

6 August 2020

Mr Jeremy Threlfall
Assistant Director Rail
Economic Regulation Authority
Level 4, 469 Wellington Street
Perth WA 6000

Confidential

Sent via email: Jeremy.threlfall@erawa.com.au

Dear Jeremy,

Re: Adjusted Costs 2017, 2018 & 2019 – Costing Principles

In accordance with clause 2.5 Allowable Return and 5.1 Floor and Ceiling Variation of the approved Costing Principles, Arc are pleased to submit the revised Incremental Costs and Total Costs for the Access Agreements under the Code for the calendar years 2017, 2018 and 2019. All capitalised terms in this letter are as defined within the Costing Principles unless otherwise defined.

Arc has adjusted these costs in two stages;

1. Escalating the costs to the commencement of the Access Agreements,
2. Indexing those costs in accordance with the approved Costing Principles.

As the Access Agreements commence on the 1 January 2017 and the approved Over-payment Rules apply on a calendar year, Arc has escalated the relevant ERA determination of Costs for these Access Agreements up to 1 January 2017, using the September quarter index across each year. The relevant determination is the "Determination of Costs Relevant to Co-operative Bulk Handling's Access Proposal dated 10 December 2013, including corrigenda notice dated 16 April 2015" ("**Determination**"). The Determination is nominated in September 2013 terms

To escalate the Costs to the commencement of the Access Agreements, Arc has referred to paragraph 448 of the Determination, and has escalated the Incremental Costs and Total Costs through the negotiation period to the date where access has been provided, being 1 January 2017. The Determination envisaged that access would commence on 1 July 2014, and that the Incremental Costs and Total Costs in the Determination could be escalated to that point in time. Neither Arc nor the ERA could anticipate the extended negotiation and arbitration process.

Arc has then indexed the Incremental Costs and Total Costs from 1 January 2017 in accordance with its approved Costing Principles.

Each year, in accordance with the Code, the ERA has determined the WACC that will be applied to the Incremental Costs and Total Costs for the Arc network commencing on 1 July of each year, these are set out below:

Year	Real Pre-tax WACC
2013	7.00%
2014	7.00%
2015	7.59%
2016	7.67%
2017	7.52%
2018	6.19%
2019	5.42%

The CPI to be applied to the Incremental Costs and Total Costs for the Arc network commencing on 1 January of each year are set out below:

Year	CPI
2013	2.00%
2014	2.16%
2015	2.31%
2016	1.50%
2017	1.30%
2018	1.83%
2019	1.89%

The revised Incremental Costs and Total Costs for the Access Agreements under the Code for the calendar years 2017, 2018 and 2019 are set out in Attachment 1.

Should you require any additional information with regard to this matter please do not hesitate to contact me.

Kind Regards



Jodie Winnett

Head of Commercial and Regulatory

Attachment 1
2017 Total Costs and Incremental Costs

Route Number	Route Name	Route Section	Total Cost (\$)	Incremental Cost (\$)
1	Avon to West Kalgoorlie	Avon Yard - West Merredin		
		West Merredin - Koolyanobbing East		
		Koolyanobbing East - Kalgoorlie		
5	West Kalgoorlie to Esperance	West Kalgoorlie - Kambalda		
		Kambalda - Esperance		
23	Avon to Albany	Avon Yard - York	5,588,785	430,091
		York - Narrogin	17,937,455	1,682,245
		Narrogin - Wagin	6,472,459	638,142
		Wagin - Katanning	7,895,865	688,772
		Katanning - Tambellup	5,934,251	555,915
		Tambellup - Redmond	14,658,054	1,528,877
		Redmond - Albany	3,780,219	41,563
27	Wagin to Newdegate	Wagin - Lake Grace	13,837,689	926,002
		Lake Grace - Newdegate	7,719,714	507,604
28	Lake Grace to Hyden	Lake Grace - Hyden	10,611,005	721,129
34	Avon Yard to McLevie	Avon Yard - Goomalling	7,738,140	627,335
		Goomalling - McLevie	17,013,114	1,039,847
35	Goomalling to Mukinbudin	Goomalling - Amery	3,890,293	256,321
		Amery - Wyalkatchem	3,791,456	237,479
		Wyalkatchem - Mukinbudin	14,289,651	917,501
36	Amery to Kalannie	Amery - Burakin	9,192,873	586,878
		Burakin - Kalannie	2,423,799	151,832
37	Burakin to Beacon	Burakin - Beacon	8,067,046	532,396
38		Millendon Junction - Moora		

Route Number	Route Name	Route Section	Total Cost (\$)	Incremental Cost (\$)
	Millendon Junction to Geraldton	Moora - Dongara		
		Dongara - Narngulu		
		Narngulu - Geraldton		
40	Narngulu to Maya	Narngulu - Tilley		
		Tilley - Perenjori		
41	Toodyay West to Miling	Toodyay West - Miling	16,667,122	1,015,165
44	Midland to Avon	Midland - Millendon Junction		
		Millendon Junction - Toodyay West		
		Toodyay West - Avon Yard		
45	Midland to Kwinana	Midland - Forrestfield		
		Forrestfield - Cockburn South		
		Cockburn South - Kwinana		
		Kwinana Balloon Loop	2,454,513	347,119

