



## **QR FREIGHT SUBMISSION**

### **QR Network 2009 Draft Access Undertaking**

**14 November 2008**



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## Glossary of Terms

AA - Access Application

ACCC - Australian Competition and Consumer Commission

ARTC - Australian Rail Track Corporation

APCT - Abbot Point Coal Terminal

AU - Access Undertaking

BP - Barney Point

BRTT - Below Rail Transit Time

CNR - Capacity Notification Register

CRIMP - Coal Rail Infrastructure Master Plan

CRR - Capacity Resumption Register

CQCR - Central Queensland Coal Region

CTP - Coal Train Plan

DAU - Draft Access Undertaking

DBCT - Dalrymple Bay Coal Terminal

GPC - Gladstone Port Corporation

HPS - Hay Point Services

IAP - Indicative Access Proposal

KPI - Key Performance Indicator

NML - Northern Missing Link

NMP - Network Maintenance Principles

QCA - Queensland Competition Authority

QR - Queensland Rail Limited

SRT - Sectional Run Time

TOP - Take or Pay

TSE - Train Service Entitlements

## Introduction

QR Freight welcomes the opportunity to submit its views on QR Network's 2009 Draft Access Undertaking (2009 DAU) to the QCA. The 2009 DAU is an extremely important document as it will form one of the key foundations of the contractual frameworks in coal supply chains in Queensland. QR Freight fully supports the direction of the DAU towards a whole of supply chain framework.

In this regard, QR Freight believes the QCA has an important role to play to ensure both rail and port access arrangements are compatible and will achieve long term contractual alignment. This issue which is recognised as an area where major reform is required to ensure efficient supply chain operation. This will only occur where regulatory, contractual and operational alignment is achieved throughout the supply chain.

QR Freight does not object to most of the provisions for the 2009 DAU. This submission identifies both areas of support and areas where change or additional issues need to be addressed. The thrust of QR Freight's recommendations concern the need for transparency and greater clarification of the processes to develop the detail to support the 2009 DAU's provisions, particularly in regard to non-price issues. In this regard, QR Freight's major concern is that rail operators and users are closely consulted, and involved, in the development of these provisions.

The sheer number of issues being considered within the 2009 DAU means the QCA needs to give consideration to whether transitional arrangements will be required if the 2009 DAU is not endorsed by 30 June 2009.

QR Freight believes that with some further refinement and clarification the 2009 DAU will play a key role in ensuring an efficient rail network and in particular, efficient coal supply chains, operates within Queensland.

# 1 Coal Supply Chain Issues in the 2009 DAU

## 1.1 Transport Supply Chain Foundation

The economic regulatory framework is designed to optimise the efficient operation and management of the regulated asset as a stand alone business and is largely silent on the dynamic relationship regulated assets may have in the wider supply chain within which it operates. In relation to QR Network's regulatory framework, the level of capacity in the rail network at any one time is a factor not only of the rail network but of the interfaces the rail network has with all other elements in the supply chain. For example, supply chain interfaces include:

- (a) mine load out levels and mine recharge rates
- (b) freight terminal and logistics capacity,
- (c) above rail resources (both rollingstock and crew)
- (d) port stockyard capacity, port operating configuration, mode and out-loading capability, shipping stem and ship queue management system (including the size of ship in the queue).

Throughout the 2006 AU, QR Network has made a significant contribution to raising the awareness of the whole supply chain of the need to review capacity issues collectively across the supply chain in order to identify future capacity requirements to meet supply chain demand requirements. The Coal Rail Infrastructure Master Plan (CRIMP) and Mt Isa Master Plan have both provided a forum for rail operators, customers, port operators and end users to be involved in the supply chain capacity decision making process for their respective supply chains. This process has greatly assisted the expedition of QCA consideration of QR Network's forward capital program.

QR Freight believes that it is critical that the 2009 DAU formulation be cognisant of the integrated nature of the supply chain and the role all rail declared assets have in facilitating efficient transport supply chains throughout Queensland, including:

- The coal supply chains in the Newlands, Goonyella, Blackwater, Moura and Western systems which service a large number of geographically dispersed coal mines through to existing export coal ports (APCT, HPS, DBCT, GPC and BPA) and to domestic power stations.
- The bulk and containerised freight supply chains in the Mt Isa Region which service the North West region through to the Port of Townsville.
- The regional freight supply chains across Queensland linking country regions to the metropolitan cities, interstate markets and export ports.
- The containerised freight supply chain along the North Coast line which links Queensland's freight market to national and international freight markets.

As highlighted through the CRIMP and Mt Isa Master Plan, the successful performance of all transport supply chains requires a commitment, co-operation and co-ordination of the various elements in each of the supply chains in order to maximise rail freight throughput.

QR Freight is aware of the complexity of the supply chain issues currently being considered in the CQCR. The 2007 O'Donnell Review, the establishment of the DBCT Coordinator and the ACCC 2008 authorisation of the Queue Management System for DBCT have focused the attention of all supply chain elements on the importance of aligning the contractual, regulatory, operational and capacity frameworks in order to deliver the maximum level of tonnes through each coal supply chain system, particularly in the Goonyella system.

QR Freight believes it is critical that QR Network's integral role in the transport supply chains be recognised in the 2009 DAU, and in particular:

- in making any decisions regarding the 2009 DAU, QR Network and the QCA consider the implications of those decisions for the supply chain and support approaches that will maximise throughput of those supply chains; and
- retain sufficient flexibility in the 2009 DAU so that it facilitates rather than inhibits QR Network's ability to respond to the dynamic nature of the supply chain, while still providing a framework that protects the commercial interests of all supply chain participants. QR Freight believes that the System Rules framework proposed in the 2009 DAU provides an appropriate mechanism to achieve these outcomes.

## 1.2 Regulatory Objectives

QR Network states that its objectives in developing the 2009 DAU UT3 are to:

- earn a sound commercial return through its role as an efficient provider of access to the Queensland's rail network;
- promote economic efficiency consistent with a user's ability to pay;
- promote efficient investment in the network; and
- reduce unnecessary complexity.

Recognising the importance of the underlying commercial objectives for QR Network, QR Freight notes that network services are defined to be a natural monopoly, hence, the presence of access regulation. While QR Freight supports the objectives as stated, it considers that emphasis also needs to be placed on the importance of reliably and consistently delivering quality network services to QR Network's customers (e.g. rail operators and freight customers). QR Freight believes the objectives of the 2009 DAU should be broadened to include recognition of QR Network's role as a partner in transport supply chains. In this context, the regulatory frameworks applying for businesses operating within the coal supply chain must be conducive to coal supply chain outcomes and facilitate trade-offs in the regulatory environment which may be required to maximise coal throughput within each coal system.

**QR Freight recommends that the following new objective be included in the 2009 DAU: *To work cooperatively with all elements of the transport supply chain to maximise freight throughput across the supply chain on an annualised basis.***

### 1.3 Alignment of Coal Supply Chain Regulatory Frameworks

In the CQCR, the two regulated monopolies are QR Network and DBCT. It is important, therefore that QR Network's 2009 DAU and the DBCT 2009 draft access undertaking align their regulatory frameworks to ensure no disconnect occurs which will have adverse commercial impacts on access holders nor have adverse impacts on annualised coal throughput levels.

While alignment of regulatory frameworks is important, it is also important to recognise the limitations of the regulatory frameworks in creating an effective supply chain. This is both due to:

- The majority of supply chain participants not being subject to regulation; and
- The fact that effective supply chains require an alignment of the detailed operating frameworks for all supply chain participants. This includes aligning matters such as operating assumptions, capacity definitions and capacity expansion plans from the mine load point through to the ship.

