



Economic Regulation Authority

Draft determination of Arc Infrastructure depreciated optimised replacement costs and depreciation schedule

Attachment 7: DORC Summary

26 March 2026

Acknowledgement of Country

At the ERA we value our cultural diversity and respect the traditional custodians of the land and waters on which we live and work.

We acknowledge their continuing connection to culture and community, their traditions and stories. We commit to listening, continuously improving our performance and building a brighter future together.

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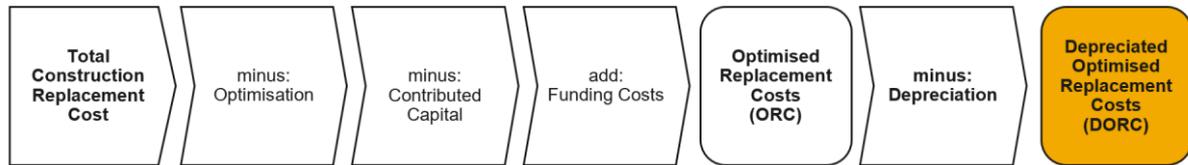
Note

This attachment relates to a summary of the DORC valuation.

This attachment forms part of the ERA's draft determination on the Arc DORC and Arc Depreciation Schedule. It should be read in conjunction with all other parts of the draft determination, which comprises of the following documents and attachments:

- Overview
- ERA's draft determinations of depreciated optimised replacement costs by route section
- ERA's draft determinations of depreciated optimised replacement costs (model)
- ERA's draft determinations of depreciation schedule (model)
- Attachment 1: Information used by the ERA
- Attachment 2: Total construction replacement costs
- Attachment 3: Optimisation
- Attachment 4: Capital contributions
- Attachment 5: Funding cost during construction
- Attachment 6: Depreciation
- **Attachment 7: DORC summary (this document)**
- Attachment 8: Depreciation schedules

Attachment 7. Summary



A depreciated optimised replacement cost is a measure of current cost of replacing the assets required to provide the level of service that meets the actual and reasonably projected demand. It is a regulatory measure of the compensation due to the service provider in consideration of its investments in the assets which provide the service.

The ERA has not accepted Arc's proposed DORC value.

The ERA has made a draft determination for Arc's DORC of \$7.7 billion. This is a reduction of \$7.6 billion (or 50 per cent) compared to Arc's proposed value.

The ERA's DORC draft determination, including the DORC values for each route section, is detailed separately in ERA's *DORC value by route section*.

The ERA's *DORC valuation model* also provides more detail.

On the basis of these deliberations, the ERA considers that its draft determination on Arc's DORC best meets the Act objective to establish a rail access regime that encourages the efficient use of, and investment in, railway facilities by facilitating a contestable market for rail operations. This includes the ERA's taking into account both the railway owner's legitimate business interests and costs, and the interest of parties using the railway infrastructure.

Depreciated optimised replacement cost

1. A depreciated optimised replacement cost is a measure of current cost of replacing the assets required to provide the level of service that meets the actual and reasonably projected demand. It is a regulatory measure of the compensation due to the service provider in consideration of its investments in the assets which provide the service.
2. The DORC does not compensate the owner for over investing, or for imprudent investments. The depreciated optimised replacement cost does not compensate the owner for changes in the market which impact on the demand for its services.
3. Section 47J of the *Railways (Access) Code 2000* requires that railway owners determine, for each route section of its network, the depreciated optimised replacement cost of applicable railway infrastructure associated with the route section, and to submit to the ERA a statement setting out each of those determinations and supporting material demonstrating the basis of each determination.
4. The ERA task is to either approve Arc's statement of depreciated optimised replacement cost determinations of applicable infrastructure for each route section of its railway or if we are not willing to do so, determine the depreciated optimised replacement cost of applicable railway infrastructure associated with the route section.

