

Draft Decision: Queensland Rail's June 2013 Draft Access Undertaking

The Queensland Competition Authority (QCA) ensures that monopoly businesses, particularly in infrastructure services, do not abuse their market power through unfair pricing or restrictive access arrangements.

We regulate third party access to Queensland Rail's regional freight network (i.e. the Mount Isa, North Coast, Western System, South Western and Central Western lines).

The access rules approved by us ensure a transparent set of rules for all network customers. This promotes competition in rail freight and places a ceiling on the tariffs Queensland Rail can charge.

New access rules are proposed by Queensland Rail every four years; the QCA may amend these rules to enhance competition and efficiency.

WHAT IS THE JUNE 2013 DAU?

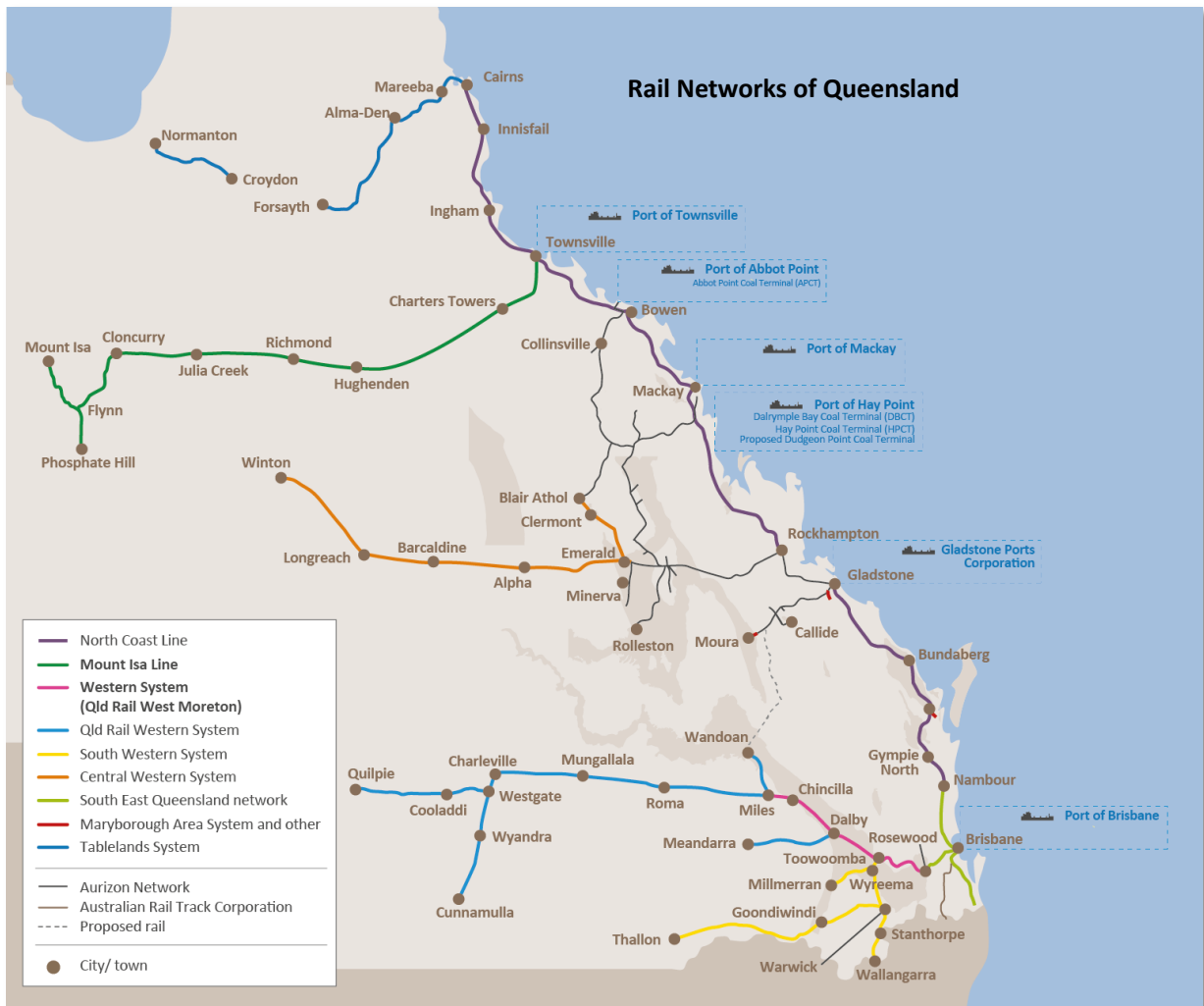
Queensland Rail submitted a new draft access undertaking (DAU) in June 2013. Once approved, the DAU will apply from 1 July 2013 to 30 June 2017.