While the alignment of regulatory frameworks within a supply chain will not ensure an effective supply chain, it is a necessary precursor to creating an environment where alignment of operating frameworks by all supply chain participants can also occur.

Over the 2006 AU period, regulatory interfaces, access entitlements and operational paradigms failed to fully reflect the impacts of different elements of the supply chain on each other (their respective capacity definitions, operating requirements and asset utilisation levels). The experience of the DBCT supply chain over the 2006 AU has been a salutary lesson for all parties to better understand the dynamics of the coal supply chain. The move away from the even railings access paradigm has imposed costs on all supply chain parties, and in particular, for:

- (a) rail operators in terms of asset utilisation rates and managing customers' rail access entitlements to deliver into DBCT's shipping stem;
- (b) mines which need to be able to hold sufficient stockpiles of coal or achieve faster mine recharge rates in order deliver coal to within a 2-4 day cargo assembly window at DBCT;
- (c) coal customers more generally in terms of impacts on the level of capacity able to transported;
- (d) QR Network in terms of the degree of variability it needs to be able to accommodate services in certain areas of the Goonyella network (particularly the west and south of Coppabella).

In order for the supply chain to operate effectively, there needs to be a process for participants in the supply chain, including QR Network to manage varying capacity definitions in different supply chain elements and how those definitions may change over time. In the context of the 2009 DAU, QR Freight believes the QCA will need to consider the following questions.

*"Is 1mtpa of capacity contracted under an access agreement three to five years ago the same as the 1mtpa of capacity now held by that access holder today?"*

*How can existing holders of access entitlements protect themselves from the risk that their access entitlements might be degraded over time?"*

*How does QR Network treat access entitlements held in existing access agreements under one operating paradigm when considering capacity issues associated with entering into new access agreements with access seekers under a changed operating paradigm?*

These questions are not easily answered and present a significant commercial risk for all supply chain parties holding access entitlements contracted under the 2001 and 2006 AUs. In all cases the negotiation of access agreements was carried out in combination with rail haulage contracts which reflect varying commercial relationships with respect to the risk/reward trade-off and reflect historical cost structures and pricing arrangements. Answers to the questions raised above may impact on these commercial contracts in a way which could not have been foreseen at the time they were negotiated (through changes to the definition of service and capacity which have flow on impacts to the underlying costs and prices of providing the same level of service and capacity).

In regulating QR Network and DBCT together, the QCA must also consider what process should occur if the QR Network regulatory framework changes in a way which impacts on DBCT and its users. A number of mechanisms exist which could enable:

- (a) changes in both regulatory frameworks to be considered in tandem by the QCA; or
- (b) consequential changes to be flowed through to the DBCT regulatory framework and vice versa (eg. to deal with congestion and constraints).

The QCA may also need to consider whether triggers need to be included in the access agreements contracted with both QR Network and DBCT to manage consequential supply chain impacts to facilitate the coal supply chain moving to a new operating paradigm.

**QR Freight supports the QCA's proposal to review the QR Network and DBCT access undertakings together in a way which ensures they complement and are compatible with each other.**

## **1.4 Role of Regulatory and Supply Chain Third Parties**

QR Freight believes the 2009 DAU and, once developed, the System Rules, must acknowledge the role of third parties in the operation of the Queensland coal supply chain.

During the 2006 AU period, a Central Coordinator for the DBCT supply chain was established within the Goonyella coal supply chain and the ACCC was involved in the Goonyella system via the authorisation of a Queue Management System at DBCT. The involvement of different supply chain and regulatory processes requires careful consideration in the context of the overarching objectives and efficiency goals of the coal supply chain. It is important that in situations where supply chain entities and other regulatory bodies may seek to intervene or resolve complex supply chain issues (i.e. the DBCT Coordinator, regulators or indeed even the Government), that the underlying rules of each coal supply chain are clear and transparent to all parties in the supply chain. Such an approach will do much to facilitate outcomes to support the collective interests of the entire coal supply chain.

It would be appropriate for the System Rules and other elements of the 2009 DAU, to include the ability for review in the event that entities like the DBCT Central Co-ordinator and the ACCC make decisions that need to be flowed through to the coal supply chain. For example, the DBCT Coal

Chain Coordinator may make recommendations on the operations of the supply chain which may have consequential impacts on the operations and access entitlements contracted through the 2001 and 2006 AUs as well as 2009 DAU and DBCT undertaking (e.g. the rules on which a capacity rationing system is managed in the DBCT supply chain).

The question to be considered by the QCA is whether the 2009 DAU provides a mechanism to trigger a review of the System Rules to consider consequential changes that may be required to the operating assumptions in the System Rules (and consequently the operating framework to apply for access entitlements contracted by QR Network under the 2009 DAU). A review would enable deliberation of the issues associated with flowing through any changes to the System Rules, including whether and how a re-allocation of risks amongst supply chain parties will be managed.

QR Freight believes it is important that QR Network not have a right to unilaterally change the System Rules without agreement by parties commercially impacted by such changes. It will require scrutiny of all supply chain participants to consider the impact such decisions could have on the existing risk/reward relationships embedded in the System Rules.

In practice, this is a complex issue involving the commercial interests of a variety of supply chain participants and is beyond the scope of the QCA's assessments of the QR Network and DBCT undertakings. Rather, QR Freight sees all coal chain participants working through the contractual issues over the next 12 to 18 months. The importance of achieving such an alignment is that it would reduce the potential for misalignments in capacity and the resultant adverse impact on the throughput potential of the whole of the coal supply chain. Accordingly, QR Freight sees the QCA's role as ensuring compatibility of access undertakings and providing a framework for the evolution of the supply chain arrangements.

## **1.5 QR Network's Proposed System Rules**

### **1.5.1 System Rules Framework**

QR Freight supports the development of System Rules to reflect the coal supply chain operating mode for each coal supply chain operating within each of the CQCR coal systems. System Rules will assist in identifying the velocity at which each supply chain needs to operate to maximise the level of throughput on an annual basis. QR Freight recognises that the identification of System Rules for each supply chain will also be a process of evolution over time. Major capacity expansions or significant supply chain events (eg. the collapse of a stacker reclaimer at a port) will require a review of the continued appropriateness of the operating mode contained in the System Rules. QR Freight believes that the approach proposed by QR Network in the 2009 DAU provides an appropriate framework for the development and modification of System Rules.

QR Freight has put considerable effort into considering what issues need to be incorporated in the System Rules. In this context, QR Freight draws the QCA's attention to the significant amount of work already done in developing an appropriate coal chain operating mode for each coal system through the Goonyella Coal Chain and the Capricornia Coal Chain entities. In particular, the System Rules and the QCA should recognise that:

- (a) Goonyella is predominately a cargo assembly rail operating paradigm which involves both the ability to rail services to meet a port shipping stem and can involve campaign raiing services.
- (b) Blackwater and Moura are predominately an even railings rail operating paradigm, although Barney Point is predominantly a cargo assembly operating paradigm.
- (c) Newlands is predominately an even railings rail operating paradigm, with occasional cargo assembly orders.

Sufficient flexibility must also be incorporated into the System Rules framework to give effect to major operating mode changes (for example, the construction of the Northern Missing Link, or an increase in stockyard capacity at DBCT).

QR Freight considers that the development of System Rules must be considered by all coal chain participants, with a process established to obtain the collective support of all supply chain parties. Any establishment of System Rules will also require complementary governance arrangements to enable the System Rules to be modified over time to align with the coal supply chain, subject to agreed commercial outcomes amongst the contracting parties.

