



21 November 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](mailto:rail@qca.org.au)

Dear Mr Hall,

### **Queensland Network's Proposed Revenue Cap Adjustment For 2007/08**

Thank you for the opportunity to provide comments on the QR Network Pty Ltd's (QR Network) proposed reference tariff variation to take into account the revenue under-recovery for the 2007/08 financial year.

Similar to the 2006/07 revenue cap adjustment process, the majority of the data associated with the QR Network submission has not been made available for public scrutiny, and therefore Asciano is limited in its ability to provide useful comment into this process. Asciano and other stakeholders are wholly reliant on the QCA to ensure that the calculation of the adjustments to the reference tariffs have been correctly carried out.

#### **NO CONNECTION BETWEEN PHYSICAL ACTIVITY & REPORTED REVENUE**

It is most unhelpful that the QR Submission provides no data connecting the underlying physical activity to the revenue under-recovery. All that is provided is the bare fact that the revenue received was an amount lower than the allowable system revenue and that the revenue was sourced from the QR Network billing system.

While this might fulfil the letter of the undertaking, it gives stakeholders no indication at all of the physical activity that underpins these figures. Asciano believes that it is necessary for QR Network to establish that the revenue it has collected is in fact based on the traffic which ran on the various coal systems. The QR Submission indicates the billing model has been provided to the QCA and hopefully this will provide sufficient detail to allow the QCA to satisfy itself that access revenue has been properly calculated on the actual traffic that ran. However this does nothing to assist stakeholders to have confidence that this is so. Therefore Asciano suggests that the QCA provide a comparison of actual traffic compared to the forecast on which system allowable revenue was calculated to show a linkage between physical activity and the revenue collected. In addition it is hoped that QR Network will, in future revenue cap adjustment submissions, provide this data.

#### **QUANTUM OF ADJUSTMENT & PRICE RESETTING**

The quantum of the adjustment is very large, totalling \$43.2 (Scenario 1). As shown in Table 1, this represents 10.6% of the system allowable revenue for the 2007/08 financial year.

**Table 1: Proposed Increase As % Of 2007/08 System Allowable Revenue**

	AT <sub>2,4</sub>	AT <sub>5</sub>	Total
Blackwater	5.0%	25.9%	7.6%
Goonyella	9.8%	24.4%	13.2%
Moura	0.0%	0.0%	0.0%
Newlands	26.4%	0.0%	26.4%
<b>Total</b>	<b>7.9%</b>	<b>24.9%</b>	<b>10.6%</b>

Presumably the increase arises through under-railings compared to forecast – at least with respect AT<sub>2</sub>-AT<sub>4</sub>. However, Asciano believes that the size of the under-railing is significantly exacerbated due to the use of “whole of term” forecasts for volume and other components of the access charge.

To be fair to QR Network, the expectation that there would be a sizeable under-railing in 2007/08 was raised in QR Network’s submission to the QCA regarding the change from a price cap to a revenue cap.<sup>1</sup> QR Network sought to “reprofile” volumes with consequent adjustments to access charges to mitigate the anticipated adjustments to reference tariffs. This was rejected by the QCA, with strong support by Asciano, the Queensland Resources Council and major coal producers as being inconsistent with the basis on which charges had been calculated initially, and also that the revised forecasts were untested.<sup>2</sup>

However, notwithstanding that rejection, Asciano is concerned that anything other than a genuine annual pricing review will continue to generate excessive adjustments into the future. This is particularly pertinent to the current review of QR Network’s 2009 Undertaking (UT3) which attempts to achieve both a whole of term price and an annual price review – seemingly mutually exclusive approaches, in Asciano’s opinion creating substantial complexity for no benefit. Asciano has discussed this more fully in its November 2008 submission to the QCA regarding the UT3.

QR Network has already proposed massive price increases for 2009/10 and the adjustment for 2007/08 will further add to those prices. The result of the 2007/08 adjustment serves to reinforce Asciano’s view that prices ought to be reset annually to reduce the likelihood of significant forecast error and therefore the likely size of future adjustments.

## AT<sub>5</sub> ADJUSTMENT & LACK OF EXPLANATION

The size of the Blackwater and Goonyella AT<sub>5</sub> under-recovery suggests more than a mere under-achievement of forecast volume. If volume was the whole explanation one would expect a reasonable correlation across all components of the access charge – given that the trains in each system are relatively similar in gross to net ratio, different train sizes in one or more coal system does not intuitively explain the difference between the AT<sub>5</sub> recovery and the general AT<sub>2</sub>-AT<sub>4</sub> recovery. The

<sup>1</sup> QR “QR Access Undertaking 2005, Submission To The Queensland Competition Authority, Proposed Schedule F Amendment”, February 2007, pp 9-14

<sup>2</sup> QCA “Decision, “QR’s Proposed Schedule F Amendment”, May 2007, pp 8-10. It was also relevant that QR Network’s reprofiling involved a deferment to volumes to the end of the regulatory period so that it was likely to result in at least as large an adjustment into the next regulatory period as would result from retaining the initial forecasts assuming that no significant unexpected upsurge in volumes occurred late in the period.

disparity suggests that there is some additional factor at work related specifically to the use of electric locomotives.

Had AT<sub>5</sub> collections been up in one system and down in the other, this would have suggested a migration of electric locomotives into one system from the other. Interestingly this is the very argument that QR Network has proffered in its UT3 submission for the unification of the AT<sub>5</sub> charge between the two electric coal systems. But the evidence in the 2007/08 revenue adjustment suggests that the under-recovery is almost uniform between the systems – so migration cannot be the explanation.

Another explanation might be that a substantial portion of the electric fleet was not in operation during the period and that the volumes were conveyed by diesel – Asciano is not aware of any substantial change in coal fleet mix during 2007/08. Given that the majority of hauls in the Goonyella and Blackwater systems are electrically hauled, to achieve a 25% under-recovery (15 percentage points more than explained by volume in Goonyella and 20 percentage points in Blackwater) suggests a radical move away from electric traction.

As with the general under-recovery, the QR Submission gives no explanation for this unexpected result for AT<sub>5</sub>. As it stands, without explanation, the most obvious conclusion would be that the AT<sub>5</sub> under-recovery has been subject to error, either in the billing system itself (ie the calculation of access charges) or in the reporting of the results in the QR Submission.

To allay stakeholder concerns, the QCA in its decision should provide sufficient data to allow stakeholders to understand how this result has occurred..

## CONCLUSION

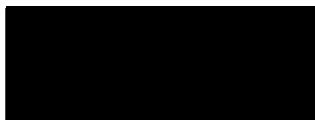
The QR Submission provides no linkage between the underlying activity and access charges collected. Therefore stakeholders are unable to have any sense that the under-recovery is linked directly to under-railing compared to forecast.

While the QR Submission provides a logical path from the under-recovery to the adjustment being sought, Asciano is concerned at the quantum of under-recovery. This adds weight to the argument for a genuine annual price setting mechanism in UT3 rather than an unwieldy whole of term pricing coupled with annual adjustments to some of the parameters.

The QR Submission provides no explanation for the substantial disparity between the under-recovery in AT<sub>2</sub>-AT<sub>4</sub> and AT<sub>5</sub>. This result appears anomalous and needs to be explained.

Should you have any questions in relation to this submission please contact me on (02) 8484 8043.

Yours sincerely



**Dr Tim Kuypers**  
**Group General Manager**  
**Access & Regulation**