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### **RE: 2015 QCA Capacity Transfer Mechanism Supplementary Draft Decision**

Wealth Resources Pty Ltd ('WR') welcomes the opportunity to make this submission towards the Queensland Competition Authority's ('QCA's') 2015 *Supplementary Draft Decision* upon Aurizon Network's ('AN's') Capacity Transfer Mechanism ('2015 QCA SDD').

In summary:

- WR fully supports the proposal to remove transfer fees associated with UT1 and UT2 access agreements;
- WR fully supports the proposal to remove transfer fees associated with UT3 access agreements where the duration of the transfer is less than two years;
- WR recommends that transfer fees should also be removed from all access agreements, no matter their access undertaking derivation;
- WR recommends that transfer fees should be removed for all transfer durations;
- WR is concerned that the QCA stance of 'winners and losers' ignores recognition of new access seekers;
- WR anticipates that the QCA has performed the appropriate cost benefit analysis before undertaking its draft policy position;
- WR questions the asymmetric stance of the QCA in determining how sections of the *Queensland Competition Authority Act (1997)* ('QCA Act') are not met; and
- WR believes any adverse impacts are outweighed by positive system benefits including – but not limited to – the strengthening of Pareto, distributive and scale efficiencies of the respective coal systems and the Central Queensland Coal Network ('CQCN').

#### **Background**

WR recently acquired Carabella Resources and is currently pursuing development of the Bluff PCI Coal Project. Located some 20 kilometres east of Blackwater in Central Queensland, the Bluff project is an open cut operation that seeks to extract high quality, low ash PCI coal for the next 10 to 15 years. Immediately adjacent to the Blackwater railway line and 260 kilometres away from the Port of Gladstone, the project aims to commence mining activities in 2017. WR is therefore considering securing port and below rail capacity from an existing user through a transfer of access rights.

## Transfer Fees

ANs 2014 Discussion Paper on the potential short term transfer mechanism ('2014 Transfer Discussion Paper'),<sup>1</sup> was provided as part of the 2014 Draft Access Undertaking ('2014 DAU'). The 2014 Transfer Discussion Paper details the capacity transfer mechanism, which principally allows for the transfer of existing train service entitlements ('TSEs') or capacity from one access holder to another. Historically when such transfers have been undertaken, transfer fees have been incurred, with that fee deliberately intended to protect AN from any loss in revenue associated with reassigning train paths from longer to shorter hauls.

However the environment under which the transfer fee concept was cultivated was a considerably different setting to that under which AN operates today. Specifically under UT1, AN (then Queensland Rail) operated under a price cap framework. In UT2, the price cap methodology was replaced - and to this day - AN continues to operate under a revenue cap approach.

As revenue cap regulation mostly protects AN from volume and revenue risk, the original objective of associating fees with transfers seems a redundant contrivance. In this light, WR fully supports:

- ANs stance to remove transfer fees associated with UT1 and UT2 access agreements; and
- ANs stance to remove transfer fees associated with UT3 access agreements where the duration of the transfer term is less than two years.

Yet WR further believes ANs position to remove transfer fees should be extended across all access agreements, no matter the access undertaking origin. Specifically, as existing UT3 capacity transfer provisions outline that transfers with a term of less than two years attract a zero transfer fee, WR is of the view that a zero transfer fee should apply to any access agreement, be it originating within UT1, UT2, UT3 or UT4. Pointedly, WR is of the view that a consistent approach for all access agreements is based upon the premise of non-discrimination, where in relation to that of zero transfer fees, all agreements should be treated equivalently so as to aid efficiency.

WR also is of the view transfer fees should be removed not just for transfers of less than two years, but for all transfers no matter the duration. Assuming that transfers of equal TSEs occur across the transfer period, the largest impact transfer fees exhibit would be within their first year, due to present value calculation of the transfer fee and the time value of money. Furthermore, as AN regularly resets its revenue via both the annual Revenue Adjustment Amount process as per Schedule F of the 2010AU and the 2014DAU, transfer fee impacts further into the future would be minimised – if not eroded altogether.

