



Letter No: B/D/13/26031

21 August 2013

Attention: Dr Malcolm Roberts  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001  
rail@qca.org.au

Dear Dr Roberts,

### Capricornia System Rules – Draft Determination

CS Energy has prepared this response as it is concerned that Gladstone Power Station may lose priority of “domestic cyclic services” over “coal-export cyclic services” in Aurizon’s network. In the Draft Determination of the Capricornia System Rules the Authority has stated:

*“The Authority considers that contracted cyclic services destined for a power station should not receive priority over contracted cyclic services destined for the port terminals if there is no statutory or undertaking requirement for this. Aurizon Network has subsequently indicated that its rationale for having such a priority has been driven by security-of-energy supply concerns.*

*While such a concern may be well intentioned, such a priority is commercially valuable and it should not be provided in an unstructured way. Any class of customers could seek to be granted some form of a priority status if it gave them a commercial advantage over a rival, in particular if everyone paid the same price for access. Moreover, the Authority notes that Queensland is part of the National Electricity Market (governed by the National Electricity Laws) which means that the State’s energy security has been, to a large extent, protected by the integration of the State’s electricity network with generation assets in other states along the eastern seaboard.”*

CS Energy disagrees with this view and therefore considers Draft Decision 3.2 (f) should not be made.

#### Draft Decision 3.2

The Authority requires the draft system rules to be amended such that:

***(f) cyclic train services destined for export terminals obtain the same scheduling priority as domestic cyclic services destined for power stations, as specified in the network management principles.***

Our rationale is as follows:

- Due to the direct regulation of rail services, prices of using the network relate to the regulated allowance determined by the QCA and are not set by market demand;
- There is no trading mechanism to allow the rail slots to be allocated by those users that value the slot most highly;
- System is subject to allocative inefficiency in the sale of rail slots to users;

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- This is not necessarily a major inefficiency during normal course of business<sup>1</sup>, but may be under times of system stress or emergency;
- National Electricity Market (NEM) has a market price cap of \$13,100/MWh. The value in the NEM in burning coal at times of system stress is significantly higher than that that of exporting via RG Tanna;
- To overcome this allocative inefficiency there should remain priority scheduling of coal trains to power stations on the Blackwater and Moura systems.

Events do occur whereby supplies to Gladstone and Stanwell power stations are critical to the supply of power. Recent examples include the floods in 2011 and more recently ex-cyclone Oswald in Jan 2013.

CS Energy does not believe security of supply issues can be resolved by being part of the NEM, as asserted in the Draft Decision. Turning on a Hydro station in Tasmania or a gas turbine in South Australia will not help Queensland customers if Stanwell and Gladstone are running out of coal and other generators are experiencing difficulties. Instead generators will manage security of supply by effectively rationing power supply over a period<sup>2</sup> until they can be sure coal supplies will return to reasonable levels. It would be preferable for coal trains to be prioritised to the power stations.

It is highly likely that train services will be prioritised to power generators rather than export, irrespective of the priority specified in the Capricornia System Rules. One would expect authorities would act to prioritise supply to the power stations in instances whereby electricity load has the potential to be shed. The Capricornia System Rules should reflect this reality.

The Authority should realise that under circumstances where load could be shed mine and rail infrastructure will benefit from the security of supply provided by prioritising trains to power stations. The Authority and its consultants have provided no evidence that there has been any abuse of the priority status by power station users at the expense of other users.

In summary, to withdraw the priority of services to power stations will be allocative inefficient without allowing any mechanism for users to purchase priority in services. It also does not face the practical reality that security of electricity supply is of greater value than export of coal. For these reasons decision 3.2 (f) should not be made.

Yours sincerely



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<sup>1</sup> Because businesses can modify coal supply contracts to supply the highest bidder in the long run.

<sup>2</sup> Or burning the coal and then relying on business interruption insurance if available (this would be imprudent, but may be commercially advantageous).