**QR Freight supports the development of System Rules to reflect the coal supply chain operating mode for each coal system operating within the CQCR.**

### 1.5.2 Train Service Entitlements vs Coal System Train Paths

On a stand alone basis, key factors in determining the capacity of the rail network include:

- (a) track section length;
- (b) associated sectional run times based on an unimpeded train consist travelling over the track;
- (c) Below Rail Transit Time based on the total of individual sectional run times; and
- (d) no queuing into or out of any mine's loading facility nor any export port's unloading facilities.

However, when assessing the capacity of the rail network in the context of its role within the coal supply chain, QR Freight considers that it is also essential to take into account the level of variation in the supply chain and the dynamic interrelationship between all elements of the supply chain and the practicality of organising and synchronising the supply chain interface and different operational imperatives of mines, ports and rail operators. As a result, the theoretical number of available train paths in a rail system will not represent the actual operational train paths which may be effectively utilised by rail operators on a daily basis.

Rail operators require access to the supply of train paths needed to deliver contracted tonnage throughout the year, sometimes on a monthly, weekly and daily basis dependent on the system operating mode. A rail operator, at any given time, will only be able to deploy a defined number of train consists to operate efficiently within the established System Rules. The long lead construction timeframes (up to three years) required for a rail operator to scale up its operations by increasing the number of train consists in any system prohibits an operator from having unlimited flexibility to simply ramp up or ramp down utilisation of train paths on a monthly or weekly basis in order to offset:

- (a) the impact of maintenance and construction closures by either the railway manager and export port, or
- (b) the short term impacts of changes in the operating paradigm of the railway manager and different export ports.

The current approach to train service entitlements is not well defined in an operational context and does not provide rail operators with the ability to predict rollingstock and crewing requirements more than 24 to 48 hours from the day of operations. This approach imposes risks on rail operators in terms of their ability to accurately forecast rollingstock and crewing needs and their ability to efficiently manage resource utilisation rates over time. In order to address this issue, QR Freight believes that the access agreements must identify what train service entitlements mean in terms of:

- a) a rail operator's access to a consistent number of coal train paths available on a daily basis in each system (consistent with the System Rules); and
- b) how a rail operator may purchase coal train paths with some certainty in order to meet its coal customer's transport needs.

QR Freight believes that the proposed System Rules could be used to provide substantial clarity about how QR Network will schedule train services in order to ensure that it provides rail operators with usable train paths (or "system" paths). The translation of train service entitlements contracted through access agreements, into a number of daily system train paths must take into account:

- a) QR Network's operating mode, including planned maintenance closures and an allowance for unplanned maintenance closures and closure requirements for capital expansions/connections to the rail network;
- b) the number of train consists each rail operator has in each coal system (updated on a six monthly basis to take account of increases in train consists over time);
- c) the capacity bottlenecks which exist at mine loading facilities (i.e. loading recharge rates); and
- d) the capacity bottlenecks which exist at port unloading facilities (i.e. the throughput rate of each unloader and the conveyor routes of each of the unloaders).

The aim of the translation is to deliver an alignment of the number of train service entitlements with the number of viable system paths which are operational in a 24-hour period. The definition of a system path is a path which departs from a coal terminal, goes to a mine, loads, leaves the mine and goes to the port, unloads and then returns to the coal terminal.

In identifying the number of daily system paths in each system, QR Network could then base access entitlements on those system paths through the access agreement process. This would ensure all access agreements provide each rail operator with actual (and therefore 'useable') daily system train paths to support their operations and underpin their contracted tonnages.

Under the System Rules and the system path approach, QR Network could work with the other supply chain participants to co-ordinate maintenance and/or capital works closures in a way which minimises disruptions to a rail operator's monthly spread of purchased system train paths. This is needed to provide rail operators (and freight customers) with the required commercial and operational

confidence that they have accurately contracted for the required number of system paths and appropriate level of resources (rollingstock and crew) needed to deliver their customers' tonnages. This commercial confidence is also required to support appropriate investments that are necessary to deliver customers' existing and growth needs.

The System Rules could make reference to maintenance boundaries underpinning the provision of coal train system paths available on any day within a month. Should QR Network seek to implement maintenance and capital possessions outside the parameters stated in the network system operating mode and that significantly impact on the system paths purchased by a rail operator in any month, then QR Network must consult with the affected rail operators and customers to identify the supply chain benefits of the increased number of monthly track possessions, the anticipated system path losses and whether alternative system paths can be provided within the rail operators current operating efficiency paradigm (i.e. taking account of the number of train consists deployed) such that an operator's contracted tonnage levels can still be met on a monthly basis.

**QR Freight recommends that consideration be given to identifying train service entitlements in terms of a consistent number of coal train paths available on a daily basis in each system.**

### 1.5.3 Robustness of Network Infrastructure

As part of the System Rules, customers could also consider their willingness to fund capacity enhancements to reduce the throughput impact maintenance and construction track possessions might have on the number, reliability and consistency of daily system paths. Customers may support infrastructure investment in advance of demand to reduce the lead time associated with ramping up to deliver expansion or market demanded tonnes.

Historically, latent rail network capacity has played an important role in facilitating an efficient coal supply chain. This is because the provision of some robustness around network capacity provides the ability for rail operators to provide peaking capacity to their customers in order to:

- (a) respond to dynamic movements in the world coal market and additional requests by coal mines to meet their end customers' individual requests,
- (b) provide some added capability to offset the impact of maintenance activities and construction programs; and
- (c) provide rail operators with greater operating flexibility in the delivery of rail services to meet customer contracts.

The 2008 CRIMP (and associated Working Papers) provided a significant amount of detail and data on historical railings trends for each of the coal supply chains. In many cases the efficiency of the coal supply chain has required up to 15-20% additional capacity in the network to enable the railings peaks to occur throughout the year.

Within the context of the System Rules, QR Freight recommends supply chain participants give consideration to increasing the level of capacity robustness in rail infrastructure above the 10% 'rule of thumb' as a means of providing a level of insurance to the entire supply chain that market and

infrastructure variation will be able to be managed to meet the needs of all capacity contracted through access agreements.

### **1.5.3 Coal Supply Chain Performance Reporting Framework**

As part of the System Rules there is also merit in providing scope to monitor the performance of each of the coal supply chain participants in delivering to the System Rules. Root cause analysis could be recorded to identify why variation occurred in the day of operations. In this context, QR Freight draws the QCA's attention to the significant work already done in developing an appropriate coal chain reporting framework for each coal system through the Goonyella and Capricornia Coal Chain entities.

## 2 Non-price related issues

### 2.1 Scope and Term of the Undertaking (Part 2)

QR Freight supports the scope of the 2009 DAU being applied only to infrastructure owned by QR Network. The 2009 DAU recognises the corporate restructure and the change in approach as a result of the full separation of QR Network from QR Limited. QR Freight does not object to the 2009 DAU providing a 'right to terminate' to address specified events, like a change in ownership or financial structure.

QR Freight accepts the term of the 2009 DAU being four years, commencing 1 July 2009 on the basis that the annual review process provides an ability for the QCA to review price related issues (e.g. reference tariffs, volume forecasts) and coal supply chain movements via System Rules so that pricing terms can be updated to align them to any coal supply chain movements which occur within each year.

<b>QR Freight supports the scope and term of the 2009 DAU.</b>
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### 2.2 Negotiation Framework (Part 4)

QR Freight has considered the issues raised and will respond to these in turn.

