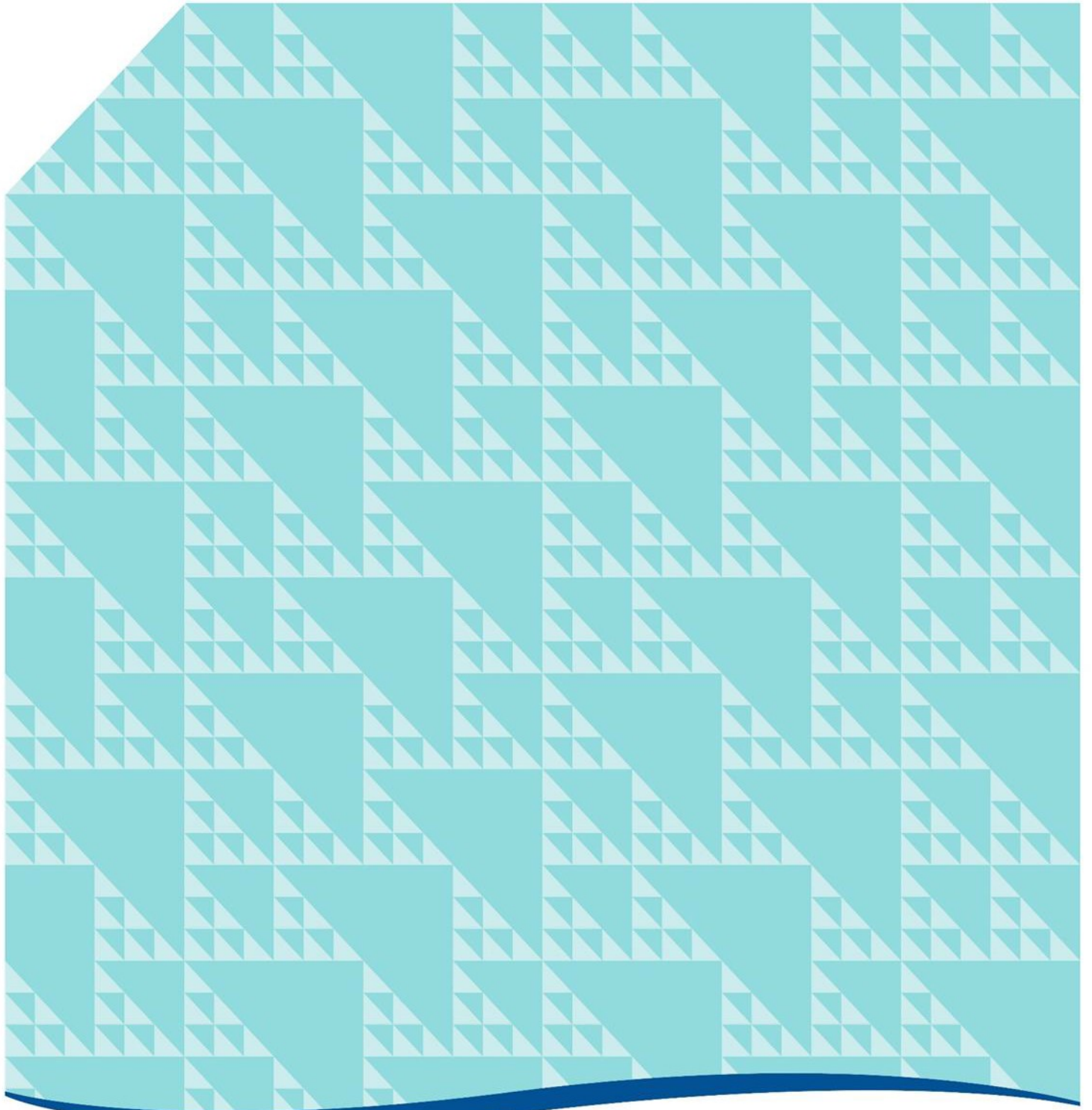


Legislative Council Inquiry into the Financial Sustainability of TasRail



Contents

Context	1
Establishment of TasRail	1
The Tasmanian Rail Network	1
Rail Freight Task and Role in the Tasmanian Freight System	2
Table 1: TasRail Actual Rail Freight Volumes Million NTK.....	3
Investment in the Tasmanian Rail Network and Rail Freight Services	4
Table 2: Rail Funding 2015-16 to 2018-19 (\$million)	6
Financial Sustainability of Rail	6
Non-Operational Rail Lines	6
Conclusion	7

Context

The establishment of TasRail in 2009 demonstrated a long-term commitment by the Tasmanian Government to ensure viable rail freight services remained as part of the Tasmanian strategic freight system. Significant funding was subsequently provided by both the Australian and Tasmanian Governments to improve safety and reliability across the rail network. This included investment in both infrastructure upgrades and new rolling stock.

