

V/Line Access Arrangement Renewal

Application to the ESC
March 2012

The logo for V/Line, featuring the text "V/Line" in a white, italicized serif font. The "V" is stylized with a white slash through it. The logo is positioned in the bottom right corner of the page, set against a dark red background that is part of a larger graphic element consisting of a large red shape with a curved top-left corner and a purple-to-red gradient shape at the bottom right.

V/Line

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1. Submission- overview

V/Line Pty Ltd (V/Line) - formerly V/Line Passenger Pty Ltd - has been the operator of the Victorian regional rail network since 4 May 2007.

V/Line's previous Access Arrangement was approved by the ESC on 17 June 2009 (with a minor amendment reflecting V/Line's name change being approved on 24 September 2010).

This document constitutes an application to renew V/Line's Access Arrangement pursuant to section 38ZR of the Rail Management Act 1996 (RMA) (previously the *Rail Corporations Act*), to be effective from the expiry of the existing Access Arrangement dated 26 June 2009, pursuant to section 38ZR(5) of the RMA.

2. Corporate background

V/Line Pty Ltd is owned by V/Line Corporation, a state owned corporation under the *Transport Integration Act 2010 (TIA)* and Victoria's main regional passenger rail service provider.

On 4 May 2007 the Victorian Government bought back the Regional Network and Access business from Pacific National. V/Line assumed responsibility for this business, which includes the operation and the maintenance of 3,450 kilometres of broad gauge rail track used by the passenger and freight rail services and 170 kilometres of standard gauge track used by freight services.

This made V/Line the State's regional network access provider via the Regional Infrastructure Lease (RIL) of the regional network from the Director of Public Transport¹. V/Line took over the Access Arrangement then in place with Pacific National.

Both its passenger and access businesses are substantially subsidised by the State of Victoria.

V/Line's functions were expanded in the TIA to explicitly include network management and the role of access provider to the rail freight industry.

3. V/Line's achievements as an access provider

V/Line has been an access provider since May 2007. As a business which is not in the freight carriage business itself, it has made competition in the Victorian regional rail industry a fact, rather than merely an aspiration, with new operators now regularly accessing the network to carry freight.

With the breaking of the drought the carriage of grain has increased substantially.

Rice traffic from southern NSW has returned and the transport by rail of mineral sands (on the V/Line and ARTC networks) has commenced.

V/Line has supported freight operations by activities including:

¹ Note that from April 2012 the role of the Director of Public Transport will be incorporated in to the new Public Transport Development Authority, (to be known as Public Transport Victoria).



- carrying out works to reopen the Dimboola-Rainbow line with funding being provided by DOT (\$3.6 million), Regional Development Victoria (\$1.7 million) and GrainCorp (\$1 million for track work)
- rapid rehabilitation of lines damaged by floods including reconstruction of bridges at Cope Cope and Arnold (financially supported by DOT pending finalisation of insurance claims)
- extension of agreements for the supply of 'on the ground' staff to support freight operators above rail operations
- construction of an overweight level crossing pavement at Merbein to support intermodal operations at that location (using regional development funding)
- provision of staff to assist freight operators in obtaining route knowledge for their own crews
- increasing staff hours at signal locations in response to capacity demands.
- completing delivery of the Mildura Line upgrade and other line works following the Fischer Report
- facilitating network improvements including works (funded by DOT) to temporarily reopen the Echuca-Toolamba lines
- the installation of new lighting and pathways to provide improved OH&S for train crew
- facilitating the creation of a lease of the Gippsland Intermodal Freight Terminal (GIFT) site to the Latrobe Council for development a major regional freight hub, and
- participation in industry consultation and forums.

V/Line, also, at the request of the Director of Public Transport, reduced its access charges for bulk grain in 2010-11, replacing a rebate previously provided by DOT. (A rebate scheme is still operated by DOT in respect of intermodal traffic.)