Arc Infrastructure Proposal

5. Arc proposed a DORC value of \$15.3 billion for its initial regulatory asset base across all routes.¹
6. However, Arc did not provide a proposed DORC value for all required route sections.
7. Arc's DORC by asset class is provided in Table 7.1.

Table 7.1: Arc proposed DORC by asset class

Asset category	DORC (\$ million)
Right of Way	3,412.6
Civil Structures	657.4
Associated Track Structures	34.5
Track	8,562.2
Signalling and Control Systems	2,435.3
Buildings and Miscellaneous	191.1
Total	15,293.0

Source: GHD Advisory, *Applicable Railway Infrastructure DORC Final Report – Arc Infrastructure Pty Ltd*, 06 June 2025, p. 159.

Note: Arc provided costings for two signalling options but proposed Alternative A.

8. Three asset categories dominate Arc's total DORC value with 56.0 per cent coming from track, 22.3 per cent from right of way and 15.9 per cent coming from signalling and control systems.
9. Arc detailed its DORC value by network group, provided in Table 7.2.

¹ GHD Advisory, *Applicable Railway Infrastructure DORC Final Report Arc Infrastructure Pty Ltd*, 6 June 2025, p. 161.

Table 7.2: Arc proposed DORC by network group

Network Group	DORC (\$ million)
Metropolitan	461.8
Eastern Goldfields Railway	4,222.3
Midwest	1,088.7
Esperance Bulk Line	1,856.6
Leonora Bulk Line	828.9
South West Main	955.9
Collie	238.6
Midland Railway	1,369.7
Central	1,325.7
Great Southern Railway	1,713.6
Lakes	673.7
CBH Sidings	241.3
Sidings & Other	154.0
Non-Operational	162.2
Total	15,293.0

Source: GHD Advisory, *Applicable Railway Infrastructure DORC Final Report – Arc Infrastructure Pty Ltd*, 06 June 2025, p. 160.

10. The three largest network groups of Arc's total DORC value are 28 per cent for Eastern Goldfields Railway, 12 per cent for Esperance Bulk Line and 11 per cent coming for Great Southern Railway.

General comments in submissions

11. There are some general comments made in submissions, relating to Arc's determinations of DORC.

AEMC

12. AMEC submitted that Arc's depreciated optimised replacement cost is overvalued, and the resulting ceiling values will be exorbitant, and any resulting access fees risk not being cost-reflective. The asset valuation should err on the "side of conservative realism".²
13. AMEC notes that there are flow-on effects from an inflated regulated asset base, particularly where demand for freight is price sensitive (for example, grain lines and regional feeders). This could make some freight uneconomic, thereby pushing freight onto roads. This could have adverse consequences for efficiency, with the rail access regime meant to facilitate the use of rail infrastructure. The usage of more road freight also has unintended social consequences.³
14. AMEC submitted that a \$15.3 billion valuation would firmly anchor all future negotiations in favour of the asset owner. AMEC referred to the sustainability of resulting charges for users and efficient market outcomes has not been given sufficient weight. Information or analysis it would want addressed includes:⁴
 - comparison to current charges based on the current asset base
 - the relative economics of competing transport (road)
 - a user impact assessment (analysing the impact of potential tariff increases on major user segments and consideration of phasing such increases)
 - implications of freight shifting from rail to road.

Aurizon

15. Aurizon submitted that Arc's valuation is "highly inflated having regard to regulatory precedent and our expectations of reasonable input assumptions."⁵

² Association of Mining and Exploration Companies, *Submission on Depreciated Optimised Replacement Cost (DORC) valuation of Arc Infrastructure's railway assets*, July 2025, p. 4.

³ Association of Mining and Exploration Companies, *Submission on Depreciated Optimised Replacement Cost (DORC) valuation of Arc Infrastructure's railway assets*, July 2025, p 3.

⁴ Association of Mining and Exploration Companies, *Submission on Depreciated Optimised Replacement Cost (DORC) valuation of Arc Infrastructure's railway assets*, July 2025.

