



Stanwell Corporation Limited
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Submission on

QR Network's

2009 Draft Access Undertaking

1. Background

Stanwell Corporation Limited ("Stanwell") is a government-owned power generation company in Queensland. The Corporation owns and generates more than 1,500 megawatts of electricity from thermal and hydro facilities located throughout Queensland. In 2007/08, Stanwell Power Station generated 9,211.40 Gigawatt hours (Sent Out) of electricity, representing a significant proportion of the state's electricity needs.

2. Introduction

As an electricity generator, operating within a competitive market, Stanwell has a specific interest in supporting a rail market which fosters competition among rail operators. The 2009 Draft Access Undertaking (DAU) has started to address this issue in its review of the Negotiation Framework and Negotiation Principles. However, more work is required to ensure that there is transparency in the creation and management of capacity queues, and a continuation of the development of a simpler and more user friendly access application process, for use by both customers and operators.

3. Pricing Issues

Under the 2009 DAU, QR Network is proposing a move to a single reference tariff for the whole of the Blackwater system. This proposed change to its methodology for calculating reference tariffs, will have a significant impact on users within the system by effectively creating winners and losers. QR Network has suggested that these changes were driven by industry's desire for increased 'transparency' and 'simplification'¹. However, in QR network's revised proposal, Stanwell fails to see a material improvement in achieving these objectives and questions the removal of clusters altogether.

For Stanwell, the move to a single reference tariff represents a considerable increase in rail access charges against the current UT2 charge (approximately 77% increase prior to the application of a discount)². Although it is generally accepted that a price increase is required to reflect an increase in the cost of maintenance, Stanwell believes the magnitude of the proposed increase is unreasonable.

¹ QR Network (2009 DAU, vol.2: 12)

² Indicative modelling and response conducted by QR National (email: 13/10/2008)

In QR Network's submission to the QCA, reference is made to the application of a 'System Premium' and a 'System Discount' (applied to the single system reference tariff)³ for those hauls which do not represent a standard haul within a system. QR Network has recognised that the Stanwell haul has differing characteristics and as such special consideration ought be applied in relation to its reference tariff:

....."QR Network proposes a separate Reference Tariff for this traffic (Stanwell) to more equitably reflect its utilisation of the Blackwater system, and in particular the fact that it does not use the Gladstone area. QR Network proposes to broadly maintain the UT2 pricing relativities. Consistent with Hail Creek above and Rolleston below, the difference between the single tariff and the Access Charges would be expressed as a price discount to the single Blackwater System Reference Tariff"⁴ ...

QR's submission to the QCA, identifies that forecast volumes and contribution to common costs are to be considered in determining whether a discount is appropriate⁵. However beyond that, it is unclear what consideration is had for other factors that may impact and determine the amount of a proposed discount. In the absence of information, Stanwell urges the QCA in its assessment of this indicative discount, to consider the following characteristics of the Stanwell haul:

- **Simplicity of haul** - Stanwell operates on a section of track between the mine/s and Stanwell Power Station, which is dedicated to coal services. No consideration of the impact on the port/s, freight or passenger service hauls is required.
- **CCC** - Stanwell's contribution to common costs and forecast volumes.
- **Track Utilisation** – two main factors to consider:
 1. The distance from the mines to the power station is on average 181km. The average haul on the Blackwater system is approximately 324km⁶. Stanwell moves low tonnage amounts and only uses 55% of the total track within the Blackwater System.
 2. Stanwell only uses capacity that is west of the Callemondah Yard.
- **System Expansion** – Stanwell is not a beneficiary of incremental system capacity. This would suggest that Stanwell should be given relief from additional infrastructure costs and associated incremental maintenance costs, to which it has no access.
- **Displacement of Export Trains** – As part of the discount 'test', QR Network has assessed whether Stanwell trains are potentially displacing export trains:, with the outcome below:

" ...the key constraint in the Blackwater system is around Gladstone, therefore a reduction in volume to Stanwell would not currently allow additional volume to Gladstone. Further, the most expensive area in which to create additional capacity is again around Gladstone, the need for

³ QR Network (2009 DAU, Appendix E:7)

⁴ QR Network (2009 DAU, Appendix E:7)

⁵ QR Network (2009 DAU, Appendix E:7)

*which is not contributed at all by Stanwell traffic. As a result, QR Network considers that it remains appropriate to allow Stanwell to pay a proportionally lesser charge than Blackwater to Gladstone traffic*⁷.

Stanwell fully supports the proposed approach taken by QR Network.

- **Discount Versus Cluster Charge**

In practice and if approved by the QCA, does the application of a discount mean Stanwell will see only the adjusted amount as its access charge? If not, wouldn't a much simpler approach would be to maintain a cluster based Stanwell reference tariff, instead of charging an adjusted (discounted) tariff and applying a 'discount'. In effect, is the outcome not the same?

3.1. Capex - Proposed Infrastructure for Gladstone Area

Capital infrastructure projects, on which the proposed system reference tariffs are based, are yet to be endorsed through the 2009 QR Network Rail Infrastructure Master Plan process. However, Stanwell would like to take this opportunity to query QR Network's inclusion of early works relating to Wiggins Island Coal Terminal into the general pool of projects for endorsement⁸. Although not dealt with under UT3, the regulatory asset base plays a large role in the determination of QR Networks proposed reference tariffs under UT3.

The WICT early works project represents \$46M of port specific infrastructure in which Stanwell has no involvement. Further works are proposed for the Gladstone Area in upcoming Master Plans of escalating value. Stanwell would like the QCA to consider that infrastructure in the Master Plan's regulatory asset base should be for the benefit of the whole supply chain. Stanwell has highlighted this for QCA's noting, and asks that the QCA consider this in its assessment of QR Networks calculation of the proposed rail access discount for Stanwell.

3.2. Maintenance Costs

Maintenance costs represent a large portion of the proposed reference tariff increases in the Blackwater System (approximately 50%)⁹. Stanwell's asks whether such increases could potentially place QR Network in a position where it is at risk of over recovering. Or is some form of carry over mechanism to address this issue being considered under UT3?

Stanwell is the business of electricity generation. As such, it doesn't believe itself suitably qualified to determine the scope of maintenance work required and the regime that should be applied to QR Network's assets. Stanwell assumes that QCA as part of the due diligence process will determine the 'reasonableness' of QR Network's claims, based on an independent review by GHD Pty Ltd.

⁶ QRNetwork (2009 DAU, Attachment G: 41)

⁷ QR Network (2009 DAU, Appendix E: 6)

⁸ Coal Rail Infrastructure Master Plan (2nd Ed: 11)

⁹ QCA Issues Paper (October 2008: ii)

3.3. Depreciation of Assets

QR are looking to further reduce their risk through a proposed accelerated rate of depreciation for new capital expenditure and through proposed decreased asset lives of existing assets to 20 years. Stanwell questions whether this has been factored into the new proposed rate of WACC which is 11.76%, up from 8.43% in 2006.¹⁰

3.4. Combining Goonyella and Blackwater Electric Assets

Stanwell appreciates that there may be value in combining both Goonyella and Blackwater Electric Assets into a single asset base. However without a detailed assessment of how this would potentially impact Stanwell's reference tariff under each scenario, and the implications on QR Network's WACC in considering this change, Stanwell is unable to make an informed decision as to its merit.

3.5. Annual Price Reset – based on revised volumes

Stanwell supports the annual resetting of tariffs based on revised volumes, if it can achieve the objective of reducing the 'shock' of unders and overs, which would potentially be an out of budget cost.

¹⁰ QCA Issues Paper (October 2008:ii)
