

Australasian Railway Association

Submission

Response on implementing a
forward-looking cost base for
heavy vehicle charges C-RIS

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**Australasian
Railway
Association**



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1. Executive Summary

The Australasian Railway Association (ARA) welcomes the opportunity to provide feedback on the National Transport Commission's (NTC) Consultation Regulatory Impact Statement (C-RIS) on implementing a forward-looking cost base (FLCB) for heavy vehicle charges.

The ARA supports reform that improves transparency, predictability and cost reflectivity in heavy vehicle charging. The current PAYGO model has not delivered a sufficiently stable, transparent or consistently cost-reflective framework. A FLCB has the potential to improve the heavy vehicle charging framework by spreading capital costs over the life of long-lived road assets, improving charge stability and establishing a clearer basis for future charge-setting.

However, the ARA's support is conditional.

The FLCB should not become a mechanism to smooth, defer or entrench under-recovery of heavy vehicle road infrastructure costs. Nor should it reinforce the existing pricing imbalance between road and rail freight in mode-contestable markets.

Heavy vehicle charging is not only a road funding issue. It is also a major freight competition policy setting. The way road infrastructure costs are calculated, allocated and recovered has direct implications for rail freight, particularly for interstate intermodal corridors, port shuttle markets, regional export supply chains and other high-volume freight routes where road and rail compete.

Rail freight operators pay direct access charges to use rail infrastructure. These charges are commercially visible and generally linked to access rights, train paths, gross tonnes, axle loads, service characteristics or contractual access arrangements. By contrast, heavy vehicle road charges are nationally averaged and collected through a combination of registration charges and the road user charge, with limited connection to the specific roads used, route-specific investment costs, actual mass and distance travelled, the quality of the road network, or the broader external costs of road freight.

That difference is important. Where there is an absence of a transparent and cost-reflective infrastructure charge for road freight, rail freight is required to compete against a road price that does not reflect the full cost of providing the infrastructure road freight uses. That is not competitively neutral.

The ARA therefore supports the transition to a forward-looking cost base in principle, but only where it:

1. Maintains a clear commitment to full cost recovery over time.
2. Avoids transition arrangements that preserve or extend under-recovery.
3. Improves transparency of the heavy vehicle cost base and the assumptions used to allocate costs.
4. Captures all efficient road infrastructure costs attributable to heavy vehicle use, including costs associated with high productivity vehicles.
5. Applies true-ups transparently and automatically, rather than treating them as discretionary.
6. Uses a rate of return that reflects the real cost of capital faced by governments providing road infrastructure.
7. Addresses emerging under-recovery risks from electric and hybrid heavy vehicles.
8. Is accompanied by a broader reform pathway towards mass-distance-location heavy vehicle charging.
9. Requires ITMM to consider the road-rail competitive neutrality impacts of each charging determination.

Of the implementation options presented in the C-RIS, the ARA does not support the base case or any option that would preserve the existing under-recovery of heavy vehicle road costs. Of the options presented, Option 3 with the blended rate of return appears most consistent with restoring stronger cost recovery and reducing the risk of road freight being under-priced relative to rail. However, the ARA considers that the preferred approach would be an

alternative option that establishes a clear and transparent full cost recovery pathway, supported by a road-rail competitive neutrality assessment.

Recommendations

The ARA recommends that Australian governments and the Infrastructure and Transport Ministers' Meeting:

1. Adopt the forward-looking cost base only where it supports full cost recovery and does not entrench heavy vehicle road cost under-recovery.
2. Require any decision to adopt the forward-looking cost base to be accompanied by a clear assessment of the impacts on competitive neutrality between road and rail freight.
3. Direct the NTC to include a road-rail competitive neutrality assessment in its final advice to ITMM.
4. Require the NTC to publish a comparison of road charging and rail access charging impacts on major mode-contestable freight corridors.
5. Reject any implementation option that preserves the current revenue gap or relies on an opening RAB selected primarily to minimise short-term increases in heavy vehicle charges.
6. Adopt a charge-setting pathway that restores full cost recovery over time, rather than deferring road infrastructure costs to future pricing periods.
7. Prefer a blended rate of return that better reflects the cost of capital faced by governments investing in road infrastructure.
8. Ensure all efficient costs associated with heavy vehicle use are included in the cost base, including pavement renewal, bridge strengthening, geometric upgrades, safety treatments, high productivity vehicle network upgrades and relevant local government road expenditure.
9. Require toll roads and non-standard financing arrangements to be treated on a full net-cost basis, including public subsidies, availability payments, guarantees, land contributions, concessional finance, connecting works and revenue support.
10. Make true-ups automatic, transparent and enforceable, so that differences between forecast and actual expenditure and revenue are applied in future charge-setting decisions.
11. Require the regular publication of forecast and actual expenditure, revenue, under- or over-recovery, true-up amounts, opening RAB settings, cost allocation assumptions and charge impacts for each regulatory period.
12. Establish a clear pathway to improved heavy vehicle usage data, including vehicle kilometres travelled, mass, axle configuration, road type, corridor use, payload and fuel type.
13. Ensure all heavy vehicles, including electric and hybrid vehicles, make an appropriate contribution to the cost of the road infrastructure they use.
14. Link implementation of the forward-looking cost base to a broader road user charging reform pathway, including mass-distance-location charging.
15. Require the NTC to provide regular reporting to ITMM on whether heavy vehicle charging arrangements are improving or worsening competitive neutrality between road and rail freight.

2. Introduction

The ARA supports the objective of developing a more stable and transparent framework for setting heavy vehicle charges. Australia needs road and rail freight networks that are efficient, resilient and capable of meeting a growing national freight task. Road freight is essential for first and last mile, regional distribution and time-sensitive freight. Rail is particularly well suited to high-volume, long-distance, bulk, intermodal and port-related freight tasks.

The public policy objective should not be to favour one freight mode over another. It should be to ensure that freight customers face price signals that support the most efficient mode for the task. That requires pricing frameworks that reflect infrastructure costs, safety, emissions, resilience, congestion, community impacts and the long-term sustainability of transport networks.

The current heavy vehicle charging framework does not fully achieve this. The C-RIS identifies that heavy vehicle charges have not kept pace with the heavy vehicle cost base and that a significant revenue gap has emerged. From the ARA's perspective, that gap is not only a fiscal issue for governments. It is also a competition issue for rail freight.

Where road freight is undercharged for the infrastructure it uses, the market signal favours road over rail even where rail may be the more efficient mode. That can undermine rail investment, reduce rail utilisation, increase pressure on road networks, and produce worse long-term outcomes for emissions, safety, resilience and productivity.

The ARA therefore supports reform of heavy vehicle charging but strongly recommends that the NTC and ITMM consider the forward-looking cost base through a competitive neutrality lens.

The ARA has focused its submission on Questions 2 and 3 but considers several other questions in the C-RIS to be directly relevant to competitive neutrality, cost recovery and implementation integrity.

Question 1 How important is the aim of reducing the volatility of heavy vehicle charges?

The ARA supports reducing volatility in heavy vehicle charges, provided volatility reduction is not used to defer efficient cost recovery or preserve under-recovery. Charge stability is important for investment certainty across the freight sector, including road and rail. However, smoothing mechanisms should be transparent, time-limited and accompanied by published measures showing whether the framework is moving toward full cost recovery.

Question 2: Do you support the transition to the forward-looking cost base method?

The ARA supports the transition to a forward-looking cost base in principle, subject to important safeguards.

The current PAYGO model has clear limitations. It can produce volatile outcomes, relies on historical expenditure, and has not consistently translated into full cost recovery through heavy vehicle charges. The resulting gap between the heavy vehicle cost base and heavy vehicle charge revenue has implications beyond road funding. Where road infrastructure costs are not fully or transparently recovered from road users, this can distort contestable freight markets and weaken the commercial case for rail.

A forward-looking cost base has the potential to improve the current framework by spreading capital costs over the life of road assets, improving stability and providing a clearer basis for future charge-setting. This is consistent with how long-lived infrastructure assets are commonly priced. It may also support better investment planning and more transparent cost recovery over time.

However, the ARA's support is conditional.

A forward-looking model should not become a mechanism to lock in under-recovery, delay cost-reflective charging or embed a permanent road pricing advantage over rail. The model should be designed and implemented in a way that strengthens full cost recovery, transparency and competitive neutrality.

Rail freight operators pay direct access charges to use rail infrastructure. These charges are explicit, commercially visible and generally linked to access rights, train paths, gross tonnes, axle loads, service characteristics or contractual access arrangements. Rail operators also bear terminal costs, pathing risk, train start-up risk and the costs of operating across multiple networks and access regimes.