In relation to Draft Decision 4.1 of the 2015 QCA SDD, WR does appreciate the QCA stance where dependent upon a range of factors, including nominated origin/destinations for take-or-pay liability as well as access agreement origination, ANs

*..proposed transfer pricing approach [could] result in 'winner and losers' amongst existing access holders in each coal system...<sup>2</sup>*

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<sup>1</sup> AN, 2014b, *Aurizon Network 2014 Draft Access Undertaking – Discussion paper on potential short-term transfer mechanism*, 31<sup>st</sup> December 2014, available at [www.qca.org.au](http://www.qca.org.au)

<sup>2</sup> QCA, 2015, *Supplementary Draft Decision - Aurizon Network 2014 Draft Access Undertaking: Capacity Transfer Mechanism*, pg. 26, 30<sup>th</sup> April 2015, available at [www.qca.org.au](http://www.qca.org.au)

However WR also expresses concern with this position, as there seems to be little recognition of new access seekers within this posturing by the QCA. WR requests the QCA to consider more than just the existing access holders of a coal system when assessing the apparent winners and losers.

WR also notes the QCAs stance of other users' access charges, specifically where section 168A(a) of the QCA Act is not met

*...because the transferee does not pay the full cost of the transferor's contracted TSE and any shortfall in Aurizon Network's annual revenue is socialised across all access holders operating in the coal system. [Therefore, the QCA is] of the view that other users' access charges should not be adversely affected by a transfer. <sup>3</sup>*

WR accepts the QCA argument where other users of the system would be required to pay a revenue shortfall (if at all incurred) as a result of a transferee not paying the full cost of the transferor's contracted access rights.

However, WR queries the practicality of this argument across three facets.

Firstly, in reading through the 2015 QCA SDD it does not seem evident that the QCA has performed quantitative analysis on the magnitudinal effects of transfer fee(s) upon total system revenues within the CQCN. WR seeks the QCA to confirm that such cost benefit analysis has been performed, as *Best Practice Regulation* requires thorough examination before undertaking informed, objective and transparent policy positions.<sup>4</sup> In the context of such analysis being discharged, WR would reasonably expect that the net impacts of such transfers would be no more than a few cents per net tonne for the other users of the coal system.

Secondly, whilst the QCA has discussed how sections<sup>5</sup> of the QCA Act are not met because existing access holders (unconnected with the transfer) would be negatively impacted, WR seeks to raise the argument in the converse. For instance in an environment where AN over-recovers revenue WR believes section 138(2)(e) would be met as there be no transfer of under-recovery and other users would not be adversely affected; believes section 168A(a) is met as commercial risks are reduced via introducing a wider customer base into the relevant system; and believes section 168A(b) would be met as removal of transfer fees would strengthen system wide efficiencies. WR therefore believes the QCA is asymmetric in its view of the QCA Act not being met and requests the QCA to revise its position to accommodate circumstances where AN experiences an over recovery in revenues. For instance:

*...if a transferor transfers some or all of its TSEs from its origin to a closer-in origin on the same mainline path, then the transferee will be charged a transfer fee, but that transfer fee will be fully reimbursed to the transferee if AN over recovers revenue in the relevant year(s).*

Thirdly and in elaborating on the previous point, even if other users of the coal system were required to pay such shortfalls, WR highlights that these minimal impacts would be more than offset by the positive benefits of allowing such transfers to proceed. For instance, by allowing transfers to occur and by enabling new access seekers to enter the coal supply chain, the wholesale integrity and efficiency of the coal system would be strengthened by increasing the Pareto, distributive, and scale efficiencies of the entire CQCN.

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<sup>3</sup> QCA, 2015, pg. 27, available at [www.qca.org.au](http://www.qca.org.au)

<sup>4</sup> Office of Best Practice Regulation, 2015, accessed 24<sup>th</sup> May 2015, available at [www.dpmpc.gov.au/office-best-practice-regulation](http://www.dpmpc.gov.au/office-best-practice-regulation)

<sup>5</sup> 138(2)(b), 138(2)(e), 106 and 168A(a)

Therefore, WR requests that the QCA revisit its draft decision of 4.1 within the *2015 QCA SDD*, amend its stance to allow zero transfer fees to proceed and ensure that a consistency of approach is applied to all access agreements, no matter their access undertaking generation.

WR would welcome the opportunity to contribute to any future discussion on this issue and confirms that this submission is public.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Dennis Shen', written in a cursive style.

Dennis Shen  
Managing Director