

Purpose and Scope

Under Clause 5.1 of the Account Keeping Rules published by the Essential Services Commission (“Commission”), Metro Trains Melbourne Pty Ltd (“MTM”) must prepare and submit to the Commission for approval a proposed cost allocation policy that explains the methodology and states the principles for cost allocation used in the regulatory accounts.

Principles for Cost Allocation

These principles are to be read in conjunction with the proforma regulatory accounts and associated statements.

Attachment 1 sets out how MTM identifies groups of costs and how these are attributed or allocated to different activity units. The headings in this document reference Attachment 1. MTM has utilised the following principles to allocate costs:

1. Across Activities:- Business Units

- Costs identified as direct costs are attributed to the relevant activities business units; and
- Non-direct costs not attributable directly to relevant business units are allocated to the respective business unit using the most appropriate causal allocator taking into account:
 - The characteristic of the service or activity; and
 - The quality of the data available.

2. Within Access Activities:- Business Units

- Costs identified as direct costs within the access activities business units are allocated directly to access activities and other activities; and
- Non-direct costs not attributable directly within the access activities business unit are allocated to access activities and other activities using the most appropriate causal allocator taking into account:
 - The characteristic of the service or activity; and
 - The quality of the data available.

3. Within Access Activities:- Between Access Activities and Terminal Services

- MTM does not operate terminal services and therefore all costs attributable or allocated to access activities relate to non terminal services.

4. Within Access Activities

- Costs identified as direct costs within access activities are attributed directly to Reference Services and Non-Reference services;
- Costs identified as direct costs relating to Freight Reference Services are directly attributed to Freight Reference Services; and
- Non-direct costs not attributable directly within Access Activities are allocated to Reference Services and Non-Reference Services using the most appropriate causal allocator taking into account:
 - The characteristic of the service or activity; and
 - The quality of the data available.

5. Within Access Activities:- Across Pricing Zones

- MTM has only proposed prices for one pricing zone and therefore all costs attributable or allocated to Reference Services only relate to a single pricing zone.

6. Within Access Activities:- Non-Reference Services (Passenger and Other)

- Non-Reference Passenger services provided by MTM only relate to V/Line as:
 - The Passenger Network Declaration Order 2005 confines the passenger services covered by the access regime to those provided by V/Line; and
 - V/Line provides rural passenger transport services under an exclusive Franchise Agreement with the State.
- Services provided to V/Line are not considered to be reference services.
- MTM offers other Non-Reference Services such as for non-passenger network access. MTM has forecast no demand or costs for these Services.

7. Within Access Activities:- Reference Services

- All Reference Services are Freight Reference Services. These Reference Services represent a major portion of demand for track access on the MTM network by access seekers (excluding passenger services which are dealt with above).

Methodology for Cost Allocation

The methodology set out below describes the casual allocators used to allocate non-direct costs to different activity units.

Direct Costs

Direct costs are allocated directly to the relevant activity unit or Reference or Non-Reference service.

Direct costs are:

- Operating costs that are directly attributable to the provision of Reference Services and Non-Reference services;
- Capital expenditure on lines which are solely utilised for provision of Reference Services or solely utilised by Non-Reference services. This allocation method has not been used for the purposes of preparing the Access Arrangement but will be used if direct capital expenditure occurs in the future; and
- Direct maintenance costs relating to Reference Services or Non-Reference services.

Non-Direct Costs

In relation to:

- Maintenance expenditure for track and signals functions: expenditure on non-track and non-signals maintenance is excluded from the remaining maintenance cost pool after direct maintenance costs have been allocated (to Reference Services and Non-Reference services) before indirect allocators are applied. Track and signals maintenance costs are therefore determined by multiplying the maintenance costs by the proportion of actual track and signals maintenance costs to the total annual maintenance costs incurred on the metropolitan network.
 - The track and signals maintenance costs are then allocated by:
 - i. Firstly, allocating total track and signals maintenance costs to MTM network used by Reference Services and Non-Reference services;

- ii. Secondly, apportioning allocated maintenance costs determined in (I) between Reference Services and Non-Reference services, in line with the shares of incremental costs of Reference and Non-Reference traffic; and
 - iii. Thirdly, allocating the remaining maintenance costs to Reference Services and Non-Reference services using the respective proportion of train kilometres ('TK') associated with each Reference Service and each Non-Reference service to the total train kilometres ('TK') on the MTM network used by Reference Services and Non-Reference services.
- For capital expenditure (including related depreciation), the track and signal proportion of the non-contributed capital expenditure would be allocated to Reference Services and Non-Reference services on the basis of the respective proportion of train kilometres for Reference Services and Non-Reference services applicable to the line segment on which the non-contributed capital expenditure was being spent; and
 - Operational costs are to be based on a causal allocator such as train kilometres, floor-space, headcount or similar. Operational costs are allocated to Reference Services and Non-Reference services as follows:
 - Operational control costs are allocated using a train kilometre allocator; and
 - Costs related to the provision of administrative obligations for the Access Regime, including submissions and regulatory compliance requirements are allocated 80% to Reference Services and 20% to Non-Reference services.

Attachment 1

MTM Cost Allocation Methodology Diagram

