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Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4000

By email: aurizon@qca.org.au

RE: UT4 Submission

Sojitz Coal Mining Pty Ltd ('Sojitz') welcomes the opportunity to make this submission on regulatory issues within Aurizon Network's ('ANs') *2014 Draft Access Undertaking* ('*2014DAU*'), currently under due consideration by the Queensland Competition Authority ('QCA').

This submission seeks to highlight issues across two areas. Specifically:

1. Wording within the *2014DAU Standard End User Access Agreement* ('*SEUAA*') in relation to the reduction of nominated monthly train services via increased payloads; and
2. The fees associated with transferring access rights.

Sojitz confirms this submission is final and the QCA may publish this document.

Reduction of nominated monthly train services via increased payloads

Clause 8 of AN's *2014DAU SEUAA* states:

> *If, at a point in time (Assessment Date), the Average Annual Payload for a Train Service Type operated by a particular Operator (Defaulting Operator) exceeds the Maximum Payload for that Train Service Type, then Aurizon Network may, within 20 Business Days after the Assessment Date, give the End User and the Defaulting Operator a notice (Reduction Notice) in respect of the Affected Train Service Type.*[1] [2]

The QCA's 2015 Draft Decision ('*2015DD*') on AN's *2014DAU* proposed to remove provisions allowing AN to reduce services. This was based on the QCA's view of possible adverse effects of reducing nominated monthly train services, including having a disadvantageous effect on competition, a detrimental effect on the certainty and security of contracted access rights, as well as having potential negative implications for the above-rail market.[3]

Sojitz certainly appreciates the QCA's stance on this issue. Under certain circumstances, Sojitz would agree that in providing AN with carte blanche authority to reduce nominated monthly train services,

[1] Aurizon Network, 2014, *Standard End User Access Agreement*, pg. 57, 7th August 2014, available at www.qcq.org.au
[2] Sojitz notes that near identical wording exists within Clause 11 of the *2014DAU Standard Train Operations Agreement* ('*STOA*').[2]
[3] QCA, 2015, *Draft Decision – Aurizon 2014 Draft Access Undertaking – Draft Decision Volume I – Governance and Access*, pg. 173, 31st January 2015, available at www.qca.org.au

negative consequences could impact upon stakeholders of the Central Queensland Coal Network ('CQCN'). Nonetheless, Sojitz also believes there are real examples of where such train service reductions could benefit stakeholders holistically, whilst enhancing various economic efficiency elements of the entire coal supply chain.

By way of an example, assume that a coal mine ('Mine A') within a system has contracted capacity for 10 million tonnes per annum ('Mtpa'). Assuming an operator has an initial train payload of 7,000 tonnes, equating to 1,429 train paths per annum being initially required by Mine A to service the contracted volume. Yet if the operator is able to undertake efficiency improvements and increase train payloads over time to 8,000 tonnes, then only 1,250 train paths per annum would then be required. This would see a reduction of approximately 179 train paths per annum, unlocking approximately 1.43Mtpa (179 train paths x 8,000 tonnes) of latent capacity within the system.

If AN was able to recover this extra capacity created by operators via increasing train payloads, then it is highly likely that unnecessary capital expenditure will be deferred, preventing AN from expanding the network unnecessarily whilst also increasing utilisation of the existing rail infrastructure. AN indicated this outcome very early into the UT4 process within its 2013 Draft Access Undertaking (*'2013DAU'*).[4]

Sojitz further believes that this would most certainly become a realisation if another mine ('Mine B') within the same system was able to utilise this extra capacity, altogether increasing system throughput without capital expenditure.

Yet to achieve the capacity realisation of the 1.43Mtpa, AN would need to reduce excess/surplus train paths held by an access holder. Hence in limited circumstances such as illustrated above, Sojitz believes that AN should be permitted to reduce train services. So as to address the concerns of the QCA as outlined in the *2015DD*, Sojitz believes a pragmatic approach could be achieved. For instance, where an operator has increased payloads, where that payload increase has created excess train paths, and where those train paths could be used by another access holder or seeker, then AN should be obligated to reduce the nominated monthly train services by the number of differential train paths (i.e. 179 train paths per annum as per the above example).

Sojitz believes that the above example would limit opportunities for 'capacity hoarding' by Access Holders, and also reducing barriers to entry for new mining operations. As outlined by Synergies in its review of coal supply chains in Australia:

> *In an environment where capacity is or is expected to become scarce, users perceive capacity entitlements as a key source of competitive advantage...*
>
> *This can lead to practices such as capacity hoarding (where the costs of not utilising the capacity are considered less than the potential risks of maintaining access to the capacity). Apart from the obvious impact that has on users who may have been able to utilise that capacity, this clearly compromises efficient operation and investment in the supply chain. It also has broader implications in relation to maximising the value of the resource, which is of benefit to the economy.*[5]

To the point, Sojitz believes that allowing AN the ability to reduce monthly train services in limited circumstances increases both the allocative and productive efficiency of the CQCN. Therefore, Sojitz believes that the QCA should amend its draft position to account for circumstances outlined above.

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[4] Aurizon Network, 2013, *2013 Draft Access Undertaking – Volume 2: The Undertaking Proposal,* pg. 120, 31st April 2013, available at www.qca.org.au

[5] Synergies, 2009, *Review of Coal Supply Chains,* pg. 70, 20th March 2009, available at www.qtlc.com.au

Transfer fees

Towards the end of 2014, Aurizon Network submitted a discussion paper on the potential short-term transfer mechanism.[6] The discussion paper touched on a number of elements including AN's view in applying no transfer fees to short-term transfers.

Given that AN has been operating under a revenue-cap framework since UT2 and is fully protected from revenue short falls associated with transferring access rights, Sojitz queries why such a mechanism still exists.

Notwithstanding the rationale for maintaining the applicability of transfer fees since UT2, Sojitz provides support the outright removal of this outdated and redundant mechanism.

If you have any questions regarding this submission, please contact myself or Mr Jamie Freeman (jfreeman@balanceadvisory.com)

Yours sincerely

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[6] Aurizon Network, 2014c, *Aurizon Network 2014 Draft Access Undertaking – Discussion Paper on potential short-term transfer mechanism*, pg. 13, 19th December 2014, available at www.qca.org.au