By contrast, heavy vehicle charges are nationally averaged and collected through a combination of registration charges and the road user charge, with limited connection to the particular roads used, the quality of those roads, the costs imposed by different vehicle configurations, or the broader external costs of road freight.

This difference matters in mode-contestable freight markets. A rail operator sees track access charges as a direct input cost. A road freight operator often faces a more generalised charging framework that does not fully reflect route-specific infrastructure costs, congestion, emissions, safety risk, pavement impacts or the consequences of decisions to allow larger and heavier vehicle combinations on particular corridors.

For this reason, the ARA supports the forward-looking cost base only where it is used to move heavy vehicle charging closer to full, transparent and efficient cost recovery.

The ARA recommends that the forward-looking cost base be implemented in a way that:

1. Maintains a clear commitment to full cost recovery over time.
2. Avoids smoothing arrangements that create long-term under-recovery.
3. Improves transparency of the heavy vehicle cost base and the assumptions used to allocate costs.
4. Provides confidence that costs driven by heavy vehicle use are properly included.
5. Applies true-ups transparently and regularly so that road users pay for infrastructure actually delivered.
6. Is accompanied by a broader reform pathway towards direct, mass-distance-location heavy vehicle charging.

The ARA therefore supports the transition to the forward-looking cost base as a better platform than PAYGO, but not as an end point. It should be treated as an interim step towards a more comprehensive, transparent and competitively neutral road user charging framework.

Question 3: Are there other issues that need to be considered when ITMM decides whether to adopt the forward-looking cost base to set heavy vehicle charges in the future?

The ARA considers that ITMM should explicitly assess competitive neutrality between road and rail freight before adopting the forward-looking cost base.

The C-RIS focuses on the mechanics of calculating and recovering the heavy vehicle cost base. While important, it is insufficient. Heavy vehicle charging is one of the most important policy settings influencing modal choice in the national freight and supply chain.

If road charges are set below efficient cost, or if key costs are excluded from the model, the resulting price signal can draw freight away from rail even where rail would otherwise be the more efficient mode for the task.

The ARA recommends that ITMM direct the NTC to include a competitive neutrality assessment in its final advice. This assessment should consider whether the proposed charging pathway would improve or worsen the relative pricing

position of road and rail on major contestable freight corridors, including interstate intermodal corridors, port shuttle markets, grain routes, resource supply chains and other high-volume freight routes.

At a minimum, that assessment should consider the following issues.

Road charges should be assessed against rail access charges

The ARA recommends that the NTC include a comparison between the way road access costs and rail access costs are applied.

Rail access charges are explicit and unavoidable for rail operators. They are typically levied through access agreements and are visible in the operating cost of each service. Road charges, by contrast, are averaged nationally and are not generally tied to specific corridors, actual distance travelled, vehicle mass, road quality, congestion, pavement impact or route-specific investment requirements.

This creates a risk that rail is required to pay a more direct infrastructure access price while road freight benefits from a less direct and less granular charging framework. ITMM should not adopt a new road charging methodology without considering how that methodology compares with the access charging obligations already faced by rail.

The ARA recommends that each future heavy vehicle charge determination include a road-rail access charging comparison that identifies:

1. The extent to which heavy vehicle charges recover the efficient cost of road infrastructure used by heavy vehicles.
2. How those charges compare with rail access charges on mode-contestable corridors.
3. Whether national averaging creates material cross-subsidies between corridors, vehicle classes or freight tasks.
4. Whether any proposed smoothing, transition or opening RAB setting creates a road pricing advantage relative to rail.

The model should not exclude costs that are material to heavy vehicle use

The forward-looking cost base must include all efficient costs associated with providing road infrastructure for heavy vehicle use. This should include capital expenditure, renewals, maintenance, bridge and pavement strengthening, geometric upgrades, rest areas, safety treatments, intersection upgrades, port access works, intermodal precinct access works and upgrades required for larger or heavier vehicles.

The ARA is particularly concerned that road investment decisions linked to high productivity vehicles must be fully reflected in the cost base. Where governments invest in roads, bridges, intersections or related infrastructure to enable larger or heavier vehicles, those costs should be captured and allocated in a way that reflects the freight market impact of those decisions.