2018 Total Costs and Incremental Costs

Route Number	Route Name	Route	Total Cost (\$)	Incremental Cost (\$)
1	Avon to West Kalgoorlie	Avon Yard - West Merredin		
		West Merredin - Koolyanobbing East		
		Koolyanobbing East - Kalgoorlie		
5	West Kalgoorlie to Esperance	West Kalgoorlie - Kambalda		
		Kambalda - Esperance		
23	Avon to Albany	Avon Yard - York	5,582,302	435,988
		York - Narrogin	17,925,208	1,705,311
		Narrogin - Wagin	6,468,174	646,892
		Wagin - Katanning	7,892,070	698,216
		Katanning - Tambellup	5,930,879	563,538
		Tambellup - Redmond	14,650,953	1,549,840
		Redmond - Albany	3,779,064	42,133
27	Wagin to Newdegate	Wagin - Lake Grace	13,821,620	938,698
		Lake Grace - Newdegate	7,711,757	514,564
28	Lake Grace to Hyden	Lake Grace - Hyden	10,598,412	731,017
34	Avon Yard to McLevie	Avon Yard - Goomalling	7,731,230	635,936
		Goomalling - McLevie	16,993,236	1,054,104
35	Goomalling to Mukinbudin	Goomalling - Amery	3,885,777	259,836
		Amery - Wyalkatchem	3,787,191	240,735
		Wyalkatchem - Mukinbudin	14,270,426	930,081
36	Amery to Kalannie	Amery - Burakin	9,182,051	594,924
		Burakin - Kalannie	2,420,636	153,913
37	Burakin to Beacon	Burakin - Beacon	8,056,104	539,696
38		Millendon Junction - Moora		

Route Number	Route Name	Route	Total Cost (\$)	Incremental Cost (\$)
	Millendon Junction to Geraldton	Moora - Dongara		
		Dongara - Narngulu		
		Narngulu - Geraldton		
40	Narngulu to Maya	Narngulu - Tilley		
		Tilley - Perenjori		
41	Toodyay West to Miling	Toodyay West - Miling		
44	Midland to Avon	Midland - Millendon Junction		
		Millendon Junction - Toodyay West		
		Toodyay West - Avon Yard		
45	Midland to Kwinana	Midland - Forrestfield		
		Forrestfield - Cockburn South		
		Cockburn South - Kwinana		
		Kwinana Balloon Loop	2,457,170	351,879

2019 Total Costs and Incremental Costs

Route Number	Route Name	Route	Total Cost (\$)	Incremental Cost (\$)
1	Avon to West Kalgoorlie	Avon Yard - West Merredin		
		West Merredin - Koolyanobbing East		
		Koolyanobbing East - Kalgoorlie		
5	West Kalgoorlie to Esperance	West Kalgoorlie - Kambalda		
		Kambalda - Esperance		
23	Avon to Albany	Avon Yard - York	4,918,588	442,152
		York - Narrogin	15,875,444	1,729,421
		Narrogin - Wagin	5,729,541	656,038
		Wagin - Katanning	7,005,018	708,088
		Katanning - Tambellup	5,259,011	571,505
		Tambellup - Redmond	13,002,056	1,571,752
		Redmond - Albany	3,360,368	42,729
27	Wagin to Newdegate	Wagin - Lake Grace	12,181,261	951,970
		Lake Grace - Newdegate	6,805,718	521,839
28	Lake Grace to Hyden	Lake Grace - Hyden	9,338,074	741,352
34	Avon Yard to McLevie	Avon Yard - Goomalling	6,831,969	644,927
		Goomalling - McLevie	14,976,347	1,069,007
35	Goomalling to Mukinbudin	Goomalling - Amery	3,424,776	263,509
		Amery - Wyalkatchem	3,339,300	244,138
		Wyalkatchem - Mukinbudin	12,553,140	943,231
36	Amery to Kalannie	Amery - Burakin	8,091,529	603,336
		Burakin - Kalannie	2,130,291	156,089
37	Burakin to Beacon	Burakin - Beacon	7,085,752	547,326
38		Millendon Junction - Moora		

Route Number	Route Name	Route	Total Cost (\$)	Incremental Cost (\$)
	Millendon Junction to Geraldton	Moora - Dongara		
		Dongara - Narngulu		
		Narngulu - Geraldton		
40	Narngulu to Maya	Narngulu - Tilley		
		Tilley - Perenjori		
41	Toodyay West to Miling	Toodyay West - Miling		
44	Midland to Avon	Midland - Millendon Junction		
		Millendon Junction - Toodyay West		
		Toodyay West - Avon Yard		
45	Midland to Kwinana	Midland - Forrestfield		
		Forrestfield - Cockburn South		
		Cockburn South - Kwinana		
		Kwinana Balloon Loop	2,216,280	356,854