AUSTRALASIAN RAILWAY ASSOCIATION

Association Number A03958 | ABN 64 217 302 489

AUSTRALASIAN RAILWAY ASSOCIATION SUBMISSION

To

Economic Regulation Authority, Western Australia

On

Inquiry into Microeconomic Reform

The ARA

The Australasian Railway Association (ARA) is a not-for-profit member-based association that represents rail throughout Australia, New Zealand and Indonesia. Our members include rail operators, track owners and managers, manufacturers, construction companies and other firms contributing to the rail sector. We contribute to the development of industry and government policies in an effort to ensure Australia's passenger and freight transport systems are well represented and will continue to provide improved services for Australia's growing population.

The ARA thanks the Economic Regulation Authority for the opportunity to provide this submission on the 'Issues Paper' of this consultation process. We look forward to providing further comment at subsequent stages of the ERA's process as outlined. For further information regarding this submission, please contact Bart Mellish, Freight Policy Manager via bmellish@ara.net.au or 02 6270 4530

Introduction

The Australasian Railway Association (ARA) appreciates the opportunity to make this submission to the Economic Regulation Authority (ERA) in response to the Inquiry into Microeconomic Reform in Western Australia Issue Paper (the 'Issues Paper').

The ARA believes that the transport and logistics market currently suffers from a number of institutional arrangements that constrain productivity and capacity boosting investment and distort modal choice. Central to these issues are the structures in place for road pricing and investment. It is the view of the organisations that treating roads in a similar manner to commercialised public utilities, such as energy and water, would achieve improved productivity outcomes for the freight industry and deliver social and economic benefits to government.

The current Inquiry offers an opportunity to highlight the potential benefits of reform initiatives currently underway through the Coalition of Australian Governments (COAG), and to reinforce the case for moving forward on these reforms as a priority.

The content of the submission focuses on the particulars of the suggested reform and the benefits it will deliver to industry, government and the community.

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The ARA has been working closely with its member organisations, and in particular the Australian Rail Track Corporation (ARTC), Asciano and Aurizon, on the issues around heavy vehicle charging reform and this submission largely builds on a joint submission these organisations made to the Heavy Vehicle Charging and Investment (HVCI) reform process's June 2012 Issues Discussion Paper. A copy of this submission, which is publicly available, is attached.

The context for road investment and charging reform

Since 2000, Western Australia's share of national exports has increased from 26% to 46%[1]. Over this period, the weight per vehicle productivity of heavy vehicles has increased by a factor similar to that of the domestic freight task allowing the road freight industry to keep pace with demand[2].

Looking to the future, the increase in demand for road freight will outstrip growth in the productivity of the heavy vehicle fleet. This will place more pressure on existing road assets through an increase in the frequency of heavy vehicles. The freight movement task in WA is expected to double by 2030, in contrast; BITRE modelling suggests that fleet wide heavy vehicle average loads are likely to increase by less than 5% between 2010 and 2030[3].

Against this backdrop of sustained economic growth and a plateau in the productivity of heavy vehicles, ensuring efficient investment in the right freight infrastructure will be vital to facilitate future economic growth in Western Australia.

Nationally, there are significant freight industry concerns that infrastructure investment for heavy vehicles is not being directed to where it is most needed to improve freight efficiency and productivity. While total revenue collected from heavy vehicles is intended to match the expenditure on roads for heavy vehicles, under current institutional arrangements there is no linkage between where revenue is collected and where it is spent. The inevitable consequence of this is that some heavy vehicles are overpaying while others are underpaying. The particular beneficiaries of this would appear to be heavy vehicles using the east coast national highway network, which has benefited from relatively high levels of historical investment.

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Over the last 12 months, state government freight and port strategies have highlighted the major costs of infrastructure bottlenecks accentuated by the related issues of inadequate infrastructure provision for freight requirements, lack of access for heavy freight vehicles and traffic congestion.