#### 2.2.1 Access application process

The 2009 DAU amends the timeframes for QR Network's consideration of Access Applications:

- the acknowledgement period is increased from 5 to 10 days;
- access application information requirements are to be confirmed within 10 days of lodgement; and
- QR Network has an option to extend the 30-day access applications consultation time period prior to issuing an Indicative Access Proposal (IAP) by another 30-day period with the approval of the access seeker.

It is unclear to QR Freight what happens if an access seeker objects and QR Network does not or is unable to meet the initial 30 day deadline. Current and proposed arrangements in the 2009 DAU do not provide any incentive for QR Network to deal with an access application in a timely manner. QR Freight believes the establishment of timeframes for lodgement and completion of an IAP need to be clearly documented and access seekers kept informed on the status of their access requests while being considered within QR Network.

QR Network notes that the access application forms will be made publicly available on its website. QR Freight agrees with this approach but notes QR Network's website will need to be updated to reflect the terminology used in the 2009 DAU.

In addition, there are a number of different types of applications, requiring different information, including:

- Access Application – for network capacity (typical access application)
- Application for storage of rollingstock;
- Application for access rights for yard operations;
- Application for new rollingstock and/or configuration changes
- Application for trials;
- Application for testing and commissioning; and
- Application for use 'ad hoc' paths.

QR Freight suggests that QR Network develop tailored application forms for these different types of applications in consultation with operators.

### **2.2.2 Rejection of an access application**

QR Freight supports the ability for QR Network to reject an access application based on insufficient information. However, QR Freight does not believe this right should be applied unreasonably and recommends some transparent thresholds be used to demonstrate that insufficient information has been provided. One way to address this would be for QR Network to provide a worked example that identifies the type of information an access seeker must include in an access application in order for QR Network to be able to process the application expeditiously. This could be included as part of the access information pack QR Network has on its website.

### **2.2.3 Binding access proposal**

QR Freight recommends that more onus is placed on QR Network to provide more certainty on the rights established by an access application process to enable rail operators to have greater security in contracting, on the basis of an IAP, a haulage contract with freight customers. This outcome could be achieved with the following mechanisms:

- creation of a binding access proposal whereby a rail operator has the ability to advise QR Network that it will accept the IAP, subject to its customer signing a rail haulage agreement with the rail operator and
- the binding access proposal to be valid for a 28 day timeframe to give rail operators the opportunity to sign up freight customers in accordance with the provisions of the binding access proposal.

### **2.2.4 Preliminary access proposal**

QR Freight believes the current access application process does not efficiently deal with situations where companies are seeking indicative and non-binding access prices for new greenfield mine developments in order to develop a commercial business case to take a project to financial close. Accordingly, QR Freight recommends QR Network consider a preliminary access proposal process to provide coal customers with the ability to obtain indicative infrastructure requirements and access prices in order to assist in the development of greenfields mines. A preliminary access proposal

would not require all the detailed operational information and would simply provide a price signal for freight customer's to consider commercial options.

### **2.2.5 Capacity information**

QR Freight understands that an IAP will include network capacity information in respect of:

- QR Network's capacity assessment results underpinning the access application;
- where capacity is not available, information on the rail and/or other infrastructure upgrades required to accommodate the access application;
- QR Network's review of operational impacts of the access seeker's operating plan; and
- where mutually exclusive access applications have been received, QR Network will identify the number of access applications preceding the specific access request.

QR Freight's main concern is that there needs to be greater transparency and information provided on the capacity modelling process (sometimes done up to two years out) and ensure that it is consistent with supply chain capacity as currently being modelled. Where QR Network believes capacity assumptions and operating parameters may differ over time then QR Network must outline the reasons for the differences and the consequential impacts on capacity levels available for purchase. At a minimum, QR Network should provide, as part of the access application process the assumptions that underpin its assessment of capacity and the methodology used to make the capacity assessment.

### **2.2.6 Customer's details**

QR Freight supports QR Network's proposal which allows a customer's details to be provided to QR Network in circumstances where an access application is submitted by a rail operator on behalf of a customer. At the same time, QR Freight believes the QCA must ensure it respects the commercial position of all parties, including by not allowing the release of information which is commercially sensitive to a rail operator without the approval of the operator.

### **2.2.7 Capacity Notification Register**

QR Network proposes the creation of a Capacity Notification Register (CNR) replacing the Capacity Resumption Register (CRR). QR Freight notes that:

- the CNR will be referenced in the capacity allocation principles;
- not all access seekers on the CNR will be mutually exclusive as they may be reliant on a major project; therefore,
- in the event of capacity becoming available, all CNR registered parties will be notified and asked to submit an access application which will then be recognised for queuing purposes.

QR Freight supports the proposal for a CNR and the need for it to be kept updated (for example, on an annual basis) to ensure customer requests remain current.

### 2.2.8 Mitigation of speculative access requests

QR Freight supports the alignment of rail access and port capacity as essential to delivering an efficient supply chain in the CQCR. QR Freight asks the QCA to consider in the access application process, and more specifically in the case of DBCT, issues of alignment of rail access and port access, how alignment can be maintained over time as rail and port expansions occur and how it will be managed in light of any changes to the rail and/or port operating paradigms which underpins the currently contracted capacity levels in the access agreements.

### 2.2.9 Dangerous goods

QR Freight supports liability for the carriage of dangerous goods to be held by the access seeker/holder. It then remains an issue to be managed commercially between the rail operator and relevant customer. Dependent on these commercial negotiations, a number of different approaches may be adopted.

### 2.2.10 Major Projects

QR Freight supports QR Network's approach to major projects. It is appropriate to enable QR Network the opportunity to include new greenfields rail projects in the Coal Rail Infrastructure Master Plan (CRIMP) process and to ensure, where projects are of a sufficient size, that appropriate commercial considerations are taken into account to minimise QR Network's commercial risk

Whilst QR Freight has historically had informal input into the CRIMP process this has occurred on an ad hoc basis and not always early enough to proactively influence the design of proposed infrastructure changes. In their role as both customers and operators on the network, operators can provide practical insights into the early conceptual and detailed design and planning of new and upgraded rail infrastructure. QR Freight believes that all operators should have early input in the CRIMP process and this input should be formalised through a documented process.

#### QR Freight

- **questions how the 2009 DAU provides any certainty for rail operators in terms of the timely management of access requests.**
- **recommends that QR Network provides as part of its access information pack on its website (a) a worked example of the type of information an access seeker must include in an access application; and (b) a preliminary access proposal process to provide coal customers with the ability to obtain indicative infrastructure requirements and access costs.**
- **recommends QR Network provide more certainty on the rights established by an access application process to enable rail operators to have greater security in contracting, on the basis of an IAP, a haulage contract with freight customers.**
- **recommends greater transparency and information be provided on the capacity modelling assumptions underpinning access requests.**
- **supports the provision of notices to customers in circumstances where an access application is submitted by a rail operator on behalf of a customer, but asks QR Network and the QCA to respect the commercial position of all parties, including by not allowing the release of information which is commercially sensitive to a rail operator without the approval of the operator**
- **supports the alignment of rail access and port capacity as essential to delivering an efficient supply chain in the CQCR.**
- **supports the approach taken on the carriage of dangerous goods.**

- supports the major projects process, but seeks formal operator input as part of the CRIMP process.

## 2.3 Capacity Holder Standard Access Agreement

The 2009 DAU includes a proposal to develop a Capacity Holder Standard Access Agreement.

QR Freight has been considering this issue as some of its customers have raised the desire to gain long term security over the access entitlements for their mines, potentially linked to the remaining lives of the mines. The development of a Capacity Holder Access Agreement would allow coal companies to hold the capacity rights to support their mines' operations without needing to also take on responsibility for all the train service obligations. Train service obligations could be set in a separate agreement with a rail operator, although inter-linkages would need to exist all access entitlements and agreements aligned with each other.