As Queensland Rail no longer provides freight services, some aspects of the 2008 undertaking are no longer relevant. The DAU includes changes to remove or simplify these access rules.

DRAFT DECISION

We published our draft decision on 17 October 2014.

We welcome Queensland Rail's simpler undertaking as it is more aligned to its business and competitive environment. We propose to accept key elements of



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the 2013 DAU, including:

- (a) removing ringfencing provisions
- (b) introducing a 'light-handed' audit regime
- (c) simplifying the dispute resolution process
- (d) publishing technical documents on the web.

However, we are not proposing to accept details of the DAU where Queensland Rail seeks to shift risks and responsibilities onto access holders/seekers. Risks and responsibilities should be allocated to the party best placed to manage them.

We propose changes to make the DAU more consistent with the negotiate-arbitrate model by removing Queensland Rail's proposal that it have discretion over key aspects of the negotiation process.

We also propose an altered investment regime that protects the rights of customers when they fund new infrastructure connecting to Queensland Rail's network.

PRICING FOR COMMERCIAL TRAFFICS

Prices for most freight and passenger services on Queensland Rail's network are resolved by agreement following the negotiate-arbitrate model in the QCA Act and in the undertaking. This requires limited involvement from the QCA.

A reference tariff applies to coal train services on the western system. Western system coal services account for about one-fifth of Queensland Rail's revenues from access charges.

Western System tariff

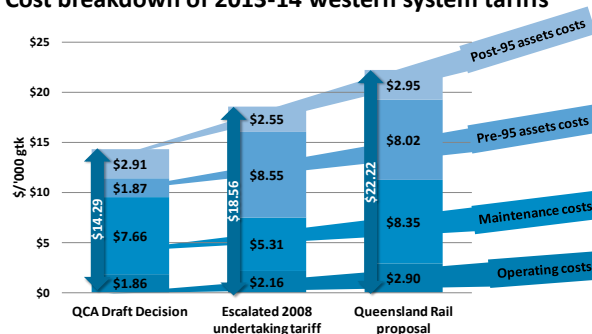
The western system was built in the 1860s to connect Brisbane to the agricultural districts of the Darling Downs. While agricultural freight remains important, thermal coal has grown over the last 20 years to be the main traffic.

The western system is a challenging and costly network for Queensland Rail to operate as it was not built for the coal services it now carries. We propose to accept many components of Queensland Rail's proposed western system tariff, including the rate of return and capital expenditure and most of its proposed increases in maintenance and operating costs.

However, the high maintenance and capital costs proposed by Queensland Rail confirm that the system is not a modern design suited for heavy-haul coal services. The poor condition of parts of the line influences our assessment of the appropriate asset value for the western system. We propose to only partly accept Queensland Rail's asset valuation. In particular, we are proposing to assign a zero value to assets still in use beyond their expected useful life.

Overall, our draft decision proposes a volume- and distance-based tariff of \$14.29 per thousand gross tonne kilometres. This tariff is 23% lower than the tariff applying under the 2008 undertaking.

Cost breakdown of 2013-14 western system tariffs



Note: a) Asset costs are comprised of return on and of capital. b) Operating costs include an allowance for tax.

Mount Isa line

Access charges for the Mount Isa line are most likely well below the ceiling price. Nevertheless, given investments in mines and other businesses are effectively sunk, stakeholders express concerns that Queensland Rail has substantial monopoly power at contract renewal.

We are proposing a pricing rule at contract renewal for the Mount Isa line which provides for Queensland Rail to increase the cost recovery of its existing assets at a real rate of two per cent per annum.

HOW DO WE DECIDE?

The QCA must either approve or refuse to approve a DAU. To approve an undertaking it must be consistent with the criteria in section 138(2) of the QCA Act.

We give all stakeholders, including Queensland Rail, the opportunity to convince us of the merits of their positions and arguments in a transparent way.

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This draft decision draws upon Queensland Rail's proposal and supporting documents as well as the stakeholder submissions received before the publication of this draft decision.

There is a consultation period after the release of the draft decision. We will consider all submissions in making our final decision.

Please send your submission on this draft decision by emailing grail@qca.org.au by **23 December 2014**.

How to make your submission more effective

We have already undertaken extensive consultation on the June 2013 DAU, which is reflected in the draft decision.

We will take into account all new submissions as well as material previously submitted by stakeholders on the DAU, to the extent that we consider it remains relevant.

Any submissions on this draft decision that we receive between the date of publication of this draft decision and the 23 December 2014 will be considered in our final decision. Hence, this draft decision is subject to amendment in light of the submissions we will receive.

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