



Department of
**State Development,
Infrastructure and Planning**

Our ref: DGBN14/1269

QLD COMPETITION AUTHORITY

13 OCT 2014

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DATE RECEIVED

Mr John Hindmarsh
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

~~Dear Mr Hindmarsh~~ *John*

Aurizon Network's draft 2014 Access Undertaking (UT4)

Thank you for the opportunity to provide comment on Aurizon Network's draft 2014 Access Undertaking (UT4).

The Department of State Development, Infrastructure and Planning (DSDIP) has a great interest in ensuring efficient and effective supply chains underpin the economy. As the lead agency responsible for driving economic development in Queensland, we wish to comment on some aspects of the draft UT4.

The coal industry is a key part of the Queensland economy, employing an estimated 28,000 people, and contributing \$1.7 billion in royalties in 2012/13, with the majority of this impact from Central Queensland.

In total, mining made up around 9 per cent of the Queensland economy in 2012/13, up from just under 6 per cent in 2002/03; coal represents more than two-thirds of this mining contribution.

Given the importance of coal to the strength of our economy, it is vital that the Queensland Government does everything it reasonably can to support the ongoing development of our coal industry.

The draft UT4 indicates a substantial increase in the reference tariffs is proposed for the Central Queensland coal network. Your August 2013 Consultation Paper advised that the draft UT4's proposed tariffs represent an average increase of 36 per cent on a dollar per net tonne basis (based on UT3 forecast volumes).

Executive Building
100 George Street Brisbane
PO Box 15009 City East
Queensland 4002 Australia
Telephone +61 7 3227 8548
Website www.dsdiq.gov.au
ABN 29 230 178 530

In addition, it is noted that the majority of the increase in the reference tariffs affects those components that contribute to the calculation of take or pay charges, in particular the AT2 component. It is understood that this reflects that a high proportion of Aurizon Network's costs are fixed. However, this effectively increases the take or pay charge exposure for the coal mines if the contracted capacity is not used.

Accordingly, this department notes that the proposed large increase in reference tariffs and the increase of take or pay exposure could have a negative impact on Queensland's coal sector, which is already impacted by low global coal prices. It is also noted that the proposed change would impact on both existing mines and on any planned future investments.

In addition, the terms and conditions of the standard access agreement provide for the reference tariffs to be amended throughout the term of the agreement to reflect the current endorsed reference tariffs. Furthermore, the relinquishment fee is based on the take or pay calculation for the remaining term of the agreement. DSDIP notes that these provisions may discourage the execution of longer term contracts that might otherwise be better suited to the mining sector. The use of shorter term contracts may lead to an increase in administrative costs, due to the need to more frequently negotiate and execute new contracts.

Industry stakeholders have also raised the issue that Queensland's coal supply chains are not maximising tonnage throughput and that there is insufficient flexibility between access holders to access spare capacity.

As noted in the *InfrastructureQ Directions Statement* which the Queensland Government released in September 2014:

"Supply chains compete globally, not just individually as mines, railways and ports. Better supply chain integration and coordination can uplift infrastructure utilisation, making Queensland more competitive globally, and more attractive to industry. This has the potential to bring major economic gains to Queensland."

DSDIP considers that there may be potential to improve asset utilisation and therefore productivity through supply chain coordination. It is understood that other states have introduced supply chain coordination arrangements that are proving beneficial for users and infrastructure owners. Accordingly, it is suggested that the Queensland Competition Authority considers the potential value of supply chain coordination in its deliberations.

If you require any further information, please contact Steve Kanowski, Chief Economist and Executive Director, Infrastructure Policy and Planning, on 3452 7301 or Steve.Kanowski2@dsdip.qld.gov.au, who will be pleased to assist.

Thank you for your consideration of this submission.

Yours sincerely



David Edwards
Director-General