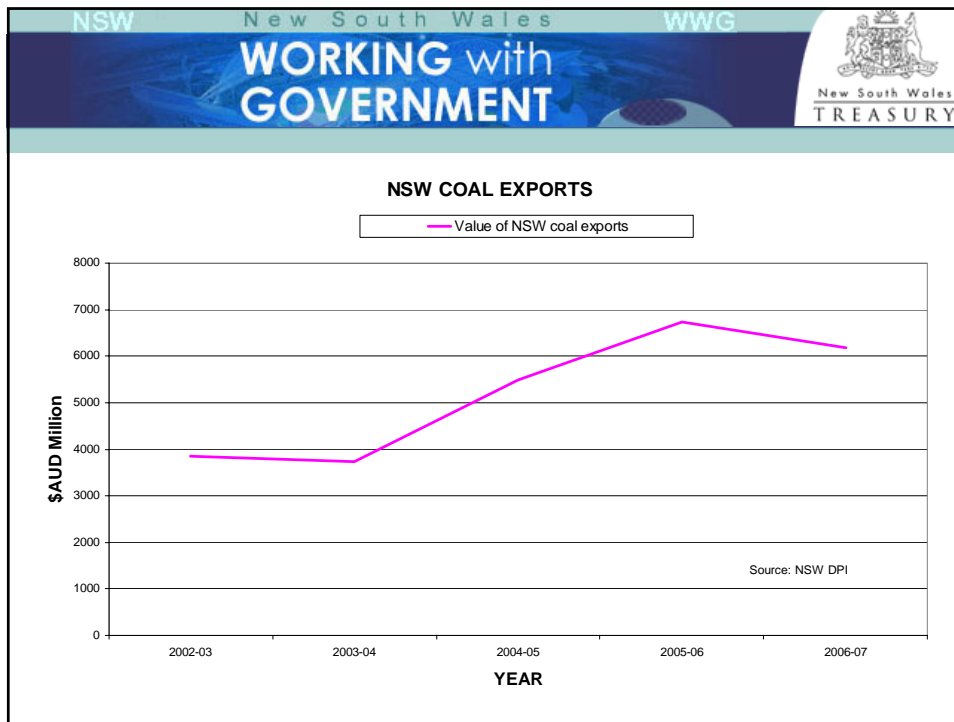
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Introduction

- The coal industry in NSW adds to the diversified nature of our economy.
- NSW has a long history of coal mining, with different levels of Government interaction with the industry over time.



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Financial support of coal mines

NSW Government prefers not to take equity stakes in mining ventures

- Instead of taking an equity stake, the Government sells the right to mine and charges royalties.

The royalties are based on the type of coal mine:

- Open cut = 8.2% of the value
- Underground = 7.2% of the value
- Deep underground mining = 6.2% of the value

Financial support of coal mines

IF the Government were to take an equity stake or provide a form of financial support, it would create conflicts of interest due to :

- Government being a shareholder, regulator and a revenue collector for the one industry.

Hunter Valley railway lines

The Hunter Valley Network is under lease to Australian Rail Track Corporation (ARTC) from the NSW Government's Rail Infrastructure Corporation.

ARTC is a Federal Government body that leased the Hunter Valley tracks from NSW for 60 years. They agreed to spend \$142 million to upgrade the tracks over a 5 year period as part of the lease.

- ARTC is also the track management and access provider.

The economic regulator is the *Independent Pricing and Regulatory Tribunal (IPART)*. This tribunal sets prices and regulates access to the network.

Hunter Valley railway lines

- This was not always the case however, the Government did have a strong ownership role in the Hunter Valley until recently.
- The Government did own the tracks and also the carriages.

Hunter Valley railway lines

The pricing and regulatory regimes for the Hunter Valley railway could be described as a 'public infrastructure access regime'.

- It is regulated so that any operator can have access.

Access charges

IPART uses a method that was proposed by ARTC called the 'Unders and Overs' account method for an access holder.

Hunter Valley railway lines

Under the NSW Rail Access Undertaking (“Undertaking”), ARTC is required to operate an ‘Unders and Overs’ Account to manage the deviations around the maximum rate of return by:

- keeping account of the differences between the actual rate of return achieved in any given year, and
- the rate of return permitted under the Ceiling Test.

Overs is the amount of over recovery of revenue compared to Full Economic Costs for the Constrained Group of Mines.

Unders is the amount of under recovery of revenue compared to Full Economic Costs for the Constrained Group of Mines.

Hunter Valley railway lines

Full Economic Costs (the ceiling) are Sector specific costs including:

- Routine Maintenance (RM) and Major Periodic Maintenance (MPM)
- a permitted Rate of Return and Depreciation
- an allocation of non-Sector specific costs such as train control, terminal management and overheads including a Rate of Return and Depreciation on non-Sector specific assets.

All included items are to be assessed on a stand alone basis.