QR Freight does not object to mines being able to take out a long term capacity agreement on access rights from the specific mine to the port. The benefits of this approach are:

- a) Mines want to secure rights to network capacity (potentially without reference to a specific rail operator) and potentially seek to hold these rights long term (i.e. 10 years and/or remaining life of mine)
- b) Mines may only want to sign two to five year haulage contracts with rail operators and may want to split haulage contracts between a number of rail operators in order to promote competition and diversify their risk exposure to only one rail operator
- c) It removes the necessity for capacity rights timeframes to be aligned with rail operations timelines. For example, currently, the existence of surplus demand over current capacity levels means rail operators like QR Freight (on behalf of mines) will need to sign 10 year access agreements in order to ensure their coal customer stays in position under the 2006 AU queuing framework. This either reduces a miner's ability to negotiate shorter haulage contracts; or places rail operators in a position where they have to manage the risk exposure of holding access agreements which are longer than their haulage contracts.

QR Freight notes there are similarities with QR Network's proposal when compared to the ARTC's draft two tiered access model contained in its draft Hunter Valley Access Undertaking (currently being considered by stakeholders). QR Freight supports a capacity holder access agreement but does not necessarily believe it has to take only one form of agreement. QR Freight sees advantages in allowing greater flexibility on the form an access agreement can take as preferences may differ dependent on a mine's needs.

The issues raised by QR Freight through the ARTC process may also be relevant to the QCA when considering the issues associated with development of a capacity holder access agreement in Queensland. In the ARTC context, QR Freight has raised two issues:

- a) The issue of alignment between a capacity holder's below rail capacity and the above rail capacity negotiated by the capacity holder through operator access agreements. Misalignment of the capacity holder and rail operator capacity levels could have adverse supply chain impacts via

congestion and gaming amongst the mines. Both impacts will adversely affect the ability of the coal supply chain to maximise throughput.

- b) Issues in relation to below and above rail capacity determinations given different train configurations (compared to the reference train service) and how they will impact differently on capacity levels. The capacity holder agreement will need to clarify how it will identify an access holder's capacity requirements (for a certain tonnage) without certainty on the train services using the access rights. Alternatively, there needs to be a readily available translation of capacity between different train configurations to enable capacity holders to identify their capacity and haulage requirements over the term of any capacity holder agreement.

In terms of the development of the proposed capacity holder agreement, QR Freight supports an open and transparent consultative process. This will allow an opportunity for customers and rail operators to identify specific issues and provides an opportunity for resolution with QR Network via collective agreement. Following the development of this agreement, QR Network could then seek endorsement of it through the mechanisms contained within the 2009 DAU.

**QR Freight supports a capacity holder access agreement but does not necessarily believe it has to take only one form of agreement. QR Freight recommends an open and transparent consultative process be adapted by QR Network to deliver an outcome via collective agreement.**

## 2.4 Capacity Management Principles (Part 7)

QR Freight believes there is a need for the 2006 AU to include greater clarity as to how capacity is to be managed within the dynamics of the day-to-day coal supply chain. QR Freight believes that the proposed System Rules provide a positive framework for this clarity to be developed.

### 2.4.1 Train Service Entitlements

QR Network has reviewed the 'train service entitlements' definition in the 2006 AU and considers the current drafting flexibility is appropriate to continue for the 2009 DAU. This definition relates to characteristics of the scheduling constraints rather than defining the services being purchased by an access holder. For example, it specifies days of operation, maximum and minimum times between train services, the BRTT, on-time running thresholds, regularity of timetable reviews and application of the Network Management Principles (NMP).

As identified in Chapter 1, QR Freight recommends that the development of System Rules include the translation of the definition of CQCR train service entitlements into daily train paths to be provided in each coal system within a 24-hour period. QR Freight believes this approach is consistent with the Coal Train Plans which exist in both the Goonyella and Blackwater / Moura systems, with the overarching aim being the maximisation of throughput in each coal system and greater transparency as to whether paths purchased by rail operators have been utilised.

QR Freight supports the proposal that train service entitlements in the CQCR only be provided on a cyclic train operation which will operate in accordance with the scheduling procedures in each coal system (as referenced in the applicable System Rules). This proposal aligns with the issues raised by QR Freight in Chapter 1. The successful performance of the coal supply chain requires the

commitment, co-operation and co-ordination of the various elements in each of the supply chains in order to maximise annualised coal throughput.

### 2.4.2 System Rules

QR Network has proposed that the 2009 DAU provide a trigger to establish System Rules for each coal system. The aim is to provide flexibility and improved alignment of train scheduling and planning within the supply chain without having to amend the Network Management Principles (NMP) to take account of particularities in each network system.

As identified in Chapter 1, QR Freight supports the proposed approach to developing System Rules to ensure the different operating paradigms in each of the coal supply chain can be given effect and flowed through to the NMP. In this context, QR Freight notes the significant amount of work that has been done in the day of operations through the Goonyella and Capricornia Coal Chains. The establishment of the Goonyella CTP and the Blackwater / Moura CTP has done much of the ground work in implementing disciplined train operations, linked to daily system train paths and designed to maximise annual throughput at each port.

In terms of the development of the proposed System Rules, QR Freight supports an open and transparent consultative process. This method is preferred as it allows an opportunity for all supply chain parties to identify specific issues and provides an opportunity for resolution with QR Network via collective agreement. Following the development of the System Rules, QR Network could then seek implementation through the mechanisms contained within the 2009 DAU.

### 2.4.3 Network Management Principles

QR Freight has some reservations but is generally supportive of the intent of the proposed changes to the NMP's Traffic Management Decision Making Matrix to allow priority to be given to a late running train over an on-time train in certain circumstances:

- a) if both trains are owned by the same operator and the prioritisation allows for improvements in fleet utilisation and minimises further disruptions to the current daily train plan; or
- b) trains are owned by different operators but the re-prioritisation is required to meet agreed coal supply chain objectives specified in the System Rules (eg sequencing needs in accordance with a coordinated supply chain plan).

The last dot point above is problematic and will need to be specifically considered in the development of System Rules as it alters the current commercial risk balance held by operators under existing access entitlements. Currently, where re-prioritisation of a train is required this is managed via consultation between the port and the relevant rail operator. To allow a port to bypass the rail operator and decided how QR Network manages the re-prioritisation of train operator's train alters the commercial risk exposure faced by that rail operator by altering the contracted risk/return trade-off in both rail haulage and access agreements. This problem can be addressed, if any alteration if the last dot point is subject to the relevant rail operator's approval before it can be given effect. This means the primary consultation which needs to occur is between the rail operator and the port before any traffic decision contrary to the NMP can be given effect.

Subject to the above proviso, the proposed NMP changes are beneficial as they provide an avenue to deliver the required flexibility in cargo assembly coal supply chains and ensure a careful balancing of interests in train sequencing to meet the shipping stem needs of the port. This will assist the entire coal supply chain to manage the operational requirements of each coal supply chain.

#### **2.4.4 Reallocate to alternative origin or destination**

QR Freight supports the new train path decision making process which allows an access holder to redirect underutilised capacity entitlements to an alternative origin/destination, subject to QR Network being able to meet any requests from another access holder within the scope of their entitlements. The proposal removes previous ambiguity on the issue and provides Access Holders with the right / entitlement to manage their volume risk between their coal customers so long as the management of those rights does not exceed the scope of their monthly entitlements. However, further information is sought on how this reallocation process will impact on Take or Pay calculations for the access holder.

