Friday, 13 May 2011

Paul Bilyk
Director
Queensland Competition Authority
GPO Box 2257 Brisbane
Queensland 4001

Dear Paul,

QR Network Proposed Tariffs 2011-12 – Blackwater Electric and Diesel Tariffs

In reviewing the QR National Network Services document "*FY 2011/12 Annual review of Reference Tariffs*" released in April Asciano has some concerns with regards to the structure of the rates and rate changes and the financial impact of these changes. Asciano recognises that this response is outside the time frame requested by the Queensland Competition Authority for responses to this document but Asciano believes that the issues raised in this letter are important and should be considered in relation to both 2011-12 Blackwater electric Tariff and, more broadly, QR Network's electric tariffs going forward.

Asciano analysis demonstrates a potential imbalance in the proposed 2011-12 QR Network rate structures, with the rates for a Blackwater System standard diesel service increasing by approximately 8.7%[1] while the rates for a Blackwater System standard electric service increase by 2.8%.

This disproportionate increase is problematic as the reported under recovery of revenue in 2009/10 in the Blackwater system demonstrates that diesel services were operating at a level close to full revenue recovery (approximately 2% under recovery of revenue), whereas electric services were operating at a level well below full revenue recovery (approximately 13% under recovery of revenue). This under recovery implies that it should be Blackwater electric rates, rather than diesel rates, which should be increased to recover costs.

The issue of Blackwater electric pricing becomes more problematic when it is recognised that at the current time only QR National above rail are permitted by QR Network to operate electric trains on the Blackwater system. Thus disproportionate increase in diesel vs electric charges explicitly acts to benefit one rail operator at the expense of other rail operators.

Asciano believes that the disproportionate increase in rates for a Blackwater System standard diesel service when compared to the level of under recovery for both diesel and electric services in the Blackwater system serves as a preliminary indicator that costs for these services are moving away from being cost reflective, and as such cross subsidies between diesel and electric services in the Blackwater system may begin to develop.

The issue of pricing between diesel and electrics does not appear to be an issue to the same extent in the Goonyella system. Asciano analysis demonstrates the rates for a Goonyella System standard diesel service increase at approximately 4.4%[2] while the rates for a Blackwater System standard electric service increase at 2.9%. Given that in the Goonyella

[1] These increases are based on a standard train from Kestrel to RG Tanna Coal Terminal
[2] These increases are based on a standard train from Oaky Creek to Dalrymple Coal Terminal

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system in 2009/10 diesel over recovered revenue by 2% and electric services over recovered revenue by 3% then the fact that diesel rates have increased slightly more than electric rates seems generally consistent.

The issue of diesel vs electric pricing is of substantial concern to Asciano. Asciano believes that pricing of both diesel and electric track access in the Goonyella and Blackwater systems should be cost reflective with electric trains in the Blackwater system bearing the costs of electric specific infrastructure in this system.

More broadly, Asciano is particularly concerned that recent developments such as the changed drafting relating to electric tariffs in the "*QR National Draft Amended Access Undertaking and Standard User Funding Agreement*"[3] and the prices contained in the QR Network document "*FY 2011/12 Annual review of Reference Tariffs*" indicate that QR Network is potentially seeking to subsidise electric infrastructure in the Blackwater system with revenue raised from tariffs on either diesel trains in the Blackwater system or trains in the Goonyella system.

The issue of electric and diesel pricing becomes particularly acute when it is recognised that both current operators and potential new entrants are likely to make substantial rolling stock and locomotive investment decisions on the basis of future diesel and electric charges. Such decisions will be made on an assumption that QR Network charges will continue to be based on a principle of cost reflectivity for both diesel and electric power and for geographic systems. The QCA should indicate whether there is any intention to move away from this cost reflective pricing to a broader approach to cost allocation and pricing where there may be subsidies between diesel and electric power and geographic systems.

An approach where pricing is determined by reference to the costs attributable to diesel and electric power and to the relevant geographic system is more consistent with the both the economic principle of prices reflecting costs and with the QCA's current approach to price determination. The continuation of this pricing approach will result in increased certainty for rolling stock investment.

If you wish to discuss this issue please contact me on (03) 9248 7274.

Yours sincerely,

[redacted]

Dr Tim Kuypers
Group General Manager Safety, Access and Regulation

[3] Note that this issue was raised in the Asciano submission to the QCA review of this QR National Draft Amended Access Undertaking and Standard User Funding Agreement

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