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

The Queensland Resources Council (QRC) appreciates the opportunity to provide feedback on the QCA's Supplementary Draft Decision regarding reference tariffs for Wiggins Island Rail Project ("WIRP") train services under Aurizon Network's 2014 DAU.

Pricing for WIRP train services has been a contentious issue for a significant period of time. Individual QRC members continue to hold a range of views, which we expect will be provided to the QCA through individual submissions.

This submission provides comments, supported by QRC's coal producer members, on:

- Specific elements of the Draft Decision which could be improved (without prejudice to the more comprehensive changes which individual members may suggest).
- The lessons learnt from the WIRP/Blackwater duplication experience; an experience which has been causing confusion and contention since its beginnings in 2008.

Comments on WIRP draft decision:

- **Certainty:** Stakeholders, and particularly WIRP users, have suffered an extended period of uncertainty regarding the pricing of WIRP train services. It is understood that the QCA's final decision will necessarily relate to the 2014 DAU (and the UT4 term) only. However, QRC suggests that the final decision should set out the QCA's current thinking regarding the pricing of WIRP train services under future undertakings. It is understood that any final decision on this matter would be provided only through the approval of subsequent undertakings. Specific guidance which would mitigate the ongoing uncertainty would include:
 - Would the QCA intend to re-run the 'socialisation' tests under UT5, such that, for example, an increase in WIRP operating costs or capital charges could, if not offset by volume increases, result in the WIRP Blackwater users being required to pay a system premium? Alternatively, would the QCA intend to retain the socialisation of

existing and WIRP users within Blackwater (excluding Rolleston)?

- In regard to the WIRP capital expenditure on which returns are proposed to be deferred for the UT4 period, in what circumstances would the QCA envisage approving the commencement of capital charges?
- **Impacts of Take or Pay:** QRC suggests that the possible impacts of Take or Pay (“ToP”) on the financial outcomes for customers requires further consideration. By adopting socialised pricing or system premiums for all WIRP train services, a degree of shared volume risk is created. For example, a system premium will be calculated for certain customers such that a minimum revenue requirement is expected to be met, based on a volume forecast. To the extent that the customer rails more or less than the forecast, the revenue contribution of that customer will exceed or fall short of the required value, and this difference will be socialised. This risk is arguably symmetrical. However, the impacts of ToP may create outcomes and risks which are not symmetrical. For example:
 - In the case where a customer is expected to rail a low proportion of its contracted tonnage, a system premium will be calculated so that the required revenue contribution is achieved at the forecast tonnage. The customer may then be required to pay ToP, even if the customer has achieved or exceeded the forecast volumes. ToP in such a circumstance may be substantial, and would include the payment of additional system premiums. The revenue contribution of the customer may then significantly exceed the required amounts.
 - The customers which are not expected to rail during the UT4 period, and in respect of which capital charges on certain expenditure is to be deferred, will be subject to ToP if ToP triggers in the Blackwater system. With zero actual railings expected under these access agreements, ToP payments may be substantial. The benefit of this revenue will be socialised within the system, through the capping of ToP collections. The relevant assets will then have a higher value under UT5, arising from the capitalisation of returns, which was based on an expectation that no revenue would be earned in regard to these assets under UT4 (despite the collection of ToP revenue). In the event that the relevant mines, and other WIRP users, are then required to pay a system premium under UT5, this group will effectively be paying a higher price due to the failure to recognise the revenue received during the UT4 period. QRC would suggest that consideration be given to isolating any ToP revenue received in regard to the customers which are not expected to rail during the UT4 period, and using this revenue to reduce the capitalisation of returns on the relevant assets.
- **Lessons learnt:**

The WIRP experience has highlighted a number of deficiencies in existing processes, which have been documented in previous QRC submissions. The improvements sought in UT4 include:

 - Clear principles regarding the pricing of expansions.
 - A step relatively early in the expansion process which confirms the final approach to be taken to pricing of each expansion.

- Improved master planning and capacity analysis processes. We refer to our April 2015 submission and the comments on part 7A (commencing page 59) in support of the QCA's draft decisions which require that:
 - Aurizon Network completes a baseline capacity assessment within 6 months of approval of UT4 and discloses the assumptions used in that assessment.
 - Further capacity reviews be undertaken upon the occurrence of certain trigger events.
 - Independent expert reviews of a capacity assessment be undertaken in certain circumstances.
 - the Network Development Plan be:
 - better defined and include certain minimum information.
 - subject to peer review.
 - revised and updated in defined circumstances.
- To the extent that UT4 contains customer voting processes for expansions or other capex, any approvals obtained should be valid for a defined time period and be subject to a maximum budget. Aurizon should also be required to repeat the approval process following any material change in circumstances. Any 'negating' of an approval (as QCA states has occurred in the case of the Blackwater duplications) should be clear to all stakeholders at the time.

Thank you again for the chance to provide comments. The QRC contact on this submission is Andrew Barger, who can be contacted on 3316 2502 or alternatively via email at andrewb@qrc.org.au

Yours sincerely



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