V/Line has reviewed its Vision and Mission statements to ensure that its role in rail freight is properly acknowledged. V/Line's website has a Network Access section accessible from its home page. This contains copies of the Access Arrangement and standard Access Agreement approved by the ESC as well as contacts, the network information, access prices, maps and links to other operator websites.

4. V/Line's business context

V/Line, as a government owned and subsidised service provider is in a different position, in financial and other ways, to the traditional subject of economic regulation – a business with monopoly price and profit making power.

As indicated in the previous section the Director of Public Transport leases the regional network to V/Line. This complements V/Line's Franchise Agreement with the Director. Under these arrangements the Director:

- approves the passenger timetable, and administers a performance incentive scheme - the Operational Performance Regime (OPR)



- determines V/Line's annual budget including subsidy level
- determines funding and approval of works for the Annual (infrastructure) Works Program, and
- delivers state rail projects, eg the reopening of passenger services to Maryborough and Regional Rail Link, Mildura Line upgrade.

Passenger priority in rail operations is provided for in legislation and reflected in V/Line and metropolitan train operating protocols. These provisions were also applied under Freight Australia and Pacific National operation of the network.

V/Line also interfaces with the Melbourne metropolitan network and the ARTC network which is predominantly used for inter-state standard gauge operations. However ARTC controls some important dual gauge sections – eg Albion-Jacana. Trips into the Melbourne area may require paths from more than one operator. V/Line usually coordinates these paths for freight operators.

Both V/Line's passenger and freight below rail activities are subsidised by the State Government.

5. Review of access regime

V/Line notes that the ESC conducted a review of the Victorian Rail Access Regime in 2009-10 but no changes to the regime have yet been made. From V/Line's perspective this means that there are still components of the regime which do not reflect V/Line's situation as a heavily subsidised government owned business.

6. Issues for V/Line

While V/Line is keen to support the rail freight industry through the efficient provision of access, it notes that aspects of the current access regime do not fit well with its business circumstances.

V/Line is almost totally dependent on the State for funding for the below rail business, including for the funds required to enable the passenger business to make the notional internal transfer to the below rail business.

While State owned, V/Line operates under the Corporations Act and is required to maintain its solvency. It is therefore important that access regulation and customer contracts for access to the network do not require a financially unattainable standard of service.

V/Line seeks alignment in the Access Arrangement of what it is required to deliver to access seekers with the funding it receives from Government to maintain the network.

6.1 Track standards

V/Line's network maintenance budget and works program is developed and agreed with the Department of Transport (DOT) under processes set out in its Regional Infrastructure Lease with the Director of Public Transport.



Under these processes V/Line submits a five year Asset Management Plan (AMP) and a one year Annual Works Plan (AWP) each year to the Director for approval.

Funding is determined annually which makes it difficult to forecast the level of performance that each line can be expected to deliver over the proposed three year life of the Access Arrangement. Major Periodic Maintenance (MPM) spending is monitored via regular reporting and meetings with DOT.

V/Line has included Performance Standards in the proposed Access Arrangement reflecting the current level of track standards.

V/Line proposes that the required track standard for the purpose of the Arrangement be able to be varied by notification to the Commission and the provision of relevant information regarding MPM funding and the approved Works Plan(s).

6.2 Capital Cost and Revenue Cap

Given the public sector owned and heavily subsidised nature of the V/Line business V/Line considers discussions regarding its capital base and a revenue cap to be more academic than real.

VicTrack is the owner of the regional rail network which is leased via the Director of Public Transport to V/Line. Capital improvements made after the 4 May 2007 buyback of the lease reside on VicTrack's balance sheet as any capital expenditure made within a year is transferred at the end of the year to VicTrack's books. V/Line's below rail assets largely comprise track maintenance machinery and vehicles and are small in relation to the value of the network (and only a small share is allocated to freight). V/Line's below rail capital base is therefore negligible compared to the value of the network it operates. In any case a return on capital is largely irrelevant to price setting when access revenue goes nowhere near covering network operating and routine maintenance costs or MPM costs.