If demand for freight transport grows at historical rates, volumes will double over the next two decades. Current institutional arrangements appear inadequate to generate sufficient revenue to fund the investment that will be required to sustain this growth.

Securing continuing growth in freight efficiency and capacity requires reform of infrastructure investment and heavy vehicle charging so that prices properly reflect costs and the market can make efficient decisions about where, including the right mode, to invest.

Road Pricing and Investment Reform

The member organisations of the ARA, as significant operators in the national freight industry, have confidence that a commercially orientated road pricing and investment reform will deliver significant economic and social benefits to Western Australia. Micro-economic reform of the road sector will also deliver important productivity gains to the freight industry.

The current system of road pricing, PAYGO, recovers road costs by averaging historical costs and allocating them to different classes of road user. It is the view of the organisations that this system has become obsolete and does not suitably coordinate the service demands of the freight industry with the investment programs of government.

The administrator of the existing system, the National Transport Commission (NTC), has acknowledged that that the PAYGO method of pricing has consistently under-recovered costs allocated to the heavy vehicle industry[4]. The existing system has also been criticized by industry and government for an apparent disconnect between the allocation of funds amongst the states and the required investment and maintenance projects. These failings further highlight the importance of the economic reform of road charging and investment.

It is also important to note that where road and rail are in competition, under-pricing of road freight constrains the ability of rail to invest in important productivity and capacity enhancements.

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It is the view of ARA members that the needs of both government and industry would be best met through commercially driven reform. It logically follows that such a commercialisation would take similar form to other commercialised public utilities such as electricity and water. That is to say that charges should be derived from a forward-looking a regulatory asset base (RAB) using the 'building block' methodology, with revenue returned to the asset owner as a true usage charge.

In broad terms the rail industry supports reforms to:

Improve the planning and provision of road infrastructure ('supply side reform') particularly through:

- commercially orientated institutional arrangements and decision making processes; and;
- providing targeted investment reflecting the willingness of heavy vehicle users to pay for such improvements.

Ensure the scope of investment planning has a whole of supply chain perspective, including 'last mile' infrastructure such as access roads to major sources of freight including terminals and ports.

Charge for heavy vehicle road use by a system based around vehicle mass, distance travelled, and road location ('MDL pricing').

Base charging on a forward looking cost base that accounts for future operational costs, and both past and future capital investment.

Regulate charging for heavy vehicle road use through the appointment of an independent economic regulator.

Require ongoing regulatory review of cost allocation mechanisms between heavy and light vehicles to ensure cost apportionment is both economically efficient and fair.

Introduce supply side reform and MDL pricing reform at the same time to establish, for the first time, a customer-provider relationship between heavy vehicle operators and road infrastructure providers.

The case for these elements of reform is made in more detail in the organisation's submission to the HVCI Options Development Discussion Paper of June 2013 (copy attached).

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Conclusion

The ARA appreciates the opportunity to make this submission to the ERA's Microeconomic Reform in Western Australia Issues Paper.

We encourage the ERA to highlight the economic and social benefits to WA from reform of heavy vehicle charging and investment to:

- Ensure that investment in the road network is responsive to demand and opportunities for productivity improvement.
- Ensure that prices paid by heavy vehicles for the use of the road network properly reflect the costs imposed.
- Ensure economically efficient modal choice and create the investment environment required to ensure productivity and capacity enhancing investment on the rail network.

[1] *The Government of Western Australia, Department of Transport, WA Ports Development and the Development of Intermodals*

[2] *Korda Mentha, 2013, Road Freight: Part 2 – Outlook*

[3] *BITRE, 2011, Truck productivity: sources, trends and future prospects*

[4] *The NTC's 2013 Heavy Vehicle Discussion Paper notes that over the 9 years from 2003/04 to 2011/12 the PayGo system delivered a net under-recovery of allocated heavy vehicle costs of 6%.*

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Submission

By

Asciano, Aurizon, the Australian Rail Track Corporation & the Australasian Railway Association

In response to the

Heavy Vehicle Charging and Investment Options Development Discussion Paper June 2013

5 July 2013

Organisations

This submission is made on behalf of Asciano, Aurizon, ARTC, and the Australasian Railway Association ("the Organisations").

