From:	Benedicte Colin
To:	san.midha
Cc:	Bruce Morgan; Peter Crimp
Subject:	FW: TAHE requirements
Date:	Saturday, 11 December 2021 2:31:00 PM
Attachments:	image001.png image002.png

Hi San

Thank you for your e-mail.
Bruce, Peter and I have discussed your "requirements".
Whilst we would all like to find a resolution path, I am afraid the issues at stake are far more complex than the list of 4 actions that you outlined from TAHE's perspective.

First, as a start, TAHE has had no confirmation from the AO that they are reconsidering their position on valuation (based on the current access fee profile and income) following the discussions we had with them last week . The last we heard yesterday was that E&Y was doing some further work from their end on the alpha and that there was no change in the beta position. How E&Y's further analysis translates into their asset valuation range remains unknown and this a key preliminary step for TAHE management and its Board. We need to understand whether there is a cross over between E&Y valuation and PWC valuation before the Board can assess the merits of agreeing to an upper range.

As you might be aware, TAHE has commissioned an independent peer review of the PWC valuation. The peer review was conducted by FTI Consulting, and has confirmed that the WACC's selected by PWC appear to be in a range of reasonableness, so the Board will need to take due consideration of the range of advice on the table and will require to that end formal feedback from the AO.

Secondly, assuming it is Treasury intention to seek a higher return based on increased access fees, we will need to seek PWC advice to update the asset valuation . I expect the AO will then seek similar advice from E&Y and we will then assess whether there is an overlap between the two firms' valuation (on the assumption that E&Y now agrees with the alpha rationale), agree an updated valuation, recalculate depreciations…Also, the increase in fees would need to be allocated across regulated and unregulated assets, between NSW trains, Sydney Trains and TfNSW and we would need to check that the pricing remaina within the floor and ceiling pursuant to IPART methodology for the regulated assets. I expect there would need to be a few iterations between parties.

Thirdly, the agreements that TAHE entered into with Sydney Trains, NSW Trains and TfNSW (Track access agreements and Licence, Agency and Maintenance Deed) will need to be amended to include an updated tariffication of the access and licence fees. To do so, TAHE will need to receive formal instruction from its shareholders that they are expecting a higher return and confirmation that its customers will be funded accordingly. TAHE Board will require this instruction to justify amending agreements that were signed less than 6 months ago (the agreements provide for an annual review process which would be disregarded for the purpose of its exercise). I am not sure what is the governance and approval process on TfNSW, Sydney Trains and NSW Trains side but I expect they would require some assurance that they will be appropriately funded for the increase in fees. My understanding is that such increase would also need ERC approval.

Fourthly, regarding the SCI and business plan, as you know the SCI has already been tabled in parliament so we would need to update it, seek Board approval and shareholders' approval. I am also not sure how you can update the Half year result in the absence of signed agreements supporting an increase of TAHE's revenues.

As you can read from the above, the actions at stake are not a 24 hour job and TAHE would appreciate due consideration of the scale and complexity of the task and governance, noting we are doing what we can on our end to assist with very limited resources (Peter and Mike will provide an update on the modelling you requested yesterday later tonight)

Finally, two questions :

1. Has a graduated increased return been considered rather than a flat increase matching CPI? How will this year increase be justified?
2. Where is the ABS on this matter and have they been involved in the discussion

I am available later in the day to discuss, from 6 pm

Regards
Benedicte

From: San Midha
Sent: Saturday, 11 December 2021 1:04 PM
To: Benedicte Colin ;
Subject: FW: TAHE requirements

CAUTION: This email is sent from an external source. Do not click any links or open attachments unless you recognise the sender and know the content is safe.

Hi Benedict,
CC:Bruce

Please see below list of actions underway for the change in TAHE return when increased to CPI. Details have been discussed with Peter Crimp by Stewart Walters and Cass W. Additionally we will adjust the Half Year Results this weekend to reflect these adjusted numbers in the budget result and balance sheet and we will also reflect the investment return in the narrative.

Stewart and myself will be talking through these actions with the Audit Office tomorrow at 10am. Any issues or any updates available would be helpful pre this call.

I am available anytime this weekend for a call if required.

ACTIONS:

- Update SCI and 10year financial plan for higher Access Fee - $ value of higher access fee being finalised but when adjusted and consequent asset valuation adjusted and depreciation increased , net dividends and Tax equivalent and in distributed profits = circa $300M
- Board minute for updated SCI and 10yr plan
- TAHE to update valuation (assuming agreed by Board and mgt) for upper end of PwC valuation - assume Board minute required as evidence for AO
- TAHE to re-update valuation for higher access fees.

Regards

San

San Midha | Deputy Secretary
Policy and Budget Group

52 Martin Place, Sydney (enter via 127 Phillip Street)
GPO Box 5469, Sydney NSW 2001

| Treasury.nsw.gov.au

Courier deliveries to:
NSW Treasury, c/- Decipha Pty Ltd
Unit 2, 38-44 Doody Street, Alexandria NSW 2015

From: Stewart Walters
Sent: Saturday, 11 December 2021 12:56
To: San Midha ; Cassandra Wilkinson

Subject: TAHE requirements

Hi San

As discussed,

- Update SCI and 10year financial plan for higher Access Fee - $ value of higher access fee being finalised but when adjusted and consequent asset valuation adjusted and depreciation increased , net dividends and Tax equivalent and in distributed profits = circa $300M
- Board minute for updated SCI and 10yr plan
- TAHE to update valuation (assuming agreed by Board and mgt) for upper end of PwC valuation - assume Board minute required as evidence for AO
- TAHE to re-update valuation for higher access fees.

I think these are the key. The circular calculations and proxy valuation are the tricky bits and need to be estimated by Monday morning latest.

S
Get Outlook for iOS

****
****

This email message, including any attached files, is intended solely for the use of the individual or entity to whom it is addressed and may contain information that is confidential, privileged and/or exempt from disclosure under applicable law.

If you have received this email in error you must not disclose or use the information in it. Please notify the sender by return email and delete it from your system.

The views or opinions expressed in this email are solely those of the author and do not necessarily represent those of NSW Treasury or the NSW Government.

NSW Treasury accepts no liability for any loss or damage arising from the use of this email and recommends that the recipient check this email and any attached files for the presence of viruses.

****
****