
Operation of the Unders and Overs Account

1. Purpose and scope

Under the NSW Rail Access Undertaking (Undertaking) Rail Corporation (RailCorp), as an infrastructure owner is required to keep an account for Access Seekers and groups of Access Seekers who could potentially breach the Ceiling Test.

The purpose of this account is to manage over or under recovery of Full Economic Cost associated with Hunter Valley Rail network that are indicated by the Ceiling Test.

The Hunter Valley Coal Network (HVCN) is the only portion of the NSW Rail Network for which a RAB has been established. Of the HVCN the component serving that which is described as the “constrained group of mines” has been the only infrastructure for which access revenue approached the Ceiling limit.

RailCorp has been vested control over the following sectors which form part of the HVCN RAB:

Sector	Name
405	Newstan Junction to Cockle Creek
406	Cockle Creek to Sulphide Junction
490	Sulphide Junction to Adamstown
407	Adamstown to Broadmeadow (via Main)
497	Broadmeadow to Woodville Junction

This infrastructure while forming part of the HVCN RAB does not serve the “constrained group of mines” and access revenue from these particular sectors has not approached the Ceiling limit.

The purpose of this document is to outline the method that RailCorp would use to operate an ‘Unders and Overs Account’ in the event that Access revenue it received from Access Seekers or group of Access Seekers approaches (or exceeds) Full Economic Cost of those sectors on a stand alone basis.

2. Definitions

Note that a comprehensive list of definitions is contained in the Undertaking. Only those definitions considered most relevant are contained in this document.

Access is given its meaning in Schedule 7 of the NSW Rail Access Undertaking.

Ceiling Test is as defined in the Undertaking.

Full Economic Cost comprises:

- sector specific costs, including Routine Maintenance (RM), Major Periodic Maintenance (MPM), depreciation and a return on sector specific assets; and
- non-sector specific costs, such as network control costs, terminal management charges, and depreciation and a return on non-sector specific assets.

Hunter Valley Coal Network is as defined in the Undertaking.

Constrained Group of Mines refers to the group of line sectors within the Hunter Valley Coal Network bounded by the mine loading points to the Newcastle port where access revenue on these sectors earns the highest rate of return on asset.

Access Seeker is defined as per the Undertaking .

Unders is the amount of under recovery of revenue compared to Full Economic Costs.

Overs is the amount of over recovery of revenue compared to Full Economic Costs.

3. Hunter Valley Coal Network Unders and Overs Account

Under clause 5 of Schedule 3 of the Undertaking, RailCorp is required each year to submit to IPART details demonstrating compliance with the Undertaking including the operation of its Unders and Overs Account.

3.1. Occurrence of Unders and Overs Amounts

In accordance with the Undertaking, RailCorp can only grant access to the network by written agreement. RailCorp negotiates access charges between the Floor and Ceiling tests in accordance with Schedule 3 of the Undertaking.

3.2. Reconciliation of Access Seeker Accounts

The Undertaking requires RailCorp to maintain an account and an annual reconciliation for applicable Access Seekers and

groups of Access Seekers whose Access revenue could potentially breach the Ceiling Test¹.

For the purposes of this policy, RailCorp will establish an account for each applicable Access Seeker being those Access Seekers whom:

- hold a current and written access agreement with RailCorp;
- conduct coal train services within the portion of the HVCN controlled by RailCorp; and
- if the annual coal access revenue, received from a particular access seeker or group of access seekers approaches full economic cost

RailCorp will maintain an account for Access Seeker that meets this criteria with a view managing the Unders or Overs amounts at the end of each financial year in accordance with the Undertaking.

3.3. Determining the Unders and Overs Amounts

The total Unders or Overs calculation is determined by the outcome of the Test calculation for that year. This calculation would be conducted as soon as the final reconciliation of end of year tonnages, revenue and costs have been verified and adjusted by any IPART findings published in accordance with clause 5 of Schedule 3 of the Undertaking.

For each applicable Access Seeker, the annual allocation of the Under or Over amount would be determined by the Access Seeker's proportion of revenue included in the Ceiling Test. The under or over amount for the financial year would be added to any opening balance in each Access Seeker's account to determine the closing balance of their account for that financial year.

In Appendix 1 an example of how the "Under or Over" amount may be determined for an applicable Access Seeker.

3.4. Determining Access Charges and the Unders and Overs Account

In the event of access revenue approaching full economic cost, RailCorp would manage the average deviations around the maximum rate of return by bringing the balance of the Unders and Overs account back to zero or at least keep the Unders and

¹ Schedule 3 - Clause 4(b)and (c)of the NSW Rail Access Undertaking

Overs account balance to $\pm 5\%$ of forecast access revenue by either one or a combination of the following methods.

- a) The access rates will be adjusted up or down to a maximum level where the resultant revenue does not exceed the agreed forecast revenue (ie the forecast full economic cost) for the relevant year by $\pm 5\%$.
- b) Any amount remaining in the Unders and Overs account will be included in the closing balance of the account as at the end of the next financial year.

By mutual agreement between RailCorp and the Access Seeker the applicable party making a revenue adjustment payment.

Appendix 1 provides an example of the how the Unders and Overs account balance can be returned to zero by either a revenue adjustment payment or by adjusting the forecast revenue for the next financial year.

4. Responsibility

The responsibility for implementing this procedure lies with the General Manager Network Access and the Access Development Manager in the Network division. The Access Development Manager division is responsible for updating this procedure when necessary.

5. References

- NSW Rail Access Undertaking.
- Third Party Access to RailCorp Network Policy

6. Document History

The Group General Manager, Strategy Performance & Access Group must approve this document.

<i>Version</i>	<i>Date of Approval</i>	<i>Summary of change</i>
1.1	August 2007	



Appendix 1

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

Unders / (Overs) Account

Access Seeker A

% of Constrained Mine Revenue	18.00%	18.00%	18.00%	18.00%
Revenue from Access Seeker A	\$10,800,000	\$10,980,000	\$12,150,000	\$12,240,000
Opening Balance	\$0	\$0	-\$630,000	-\$630,000
(Unders) / Overs Amount	\$540,000	-\$630,000	\$630,000	\$720,000
Account Entry	\$540,000	-\$630,000	\$630,000	\$720,000
Balance	\$540,000	-\$630,000	\$0	\$90,000
Revenue Adjustment Payment to Access Seeker	\$540,000			
Closing Balance	\$0	-\$630,000	\$0	\$90,000
% of Closing Balance/ Forecast Revenue	0.00%	-5.74%	0.00%	0.74%

Access Seeker B

% of Constrained Mine Revenue	82.00%	82.00%	82.00%	82.00%
Revenue for Access Seeker B	\$49,200,000	\$50,020,000	\$55,350,000	\$55,760,000
Opening Balance		\$0	-\$2,870,000	-\$2,870,000
(Unders) / Overs Amount	\$2,460,000	-\$2,870,000	\$2,870,000	\$3,280,000
Account Entry	\$2,460,000	-\$2,870,000	\$2,870,000	\$3,280,000
Balance	\$2,460,000	-\$2,870,000	\$0	\$410,000
Revenue Adjustment Payment to Access Seeker	\$2,460,000			
Closing Balance	\$0	-\$2,870,000	\$0	\$410,000
% of Closing Balance/ Forecast Revenue	0.00%	-5.74%	0.00%	0.74%