The 2009 DAU needs to explicitly acknowledge that either the access holder or an operator who has been given management rights by the access holder can redirect underutilised capacity entitlements. This enables access holders who are end customers (i.e. mines) to remove themselves from day of operation decisions if they elect. The 2009 DAU should qualify that this reallocation is relevant to day of operation and weekly train scheduling. That is, there needs to be delineation between 'reallocation' and 'capacity transfer' (see section below).

#### **2.4.5 Capacity transfers (short term and permanent)**

QR Freight supports the removal of transfer fees for short term transfers of capacity within a coal system (up to two years). This will provide freight customers with greater flexibility in managing their haulage requirements in the event of certain events (e.g. short term mine production issues). It will also assist rail operators in managing the level of market and operational variation which can occur in each coal supply chain (as identified in Chapter 1).

QR Freight seeks clarification on whether short term transfers between systems should continue to be subject to a transfer fee and whether some consideration needs to be given on how to facilitate such transfers. There is merit in considering whether to simplify these transfer arrangements via an adjustment in the annual revenue cap process rather than levying a transfer fee.

QR Freight supports the proposal to allow permanent or temporary transfers to be made by access holders without reference to the Access Rights Register (ARR).

QR Freight recommends that QR Network provide a capacity transfer template agreement in their information pack posted on the website. This will enable rail operators and coal customers to expedite any requests for capacity transfers. In addition, further clarity will need to be given to how transfer rules will be applied within the context of the relevant System Rules. For example, in relation to:

- a) how transfers will be effected where infrastructure upgrades are not required (how are the zones to apply and can transfers between zones be achieved seamlessly); and

- b) where transfers require infrastructure upgrades, how any requests will be managed with reference to the queue in the ARR to ensure these customers are not adversely affected by the transfer.

In addition to the above issues, there is a growing recognition amongst coal companies of the value in having 100% haulage flexibility in railings (subject to reasonable endeavours principles) between their specific mines. With the construction of the Northern Missing Link, it is likely that greater railings flexibility will be sought between the Goonyella and Newlands systems. This change in approach by some mines has wider implications as 100% railings flexibility between mines within and across systems also requires customers to consider the levels of network infrastructure capacity to be held within each coal system to provide robustness to the capacity transfer process.

#### 2.4.6 Track possession planning and scheduling

QR Network needs to provide greater transparency on its maintenance schedule and demonstrate to rail operators and freight customers that its proposed closure schedule results in the greatest net benefit for the supply chain. In this context, QR Network has itself highlighted this need in its submission on the 2009 DAU<sup>1</sup>:

*QR Network has submitted that it has had to fundamentally change its maintenance practices given the capacity constraints on the current network and user requirements to maximise current throughput while maintaining service quality. This approach coordinates closures in the system to maximise the intensity of the maintenance effort while minimising the impact on throughput...this approach impacts the scope, or volume, of activity undertaken and is more expensive than a standard maintenance approach.*

As indicated in Chapter 1, QR Freight recommends that rail operators and freight customers be given a greater consultative voice in the planning assumptions underpinning track possessions; and that service performance reporting needs be developed on the scheduling of closures, the actual time taken out of the system and the impact on train service entitlements / system train paths.

QR Freight recommends that QR Network consult with, and provide an assessment to rail operators and freight customers of its proposed maintenance possession schedule should it vary outside appropriate variation bandwidths in any month. Such consultation could include detail from QR Network on how the proposed altered maintenance closure plan maximises the net benefits for the relevant coal supply chain.

In a similar way, QR Network could clearly document the number of possession closures required to implement its capital program and what impact those closures will have on existing rail operations. QR Freight is concerned that the trade-off between day-to-day rail operations and capacity expansion is not clearly articulated in the CRIMP. If QR Network can provide this information as part of the CRIMP then it will allow a clear and transparent decision making process for all coal customers when they consider the extent, and timing, of the capital works put through the customer voting process. Moreover, service performance reporting needs to be developed on the scheduling of construction

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<sup>1</sup> 2009 DAU Issues Paper, p. 31.

closures to record the actual time taken out of the system and the capacity impact on train service entitlements system train paths. This could then link back through to the System Rules to provide transparency on the robustness of the operating mode.

QR Freight believes there would be substantial benefit in QR Network seeking to align planned maintenance and possession closures for capital works with other infrastructure providers in the supply chain, most notably the mines and ports.

#### 2.4.7 Resumption threshold

QR Freight supports the changes in the resumption threshold because, in part, it complements the proposed development of System Rules. However, the resumption provision is still an essentially 'look back' provision and does not resolve issues of misalignment of capacity entitlements between the port and rail network at the earliest opportunity.

#### 2.4.8 Right to renew

An automatic right to renew existing CQCR access agreements is embedded in the 2006 AU, but further clarification of how those rights are guaranteed is required in the 2009 DAU. Current QR Network obligations are:

- QR Network to notify an access holder and a customer within three years of expiry
- Upon notification, the access holder and a customer must provide an access application within 60 days which will then be held by QR Network as first place in a queue and there can be no re-ordering of that queue to displace the customer's first position
- In terms of non-CQCR access agreements, the NPV test will still apply to renewing access applications. This means if a non-CQCR access holder wants to retain their access rights beyond the term of the existing agreement, they will need to ensure it represents a higher NPV to QR Network than an alternative potential access seeker.

QR Freight believes that in addition to the existing provisions, there remains some uncertainty on arrangements to manage the expiry and renegotiation of existing access agreements. The current obligation rests with the access holder to approach QR Network, except where QR Network receives a competing access application. QR Freight recommends that these rights be further clarified with respect to the end customer to enable a smooth transition for the renewal of their access rights. In particular, QR Network may need to approach both an access holder and a customer 12 months prior to expiry (subject to no other notification trigger being met) to confirm the continuation of access rights by that customer post the expiry of the access agreement.

**QR Freight recommends that:**

- **the 2009 DAU provides a capacity transfer template agreement to enable rail operators and coal customers to expedite any requests for capacity transfers**
- **rail operators and freight customers be consulted on the timing of maintenance closures and that service performance reporting needs be developed on the scheduling of closures**
- **QR Network consider approaching an access holder and a customer within 12 months of expiry (subject to no other notification trigger being met) to confirm the renewal of access rights post the expiry of existing access entitlements.**

**QR Freight supports:**

- the proposed approach to develop System Rules and recommends an open and transparent consultative process as a reasonable starting point to achieving collective agreement
- relevant System Rules agreed for each coal system being applied to override the contested train decision making matrix, subject to the consent of the affected train operators
- the new train path decision making process which allows an access holder to redirect underutilised capacity entitlements to an alternative origin/destination, but needs to explicitly allow for operators to manage these rights on behalf of a customer where the customer has provided the management of this capacity to an operator
- the removal of transfer fees for short term transfers of capacity within a coal system, but seeks clarification on whether short term transfers between systems should continue to be subject to a transfer fee
- the proposal that train service entitlements in the CQCR only be provided on a cyclic train operation
- the changes in the resumption threshold.

## 2.5 Compliance Obligations (Part 3)

QR Freight does not have any issues with respect to QR Network's compliance obligations in the 2009 DAU.

## 2.6 Public and Regulatory Reporting Requirements

### 2.6.1 Coal Supply Chain Performance Reporting

As outlined in Chapter 1, QR Freight supports consideration of performance reporting to ensure QR Network manages the network in a way which minimises its impact on train operations and annual throughput. Principally, the adoption and monitoring of performance reporting will provide a transparent information base that allows assessment of the quality of the services it provides and monitors any operational changes over time.