Asciano and Aurizon are major freight operators with substantial business in both road and rail haulage. The rail and port intermodal supply chains are also critically dependent on road movements within the total supply chain. Both organisations therefore have a substantial interest in reform initiatives to improve the efficiency of the Australian land transport industry.

The Australian Rail Track Corporation (ARTC) currently has responsibility for the management of over 8,500 route kilometres of standard gauge interstate track in South Australia, Victoria, Western Australia, Queensland and New South Wales. ARTC also manages the Hunter Valley coal rail network, and other regional rail links, in New South Wales.

The Australasian Railway Association (ARA) is the not-for-profit member-based association that represents freight, passenger, track, manufacturing, construction, supply and other rail companies in Australasia.

Introduction

The organisations appreciate the opportunity to make this joint submission to the HVCI in response to the *Heavy Vehicle Charging and Investment Options Development Discussion Paper* (the "Discussion Paper"). The efforts of the HVCI to consult widely in relation to this issue are recognised and appreciated by the respondents.

We note that reform of road freight investment and pricing is a complex issue and work on reform has been proceeding for some time. In view of this, we support a practical reform program that provides productivity benefits for industry and for the community at the earliest possible time.

This submission recognises that the majority of the discussion questions are directed at the road freight industry and, as such, this submission responds only to those questions that have broader policy implications for the freight logistics industry as a whole.

Executive Summary

In broad terms the organisations **support** reforms to:

Improve the planning and provision of road infrastructure ("supply side reform") particularly through:

- commercially orientated institutional arrangements and decision making processes; and
- providing targeted investment reflecting the willingness of heavy vehicle users to pay for such improvements.

Ensure the scope of investment planning has a whole of supply chain perspective, including "last mile" infrastructure such as access roads to major sources of freight including terminals and ports.

Charge for heavy vehicle road use by a system based around vehicle mass, distance travelled, and road location ("MDL pricing").

Base charging on a forward looking cost base that accounts for future operational costs, and both past and future capital investment.

Regulate charging for heavy vehicle road use through the appointment of an independent economic regulator.

Require ongoing regulatory review of cost allocation mechanisms between heavy and light vehicles to ensure cost apportionment is both economically efficient and fair.

Introduce supply side reform and MDL pricing reform at the same time to establish, for the first time, a customer-provider relationship between heavy vehicle operators and road infrastructure providers.

Implementation, however, needs to recognise the magnitude of this change and to be consistent with the practical and legislative issues required for national implementation.

In order to facilitate rapid productivity improvements, as an interim step we **recommend** the simultaneous introduction of both supply side reforms and direct MDL charging reforms on the national highways between Melbourne, Sydney and Brisbane.

The Organisations believe that introduction of both MDL and supply side reforms as outlined in this submission provide the best path to securing increased economic efficiency from the road network, contributing to improved competitiveness in the wider economy.

The context for infrastructure investment and charging reform

Currently, there are significant freight industry concerns that infrastructure investment for heavy vehicles is not being directed to where it is most needed to improve freight efficiency and productivity.

Over the last 12 months, state government freight and port strategies have highlighted the major costs of infrastructure bottlenecks accentuated by the related issues of inadequate infrastructure provision for freight requirements, lack of access for heavy freight vehicles and traffic congestion.

If demand for freight transport grows at historical rates, volumes will double over the next two decades adding urgency to the need for reform.

The recommendations and responses outlined in this submission have been prepared against this context for Australia's freight and logistics industry.

There are also potential benefits for the wider community from improved freight efficiency, including:

- Reduced traffic congestion
- Safety improvements
- A reduction in environmental impacts

Securing continuing growth in freight efficiency and productivity requires reform of infrastructure investment and heavy vehicle charging so that there is a proper commercially focused relationship between infrastructure providers and heavy vehicle operators.

