

Friday, 15 November 2013

Mr Paul Bilyk
Director, Rail and Ports
Queensland Competition Authority
GPO Box 2257
Brisbane 4001 QLD

By email to: rail@qca.org.au

Dear Mr Bilyk

Asciano Response to Aurizon Network 2012-2013 Revenue Adjustment Submission to the QCA

Asciano welcomes the opportunity to respond to the Aurizon Network 2012-2013 Revenue Adjustment Amounts Submission of September 2013.

It is difficult for Asciano to provide detailed comment on the Aurizon Network proposed revenue adjustment amounts for the 2012-2013 year given the limited level of information disclosed in the Aurizon Network public submission. Current contractual arrangements results in much of the information underpinning the revenue-cap adjustment application being confidential. This confidentiality limits the comments that can be made on the Aurizon Network revenue-cap adjustment application and reinforces the need for the QCA to be diligent in assessing the merits of the application.

Reliability of Forecasting

Asciano understands from the submission that in 2012-13 Aurizon Network under-recovered by \$39.1 million. This substantial under-recovery is essentially attributable to differences between forecast and actual volumes.

Aurizon Network undertakes forecasting of gross tonne kilometres, net tonne kilometres, tonnes, train paths etc for regulatory purposes. These forecasts are often not reflected in reality, and this consequently results in fluctuations in reference tariffs. These tariff fluctuations mean that within a given year users may not be paying the true cost of access and as such the allocative efficiency of the tariffs is diminished in the short term. In addition these tariff fluctuations can create problems for miners and train operators in costing, funding and planning their operations.

Asciano appreciates that forecasting is problematic, however Asciano believes that Aurizon Network's forecasting could be improved. Asciano understands that in developing its regulatory forecasts Aurizon Network does not consult with either individual miners or train operators. Increased consultation with miners and train operators should result in improved forecasting and hence reduced levels of year on year tariff fluctuation.

The recent Asciano submission to the Aurizon Network 2013 Draft Access Undertaking expanded on this point, seeking that Aurizon Network is required to involve stakeholders such as miners and train operators in annual volume forecasting and have annual volume

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forecasts independently assessed by an expert¹.

Asciano believes that such initiatives will improve forecasting, and that improved future forecasting will result in more predictable price paths which will in turn increase allocative efficiency and allow miners and train operators to more accurately cost, fund and plan their operations.

Future Pricing Impact

The size of the current under-recovery of \$39.1 million will have future pricing impacts.

Asciano is concerned that inaccurate volume forecasting results in fluctuations in year on year tariff increases. This can impact on the ability of users and operators to plan their operations and may also contribute to a perception that tariffs may be held artificially high or low at certain times or on certain systems.

Asciano is seeking that when the QCA and Aurizon Network implement tariff increases to address this substantial under recovery that they do so in a manner which ensures that the tariff increases are only on those tariffs which have been under-recovered, and resist any potential for socialising the price adjustments over a broader range of tariffs.

In particular Asciano believes that it is economically inefficient to recover the revenue under-recovery attributable to the electric infrastructure AT5 tariffs by increasing tariffs which apply to diesel trains, which do not use electric infrastructure.

Asciano believes that tariffs should be cost reflective to ensure productive and allocative efficiency. In particular, cost reflective tariffs are needed to ensure that there are no inter-fuel or inter system cross subsidies.

Clarifications

Asciano requests that Aurizon Network and the QCA should provide additional information and clarifications on the following issues.

Other Charges

Asciano is seeking clarity on how non-tariff Aurizon Network revenue is captured in the revenue adjustment process.

Aurizon Network potentially receives revenue from sources such as wagon storage agreements, connection agreements, yard licence agreements and ancillary services. This revenue substantially arises as a result of activities which utilise Aurizon Network's regulated assets. The treatment of this revenue in the revenue cap process should be clarified.

GAPE Revenue Adjustments

Asciano is seeking confirmation that the 2011-12 GAPE recovery of \$0.706m will be included in the 2014-15 reference tariffs as implied on page 4 of the Aurizon Network 2012-2013 Revenue Adjustment Amounts Submission.

Total Actual Revenue

The 2010 Aurizon Network Access Undertaking (Schedule F, Part B, 3.2.3) outlines the

¹ Asciano (2013) Submission to the Queensland Competition Authority in Relation to the 2013 Aurizon Network Draft Access Undertaking pages 58-59



components of Aurizon Network Total Actual Revenue. Asciano seeks clarification regarding the treatment of the revenue that Aurizon Network would be entitled to receive under an Access Agreement, except for the fact that Aurizon Network's breach of an Access Agreement and / or negligence in the provision of services has resulted in the non-provision of at least ten per cent of the total number of train services for an origin-destination pair during the relevant year and consequently the revenue is not received.

Asciano strongly believes that any revenue shortfall to Aurizon Network as a result of non-provision of train services attributable to contractual breaches or negligence by Aurizon Network should not be allowed to be recovered by Aurizon Network. The current approach seems to effectively allow Aurizon Network to potentially under recover revenue through its own negligence and then recover this revenue through the operation of the revenue adjustment mechanism. Such a mechanism provides no incentive for Aurizon Network to minimise any potential for contract breach or negligence that leads to the non-provision of train services. (Asciano recognises that this is an issue that may be best addressed in the current QCA review of the Aurizon Network 2013 Draft Access Undertaking).

Feel free to contact me on 02 8484 8056 to discuss this submission.

Yours faithfully

A large black rectangular redaction box covering the signature area.

Stuart Ronan
Manager, Access and Regulation

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