QR Freight is concerned that the revenue cap framework in 2009 DAU has shifted some throughput risk to QR Freight and freight customers. This further emphasises the need for consultation on maintenance possessions, maintenance plans and service standards.

QR Freight would like to have a set of standard network performance indicators which provide a level of transparency on Network performance as part of the supply chain. The following are examples of service performance issues that are of concern to QR Freight that the current reporting framework does not adequately measure:

- Assessment of the effect planned and unplanned maintenance and construction closures have on the quality of the rail service purchased from QR Network. QR Freight believes the level of maintenance closures should be monitored and any deviations from the reasonable range should be noted and detailed explanations should be provided.
- Assessment of the degree to which planned possession start times and finish times (i.e. the time track was closed for maintenance and construction and the time track was re-opened for train operations) are met. This approach would provide greater transparency for identifying potential supply chain impacts (i.e. in terms of impacts on rail services).

- Development of a stowage plan for closures of 12 hours or more to ensure trains are positioned before a closure so as to maximise their utilisation in the start up mode after a closure.
- More frequent reporting of system performance, particularly at the point of interface between network and other supply chain elements (mine, above rail and port in loading) would be beneficial (eg. root cause analysis) within the System Rules and would assist all supply chain parties in understanding overarching supply chain performance and the requirements for improvement.
- Availability and other operational requirements of critical systems and services such as trackside devices (e.g. weighbridges).

QR Freight believes the development of System Rules would be the appropriate place to deal with the introducing of performance reporting.

**QR Freight recommends that performance reporting be introduced into the development of System Rules to monitor supply chain performance, in particular on Network performance as part of the supply chain.**

#### **2.6.2 Sectional Run Times (SRTs) and Below Rail Transit Time (BRTT)**

QR Freight requests the SRT and BRTT calculation methodology be included in the relevant System Rules to allow for independent scrutiny of the SRT and BRTT reporting framework by rail operators and freight customers. In addition, it is recommended that QR Network provide greater transparency for all rail operators and customers regarding what the BRTT allowances mean in terms of capacity (for example, 127% of SRT and what that means in terms of capacity compared to 100% of SRT).

In relation to the development of System Rules, there is a need to ensure the scheduling process provides down time on the coal network as a train travels from coal terminal to mine to port to coal terminal. The current expectation contained in the 2006 AU is that all trains will run unimpeded on their schedule. QR Freight believes the System Rules will need to reflect that unimpeded access may not be achievable as the congestion builds and the demand for train services in a coal system approaches its maximum constraint. The System Rules will need to provide greater understanding of the impacts congestion will have on all parties to the supply chain.

**QR Freight requests that the SRT and BRTT calculation methodology be included in the System Rules for each system.**

## 3 Pricing related and Schedule F issues

### 3.1 Pricing Principles (Part 6)

QR Freight has limited comments to make in relation to the Pricing Principles. Comments provided below are by exception and relate to the need to facilitate the efficient operation of the entire coal supply chain.

#### 3.1.1 Greater flexibility to breach pricing principles

The 2009 DAU amends the current pricing principles so that QR Network has greater flexibility to adopt a pricing structure, subject to QCA agreement, which breaches the pricing principles, if it provides benefits to the transport supply chain overall. The approach allows reference tariffs to be adjusted to reflect:

- socialisation of AT5 where all electric costs are shared by electric traction users to prevent suboptimal and inequitable pricing outcomes between the systems; and
- supply chain credits to compensate other supply chain entities to encourage investment in infrastructure capacity which yields benefits and is cheaper than any network investment for the same level of capacity (incentivises mines, ports and rail operators to improve performance).

QR Freight supports this approach on the basis that it will facilitate decisions based on supply chain considerations.

#### 3.1.2 Access conditions

The current undertaking includes conditions on when QR Network can impose access conditions (such as capital contributions) on access holders and customers (e.g. QR Network can impose conditions for a single spur line, but is restricted in respect of the shared mainline network). The 2009 DAU seeks to broaden the conditions under which QR Network can impose access conditions to any access request involving a major project. The QCA has sought information on whether proposed changes are reasonable as well as whether it is reasonable for QR Network to impose access conditions in circumstances where it is constructing a major project.

#### 3.1.3 Structure of Central Queensland Coal Reference Tariffs

QR Freight supports the removal of cluster pricing within the coal systems so that a single reference tariff exists for each system. The approach greatly simplifies the pricing for each system and is reflective of the move towards one overarching coal system with greater levels of cross system traffic between the individual coal systems. QR Freight agrees there will be circumstances where either a premium or discount should apply to the system tariff to allow efficient below-rail costs to be recovered and encourage maximum utilisation of the coal systems.

QR Freight supports the changes to the cross-system traffic tariffs as the process has been clarified to provide greater transparency regarding their calculation.

QR Freight notes the 2009 DAU CQCR reference tariffs do not take into account either (a) potential UT2 2007-08 and 2008-09 revenue cap adjustments; or (b) major capital expansions. This means there will be further changes to the reference tariffs over the 2009 DAU period dependent on the outcomes of these processes. QR Freight seeks clarification on how (a) and (b) changes to the reference tariffs will be managed over the regulatory period. For example will all subsequent reference tariff changes be managed via the proposed annual review or will they be allowed to occur at any time through the year?

#### **3.1.4 Socialisation of the CQCR AT5**

QR Freight supports the change in the AT5 proposed by QR Network on the basis that it is a practical solution to a complex pricing problem. QR Freight agrees with the argument that to deploy a fleet of electric locomotives it must have confidence that QR Network will maintain a sufficient sized and geographically diversified electric network. Moreover, failure to invest reduces the operational and competitive options of an above-rail operator who deploys an electric locomotive fleet.

The growing disparity between AT5 tariffs on the Goonyella and Blackwater systems will inevitably lead to a situation where it is uneconomic to operate electric trains on the Blackwater system. When that price is reached, the option for the deployment of electric consists is extinguished and the stranding risk of operating an electric fleet will increase.

QR Freight believes that if AT5 tariffs remain unbalanced in the 2009 DAU, then future expansions of the electric infrastructure might be considered more risky as reference tariffs are based on costs rather than benefits. QR Freight also sees benefit in operating the Goonyella system with electric consists rather than as a mixed system. Capacity issues already exist on the Goonyella system. If the “conflict costs” which arise in mixed systems were to occur in the Goonyella system then reduced throughput is the most likely result.

At the same time, QR Freight considers the current drafting of the 2009 DAU does pose a level of commercial risk for coal customers because it proposes the full socialisation of AT5 across all electric infrastructure in the CQCR. Potentially, this proposal would bind customers to an outcome which socialises existing electric infrastructure with all new electric infrastructure built as part of major greenfields investment (for example, electrification of the Northern Missing Link). On this basis, QR Freight supports that the 2009 AU give effect to the socialisation of AT5 charges for existing brownfields electric overhead assets but suggest further consideration is required in relation to the incorporation of new electric infrastructure. This provides an acceptable level of risk/reward for coal customers in that the decision is made on the basis of a certain pricing outcome applying to existing electric assets as outlined in the 2009 DAU documents.

#### **3.1.5 CQCR volume forecasts**

CQCR volume forecasts are proposed to be reviewed annually as part of the annual review of reference tariffs. QR Freight strongly supports the annual volume setting mechanism as longer term forecasts embed inaccuracies in annual tariffs and distort risk allocations amongst supply chain participants. However, for purposes of putting a line in the sand the following longer term volume forecasts have been assumed in the DAU.