Discussion questions

Will the design features included in the core level of supply side reform requirements lead to the outcomes sought?

In principle, the supply side design features proposed should provide the basis for sustainable road infrastructure reforms that deliver the outcomes sought. The ability of the reform requirements to deliver these outcomes, however, will ultimately depend on the robustness with which they are implemented.

The Organisations agree with the Discussion Paper's assessment of the principles that should underpin the core level supply side reform requirements:

Planning and investment

- Future road infrastructure investment should be made in response to signals from heavy freight vehicle demand so that infrastructure capability meets current and future needs.
- Freight transport operators should be given the opportunity to influence the decision making process relating to road infrastructure priorities and investment decisions.

- Reforms, including those relating to infrastructure investment, should promote integration, improve the efficient utilisation of all freight transport modes, and not favour any vehicle type.
- The Organisations expect that commercial reforms will result in greater demand for targeted investment. Reforms should therefore enable infrastructure providers to make these targeted investments that reflect the willingness of heavy vehicle users to pay for particular improvements.

Charging and revenue flow

- All revenue from direct heavy vehicle charges should go directly to the road infrastructure providers. In other words there must be full hypothecation of revenue.
- Charges for access to and the use of the road network should involve a transparent process, and should be based on determinations by an independent economic regulator.
- Charges should be based on a standard regulatory pricing model i.e. incorporating both future operational costs and both past and future capital investment over the determination period.

Performance and Accountability

- Road owners should be accountable through transparent performance criteria for the quality of infrastructure and infrastructure services provided.

As noted by the HVCI, the Organisations agree that implementing these principles is best met by establishing a customer-provider commercial relationship between heavy vehicle operators and road access providers.

The delivery of the outcomes sought will also depend on supply side reforms being introduced at the same time as the direct MDL pricing reforms. Introducing these reforms together will form a consistent and integrated reform package necessary to establish commercially based customer-provider relationships.

Heavy vehicle customers paying a direct charge for specified services will expect and drive accountability and efficient service delivery from road providers. This commercial relationship will be crucial to realising the full economic gains from supply side reforms identified by HVCI modelling.

Charging Options

Option A does not establish this provider-customer relationship and is therefore not a preferred outcome.

Option B refers to the use of “flexible MDL” as the pricing mechanism. It is not clear from the paper what is envisaged in this mechanism, and the Organisations have concerns that this will not provide the degree of rigour in pricing and charging required to closely align pricing and charging with investment and establish a strong customer: provider relationship.

For example, if a road provider invests in a short but costly road upgrade for the benefit of freight users will “flexible MDL” allow charging of only vehicles using this upgrade?

If charging in this example is only at a more generalised level, and increases charges for vehicles not using the upgrade, then the required direct customer relationship of charging and investment has been significantly weakened.

In the absence of additional information on the application of Option B, the Organisations therefore suggest that this option has a role only as a temporary transitional arrangement if this is unavoidable while an industry and organisational capability to support Option C is put in place.

Option C is the preferred outcome, preferably without transitional arrangements such as Option B, but recognising that some adjustment period may be required to install the technology systems and processes required to support Option C.

Because Option C is the option which results in the most efficient outcomes, issues of detail and implementation should be treated as details to be worked through in consultation with industry and in ways that do not result in any significant delay to the introduction of this option. This is to enable the establishment of the commercially based customer-provider relationships outlined above at the earliest possible time.

Are there other design features or option combinations to be considered for option development?

The Organisations suggest that to simplify the policy setting process and help to accelerate its introduction, refinements and detailed processes and other design features be agreed once the basic structure of the new system has been agreed.

Would a national or state-level approach to heavy vehicle investment coordination better lead to improved efficiency and effectiveness in road provision? Why?

Investment planning for heavy vehicles should have a whole of supply chain perspective, including “last mile” infrastructure such as access roads to major sources and destinations of freight including terminals and ports.