TasRail's share of the State freight task has now increased, with new bulk tasks and commitments by key bulk and intermodal customers to the continued use of rail.

Through Infrastructure Tasmania, the Tasmanian Government is currently developing an integrated freight strategy. Providing a framework for the long-term, integrated planning of Tasmania's land freight network is a key focus, and it is expected that the Strategy will provide the context for the complimentary operation of road and rail freight networks in Tasmania.

Establishment of TasRail

TasRail was established through the *Rail Company Act 2009* and began operation on 1 December 2009. TasRail is responsible for operating and maintaining the Tasmanian Rail Network and providing rail freight services to Tasmanian businesses.

The Tasmanian Government's decision to acquire Pacific National Tasmania's (PNT) business operations and assets including the Melba Line on Tasmania's West Coast, followed a decision by Pacific National to cease Tasmanian operations.

The establishment of TasRail brought together for the first time the railway infrastructure and land assets of the Tasmanian Rail Network under a single operator.¹

TasRail's core above rail functions are the provision of rail and associated freight services in Tasmania, the provision of train control services and the management of freight terminals, including bulk handling and loading. TasRail's core below rail business functions are the maintenance of, and upgrades to, the rail network infrastructure in Tasmania.

The Tasmanian Rail Network

The *Rail Infrastructure Act 1997* defines the Tasmanian Rail Network as comprising the following lines:

- Bell Bay Line: approximately 57 km running from the East Tamar junction to Bell Bay.

¹In 2005, the Tasmanian Government acquired from PNT the railway infrastructure (track, terminals and yards) for all line segments other than the Melba Line. The Tasmanian Government had resumed ownership of the land corridor other than the Melba Line as a strategic asset from the Australian Government in 1997, when the railway infrastructure was severed from the land and sold to private operators.

- Derwent Valley Line: approximately 71 km running from the Bridgewater Junction to the rail yard west of Maydena known as the 'Florentine rail yard'. That part of the Derwent Valley Line running from Boyer to Maydena (57km) is currently non-operational.
- Fingal Line: approximately 55 km running from Conara Junction to Fingal.
- North-East Line: approximately 73 km running from Coldwater Creek Junction to Tonganah. The North-East Line is currently non-operational.
- South Line: approximately 199 km running from the Hobart rail yard to Western junction. The part of the South Line running from the Brighton Transport Hub to Hobart Port (21km) is currently non-operational.
- Western Line: approximately 259 km commencing at the Inveresk Railyard and running to Wiltshire via East Tamar and Western Junction. The 2 km at the western end of the rail bridge on the North Esk River is non-operational. That part of the Western Line running from Burnie to Wiltshire (78 km), often described as the Wiltshire Line, is also currently non-operational.
- Risdon Line: approximately 3 km running from Derwent Park to the former siding at the Risdon Smelter (Nystar). The Risdon line is currently non-operational.
- The Melba Line: approximately 130 km running from the Burnie Port to Melba Flats.
- The Hellyer Line: approximately 11 km running from the Hellyer Mine site to the eastern boundary of the Melba Line at Moorey Junction. The Hellyer Line is currently non-operational.

Rail Freight Task and Role in the Tasmanian Freight System

Rail freight operations are broadly described as bulk and intermodal.

Bulk freight consists of commodities such as:

- cement on the Western Line between Railton to Devonport Port;
- mineral ore predominantly on the Melba Line between the West Coast and Burnie Port, with recent start-up of Bauxite from Conara Junction to Bell Bay Port; and
- coal from Fingal to Cement Australia at Railton.

Intermodal (or containerised freight) comprises freight such as paper, zinc ingots and retail products. Intermodal freight moves predominantly between major industrial activities/ urban centres along the West and South Lines between Burnie and Hobart.

In 2011-12, rail's share of Tasmania's total freight task was 18 per cent², measured in net-tonne kilometres (NTK)³. Recent changes in Tasmania's freight task, including a decline in forestry freight movements on the road network, together with the capture of new freight tasks by rail (for example Australian Bauxite's operations at Campbell Town) have seen rail's proportional share of the total freight task increase.

²Based on the Tasmanian Freight Survey. Information on the Tasmanian Freight Survey and the most recent Data Summary Report can be found at www.stategrowth.tas.gov.au/infrastructure/freight/survey.

