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Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Sir/Madam

WATCO Australia submission on Minerva Draft Amending Access Undertaking

1 Context for WATCO's interest in the DAAU

Watco Australia (***WATCO***) currently provides haulage services for grain and livestock utilising the Burngrove to Nogoa corridor and Nogoa Junction to Wurba Junction section of rail (the ***Suspended Assets***) which are relevant to the Minerva draft amending access undertaking lodged by Aurizon Network (the ***DAAU***).

WATCO has contracted with Aurizon Network for the access rights required for those services and, as noted in Aurizon's explanatory notes to the DAAU (the ***Aurizon Submission***), the charges under those services are currently subject to a price review process.

The charges which Aurizon Network are proposing in that review involve very substantial increases to the access charges non-coal services, to the point that WATCO believes that continuing railing will be uneconomic and is therefore likely to result in a significant loss of non-coal freight volumes to road haulage.

In particular, Aurizon Network's initial variation notice proposed that access charges for grain and livestock services utilising the Suspended Assets increase to more than [redacted]% of current levels (on a $/'000 gtk basis). While WATCO understands that the DAAU, which was submitted to the QCA after that variation notice, would reduce that pricing somewhat if approved, and discussions with Aurizon Network and the price review process are ongoing , fundamentally the pricing will remain prohibitive.

Unsurprisingly, given the scale of those increases, WATCO considers that it will not be economic to operate grain or livestock services on rail as currently occurs, and a significant volume of rail traffic will

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begin to bypass the Suspended Assets through diversion to road haulage (or road haulage to another rail line for rail haulage on a higher volume corridor).

That significant price increase is partly based on recovery from non-coal services of a return on and of the existing asset base for the Suspended Assets (including the proportion of that asset base previously allocated to coal) and recovery of all future capital and operating costs of the Suspended Assets.

Consequently, while the access charges for WATCO's services are not based on the Blackwater Reference Tariff, WATCO (and its end customers, GrainCorp and the Department of Transport and Main Roads) have a significant interest in the treatment of the Suspended Assets.

2 Support for removal of coal-allocated existing assets

WATCO strongly supports the removal from the asset base of the previously coal user funded and coal allocated assets in respect of the Suspended Assets (whether through being permanently removed from the asset base or subject to loss capitalisation until recovery is possible from future coal users provided that it is made clear in any approval of the proposed loss capitalisation that Aurizon Network cannot, in the future, seek recovery of these capitalised amounts from non-coal services).

It has become evident from the price review process under WATCO's Access Agreement that if those previously coal allocated assets are not removed from the asset base, Aurizon Network will seek to recover a return on and of that previously coal-allocated asset base from non-coal services utilising the Suspended Assets.

WATCO considers that any approach which involves non-coal services being charged for such previously coal-allocated existing assets is clearly inappropriate as:

- The non-coal services did not cause the incurring of these costs (rather they arose from Aurizon Network's upgrades to the Suspended Assets to facilitate railing from the Minerva mine);
- As noted in the DAAU submission, the rationale for not depreciating them fully across the Minerva mine life was the prospect of recovery from future coal usage (i.e. the useful life determined was not based on an assumption of future recovery from non-coal services); and
- Seeking to allocate previously coal-allocated assets to determine pricing for non-coal services will make such non-coal services deeply uneconomic and result in loss of freight from rail to road haulage.

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3 The DAAU fails to resolve the uneconomic charges for non-coal services

While the removal of previously coal allocated assets from the existing asset base in respect of the Suspended Assets reduces the access charges proposed for non-coal services, it will not be sufficient to make the non-coal access charges economic.

For example, Aurizon has indicated that if the Minerva DAAU was approved in its current form the access charges for grain services utilising the Suspended Assets would still be increased to more than [redacted]% of current levels (on a $/'000 gtk basis), [redacted].

Consequently, WATCO submits that it would be appropriate for the Minerva DAAU to also be adjusted to amend Aurizon Network's undertaking to provide for pricing of non-coal services on the Suspended Assets to be capped below the level at which bypass to road haulage or road haulage to another rail line and then rail haulage would be more efficient, at least for the period in which the coal allocated assets in respect of the Suspended Assets are subject to capitalisation.

This would need to be an express exception to the pricing limits that otherwise apply under the undertaking, given Aurizon Network's position that the uneconomic pricing it is currently proposing is required by the floor limit.

WATCO considers capping non-coal prices below bypass levels is justified in the current circumstances as:

- due to being invested in for coal purposes, the nature of the assets goes beyond what would be efficient to meet the current and likely future requirements for non-coal services (both in terms of the existing asset base and future costs of its operation and maintenance);
- in the absence of an approach that sets pricing at or below bypass levels, non-coal volumes will start disappearing from the line, pricing will become a 'death spiral' as Aurizon Network seeks to recover the same revenue against a diminishing volume resulting in further services becoming uneconomic – to the point where ultimately there will be no non-coal services to pay any of the costs of maintaining the line, undermining the prospect of future coal use that Aurizon Network's DAAU capitalisation proposal is based on.

4 Importance of timely resolution

As noted above, the treatment of the existing asset base in respect of the Suspended Assets has significant implications for the pricing to apply to non-coal services from 1 January. However, there is no

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rights in WATCO's Access Agreements to re-open pricing outcomes after the pricing review process under those Access Agreement has concluded.

Consequently, WATCO requests that the QCA finalise its decision on the DAAU as soon as possible to maximise the prospects that the outcome can be reflected in the non-coal services charges for the year commencing 1 January 2023.

If the QCA has any queries in relation to this submission, please do not hesitate to contact the undersigned Ken Hammat, Vice President Corporate Services, of WATCO on 0400 207 158 or email ken.hammat@watco.com.

Yours Sincerely

[redacted]

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