In delivering such planning, a State level HVCIF appears more effective given that the majority of infrastructure issues appear to be State based in nature, rather than national. Substantial planning expertise and data already exists in the States, and on broader issues structures exist for cooperation between the States and between the States and the Commonwealth.

However in supporting a State based structure the Organisations believe that it is important that this structure involves real reform from the existing state road planning functions so that the HVICF is:

1. An independent body free from political or other sectional influence.
2. It can work effectively and in an integrated way with state bodies undertaking planning for all vehicles.
3. It has public, transparent and effective processes to:
    a. Secure and distribute forecasts of HV demand by key network routes.

b. Identify, quantify and assess options to upgrade the road network.

c. Have access to and be able to work with land use planning bodies.

d. Consult with all key stakeholders.

e. Produce a long term, costed investment plan including data on the increase in user charges required to fund the works.

It will be important, as part of this process for there to be clarity and accountability regarding the roles of the different institutions involved in planning and road infrastructure.

Is a historical or forward-looking cost base a better mechanism for setting heavy vehicle charges? Why? What risks would be associated with either and how could these risks be mitigated?

The Organisations support use of a forward looking cost base as providing a better mechanism for setting heavy vehicle charges.

Standard regulatory pricing models are forward looking, in that they set prices for a given future period based on forward looking costs that take into account both future operational costs and future capital costs. These capital costs include future return **on** current and future capital based on the value of the currently existing infrastructure (as adjusted for future investment and depreciation) and an appropriate future return **of** capital (based on an appropriate depreciation schedule on the existing and future investment).

A forward looking cost base driven by the forecast demand of the freight industry promotes allocative efficiency as it recognises and reflects future costs in prices. Such an approach is more efficient than using historical costs to set future prices.

Table 1 of the discussion paper identifies '*no linkage between charges and the required expenditure'* as the first problem of the current PAYGO system. The reform is said to address this deficiency as charges '*respond to future needs and agreed service levels and are approved by the economic regulator'.* It will not be possible to effectively respond to the future needs of the industry by basing charges on the historical costs incurred by road providers.

A forward looking cost base requires road providers to set out their proposed work plans for the near term. This is required for the purpose of contributing to the establishment of both operational and capital cost forecasts. A by-product of this requirement is that it provides near term certainty for the freight logistics industry as participants have confidence in the service level of the network. A regulatory approach based only on historical cost is not able to deliver this confidence to industry.

As is general practice for regulated assets, the road user charge cost base must recognise both the asset owner's past and planned future capital investment.

If past capital investment were to not be included in the cost base, this would significantly undermine the efficiency gains expected from the reform process as it would:

- Create a road user charge that undervalues the road network and the community's significant investment in it.

- Lead to a situation where already improved roads are charged at a much lower rate than less efficient roads which will require investment after the scheme starts, leading to inconsistent, inequitable and distorted prices.
- Leave any road agencies that are commercialised with an unsustainable balance sheet as all assets would need to be written off under a recoverable assets test. and
- Lead to a situation where future costs relating to the return on capital and return of capital are not included in the price (notwithstanding the capital may have been invested there are a future stream of financing and depreciation costs associated with capital which has already been invested). Any price not including these costs would not be cost reflective and as such would be inefficient.

Past variability of recovery against costs with the PAYGO system has highlighted the difficulties with a retrospective pricing model. If the reformed model is to appropriately reflect risk and the time value of money through a reasonable rate of return on the network the new charge must truly reflect the value of the asset. As such, charges must account for past and future capital investment.

The biggest risk associated with forward looking costs is that the revenue is insufficient to meet cost requirements. This may occur for a number of reasons – inaccurate demand forecasting, modal substitution, input cost fluctuations, time value of money etc. - but the risk itself can be mitigated through regular review of income against revenue requirements, or preferably by adding a risk premium to prices.