³Net-tonne kilometres (NTK) refers to the volume of freight carried by a particular mode, over a given distance. NTK reflects the relative transport intensity of a mode, with a single train, for example, able to carry significantly higher volumes over a single trip compared to a B-Double truck.

Table I shows TasRail’s actual rail freight volumes (NTK) following its establishment in 2009 for the full operating years 2010-11 to 2013-14. Rail volumes in 2013-14 were affected by a major West Coast customer suspending mining operations, resulting in the loss of around 110 000 tonnes of minerals concentrates being transported.

Table I: TasRail Actual Rail Freight Volumes Million NTK

Year	2010-11	2011-12	2012-13	2013-14
TasRail Million NTK	390	366	415	419

Source: TasRail

All of Tasmania’s freight corridors operate as parallel road and rail networks. This includes between Burnie Port and Hobart, partially to Devonport Port (western side) and to Bell Bay Port. There are also parallel networks, where rail serves a specific freight task, on the West Coast and to Fingal.

The Burnie to Hobart freight corridor is Tasmania’s premier freight corridor, connecting major ports at Burnie and Devonport, key population and industrial centres, and major intermodal hubs at Brighton and Burnie Port. The corridor has characteristics that support competitive tension between road and rail, including linkages to major export ports, a large customer base and longer travel distances. On regional corridors, the use of road or rail tends to reflect the characteristics of the freight task, with large bulk tasks located close to a railhead more likely to use rail.

A portion of Tasmania’s intermodal freight task is contestable, meaning road and rail directly competes to carry the task. Contestability relies on a range of characteristics, including the type of freight, distance to/from a rail head, and the cost and logistics of any additional handling (i.e. by truck to rail to port versus by truck or rail direct to port). The Department of State Growth has analysed freight contestability on the Burnie to Hobart corridor, using commodity and distance-based analysis. The analysis indicates around 1 million tonnes of the current road freight task on this corridor is contestable by rail. This figure does not consider emerging, and potentially significant bulk freight tasks, or the feasibility or desirability of a switch to rail for individual businesses.

There are broader benefits associated with rail services, including safety and environmental benefits related to a reduced volume of trucks travelling on the road system. TasRail estimated the total freight volume on rail carried in 2013-14 equates to more than 200 000 avoided heavy vehicle movements.⁴ These externality benefits are measurable and can form a basis for government funding to rail operations.

The Tasmanian Government has established Infrastructure Tasmania to lead the strategic planning and coordination of Tasmania’s economic infrastructure. This includes identification of the State’s infrastructure priorities and the development of a uniform project assessment methodology. Consistent with all infrastructure projects, it is expected that future rail projects, will be assessed by Infrastructure Tasmania under this framework.

⁴TasRail Annual Report 2013-14.

Investment in the Tasmanian Rail Network and Rail Freight Services

Historical underinvestment in the Tasmanian Rail Network prior to the Tasmanian Government taking ownership is widely acknowledged. Recent investment has focused on returning the railway infrastructure back to a fit-for-purpose standard to support the role of rail in the Tasmanian freight system.

Rail infrastructure and project level investment

In 2005, the Australian Government, the Tasmanian Government and PNT agreed a funding agreement known as the Rail Rescue Package to support ongoing rail operations, predominantly the intermodal freight task on the Hobart to Burnie/Hobart to Bell Bay lines. Over a ten-year period, the Australian Government committed to providing \$78 million for capital works. In 2007, the Australian Government committed a further \$127.3 million to railway infrastructure, providing a total funding commitment of \$205.3 million to rail.

This funding delivered the following project investment across the Tasmanian Rail Network⁵:

- Western Line: \$89.2 million;
- South Line: \$83.1 million;
- Bell Bay Line: \$2.5 million;
- Fingal Line: \$5.7 million;
- Derwent Valley Line: \$1.1 million; and
- Melba Line: \$15.6 million.

Through 2015-16 budget processes, both the Australian and Tasmanian governments have committed a further \$119.6 million to priority works on the Tasmanian Rail Network over the next four years. The detailed funding proposal and cost benefit analysis supporting this commitment was prepared in accordance with the Australian Government's Nation Building 2 requirements and was assessed by Infrastructure Australia. The Tasmanian Government's capital funding is being provided in two instalments of \$29.8 million in the 2015-16 and 2016-17 financial years.

Priority works to improve the quality of the rail network include selective insertion of steel sleepers, replacement of life expired rail, upgrading bridges as well as formation and drainage works.

A second tranche of funding of \$59.8 million remains available from the Australian Government in future budget years, subject to the Tasmanian Government providing matching funds.