Hunter Valley railway lines

Access Charges for the Hunter Valley Coal network in any financial year are determined using forecast assumptions for tonnage, costs and changes to the Regulatory Asset Base (RAB) that are based on achieving an access revenue that complies with the Ceiling Test.

However, over the year, forecast and actual revenue may vary due to:

- a difference between forecast and actual tonnage transported on the network;
- a difference between forecast and actual service level requirements;
- a difference between the forecast and actual changes to the RAB; and/or
- a difference between estimated and actual costs.

Hunter Valley railway lines

Year 1	Year 2	Year 3	Year 3
Actual	Actual	Forecast	Actual

Ceiling Test

Revenue	\$60,000,000	\$61,000,000	\$67,500,000	\$68,000,000
Full Economic Cost	\$57,000,000	\$64,500,000	\$64,000,000	\$64,000,000
(Unders) / Overs Amount	\$3,000,000	-\$3,500,000	\$3,500,000	\$4,000,000

Hunter Valley railway lines

Finally, railways are used in the Hunter Valley due to planning instruments requiring that rail be used – that is, trucks are not allowed to carry coal in the Hunter.

Coordination of Infrastructure

The Coal supply chain involves many variables.

- In recent years NSW has experienced an unprecedented increase in demand for our coal.
- This has placed pressures on our infrastructure that were not foreseen.
- Furthermore, NSW has started to grade coal exports, due to pricing advantages and also due to requests from customers.
- This has created further pressures due to the need to physically grade the coal and then transport the separated grades through the supply chain to port.

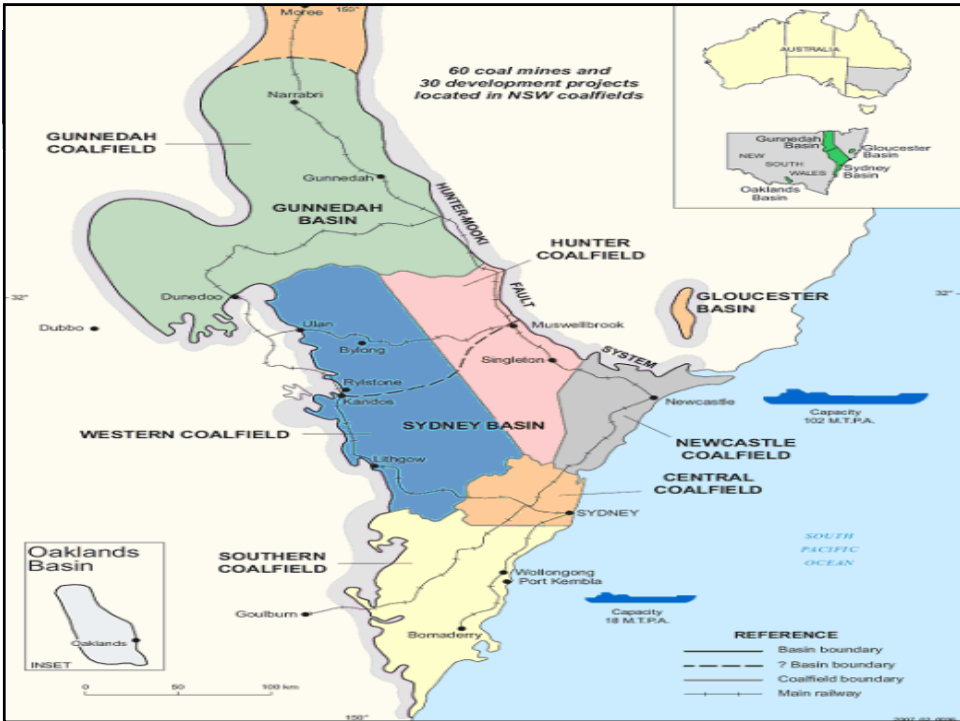
Coordination of Infrastructure

Much of the need to grade coal is also domestically driven by new power station specifications.

Rapid expansion of one part of the supply chain does not always solve a problem.

Port Waratah Coal Services successfully expanded capacity at the port, however shortly after the port expansion, the lack of capacity on Hunter Railways was highlighted.

I will explain this further with the following diagram



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Useful Government sources

Independent Pricing and Regulatory Tribunal - for information on Railway access and pricing.

- <http://www.ipart.nsw.gov.au/welcome.asp>

New South Wales Treasury - for information on Privately Financed Projects

<http://www.treasury.nsw.gov.au/wwg>

Australian Rail Track Corporation - for information on the federal agency that coordinates aspects of railway investment in Australia. An overview of the lease with NSW is also provided

<http://www.artc.com.au/Content.aspx?p=117>

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Useful Government sources

Australian Bureau of Statistics

- <http://www.abs.gov.au>
- *NSW Department of Primary Industries* - for information on Coal Royalties and Further NSW Government Information on NSW minerals industry
- <http://www.dpi.nsw.gov.au>