We encourage the HVCI to model forward-looking costs based on the building blocks model used by regulators (notably the ACCC and Australian Energy Regulator (AER)) in regulating regulated infrastructure. For example under the AER approach each regulated energy infrastructure provider must submit an application to the AER at regular intervals (typically 5 years) detailing its forecast costs for the period ahead. The regulator has the discretion to amend the proposed costs if it does not believe they accurately reflect future costs or they have been incorrectly calculated.

Are there any concerns with the broad approach proposed for allocating costs between heavy and light vehicles?

The Organisations have significant concerns with the broad approach proposed for allocating costs between heavy and light vehicles.

The current PAYGO model allocates common costs based on vehicle kilometres travelled (VKT). It is our view that the heavy vehicle allocation of common costs under the PAYGO model is not the most economically efficient allocation. It is inappropriate that the reformed model continue to split common costs in this way.

Allocating costs based on VKT does not recognise either the capacity usage or ability to pay differences between heavy vehicles and other road users. It has resulted in a system where heavy vehicle contribution to common costs is at the extreme low end of the possible range.

Ramsey pricing is an approach which allocates common costs inversely to the elasticity of demand. Applying this to road charging, the regulator would need to consider the two classes of vehicle, heavy and light, and determine which class is more inelastic. This ensures

that common costs are recovered from the two classes in a way that least distorts consumption and therefore maintains a relatively efficient level of use.

This reform provides an opportunity to implement an economically efficient model for allocating costs which would have a positive impact on productivity.

Some recent reviews of the issue have given significant weighting to the relative numbers of "winners" and "losers" from any change in the allocation of common costs. Whilst this is material in considering the rate and form of implementation, the Organisations do not believe this should be a factor in selection of the most economically efficient and fair basis for cost allocation.

While a Ramsey pricing approach is the most economically efficient mechanism to allocate costs, it would be appropriate to also overlay a combinatorial ceiling test in accordance with standard regulatory approaches[1]. In this case, the methodology should calculate the stand-alone cost of providing a road or group of roads for light vehicles only and heavy vehicles should pay, as a minimum, the total cost of that road or group of roads less the light vehicle stand-alone cost.

It is also not uncommon for there to be concerns with application of Ramsey pricing due to information constraints. While a combinatorial ceiling test does not provide an alternative answer to a Ramsey pricing approach, it does help apply boundaries within which the appropriate allocation of common costs should fall, which may help partially address any uncertainty around elasticity values.

How could the suggested approach to CSO coordination be enhanced?

Discussion in the HVCI paper suggests CSO's may be considered for use of low volume rural roads where full heavy vehicle cost recovery would adversely affect regional producers and remote communities. The Organisations would suggest that to maximise economic efficiency, all CSO's are transparent, logically demonstrate the social benefit achieved, and avoid economic distortions.

Does the role of the economic regulator satisfactorily address concerns about cost allocation between HV and LV, the efficiency and effectiveness of expenditure and achieving cost reflective charges?

The Organisations support the appointment of an independent economic regulator.

The Regulator should, amongst other duties, allocate costs between heavy and light vehicles, oversee efficient and effective expenditure, and implement cost reflective charges. It is our view that an independent economic regulator is the most appropriate governance model to deliver an infrastructure pricing model that is targeted, transparent, and drives productive, allocative and dynamic efficiency.

The discussion paper offers a number of options by which the economic regulator will establish a value for the regulatory asset base. The depreciated optimised replacement cost

[1] The principle of a combinatorial ceiling test is that no user, or group of users, should pay more than the stand-alone cost of the asset, or group of assets, that it or they require. This ensures that there is no cross-subsidy between users.

(DORC) methodology is widely used in other regulated industries. It is our opinion that this is the best method for establishing a realistic valuation of an existing asset. The organisations note that jurisdictions have for many years determined depreciated values for their road network assets.

The regulator should have flexibility within broad policy directions to establish economically efficient regulatory principles based around economically sustainable cost recovery.

