

File Ref: 1299163

21 June 2018

Mr Nick Easy
Chief Executive Officer
Queensland Rail
GPO Box 1429
Brisbane Qld 4001

Dear Mr Easy

Approval of Yancoal February 2018 Endorsed Variation Event

On 21 June 2018, the Queensland Competition Authority made a decision to approve a variation of the West Moreton reference tariff resulting from Yancoal February 2018 Endorsed Variation Event, as per Queensland Rail's application on 9 April 2018.

The QCA's review of the endorsed variation event is summarised in the attached decision notice.

If you have any questions about this decision notice, please contact Stephen Wisenthal at (07) 3222 0507 or stephen.wisenthal@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

DECISION NOTICE

YANCOAL FEBRUARY 2018 ENDORSED VARIATION EVENT

21 June 2018

The Queensland Competition Authority made a decision to approve a variation of the West Moreton reference tariff resulting from the Yancoal February 2018 Endorsed Variation Event. This notice confirms that decision, under Schedule D, clause 5.4 of Queensland Rail's 2016 Access Undertaking.

Background

The tariff variation discussed in this notice is the second endorsed variation Queensland Rail has submitted to the QCA under the 2016 access undertaking to reflect increased contracted volumes from Yancoal's Cameby Downs mine on the West Moreton system.

The previous one, approved by the QCA in November 2017, reflected extra capacity contracted by Yancoal in December 2016. This latest application reflects further capacity contracted by Yancoal from 1 February 2018.

Notification

The 2016 access undertaking requires QR to notify the QCA as soon as reasonably practicable after it has contracted coal-carrying train services on the West Moreton Network and or the Metropolitan Network (cl. 5.4.1(c)).

On 9 April 2018, QR notified the QCA that an Endorsed Variation Event had been triggered because its contracted coal-carrying train services from Yancoal's Cameby Downs mine would exceed the forecast volumes on which the QCA relied when assessing and approving the West Moreton reference tariffs in the 2016 access undertaking.

QR's application

The undertaking requires QR to submit a reference tariff variation application within three months after it becomes aware an endorsed variation event has occurred (Schedule D, cl. 5.1(a)(ii)(A)). On 9 April 2018, QR lodged an endorsed variation event application seeking QCA's approval to vary the West Moreton reference tariffs to reflect its higher contracted coal tonnages.

QR said contracted coal train services from Yancoal's Cameby Downs mine to the Port of Brisbane, traversing the West Moreton and Metropolitan networks, were now more than those that triggered the endorsed variation event in December 2016. This latest contract was executed on 31 January 2018, with effect from 1 February 2018.

QR's application proposed a revised reference tariff that reflected the increase in contract paths compared to those used to calculate the tariff after the previous endorsed variation event.

Consultation process

The QCA published a redacted version of Queensland Rail's application on 16 May 2018, and sought comments by 1 June 2018. The QCA received one submissions, from New Hope Group, which agreed the endorsed variation event had occurred. It said it would rely on the QCA to assess the calculations and confirm key input assumptions.¹

Legal framework

The 2016 undertaking provides that the QCA may approve an endorsed variation event if:²

- (a) the endorsed variation event has occurred (cl. 5.4(a)(ii)(A)), which is defined as 'contracted coal-carrying train services for the West Moreton Network and the Metropolitan Network are greater than the forecasts of coal-carrying train services used to develop the Reference Tariffs for those networks' (cl. (c) of the definition of Endorsed Variation Event).
- (b) the variation has been calculated as if all other Reference Tariffs were also being recalculated due to the occurrence of the Event
- (c) the variation reflects the cost impact on QR resulting from the Event.

The variation applies from the first day of the month immediately following the date the endorsed variation event occurs.³

QCA analysis

QR's application said contracted capacity from Yancoal's Cameby Downs mine increased effective 1 February 2018.

QR submitted a financial model of its proposed tariffs for the Yancoal February 2018 Endorsed Variation Event (the QR model).

The Yancoal February 2018 Endorsed Variation Event was triggered because the total contracted train paths from Yancoal's Cameby Downs mine exceeded the forecast volume (including forecast ad hoc paths) used to assess the reference tariff. The QCA has reviewed QR's submitted model and confirms that the revised tariffs have been correctly calculated. The additional train paths reduced the West Moreton tariffs (2016-17 dollars) from 1 February 2018 as follows:

- AT1: from \$8.74/'000 gross tonne kilometres (gtk) to \$7.95/'000 gtk (-\$0.79/'000 gtk) (-9.07%)
- AT2: from \$2,964.71/train path to \$2,791.20/train path (-\$173.51/train path) (-5.85%)⁴

Decision

The QCA has assessed the endorsed variation event application against the matters set out in Schedule D, clause 5.4(a)(ii) and considers that the application is consistent with the undertaking. In particular:

- the event has occurred
- the reference tariff is calculated as if all reference tariffs have been recalculated; and

¹ New Hope Group, sub. 1, p. 1

² AU1, Sch. D, cl. 5.4(a)(ii).

³ Sch. D, cl. 5.4(b)(ii)(A).

⁴ Tariffs are escalated annually using actual CPI (see Schedule D, cl. 3.3(a)).

- the proposed tariff captures the incremental costs of the additional train path.

For the reasons set out above, the QCA has decided to approve this endorsed variation event which will result in an adjustment to access charges back to 1 February 2018.