	2009-10	2010-11	2011-12	2012-13
Blackwater	65	65	65	65
Goonyella	124.5	124.5	124.5	124.5
Moura	16.4	16.4	16.4	16.4
Newlands	18.6	18.6	24.5	24.5
<b>Total</b>	<b>224.6</b>	<b>224.6</b>	<b>230.5</b>	<b>230.5</b>
Goonyella GAP	0	7.3	25	25
Total + GY GAP	224.6	231.9	255.5	255.5

In terms of reference tariffs, the specific volume forecasts of interest to QR Freight relates to the 2009-10 year (based on an annual review of reference tariffs proposed by the DAU). The 2009-10 forecast numbers appear to be set close to the maximum of tonnage throughput for each system and potentially will not be met should any event occur in the system which impacts on overall throughput (eg. floods, capital construction programs (port or rail), unanticipated variations in raiing operations and shipping stem).

This means that should any element of the supply chain be unable to sustain maximum tonnage for any part of the year then QR Network will be required to recoup its revenue through the revenue cap adjustment. QR Freight believes it is far easier to manage only minor ex-post adjustments to revenue as this will avoid the need for major revenue cap adjustments and a continual compounding of revenue shortfalls. On this basis QR Freight recommends that the volume forecasts be conservatively set to allow for some throughput variations to occur in the day of operations. For example, it could be set at 11/12ths of the maximum coal system capacity to ensure revenue is recouped (cognisant of the annual railings variability).

### 3.1.6 Retrospective pricing

QR Freight would like to see greater certainty in terms of QR Network's ability to pass through changes in the regulated access pricing arrangements and the terms on which such changes can be made on a retrospective basis. In the 2006 regulatory period there were a number of changes made to the pricing process which created some administrative complexity, poor pricing certainty and passed on the cashflow risk to the rail operator through the billing cycle. Under these circumstances, QR Freight suggests QR Network clarify the process it and the QCA will follow to guard against the need to make excessive retrospective pricing adjustments to access charges.

### 3.1.7 Take or Pay

QR Freight requests the QCA consider reviewing the Take or Pay calculation methodology to provide more flexibility for coal companies with a number of coal mines within the CQCR. For example, the TOP methodology may require adjustment to reflect the concept of access holders being able to reallocate capacity within a 'cluster' of agreed origin/destinations. In this case, exposure to Take or Pay may need to be based on whether the access holder has met the sum of its paths rather than on a mine by mine basis.

### 3.1.8 Stowage

QR Freight recommends that the System Rules require QR Network to develop a stowage plan for closures of 12 hours or more to ensure trains are positioned before a closure so as to maximise their utilisation in the start up mode after a closure. Where there are issues on the network which require unplanned closures for which a stowage plan has not been developed, an onus should be placed on QR Network to develop one as soon as possible, in consultation with rail operators, to assist in the start up operations following the closure.

**QR Freight recommends that:**

- any changes to the reference tariff structure be managed within each annual review process to keep changes to the pricing and billing structure to a minimum
- the socialisation of AT5 charges for existing brownfields electric overhead assets
- the volume forecasts be conservatively set to allow for some throughput variations to occur in the day of operations.
- As part of the System Rules QR Network develop a stowage plan for closures of 12 hours

**QR Freight supports:**

- greater flexibility for QR Network to breach the pricing principles, subject to QCA endorsement
- the access conditions process
- supports re-setting of volume forecasts for each system on an annual basis
- the proposed rollover of TOP from UT2 into the 2009 DAU

**QR Freight seeks:**

- clarification from the QCA on the process QR Network and the QCA will follow to guard against the need to make excessive retrospective pricing adjustments to access charges.
- requests the QCA consider reviewing the Take or Pay calculation methodology to provide more flexibility for coal companies with a number of coal mines within the CQCR.

## 4 SUMMARY OF RECOMMENDATIONS

### QR Freight recommends that:

- the following new objective be included in the 2009 DAU: *To work cooperatively with all elements of the transport supply chain to maximise freight throughput across the supply chain on an annualised basis.*
- consideration be given to identifying train service entitlements in terms of a consistent number of coal train paths available on a daily basis in each system.
- QR Network provides as part of its access information pack on its website (a) a worked example of the type of information an access seeker must include in an access application; and (b) a preliminary access proposal process to provide coal customers with the ability to obtain indicative infrastructure requirements and access costs.
- QR Network provide more certainty on the rights established by an access application process to enable rail operators to have greater security in contracting, on the basis of an IAP, a haulage contract with freight customers.
- greater transparency and information be provided on the capacity modelling assumptions underpinning access requests.
- QR Network provide a capacity transfer template agreement to enable rail operators and coal customers to expedite any requests for capacity transfers.
- rail operators and freight customers be consulted on the timing of maintenance closures and that service performance reporting needs be developed on the scheduling of closures.
- QR Network consider approaching an access holder and a customer within 12 months of expiry (subject to no other notification trigger being met) to confirm the renewal of access rights post the expiry of existing access entitlements.
- performance reporting be introduced into the development of System Rules to monitor supply chain performance, in particular on Network performance as part of the supply chain.
- any changes to the reference tariff structure be managed within each annual review process to keep changes to the pricing and billing structure to a minimum.
- the socialisation of AT5 charges for existing brownfields electric overhead assets.
- the volume forecasts be conservatively set to allow for some throughput variations to occur in the day of operations.
- as part of the System Rules QR Network develop a stowage plan for closures of 12 hours.

### QR Freight supports the:

- QCA's proposal to review the QR Network and DBCT access undertakings together in a way which ensures they complement and are compatible with each other.
- development of System Rules to reflect the coal supply chain operating mode for each coal system operating within the CQCR.
- scope and term of the 2009 DAU.
- provision of notices to customers in circumstances where an access application is submitted by a rail operator on behalf of a customer, but asks QR Network and the QCA to respect the commercial position of all parties, including by not allowing the release of information which is commercially sensitive to a rail operator without the approval of the operator.
- alignment of rail access and port capacity as essential to delivering an efficient supply chain in the CQCR.

- approach taken on the carriage of dangerous goods.
- major projects process, but seeks formal operator input as part of the CRIMP process.
- capacity holder access agreement but does not necessarily believe it has to take only one form of agreement. QR Freight recommends an open and transparent consultative process be adapted by QR Network to deliver an outcome via collective agreement.
- proposed approach to develop System Rules and recommends an open and transparent consultative process as a reasonable starting point to achieving collective agreement.
- relevant System Rules agreed for each coal system being applied to override the contested train decision making matrix, subject to the consent of the affected train operators.
- new train path decision making process which allows an access holder to redirect underutilised capacity entitlements to an alternative origin/destination, but needs to explicitly allow for operators to manage these rights on behalf of a customer where the customer has provided the management of this capacity to an operator.
- removal of transfer fees for short term transfers of capacity within a coal system, but seeks clarification on whether short term transfers between systems should continue to be subject to a transfer fee.
- proposal that train service entitlements in the CQCR only be provided on a cyclic train operation.
- changes in the resumption threshold.
- greater flexibility for QR Network to breach the pricing principles, subject to QCA endorsement.
- access conditions process.
- re-setting of volume forecasts for each system on an annual basis.
- proposed rollover of TOP from UT2 into the 2009 DAU.

**QR Freight:**

- questions how the 2009 DAU provides any certainty for rail operators in terms of the timely management of access requests.
- requests that the SRT and BRTT calculation methodology be included in the System Rules for each system.
- clarification from the QCA on the process QR Network and the QCA will follow to guard against the need to make excessive retrospective pricing adjustments to access charges.
- requests the QCA consider reviewing the Take or Pay calculation methodology to provide more flexibility for coal companies with a number of coal mines within the CQCR.