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Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By: online submission

Dear Sir/Madam

**Supplementary Draft Decision
Aurizon Network 2014 DAU:
Reference Tariffs for Wiggins Island Rail Project Train Services.**

Idemitsu Australia Resources Pty Ltd (**Idemitsu**) welcomes the opportunity to provide this submission on the QCA's Supplementary Draft Decision on Aurizon Network's ("Aurizon's") proposed reference tariffs for the Wiggins Island Rail Project train services (**WIRP**).

In our submission of February 2015 regarding WIRP, Idemitsu noted that:

- We had not been consulted by Aurizon and we were not in a position to assess the accuracy of the information provided in Aurizon's submission.
- We therefore rely on the QCA to assess the accuracy of Aurizon's claims and the reasonableness of its proposal.
- Aurizon's claim that 50% of the cost of the Blackwater duplications should be allocated to existing Blackwater customers to reflect benefits received by those customers conflicts with information provided by Aurizon at various points in time through this process.
- To establish that existing customers benefitted from the WIRP infrastructure, it is necessary to show not only that the system was incapable of delivering contracted tonnages prior to WIRP, but also that WIRP reduced this shortfall. If it is the case that WIRP was designed to deliver incremental capacity equal to the tonnages under new contracts, then existing users will be no better off as a result of the project.

Support for the draft decision:

Idemitsu generally supports the draft decision, specifically the QCA's draft conclusions that:

- Existing users should not be made worse off by significant expansion projects triggered by other customers. QCA notes (page 22 of draft decision) "*it is unreasonable for the economic viability of a mine that is already operating to be adversely impacted by a material increase in access charges resulting from an expansion triggered by other users*".
- Customer endorsement of the 2008 Coal Rail Infrastructure Master Plan should not be determinative of the allocation of WIRP capital costs. We agree with this because Aurizon's

- views on the need for these projects changed prior to the point of committing to the investment, as demonstrated by Aurizon's December 2010 letter to the GCEE. Therefore proceeding on the basis of the earlier endorsement was not appropriate.
- Capital costs should not be allocated to existing users until the benefits received by existing users can be reliably demonstrated and quantified. Given the conflicting information received from previous modelling exercises on this topic, any modelling which is prepared to demonstrate such benefits, and the assumptions adopted, should be independently reviewed and verified.

Applicable undertaking:

Idemitsu supports the view of some stakeholders that pricing rules under the 2010 Access Undertaking should be applied to this decision. However, we also note that Clause 6.2.2 of the 2010 Undertaking requires that the Access Charge for a Train Service "*will not fall below the level that will recover the expected Incremental Cost of providing Access for that Train Service*". Incremental Cost in this context means all avoidable costs, and does not exclude costs incurred on the mainline. We understand that clause 4.1.2 of Part B of Schedule F may appear to conflict with the pricing principles, and we accept the QCA's explanation that "*it was not envisaged at the time [of approval of 4.1.2] that this test would be applied for major step changes in capacity such as the integrated duplications associated with WIRP*". We therefore consider that the application of the 2010 Undertaking (specifically clause 6.2.2) should result in a pricing decision for WIRP in which WIRP users pay the full incremental costs of their access, such that existing users are not adversely impacted.

Risk sharing under the draft decision to socialise costing:

We note that the decision to adopt a "socialised" pricing approach for Blackwater WIRP customers, and a "system premium" approach for Rolleston, creates a significant degree of risk sharing between existing Blackwater customers and WIRP customers, and that this is contrary to the approach proposed for pricing of major expansions in the QCA's draft decision on Aurizon's 2014 Draft Access Undertaking (i.e. the "separate reference tariff"). In the event that WIRP customers do not rail their forecast tonnes (which we consider is a significant risk during the 'ramp up' stage), revenue shortfalls will result, which will be recoverable under the revenue cap arrangements and increase future reference tariffs.

Idemitsu supports the separate reference tariff approach. However, we consider that the risk created over the limited remaining term of UT4, for which reliable volume forecasts should now be available, is manageable. For UT5, we would urge the QCA to re-assess this issue, given the greater difficulty (and therefore risk) involved in forecasting tonnages for WIRP users over a longer period, particularly if these users are still forecasting a ramping up of tonnages during the period.

Concerns with draft decision:

Other concerns with the draft decision are:

- QCA proposes to accept Aurizon's revised proposal regarding recovery of operating and maintenance costs from WIRP customers. Under Aurizon's proposal, WIRP is assumed to cause no incremental operating costs, and maintenance costs of around \$2m per annum. Aurizon's earlier (December 2013) submission proposed the recovery of \$13-15m of operating costs from WIRP, and more than \$30m per annum for maintenance. We understand the view that

additional train services may be accommodated with minimal additional operating costs and, in the early years, minimal maintenance costs. What concerns us is that:

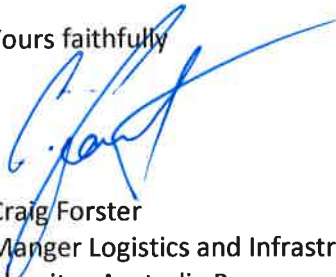
- This is not evident in Aurizon's UT4 submissions, which claim substantial increases in operating and maintenance costs across Central Queensland, largely attributed to volume increases.
- Aurizon's views on the relationship of costs and volumes seems to be inconsistent across its submissions.

Despite these concerns, we accept the minimal cost allocations to WIRP for the remaining term of UT4, and encourage the QCA to reassess this question under UT5.

- We are unable to determine whether the contribution of the WIRP North Coast Line train service from Colton is adequate. We note the QCA's comment that this customer uses only 8km of Aurizon's network and runs significantly shorter trains than those operating in the Blackwater and Moura systems, however:
 - We would also expect that a portion of the cost of the WICET balloon loop should be recovered from this customer.
 - Despite using only a small portion of the network, these trains will still prevent other trains from using that section of the network for a period of time, and will occupy time at the unloading facility. Therefore these trains consume (or prevent the use of) system capacity well in excess of what might be indicated by their relative use of track.

Thank-you for your consideration of our submission.

Yours faithfully



Craig Forster
Manager Logistics and Infrastructure
Idemitsu Australia Resources Pty Ltd