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Pacific National Submission to the Consultation RIS: HVRR Phase 2 Independent Price Regulation of Heavy Vehicle Charges

Introduction

Pacific National welcomes the opportunity to make a submission to the HVRR's Consultation Regulation Impact Statement (RIS). Pacific National is a member of the Freight on Rail Group (FORG); which Pacific National understands is also making a submission to this RIS. Pacific National supports the FORG submission.

Pacific National is Australia's largest rail freight operator. Pacific National directly competes with heavy road vehicle freight in some freight supply chains but also acts as a complement to road in other freight supply chains. Given this Pacific National has had a strong interest in the current Commonwealth Government heavy vehicle road pricing policy process. In particular, the HVRR policy process provides an important opportunity to address competitive neutrality issues between land transport modes.

Pacific National believes that the case for heavy vehicle road pricing reform is well established, including most recently in the Commonwealth's National Freight and Supply Chain Priorities Report¹ which has identified integrated approaches to pricing, including infrastructure access pricing as a priority.

Pacific National strongly believes that the differing regulatory frameworks that currently apply to road and rail infrastructure pricing negatively impact on the efficiency of Australian freight markets by distorting market outcomes. Pacific National believes that the infrastructure pricing applying to both heavy road freight and rail freight should move towards being determined under a consistent regulatory and pricing framework. This consistent regulatory and pricing framework should be regulated by an independent regulator.

This Pacific National submission is public.

¹ National Freight and Supply Chain Inquiry Priorities Report page 49, page 56

Pacific National Comments on the RIS Proposals

The RIS focuses on two main elements, being the establishment of the independent pricing regulator and the implementation of the forward-looking cost base (FLCB) which will result in infrastructure pricing for heavy road vehicles being based on expected costs.

The RIS puts forward two options for the independent price regulator, namely Option A which is price regulation by an independent price regulator, and Option B which is price regulation by an independent price regulator but with the regulator being able to scrutinise cost proposals, consider user input and alter pricing structures (while maintaining revenue neutrality).

In relation to the reform options for the independent price regulator Pacific National is a supporter of Option B as outlined in the RIS, however ultimately any independent price regulator must have powers beyond those outlined in option B, including the powers to disallow costs, establish levels of service quality and alter pricing structures to reflect cost structures and cost allocations between market segments, even if this impacts on revenue neutrality.

In order to minimise the potential for economic inefficiencies, the independent regulator should have a national approach and act to ensure consistency of pricing frameworks across freight supply chains. Pacific National strongly prefers that the independent pricing regulator have a national scope (i.e. not state based regulation) and have the ability to ensure consistent regulation across freight supply chains.

The RIS² states that the proposed reform will “apply a building block model (BBM) to determine allowed revenue. One BBM for each state or territory government”. This implies the FLCB is a building block model. However, in other sections of the RIS³ the FLCB seems to only focus on future road investment and maintenance plans rather than current road investments and maintenance. Pacific National is unclear as to the detail of the proposed FLCB pricing model and seeks that further information be provided in the HVRR consultation process.

Regardless of the detail of the FLCB Pacific National strongly believes that any pricing model should be a national model as freight markets are national markets. As noted above the National Freight and Supply Chain Priorities Report seeks national, consistent and integrated approach to access pricing and regulation. Pacific National believes that establishing state based, rather than national based, access pricing regimes, will result in inefficient pricing and regulatory outcomes.

In addition to the Reform Options A and B outlined above the RIS also sets out two future reform scenarios, namely Scenario 1, where no further reform would be undertaken, and Scenario 2 where further reform would be undertaken, consistent with phases 3 and 4 of the HVRR program.

² Marsden Jacob Regulatory Impact Statement p16 Table 1

³ Marsden Jacob Regulatory Impact Statement p23

Pacific National strongly supports scenario B and seeks that the pace of the reform be increased to allow the HVRR process to move towards phases 3 and 4. This is the scenario which results in the greatest benefit and it is the scenario which most closely aligns with the Pacific National position that road and rail pricing should be subject to a consistent regulatory framework. This consistent framework will minimise the potential for market distortions and allow the different transport modes to compete on an even playing field.

More generally, in considering the RIS Pacific National was disappointed that various elements previously supported by Pacific National and the freight rail industry have not been reflected in the RIS. In particular, Pacific National was disappointed that the RIS did not address pricing issues such as Mass Distance Location pricing.

Conclusion

Pacific National continues to strongly support the current Commonwealth Government heavy vehicle road pricing policy process. In particular, Pacific National very strongly supports:

- Reform Option B - Price regulation by an independent price regulator with increased powers for the regulator; and
- Scenario 2 - Further reform is undertaken consistent with phases 3 and 4 of the HVRR program.

Pacific National seeks that Option B be adopted as soon as possible so that a road access pricing model that reflects costs and promotes efficiency can be developed as soon as possible.

If you wish to discuss this submission please contact me on 02 8484 8056.

Yours Sincerely



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Pacific National