If high productivity vehicle access is expanded without a transparent assessment of infrastructure costs and mode shift impacts, it can create a double distortion: road freight receives a productivity gain while the cost of enabling that gain is not fully reflected in charges. This is not competitively neutral with rail, which must fund or pay access charges for the infrastructure capacity it uses.

External costs should be considered in ITMM advice

The ARA recognises that the C-RIS is focused on infrastructure cost recovery. However, ITMM should receive advice on road and rail external costs alongside FLCB outputs so that charging decisions are made with a complete understanding of safety, emissions, congestion, resilience and community impacts.

Road freight imposes costs that are not fully captured through road infrastructure expenditure, including congestion, emissions, road trauma, noise, urban amenity impacts and community health costs. Rail generally performs strongly on these measures, particularly for long-distance, high-volume freight.

Where those external costs are not reflected in road pricing, freight customers do not receive an efficient price signal.

The ARA recommends that the NTC include, alongside the FLCB outputs, an assessment of the external costs associated with road and rail freight on major contestable corridors. This does not necessarily require external costs to be directly included in the heavy vehicle charge from the first regulatory period. However, ITMM should receive clear advice on whether the proposed heavy vehicle charge pathway is consistent with broader policy objectives relating to emissions reduction, safety, congestion, resilience and efficient modal choice.

National averaging should not mask corridor-level distortions

The ARA recognises that national heavy vehicle charges are administratively simple. However, national averaging can obscure significant differences in the cost of providing road infrastructure across corridors and freight tasks.

This matters for rail because freight competition occurs on specific corridors, not in national averages. A nationally averaged road charge may materially under-price road freight on high-cost or capacity-constrained corridors where rail is a viable alternative. It may also fail to reflect the cost of road upgrades made to support high productivity vehicles on particular routes.

The ARA recommends that the NTC provide corridor-level analysis, at least for major mode-contestable freight routes, to show whether national charges are likely to under- or over-recover the costs associated with heavy vehicle use on those corridors.

The loss of SMVU data must be addressed

Accurate road use data is essential to cost allocation, pricing integrity and competitive neutrality. Without current, reliable and detailed data on heavy vehicle use, there is a risk that charges will be based on assumptions that do not reflect current freight patterns, vehicle configurations, payloads, technology changes or corridor use.

The ARA recommends that ITMM make adoption of the FLCB conditional on a clear pathway to improved heavy vehicle usage data. This should include better data on vehicle kilometres travelled, mass, axle configuration, road type, corridor use, fuel type and payload. The data framework should also support future movement towards mass-distance-location charging.

Questions 4 and 5: Expenditure categories and asset lives

The ARA supports the use of expenditure categories that distinguish between operating expenditure, maintenance, renewal, upgrades and expansion. However, the categories must be tested against whether they capture the full costs caused or accelerated by heavy vehicle freight.

The key issue is not simply whether the categories are administratively convenient. The key issue is whether they support accurate and transparent allocation of costs to heavy vehicle users.

The ARA recommends that the expenditure categories be reviewed against the following principles:

1. Costs caused or accelerated by heavy vehicle mass, axle load, configuration or frequency should be identifiable.
2. Costs associated with higher productivity vehicle access should be separately visible.
3. Costs associated with bridge strengthening, pavement renewal, geometric upgrades and freight corridor improvements should be clearly captured.

4. Costs should not be shifted into categories with long asset lives where this would materially defer recovery from current road freight users.
5. Local government road costs associated with freight access should be included and transparently allocated.
6. The NTC should publish sufficient category-level information to allow industry to test whether costs are being treated consistently across jurisdictions.

The ARA does not oppose the proposed categories in principle but recommends that they be supplemented by clear reporting of costs associated with heavy vehicle freight access, especially where road investment enables larger or heavier vehicles in competition with rail.

Question 6: Rate of return

The ARA considers that the rate of return should reflect the actual opportunity cost of capital faced by governments investing in road infrastructure.

A rate of return that is artificially low will suppress the road cost base and weaken competitive neutrality with rail. If governments incur financing costs to provide road infrastructure used by heavy vehicles, those costs should be reflected in the heavy vehicle cost base.

The ARA therefore supports use of a blended rate of return, rather than a rate based only on Australian Government 10-year bond rates, where the blended rate better reflects the cost of capital faced by state and territory governments providing the road infrastructure.