⁵ Aurizon, *Arc Infrastructure Proposed Depreciated Optimised Replacement Cost Submission to ERA*, 11 August 2025, p 1.

16. Aurizon submitted:

The DORC value presented by Arc and GHD completely fails to achieve the objectives of the Code amendments, as the effect of the unreasonable input assumptions and variations from regulatory precedent mean that the estimated DORC value materially exceeds the previous estimates of GRV (in current \$ terms). From Aurizon's analysis, it is clear that a reasonable DORC value for Arc's network will be a small fraction of that proposed by Arc.⁶

CBH

17. CBH submitted Arc's DORC values are "drastically over-inflated" and reflect the use of assumptions that are often extreme outliers when compared with regulatory precedents and other accepted benchmarks. CBH submitted that Arc's proposed depreciated optimised replacement cost is up to seven times more than a reasonable figure. On this basis CBH argued that "the ERA should not approve Arc's DORC report or depreciation schedule." CBH submitted that Arc's proposed depreciated optimised replacement cost is on average 47 per cent greater than the escalated gross replacement values from 2014, which are not depreciated.⁷

⁶ Aurizon, *Arc Infrastructure Proposed Depreciated Optimised Replacement Cost Submission to ERA*, 11 August 2025, p. 10.

⁷ CBH Group, *CBH submission on Arc Infrastructure's statement of the depreciated optimised replacement cost and statement of the depreciation schedule published on 16 June 2025*, 11 August 2025, p. 4.

ERA Draft Determinations

18. The ERA has not accepted Arc's proposed DORC values.
19. The ERA has made a draft determination for Arc's DORC values totalling \$7.7 billion. This is a reduction of \$7.6 billion (or 50 per cent) compared to Arc's proposed values.
20. The DORC draft determination, including the DORC values for each route section, is detailed separately in ERA's *DORC value by route section*.
21. The ERA's DORC *valuation model* also provides more detail.
22. Our draft determination for Arc's DORC value for each route section is the combined result of an assessment of each of the components of the DORC and consideration of their allocation across route sections.
23. The ERA's DORC values were determined through a staged assessment process, as detailed in Figure 7.1.

Figure 7.1: Depreciated optimised replacement cost flow chart



24. Consideration of each of the components of the DORC to construct a DORC valuation are detailed in separate attachments.
 - **Total construction replacement cost:** Total construction replacement cost is equal to the direct cost of procurement and construction plus all contractor's on-costs and railway owner's costs.
 - **Optimisation:** The optimised asset configuration is the asset configuration that has the capacity to meet actual and reasonably projected demand, constructed at the least cost and within the constraints of the existing railway corridor. The optimised asset is arrived at by:
 - Assessing capacity of the replacement asset against existing asset capacity.
 - Identifying redundant assets, including those in excess of that required to meet forecasts of service demand.
 - **Contributed capital:** Contributed capital is capital from a third-party entity used to fully or partially fund the construction of a railway infrastructure asset. Contributed capital is excluded from the asset base.
 - **Funding costs:** Funding costs constitute the opportunity cost of the capital required to construct the network. This recognises the debt and equity funding that a business needs to take out to finance required expenditure over the construction period. To ensure that funding costs incurred during construction can be recovered, these costs are capitalised within the asset's initial value.