To most effectively deliver the above tasks, the independent economic regulator should bring to this function

- consistency across different industries;
- broad based experience in managing regulated industries;
- substantial legislative and practical independence; and
- a strong depth of analytical rigour and resourcing

Does the simplicity of a nationwide charge outweigh the benefits of charges that vary by location within a jurisdiction? If not, what is the best way of differentiating charges by location?

The Organisations believe that a single national charge is contrary to the whole purpose of the road reform process.

In order to achieve a truly cost reflective road pricing model, charges must vary by location with the cost of provision being the differentiating factor. A failure to do so will substantially weaken the core objective of the reforms to establish a direct customer: provider commercial relationship based on actual costs of road supply and usage.

A significant shortcoming of the current road user charge (RUC) is that it is a nationally averaged charge that is not reflective of the location specific cost of heavy vehicle road use. In effect, one charge for varying costs means that vehicles travelling on one part of the network are subsidising those travelling on another.

National averaging may have the benefit of simplicity, but it distorts pricing signals that lead to efficient investment decisions. An objective of the HVCI reform is to achieve efficiency and sustainability in both usage and investment; this cannot be achieved through a charging system that does not provide cost-based pricing signals.

Location charges should be based on the access arrangements and service standards for particular roads. These access arrangements and services standards should be determined by the road infrastructure providers in response to demand from freight customers, and which reflect the willingness of freight customers to pay for the access and service standards.

The best method of differentiating charges by location is to do so when there is a material change in the cost of the road infrastructure, either operating or capital. Efficient charges should be a function of the cost of provision so as to send market signals to users. A charge based on the cost of provision plus a reasonable return on capital will ensure heavy vehicles are meeting their cost, no matter their pattern of travel on the national network.

It will therefore be necessary as part of the implementation, to

- Establish as discussed earlier both capital and operating costs for the road network sections to be priced using MDL; and

- Establish the capability to identify and additionally bill freight vehicles using subsequent additions to the infrastructure

Inevitably there will need to be some trade-off between optimal economic efficiency, which would separately price each discrete section of road, and practicality, which would lean toward maximum aggregation. Given that the end objective is to send appropriate price signals to the market, the test as to how much aggregation should take place should be that, if the difference in implicit price between two sections of road is sufficiently large that, if implemented, it would induce a market response that resulted in a material change in volume, then prices should be differentiated. The test as to what constitutes a material change should be a matter for the regulator and might be established as either a percentage or a dollar value.

The State Road Agencies have generally for many years valued their road infrastructure assets, and maintained detailed records on the scope and cost of road maintenance by individual road sections. Therefore, the information base required for differentiating between roads on a proper and fully justified basis appears to be available.

What is the preferred path to implementation and what are the other key implementation issues to be addressed in a transition plan?

The Organisations strongly support simultaneous introduction of supply side reform and MDL charging.

Ideally, introduction should occur across the whole national network. Such an approach avoids the difficulties inherent in running two parallel systems of heavy vehicle charging.

The road network is substantial, however, with a significant number of heavy vehicles using it, and a large number of entities owning those vehicles. Many of these are small organisations with limited resources to manage change. All these factors raise significant practical issues for such an approach.

The Organisations that have endorsed this submission recommend that the federal and state governments pursue, as an initial step, a transitional set of heavy vehicle charging and investment reforms based on the simultaneous introduction of supply side reforms and mass distance and location (MDL) charging for heavy vehicles using the national highways between Melbourne, Sydney and Brisbane.

These initial reforms should cover three main areas

1. Charging

- The MDL charges to be paid by heavy vehicles on these highways would be
    - Approved by an independent economic regulator.
    - Involve measuring distance and location using in vehicle telemetric technology.
    - Accompanied by a credit for road user charges paid through RUC on fuel consumed on roads they are already being charged for under MDL. This rebate could form part of the MDL invoicing, or rebated through the business activity statements of heavy vehicle operators.
- State infrastructure providers or infrastructure funds would receive the revenue from the direct charges. In other words, revenue would be fully hypothecated and directly transmitted to infrastructure providers responsible for national highways.