The ARA also supports the use of a trailing average where this improves stability. However, stability should not be used to understate costs. The rate of return should be transparent, replicable and published, with sensitivity analysis showing the impact of different rate of return assumptions on heavy vehicle charges and the road-rail competitive position.

Question 7: Toll roads and non-standard financing projects

The ARA supports the principle that toll roads and non-standard financing arrangements should be treated on a net-cost basis. This is necessary to avoid double counting, but it is equally necessary to avoid excluding public costs simply because a project has a tolling, PPP or other non-standard financing structure.

The ARA recommends that the FLCB include all public costs associated with toll roads and non-standard financing projects, including:

1. Capital contributions by governments.
2. Availability payments.
3. Revenue guarantees.
4. Demand risk support.
5. Concessional loans or financing support.
6. Land contributions.
7. Publicly funded enabling works.
8. Connecting road works.
9. Maintenance or renewal obligations retained by governments.
10. Any public payments made to preserve the commercial viability of the project.

Where governments receive toll revenue, value capture revenue or other project-related revenue, that revenue should be offset transparently. However, a road project should not be excluded from the heavy vehicle cost base merely because a private party is involved in financing, building or operating it.

This is particularly important for urban freight corridors, port access routes and intermodal terminal connections, where road investment can directly affect competition with rail.

Question 8: True-ups

The ARA supports true-ups in principle, but considers that the proposed approach must be strengthened.

Forecast-based models require a mechanism to reconcile forecast and actual expenditure and revenue. However, true-ups must be transparent, regular and enforceable. If true-ups are delayed, diluted or treated as discretionary, the model risks reproducing one of the central problems of PAYGO: a persistent gap between the cost base and actual charges.

That would undermine both road funding integrity and competitive neutrality between road and rail. Materiality thresholds and smoothing may be appropriate where they avoid unnecessary volatility, but they should be rules-based, published and designed so they do not defer persistent under-recovery or convert true-ups into discretionary policy adjustments.

The ARA recommends that the NTC publish, for each regulatory period:

1. Forecast expenditure by jurisdiction and expenditure category.
2. Actual expenditure by jurisdiction and expenditure category.
3. Forecast and actual heavy vehicle revenue.
4. The value of any under- or over-recovery.
5. The true-up amount to be applied in the next period.
6. The impact of the true-up on heavy vehicle charges.
7. An explanation of any decision not to fully apply a true-up.

True-ups should be treated as part of the model, not as optional policy adjustments.

Questions 9, 10 and 11: Local government road expenditure

The ARA supports including local government road expenditure in the forward-looking cost base. Heavy vehicles use local roads for first and last mile access, port access, intermodal terminal access, grain routes, timber routes, mining supply chains and regional freight movements. Excluding or understating local road costs would understate the cost of road freight.

However, the ARA is concerned that the use of ABS Government Financial Statistics data and the proposed forecasting methodology may be too coarse to support long-term confidence in cost allocation.

The ARA recommends that the NTC:

1. Continue to include local government road expenditure in the FLCB.
2. Treat the current ABS-based method as an interim approach.
3. Develop a better evidence base for freight-related local road use.
4. Prioritise data collection on local roads serving ports, intermodal terminals, grain receival sites, timber routes, mining regions and other heavy freight generators.
5. Publish the assumptions used to allocate local road expenditure to FLCB categories.
6. Review whether local road expenditure patterns materially differ from state and territory arterial road expenditure patterns before relying on jurisdictional category shares.

The treatment of local roads matters for competitive neutrality. If local road costs associated with road freight are not properly captured, road freight may be under-priced relative to rail, particularly for end-to-end freight tasks involving long road hauls.

Question 12: Electric and hybrid heavy vehicles

The ARA supports decarbonisation across all freight modes. However, decarbonisation should not create a new road infrastructure charging distortion.

Electric and hybrid heavy vehicles may pay less through fuel-based road user charges, but they still impose infrastructure costs through mass, axle loads, road space, pavement wear, bridge impacts and congestion. If the heavy vehicle charging framework remains dependent on fuel use, increasing uptake of electric heavy vehicles could create a new under-recovery problem.

The ARA does not support an approach that allows electric or hybrid heavy vehicles to avoid making an appropriate contribution to road infrastructure costs.

The ARA recommends that the NTC develop a pathway for all heavy vehicles, regardless of fuel source, to contribute to road infrastructure costs. This should include consideration of mass-distance-location charging and data requirements for zero-emission heavy vehicles.