- **Depreciation:** Depreciation is the accumulated loss of value due to physical deterioration, or functional or economic obsolescence over the asset's life. Depreciation is subtracted from the optimised replacement cost to reflect the remaining useful life, and value, of the asset.
25. In assessing the DORC values for the draft determination, the ERA has considered Arc's proposal, the RPI DORC report and stakeholder submissions.
 26. The ERA notes that submissions have raised concerns regarding the magnitude of Arc's proposed initial regulated asset base including:⁸
 - what it means for the general competitiveness of rail versus road
 - the need to scrutinise the approach taken by Arc in determining the proposed valuations
 - consistency with precedent established by the ERA and adopted in the ARTC interstate network DORC valuation
 - a high asset base will place access seekers at disadvantage and impose undue economic burden on the State.
 27. The ERA is aware of the implications of overvaluing Arc's assets and has gone about its assessment giving due consideration to the objectives of the railways access regime and the factors it must consider in executing its functions under the legislation including the Code.
 28. The Code requires that the ERA approve or make its own determinations of DORC for each of the route sections listed in Arc's costing principles. The ERA is not required to make a determination of DORC for the whole of Arc's network.
 29. In relation to comments in submissions relating to the general competitiveness of rail versus road, the objective of the access regime is to promote competition in the provision of rail services. The ERA must consider under section 20(4) of the Act "(g) the economically efficient use of the railway infrastructure; and (h) the benefit to the public from having competitive markets."
 30. The ERA understands that there is some competition between rail and road transport in the market for certain freight transport services.

⁸ Including submissions from Cooperative Bulk Handling, Aurizon, Karara Mining Limited, Association of Mining and Exploration Companies, CCIWA and Pacific National.

31. In its assessment of Arc's proposal the ERA has sought to ensure the valuation is consistent with the objectives of the *Railways Access Act 1998* which recognise the need to have a rail access regime that encourages the efficient use of and investment in railway facilities by facilitating a contestable market for rail operations. The ERA notes the regulatory objective of the Code is to encourage a contestable market for rail operations, i.e. competition between above-rail operators using the railway infrastructure for the provision of rail transport services including freight services.⁹ However, the Code requires that regard must also be given to what the regulator determines to be the requirements of the public interest, which would include ensuring rail freight services are competitive with road freight services.¹⁰
32. The ERA's assessment of the DORC valuations, and its components, has been cognisant of the above concerns. The ERA's considerations have resulted in a material reduction in the size of the DORCs for each route section and in the total initial regulated asset base. The technical attachments to this draft decision set out the approach used to determine a valuation that is consistent with the Code requirements.
33. On the basis of these deliberations, the ERA considers that its draft determination on Arc's DORC best meets the Act objective to establish a rail access regime that encourages the efficient use of, and investment in, railway facilities by facilitating a contestable market for rail operations. This includes the ERA's taking into account both the railway owner's legitimate business interests and costs, and the interest of parties using the railway infrastructure.
34. For presentational purposes, the ERA's aggregate DORC valuation by asset class is provided in Table 7.3.

Table 7.3: ERA draft determination DORC by asset class

Asset category	DORC (\$ million)
Right of Way	1,804.3
Civil Structures	175.6
Associated Track Structures	23.0
Track	4,760.5
Signalling and Control Systems	840.9
Buildings and Miscellaneous	120.1
Total	7,724.4

35. Arc's total DORC value remains dominated by the same three asset categories with 62 per cent coming from track, 23 per cent from right of way and 11 per cent coming from signalling and control systems.

⁹ The *Railways Access Act 1998*, section 2A, states:

The main object of this Act is to establish a rail access regime that encourages the efficient use of, and investment in, railway facilities by facilitating a contestable market for rail operations.

¹⁰ *Railways (Access) Code 2000*, section 41(1)(b)(ii) and (iii).

36. As Arc detailed its DORC values by network group, a presentational equivalent is provided in Table 7.4.

Table 7.4: ERA's draft determination DORCs by network group

Network Group	DORC (\$ million)
Metropolitan	330.1
Eastern Goldfields Railway	2,216.1
Midwest	312.4
Esperance Bulk Line	941.6
Leonora Bulk Line	435.6
South West Main	421.6
Collie	97.1
Midland Railway	684.0
Central	737.1
Great Southern Railway	929.3
Lakes	359.9
CBH Sidings	175.4
Sidings & Other	84.1
Non-Operational	0.0
Total	7,724.4

37. The three largest network groups of Arc's total DORC value are 29 per cent from Eastern Goldfields Railway, 12 per cent from Esperance Bulk Line and 12 per cent coming from Great Southern Railway.

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