2. Supply side reforms

The supply side reforms would include those outlined earlier in this submission, as well as:

- Clear arrangements would be established to allow heavy vehicle operators to initiate negotiations for additional access to these highways.
- Future access for higher productivity vehicles to these national highways would be subject to additional direct charges that meet the full forward cost of associated infrastructure upgrades, and to meeting performance standards.
- Heavy vehicle operators would have the opportunity to make submissions on the infrastructure investment plans of state infrastructure funds or agencies.

3. Performance and accountability

- As outlined earlier, performance accountability would be driven by the introduction of commercially based customer-provider relationships.
- State infrastructure agencies or infrastructure funds would be required to publicly account for their performance in providing the infrastructure service standards necessary for heavy vehicles to efficiently access and use the infrastructure for which they pay a direct charge.

A limited application of direct charging as a transitional step would have a number of advantages.

- It would avoid the complexity of introducing direct heavy vehicle charging on the entire road network, including roads that arguably serve more of a social purpose than an economic purpose. Therefore, there would not be the same requirement to address community service obligations for other roads, including smaller, regional roads.
- It would enable implementation of the legislative and governance frameworks and institutions required by the new pricing system within a more manageable scope.
- This limited initial step would also reduce the challenges associated with applying direct charging to smaller road freight businesses that may not currently have access to technology that measures and reports distances travelled on particular roads.
- Heavy vehicle operators that do not use the national highways subject to direct MDL charging would continue to operate under the current heavy vehicle charging arrangements.
- It would, in the near term, demonstrate the economic and infrastructure benefits of reform, making further incremental steps more acceptable for stakeholders.

The Organisations consider that successful introduction of reforms on national highways between Melbourne, Sydney and Brisbane depends on the simultaneous introduction of direct MDL charging reform that allows for charges to be based on both operational costs and both past and future capital investment.

Conclusion

Asciano, Aurizon, ARTC and the ARA acknowledge the consultative efforts of the HVCI. We are overall supportive of material reform to provide the economic benefits of a more effectively managed road network.

Recognising that although the Discussion Paper does not represent government or industry policy, we regard the potential reforms outlined as very important to the future international competitiveness of Australia's industries.

The reforms have the potential to:

- Deliver future infrastructure investment to where the freight industry requires it to be delivered to improve the efficiency and productivity of the road freight network.
- Require that infrastructure providers are accountable for the delivery of infrastructure service standards by allowing effective provider-customer relationships to be established for the first time.
- Deliver wider benefits to the community, including reduced traffic congestion, improved safety and a reduction in negative environmental impacts.

In view of the importance of these reforms, they should be given a high priority by policymakers. We also submit that they should be pursued in accordance with the approach outlined in this submission.

We look forward to continuing to contribute to the development of the reform options over the coming months.

Attachment 1

Organisations making this Submission

Asciano

Australia's only combined rail freight and port operator, Asciano brings together Pacific National's rail operations and Patrick's ports and stevedoring businesses to form the backbone of Australia's global trade.

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Aurizon

Aurizon has rail and road-based freight and infrastructure operations across Australia. Aurizon operates rail freight services from Cairns through to Perth, including the Central Queensland Coal Network made up of approximately 2,670km of heavy haul rail infrastructure.

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Australian Rail Track Corporation (ARTC)

The Australian Rail Track Corporation (ARTC) currently has responsibility for the management of over 8,500 route kilometres of standard gauge interstate track in South Australia, Victoria, Western Australia, Queensland and New South Wales. ARTC also manages the Hunter Valley coal rail network, and other regional rail links, in New South Wales.

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Australasian Railway Association

The Australasian Railway Association (ARA) is the not-for-profit member-based association that represents passenger, freight, track, manufacturing, construction, supply and other rail companies in Australasia.

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