

10 October 2013

Dr Malcolm Roberts
Chairperson
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001
Email: rail@qca.org.au

Dear Dr Roberts

Re: Aurizon Network – 2013 Draft Access Undertaking

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to provide comment on the '2013 Draft Access Undertaking (including the proposed UT4) submitted by Aurizon Network Pty Ltd' to the Queensland Competition Authority (the Authority).

Stanwell has, through its coal haulage agreement, an access agreement with Aurizon Network associated with the use of the Central Queensland Coal Network (CQCN) for coal haulage to Stanwell Power Station. As a stakeholder, we consider any future access undertakings should promote efficient and equitable outcomes for current and future network users.

Stanwell notes in the proposed UT4, Aurizon is seeking to:

- Maintain the key elements of the 2010 Undertaking; and
- Incorporate 'refinements which will make the undertaking more workable, flexible and responsive to customer needs.'

Stanwell is supportive of the key elements of Aurizon's UT4 proposals. Any move to a regulatory environment which facilitates a more commercial negotiating and operating environment is welcomed. Based on our experiences and observations, however, we note there are a number of considerations which need to be kept in mind in the implementation of any new arrangements.

1. The proposed UT4 should not disadvantage existing users

No party should be at a commercial disadvantage due to the adoption of new access or funding arrangements. The most obvious potential for this is in the funding of any network expansion, which is considered as part of the proposed UT4. Stanwell is of the view that access holders should not have to bear the cost of increased network capacity that is not utilized directly by those parties. The costs of any network expansion should be allocated to those parties who receive a direct benefit from the investment.

A decision to allocate addition charges across all users is not only inequitable, but could result in sub-optimal economic outcomes. Not only is it inappropriate to apply

a levy on parties who do not have any capacity to adjust usage levels, but fails to provide a true representation of the expansion costs to other users. The resulting pricing signals could distort future production and investment decisions.

In particular, we are concerned with the proposed changes to AT2. This tariff is designed to signal the requirement for expansion of the network and has historically increased in-line with changes in the Consumer Price Index (CPI). The changes under UT4 represent a step change in the structure of tariffs and the allocation of costs across network users (i.e. we anticipate a significant increase in costs borne by parties such as Stanwell who are not expected to directly benefit from the associated expansion of the network). Stanwell is currently examining the impacts of these changes and the interactions with related tariffs and propose to update the Authority in due course.

2. Performance regulation and incentives

We understand that there is no transparent performance monitoring framework as part of Aurizon Network's regulatory regime. As part of the proposed UT4 approval process, Stanwell considers there is benefit in introducing transparent reporting monitoring/reporting arrangements. This could extend to an incentive based program to encourage the optimal operation of the network in-line with the requirements of users.

Such arrangements operate in other regulated sectors including electricity transmission and distribution. Under these arrangements a proportion of revenue is "at risk" and dependent on measurable operational performance. Examination of these arrangements could form a starting point to consider the application of a performance based regime to Aurizon. At present, Aurizon's ability to increase revenue or decrease costs through additional efficiencies or innovation does not provide any benefit to Aurizon. Some mechanisms should be incorporated into UT4 to allow Aurizon to capture and maintain additional revenue from better run services. As is the case in other sectors, consideration should be given to a incorporating "two-sided" arrangement where by access holders would have recourse to a rebate (or equivalent) where Aurizon does not fulfill performance requirements.

3. AT5 Proposals

Incorporated in Aurizon Network's UT4 proposal is its previously circulated proposal (April 2013 DAAU) in respect of electric traction pricing in the Blackwater Corridor. Stanwell has previously made a submission to the Authority on this proposal clearly outlining our preferred set of arrangements and these views remain unchanged.

Stanwell intends to continue its engagement with the Authority and other stakeholders as consideration of the UT4 proposal progresses. Stanwell would, however, welcome the opportunity to discuss the matters raised in this submission directly with the Authority. Our contacts on this matter are: Michael Sinclair (michael.sinclair@stanwell.com) and Natalie Gordon (natalie.gordon@stanwell.com)

Yours sincerely



Tanya Mills
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