The ARA also recommends that the NTC publish sensitivity analysis showing the revenue impact of different electric and hybrid heavy vehicle uptake scenarios.

Question 13: Automatic adjustment mechanism for the regulatory component

The ARA supports automatic adjustment mechanisms where they improve cost recovery, transparency and predictability.

The regulatory component of registration charges should recover the approved cost of the National Heavy Vehicle Regulator in a way that is transparent and predictable. An automatic adjustment mechanism may be appropriate if it avoids ad hoc decision-making and ensures that approved regulatory costs are recovered without delay.

However, the ARA recommends that automatic adjustment mechanisms should also be considered more broadly for road infrastructure cost recovery. One of the weaknesses of the current framework is that modelled cost recovery and actual charge decisions can diverge. An automatic or semi-automatic mechanism for applying FLCB outcomes and true-ups would help reduce the risk that under-recovery persists for political or administrative reasons.

Questions 14 and 15: Sensitivity analysis

The ARA supports the use of sensitivity analysis but considers that the C-RIS should go further.

The sensitivity analysis should not only test the internal mechanics of the road charging model. It should also test the freight market consequences of different charging pathways.

The ARA recommends that the NTC undertake additional sensitivity analysis covering:

1. Continued under-recovery of heavy vehicle infrastructure costs.
2. High productivity vehicle uptake.

3. Rapid electric and hybrid heavy vehicle uptake.
4. Higher road maintenance and renewal expenditure.
5. Higher local government road expenditure.
6. Different opening RAB values and depreciation approaches.
7. Different rate of return assumptions.
8. Delayed or partial true-ups.
9. Corridor-level impacts on mode-contestable freight markets.
10. Road-rail competitive neutrality impacts under each implementation option.

The NTC should also test the impact of the options on major freight corridors where rail is a viable alternative to road. National-level charge impacts may conceal material corridor-level distortions.

Questions 16 and 17: Initial RAB depreciation and 20-year lifespan

The ARA recognises that the initial RAB is a transition mechanism and that there is no purely objective way to set the opening value. However, this makes transparency even more important.

The initial RAB should not be selected primarily to produce a politically convenient charge path. It should be selected with reference to full cost recovery, transparency, intergenerational equity and competitive neutrality.

The ARA does not oppose the use of the sum-of-the-years digits method or a 20-year life for the initial RAB in principle. However, it recommends that the NTC publish clear sensitivity analysis showing how different opening RAB values, asset lives and depreciation methods affect:

1. Heavy vehicle charges.
2. The timing of cost recovery.
3. The remaining revenue gap.
4. The extent of any deferred cost recovery.
5. The relative pricing position of road and rail freight.

The ARA also recommends that ITMM should not adopt an opening RAB setting that preserves material under-recovery of heavy vehicle road costs without a clear, published pathway to full recovery.

Questions 18, 19 and 20: Information publication and communication

The ARA strongly supports greater transparency. This is one of the most important safeguards for both cost recovery and competitive neutrality.

The NTC should publish enough information for industry, governments and other stakeholders to understand, test and replicate the model's outputs. Transparency should not be limited to headline charge changes.

The ARA recommends that the NTC publish the FLCB model or, at minimum, a public version and supporting data sufficient for stakeholders to understand, test and replicate material outputs.

The communication approach should be clear, timely and accessible. Industry should have an opportunity to interrogate material changes before they are reflected in charges.

The ARA also recommends that the NTC establish a standing stakeholder reference group, including rail freight representation, to support transparency and continuous improvement of the FLCB over time.

Questions 21 and 22: Options for setting heavy vehicle charges from 2027-28 to 2029-30

The ARA does not support the base case. Continuing the preferred 2026-27 charges without a meaningful pathway to full cost recovery would preserve the existing under-recovery of heavy vehicle road infrastructure costs and continue to distort competition between road and rail freight.

The ARA is also concerned that lower transition options may entrench the current revenue gap if they are not accompanied by a clear and enforceable full cost recovery pathway.

Adopting a competitive neutrality lens, of the options presented, Option 3 with the blended rate of return appears most consistent with restoring stronger cost recovery and reducing the risk of road freight being under-priced relative to rail. The ARA recognises that a 10-year bond rate may provide simplicity and predictability. However, where that rate understates the cost of capital faced by governments investing in road infrastructure, it risks suppressing the cost base and weakening competitive neutrality with rail. At a minimum, the NTC should publish the impact of both approaches.

