



29 August 2008

Mr E.J. Hall
Chief Executive Officer
Queensland Competition Authority
Level 19, 12 Creek Street
BRISBANE, QLD 4000

By email: rail@qca.org.au

Dear Mr Hall,

Queensland Network's Preliminary West Blackwater Reference Tariff Proposal

Asciano welcomes the opportunity to provide comments on the Queensland Rail Network Pty Ltd's **(QR Network)** preliminary West Blackwater Reference Tariff proposal (the reference tariff).

Asciano generally supports QR Network's proposed reference tariff for the Minerva – Gladstone coal traffic and believes QR Network has provided a well argued and documented submission.

Asciano in particular accepts:

- QR Network's argument regarding low capital and high maintenance costs for this particular haul, given that this traffic is a heavy haul operating on track that was not designed or constructed for that type of traffic;
- The argument that the use of benchmarking may be inappropriate in this instance given the atypical combination of light infrastructure and the high volume/axle load of traffic; and
- The realistic approach to asset valuation – rather than seeking to adopt the maximum values possible.

Notwithstanding this support, Asciano believes that it would be appropriate for the Queensland Competition Authority **(QCA)** to satisfy itself with regard to the following issues prior to approving the reference tariff:

1. The claim that Minerva coal is 94% of the traffic of the Nogoia – Burngrove traffic and 100% of the Nogoia – Wurba traffic (QR Network's section 1) is difficult to reconcile with the claim that Minerva coal traffic generates one train each way per day. This seems counter-intuitive. For example, is there no grain hauled at all from the Springsure branch? It is also difficult to accept that there is almost no passenger or general traffic on the Burngrove – Nogoia (Emerald) line for the west of Emerald. A rough calculation based on the numbers contained in QR Network's submission suggests that 94% of traffic (if based on no. of trains) would equal to 660 trains per annum giving a residual traffic of around 40 other trains per annum, or less than one train in any direction per week.

It is not clear whether this impacts in any way on the claim that the incremental cost includes all of the optimised infrastructure – given that the Minerva traffic clearly was not the cause of the building of the Springsure branch or the main line Burngrove – Emerald, and that these lines presumably will be kept once the coal mines are exhausted. QR Network has not proposed that the lines will be closed after the coal mining has finished.

It is also unclear why support has been withdrawn by the Queensland Government for that portion of non-coal traffic that is using the line and how the non-coal access revenue is to be taken into account. Asciano has no understanding of the nature of the arrangements between the Queensland Government and QR Network with regard to support for uneconomic hauls.

It would assist transparency for the QCA in its decision to address how non-coal traffic is accounted for in the calculation of the reference tariff in this instance.

2. Given that the Burngrove – Nagoa line is required for passenger traffic to Emerald (and west of Emerald) is there any component of the maintenance cost that is directed to keeping the standard of track up for a superior ride quality not otherwise required by the Minerva coal traffic? If so, consideration should be given to discounting the maintenance costs attributable to the coal traffic.
3. The QR Network submission (section 4.4) indicates that the maintenance costs used to determine the Blackwater tariffs were established on the basis that Minerva was a 26TAL service. This seems an odd assumption unless it was planned that the Minerva trains would be operating at the higher axle load than eventuated – but there is no comment in the submission that would lead to such a conclusion (therefore the QCA should assure itself that this was the basis on which the Blackwater tariffs were calculated).

The QCA should also query which maintenance cost estimate the submission is referring to, given the reworking of these costs in 2007 on the basis of substantial errors in the previous estimates.

As Asciano has not been privy to the detailed figures on which the UT2 reference tariffs have been calculated it is not possible for us to comment in more detail on this issue.

4. As an observation only, Asciano has long argued that the approach to common cost contribution is inappropriate, and that it would be better to accept a nominal contribution to common costs where the haul is not at the ceiling for the entire journey. However, Asciano accepts that the formula used by QR Network is consistent with that approved by the QCA under the 2005 Undertaking. The West Blackwater Reference Tariff demonstrates the high cost that the QR Network's approach generates when a long "spur line" is involved, having to carry the burden of both the "non-common" infrastructure and a portion above incremental cost for the common portion.

Should you have any questions in relation to this submission please contact me on (02) 8484 8043, or alternatively Philip Dixon-Flint, Manager Access and Regulation on (02) 8484 8066.

Yours sincerely



Dr Tim Kuypers
Group General Manager
Access & Regulation