The purposes of the Revenue Cap include preventing rail operators paying more in access charges than is required to fully fund the network and ensuring that Government subsidies are used to provide benefits to the end users of the network.

A proposed revenue cap has been calculated and is attached as commercial in confidence.

The revenue cap assumes V/Line will be funded as a steady state level for MPM works (noting that at present 2012-13 onwards funding has not yet been determined).

Note that this approach does not address the maintenance deficit but it should be noted that the long standing maintenance deficit has the effect of increasing the level of routine maintenance expenditure required to keep the network in operation.

Since taking over the network, V/Line has made a number of management changes to its access activities to improve the efficiency and effectiveness of its work. Further improvements are planned including a change to a Reliability Centered Maintenance (RCM) approach to infrastructure maintenance.

The Infrastructure department has been restructured to separate engineering design from works delivery to improve management efficiency.

In Network Services, there has been some rationalisation of roles in path planning and reporting where there was duplication with Operations based on the previous history of being two separate businesses. The safety function is also integrated.



Changes to below rail procurement activities have been undertaken which have transformed processes whilst realizing savings in excess of \$5 million. This has included motor vehicle fleet management, safe working and labour hire, level crossing upgrades and materials management.

The use of a business wide ERP system with purchasing functionality linked to the finance system also ensures control and availability of data which is utilized to set a program of procurement activities. The infrastructure management IT system is also being reviewed and a new or upgraded IT system is under consideration.

Wage negotiations are carried out in accord with Government policy with productivity trade offs being required for increases above a specified amount.

V/Line's shareholder is the Victorian Government and the benefit of productivity improvements is put back into the business including into network safety and performance improvements.

6.3 Account Keeping Policy and Templates

V/Line has reviewed the existing Cost Allocation Policy and Account Keeping Rules and updated the policy and templates.

The policy has been updated to reflect increased organisational integration of V/Line and its financial management systems although the two main below rail departments of Infrastructure and Network Services are still the predominant access departments.

The Operations and (rolling stock) Engineering departments are predominantly passenger service focussed but Operations has supported freight driver training and track quality testing, while Engineering assists with assessment of compliance with rolling stock standards and the provision of fuel at the South Dynon fuel point.

The policy also removes reference to the Maroona-Portland line as this line has been transferred to ARTC. V/Line no longer operates the Albion-Jacana, Seymour-Albury and Benalla-Oaklands lines which are now managed by ARTC. There is therefore only one charging zone for freight services.

In the templates the Portland-Maroona line references have been removed.

6.4 Access prices

As indicated in our 2009 submission V/Line believes it is appropriate to maintain a degree of consistency in its Access Arrangement with the Access Agreement negotiated by the State with Pacific National prior to buyback in May 2007. This agreement has a ten year life.

In particular we propose to maintain the prices determined in that agreement and approved in our current access arrangement as the approved prices for standard access.

From 2009-10 V/Line has been charging a lower price for grain (available to all operators) in response to a request from DOT. This price reduction replaced a rebate scheme previously administered by DOT.

**Table 1 - Current and Access Arrangement Prices 2011-12**

	Bulk Grain		Other*	
	Flagfall \$ per '000 gtk	Variable \$ per '000km	Flagfall \$ per '000 gtk	Variable \$ per '000 km
Access Arrangement price	5.719	7.607	0.876	1.646
Current price	0	4.13	0.876	1.646

*Includes intermodal, containers and industrial

V/Line proposes in its new Access Arrangement to reserve the right to apply changes required by the Director to access prices within the maximum prices determined under the existing Access Arrangement. If the Director does not specify a lower price, the price for reference services will be as determined in the Access Arrangement. However, V/Line is not aware of any proposal to increase the current grain rates (other than by CPI).

7. Proposed changes from current ESC approved Access Arrangement and Agreement

The Schedules filed with this Submission provide a list of the changes in the draft proposed Access Arrangement and draft Agreement from the current version and include a brief explanation of each change.