⁵Note that a small part of the \$205.3 million Australian Government funding was not allocated to a specific project. Refer Tasmanian Rail Revitalisation Program Submission to Infrastructure Australia 2012 at www.stategrowth.tas.gov.au/infrastructure/strategy/submissions.

The Tasmanian Government provides an annual grant contribution to TasRail to manage, maintain and operate the Tasmanian Rail Network on a sustainable basis and to provide critical annual maintenance of rolling stock assets. The annual operating grant contribution over the 2015-16 budget and forward estimates is \$40.2 million, comprising:

- \$12.0 million in 2015-16;
- \$12.0 million in 2016-17;
- \$8.1 million in 2017-18; and
- \$8.1 million in 2018-19.

Investment in above-rail assets

Efficient, reliable and safe rail freight services are central to growing rail's share of the freight market. Similar to rail infrastructure, underinvestment in above rail assets resulted in an aged above rail asset profile.

With the primary purpose of funding TasRail's new locomotive and wagon fleet, equity funding of \$100 million over five years from Tasmanian Networks (formerly Transend Networks) was factored into the 2011-12 State Budget. Renewal of the above rail fleet included:

- 17 locomotives (\$68.5 million);
- a wagon fleet comprising 120 intermodal wagons, 54 ore wagons, 18 coal wagons and 17 cement wagons (\$28 million);
- hi-rail fleet (\$4 million); and
- tamper machine and ballast regulator (\$5 million).⁶

The Tasmanian Government has also funded a new automated train control system.

\$20 million remains to be transferred under this arrangement in 2015-16.

Committed future funding, Australia and Tasmanian Governments

The combined Australian and Tasmanian Government proposed funding contributions to the Tasmanian Rail Network for the period 2015-16 to 2018-19 are set out in Table 2 below.

⁶Refer TasRail Annual Report 2013-14.

Table 2: Rail Funding 2015-16 to 2018-19 (\$million)

	2015-16	2016-17	2017-18	2018-19	Total
Australian Government contribution to priority infrastructure works	16.5	15.0	14.3	14.0	59.8
Tasmanian Government contribution to priority infrastructure works	29.9	29.9	-	-	59.8
Tasmanian Government annual grant contribution	12.0	12.0	8.1	8.1	40.2
Tasmanian Government contribution to locomotive and wagon fleet renewal.	20.0	-	-	-	20.0
Total	78.4	56.9	22.4	22.1	179.8

Financial Sustainability of Rail

TasRail has high fixed costs and is reliant on Government funding, not only for its capital programs, but to ensure its ongoing financial viability. While TasRail is forecasting growth in its freight task in the short to medium terms, its financial performance is expected to remain relatively poor compared to some other state owned companies; however, it may be of interest to note that Metro Tasmania has an annual subvention of around \$40 million.

The below rail segment of the business is forecast to continue to make substantial losses and will always rely on an operating grant from the Tasmanian Government. The above rail business is currently forecast to be in a profit position by 2018-19. It is the Government's position that any surpluses generated by the above rail business will be used to offset the below rail operating grant. It should be noted that expenditure on the below rail network would likely be required on the road network, should the rail business not exist.

TasRail's operations are impacted by fluctuations in commodity markets and major industrial customers make up a significant proportion of TasRail's revenue. However, TasRail's recent expansion into the George Town and Devonport rail terminals is expected to offset some of the impacts of future commodity market fluctuations.

Non-Operational Rail Lines

Several lines on the Tasmanian Rail Network are currently classified non-operational. The Tasmanian Government is aware of significant interest in accessing and using non-operational rail lines for alternative recreational and tourism uses.

To facilitate consideration of alternative proposals, the Department of State Growth, in conjunction with Infrastructure Tasmania, will work with TasRail to develop a state-wide framework to evaluate and manage future use of non-operational rail lines.

As part of its priority work program, Infrastructure Tasmania will undertake an assessment and review of reports into Hobart light rail and make a recommendation on the priority for this project and use of the corridor between Macquarie Point and Brighton.

Conclusion

Successive Australian and Tasmanian Governments have made significant investment in, and commitment to future contributions to, rail freight in Tasmania. This commitment is focused on addressing historical underinvestment to rejuvenate rail and ensure it is a safe and reliable component of Tasmania's freight system, providing choice and competition to business. The positive externalities associated with rail, including safety and environmental benefits, are recognised nationally.

While past investment has enabled significant progress, as the forward funding commitment from both the Australian and Tasmanian Governments show, this task is not yet complete and the financial sustainability of rail based on current results should be considered in this context.