While some stakeholders may prefer a more moderated transition path, the ARA considers that any option selected by ITMM must be assessed against whether it materially restores cost recovery and reduces road-rail pricing distortion over time. The ARA's support for any option is conditional on transparency, true-ups and a clear assessment of road-rail competitive neutrality.

The ARA recommends that the NTC also explore an alternative option that is explicitly designed around a defined full cost recovery pathway.

This alternative option should:

1. Set a clear target date for restoring full cost recovery.
2. Use the blended rate of return unless a lower rate can be justified transparently.
3. Apply a uniform annual increase where this improves predictability.
4. Include automatic true-ups from the second regulatory period.
5. Publish the remaining under-recovery after each year.
6. Include a road-rail competitive neutrality assessment.
7. Include sensitivity analysis for high productivity vehicle uptake and electric heavy vehicle uptake.
8. Set out how the FLCB will transition towards mass-distance-location charging.

The ARA recognises that affordability and predictability are important for heavy vehicle operators. However, affordability should not be used as a general justification for preserving road under-pricing. Rail freight operators, access providers and customers also face cost pressures. Competitive neutrality requires that both road and rail face transparent and efficient infrastructure pricing.

If governments decide to phase in increases for road freight affordability reasons, the cost and competition implications of that decision should be made explicit. Governments should also consider whether complementary measures are required to avoid distorting freight away from rail during the transition period.

3. Broader reform pathway

The forward-looking cost base can improve the calculation of the road cost base, but it does not solve all problems in heavy vehicle pricing.

In particular, it does not fully address:

1. The limitations of fuel-based charging.
2. National averaging.
3. Limited pricing instruments.
4. Weak corridor-level cost signals.
5. The lack of direct charging for mass, distance and location.
6. Emerging revenue risks from electric heavy vehicles.
7. External costs not captured in road infrastructure expenditure.
8. Differences between road charging and rail access charging.

The ARA recommends that ITMM adopt the FLCB only alongside a clear reform roadmap. That roadmap should include:

1. Improved heavy vehicle usage data.
2. A pathway to mass-distance-location charging.
3. Stronger transparency of cost allocation by vehicle class and road type.
4. Assessment of external costs.
5. Explicit consideration of mode shift impacts when road access is expanded for larger or heavier vehicles.
6. Regular road-rail competitive neutrality reporting.
7. Corridor-level analysis for major mode-contestable freight routes.
8. A process for reviewing the FLCB as freight technology, road use and decarbonisation change.

4. Conclusion

The ARA supports reform of heavy vehicle charging. The current PAYGO model has not delivered a sufficiently stable, transparent or consistently cost-reflective framework. A forward-looking cost base could be an improvement, provided it is implemented with strong safeguards.

However, the forward-looking cost base should not be considered only as a road funding model. It is also a freight competition policy setting. The way road charges are calculated and applied has direct implications for rail freight, particularly in mode-contestable markets.

The ARA supports the transition to the forward-looking cost base in principle, subject to the following conditions:

1. The model must support full cost recovery over time.
2. Transition arrangements must not entrench road under-recovery.
3. True-ups must be transparent, regular and enforceable.
4. Costs associated with heavy vehicle use, including road upgrades for high productivity vehicles, must be fully captured.
5. ITMM should receive a road-rail competitive neutrality assessment before adopting the model.
6. The NTC should publish a comparison of road charging and rail access charging impacts on major contestable freight corridors.
7. The FLCB should be linked to a broader reform pathway towards direct, mass-distance-location heavy vehicle charging.
8. The implementation option chosen for 2027-28 to 2029-30 should restore, not delay, full cost recovery.



Australia needs a freight system where road and rail each perform the tasks to which they are best suited. That requires pricing frameworks that are transparent, cost-reflective and competitively neutral. The forward-looking cost base can be a useful step in that direction, but only if it is implemented as part of a broader commitment to efficient modal choice and fair competition between road and rail freight.

The ARA looks forward to continuing to work with the National Transport Commission, governments and industry stakeholders on issues to support the national freight and supply chain. If you wish to discuss our submission, please contact Roz Chivers General Manager Rail Operations at [REDACTED] or on [REDACTED].