



Our Ref: Paul Bilyk
Direct Line: 07 3222 0506
File Ref: 469596

8 October 2012

Mr Michael Carter
Chief Executive Officer
QR Network Pty Ltd
GPO Box 456
Brisbane QLD 4001

Dear Mr Carter

RE: QR Network's Electric Traction DAAU – Request for Further Comment on Draft Decision

The Authority has received 26 submissions in response to its draft decision on QR Network's Electric Traction Services (AT₅) draft amending access undertaking (DAAU).

Stakeholders, including QR Network, have made a number of comments, and provided a substantial amount of factual material, which the Authority is in the process of considering.

In light of the large amount of new material provided, the Authority is seeking further comments from stakeholders in response to this material, to help inform the Authority in its preparation of a final decision on the DAAU. The Authority will consider all comments, but has provided some guidance below on some of the issues which it considers may be particularly relevant and on which the Authority seeks further comment.

While the questions below highlight some matters related to the electric traction DAAU, they do not seek to comprehensively address all the issues raised in the Authority's draft decision, or stakeholders' comments on that decision. Hence, interested parties should rely on their own analysis to determine whether there are additional matters on which they wish to comment.

QR Network and other stakeholders are invited to make submissions to the Authority by 5 pm on **Friday, 23 November 2012**. The Authority will consider any submissions it receives by this time.

Please contact Ravi Prasad on 07 3222 0533 if you have any questions.

Yours sincerely



EJ Hall
Chief Executive

Issues Raised in Submissions on AT₅ Draft Decision

1. *Traction choice*: The draft decision did not take a position on whether electric or diesel traction was superior. Rather, it said that was a decision that should be left to a competitive market, and what was needed was a price that efficiently reflected the costs of providing the electric traction infrastructure. Stakeholders' further comments are invited on the Authority's positions in light of the draft decision submissions, including those from Emission Capital Management, North Queensland Bulk Ports, QR National and QR Network, and the various attached reports and appendices.
2. *Benefits of Electrification*: There is substantial amount of new material in response to the draft decision discussion on the benefits of electrification (i.e. see submissions from Arup, Aurecon, Bombardier, China Railway Materials, CSR Times Electric Australia, Emission Capital Management, Lend Lease, QR National, QR Network, Siemens and Toshiba). Much of this new material addresses issues of mainline running. However, stakeholders' previous submissions in response to the DAAU:
 - (a) raised particular issues about the implications of electrification for:
 - (i) *single-mine spurs*, where volumes may not be sufficient to justify the cost of installing electric infrastructure;
 - (ii) *the option value* of having diesel and electric trains on a mixed network; and
 - (iii) *shorter headways* and the relative costs of expanding electric capacity versus the use of diesel trains more frequently.
 - (b) questioned a number of the key drivers in QR Network's original TCO analysis, namely that the claimed:
 - (i) *superior performance* of electric locomotives was not reflected in the actual run times over key sections of the network; and
 - (ii) *longer cycle times* for diesel consists were primarily attributed to refuelling times in excess of what could be expected.

These matters were highlighted in the draft decision. Do stakeholders consider they have been addressed in sufficient detail in the new material? In particular, is the material on these matters in the new submissions sufficient to support or contradict the proposition made by some stakeholders that electric traction is more efficient than diesel?

3. *Object of Part 5*: The Authority formed the view that the objects clause focused on economic efficiency of the below-rail infrastructure and its impact on effective competition in related markets, whereas economic efficiency of the whole of the rail haulage service was relevant in the context of the public interest criterion. QR Network and QR National have contested the Authority's assessment of the objects clause. Stakeholders comment on the application of the objects clause is invited.
4. *Competition in locomotive supply market*: The draft decision identified the potential lack of competition in this market. Submissions by Arup, Aurecon, BHP Billiton Mitsubishi Alliance/BHP Mitsui Coal, CSR Times Electric Australia, QR Network, QR National, and Siemens show that, although there is currently a single supplier of narrow gauge electric heavy haul locomotives in central Queensland, electric locomotive supply is a global market with several potential suppliers. Do stakeholders have comments on how this DAAU might affect

competition in the locomotive supply market, with particular regard to the additional material in the submissions on the draft decision?

5. *Competition in rail haulage market:* The draft decision identified the Blackwater and Goonyella systems as separate rail haulage markets, and the Authority formed the view that the DAAU would adversely affect competition in those markets. QR Network has argued that Blackwater and Goonyella are not separate markets and, taking this broader market definition, the DAAU would not adversely affect competition. Do stakeholders have comments on the whether there are geographically separate coal haulage markets in central Queensland and how this DAAU might affect competition in the rail haulage market(s)?
6. *Strategic conduct:* QR Network and QR National (in particular the Ergas, Robson and Owen paper) have argued that above-rail operators may behave strategically and use the access framework to increase costs of their rivals. QR Network said a rival operator might introduce diesel trains in the Blackwater system with the intent of reducing the utilisation of the electric network and thereby increasing QR National's cost of providing electric traction services. In the past, this strategic behaviour was not possible as there were no available electric paths in Blackwater. Is this strategic behaviour likely to occur when new electric capacity is available in the Blackwater system? Could the DAAU itself be considered on the same basis as having an adverse impact on competition as it would increase the cost of diesel traction? Would this concern be resolved if AT₅ was no longer based on an average cost?
7. *Asset stranding:* In its recent submission on the draft decision, QR Network has more clearly articulated its concerns about the stranding risk for the Blackwater electric infrastructure. Other submissions, including by North Queensland Bulk Ports, have argued that assets should not be stranded. Some aspects to this issue are:
 - (a) *the AT₅ tariff is based on average costs:* the argument raised here is that AT₅ rises as utilisation decreases, so that low utilisation of the assets (today) may mask any inherent advantages that electric traction may have over diesel, and once diesel utilisation reaches a certain 'tipping point', the tariff would create an inertia forcing train operators away from electric traction. Stakeholders' submissions are invited on whether such a tipping point has been reached and whether QR Network faces a real risk that some of its Blackwater electric infrastructure will be stranded. If stakeholders consider that point has yet to be reached, at what point do they consider a stranding risk would be realised?
 - (b) *the investment planning process:* QR Network has said it relied upon the Coal Rail Infrastructure Master Planning (CRIMP) process to undertake the Blackwater investment and expects an efficient means of recovering that investment. Stakeholders' previous submissions raised concerns as to how faithfully QR Network met its obligations in the CRIMP process. Some stakeholders (e.g. Vale) said they were concerned about the possibility of removing the CRIMP process, and wanted the lack of information issue to be addressed to make the process effective. Do stakeholders have a view on what processes QR Network should be obliged to follow, and what information it should provide, to justify the level of protection from asset stranding that it is now seeking and to avoid this problem in the future?
8. *Solutions:* Some stakeholders, including QR Network, have raised alternative solutions to the one contained in the DAAU, for example:
 - (a) stakeholders' responses to the DAAU clearly identified the AT₂ incremental capacity charge and AT₂ multiplier (congestion charge) as part of the solution to the issues raised;

- (b) QR Network's commissioned report by Sapere provides an economic context for developing a pricing framework to address the realisation of an asset stranding risk; and
- (c) the Queensland Resources Council suggested that the AT₅ tariff be reduced to incentivise usage of electric traction.

Do stakeholders have a view on the alternative solutions that have been put forward and how they may be included in a future pricing framework for electric traction in the Blackwater system (or, indeed, for the Goonyella system as well)?