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Dr Malcolm Roberts
Chair
Queensland Competition Authority
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Dear Dr Roberts

Wiggins Island Rail Project Proposed Revenue and Pricing Treatment

Wesfarmers Curragh Pty Ltd (**Wesfarmers**) provides this letter in relation to the Wiggins Island Rail Project (**WIRP**) and in response to the QCA's request for submissions in the 2014 Draft Access Undertaking.

Aurizon Network published the Wiggins Island Rail Project Proposed Revenue and Pricing Treatment paper in August 2014 (**AN WIRP Paper**). The AN WIRP Paper includes a proposal by Aurizon Network to socialise the WIRP infrastructure in the Blackwater and Moura systems.

To the extent the QCA approves the relevant expenditure, Wesfarmers agrees that the WIRP infrastructure should be socialised on the basis that:

- coal systems are exclusively defined under the access undertaking, and WIRP does not exist as a separate coal system;
- in applying the criteria for approving capital expenditure, the QCA should only consider information that was available to Aurizon Network at the time of making the investment decision; and
- WIRP has progressed to such an extent that it is too late to consider whether an expansion tariff should be imposed.

1 Should the WIRP infrastructure be socialised?

Socialisation of the WIRP infrastructure into the Blackwater and Moura systems depends on an assessment of the principles reflected under the QR Network's 2010 Access Undertaking (1 October 2010) (**UT3**). Similar principles are also proposed to be carried through to Aurizon Network's 2014 Draft Access Undertaking (11 August 214) (**UT4**), in the event that draft undertaking is approved.

(a) Does UT3 support the classification of WIRP as a separate coal system?

There is no scope under UT3 for WIRP to become a standalone coal system.

Under UT3, the definition of "Individual Coal System" is framed as an exclusive, rather than inclusive, definition. The definition does not contemplate the existence of a separate WIRP coal system, and a new coal system cannot be created without amending UT3.

The Blackwater and Moura systems are reflected under paragraphs (iii) and (iv) of the definition of "Individual Coal System". Those definitions are drafted broadly and can be interpreted to include the WIRP infrastructure, to the extent that the WIRP infrastructure exists along either the Blackwater or Moura corridors.

On this basis, the WIRP infrastructure should be incorporated into the Blackwater and Moura systems, to the extent the QCA approves the inclusion of those assets in the regulatory asset base (**RAB**).

This analysis also holds true in relation to UT4. UT4 defines a "Coal System" as an exclusive list of systems. WIRP is not included in that list. The definitions of "Blackwater System" and "Moura System" under UT4 are broad enough to capture the WIRP infrastructure assets.

(b) What is the criteria for accepting capital expenditure in the RAB?

In applying the criteria for approving capital expenditure, the QCA should only consider information that was available to Aurizon Network at the time of making the investment decision in respect of WIRP.

A number of other stakeholder submissions argue that volume forecasts referred to in the AN WIRP Paper are overly optimistic. Those submissions consider more realistic tonnage forecasts should be taken into account by the QCA in assessing the WIRP capital expenditure. It is suggested that the pricing of tariffs based on lower current forecast tonnages will significantly increase the tariffs for WIRP users, justifying a separate WIRP tariff to protect existing users from any flow on effects. Wesfarmers does not agree with these submissions.

The criteria for including capital expenditure in the RAB is set out in Schedule A of UT3. Similar criteria is proposed to be included in Schedule E of UT4. The criteria involves an assessment of whether the capital expenditure is prudent in terms of scope, standard and cost. In making that assessment, paragraph 3.3.1(a)(i) of Schedule A provides that the QCA "will only consider information that was, or would reasonably have been, available to QR Network at the time of making the investment decision".

The QCA should disregard current volume forecasts in assessing the WIRP capital expenditure. At the time of the WIRP investment decision, tonnage forecasts were expected to be significantly higher than reflected in current forecasts. As a result, it is not appropriate to now rely on current forecasts in assessing the WIRP infrastructure. To do so would be inconsistent with the access undertaking.

Furthermore, forecast demand should only be considered where that demand is in excess of current contracted demand. In determining the scope of a capital expenditure project, paragraph 3.3.2(d) of Schedule A requires the QCA to consider whether the scope is "in excess of Reasonable Demand". Reasonable Demand is defined by reference to what is required to accommodate current contracted demand, likely future demand and any appropriate spare capacity. This suggests the base consideration should be "current contracted demand". Forecast demand only becomes relevant where that demand is in excess of the contract demand.

Regardless, both “current contracted demand” and “likely future demand” must be assessed at the time of the WIRP investment decision.

Based on the above, the QCA should disregard any consideration of today’s forecast tonnages in assessing whether the WIRP infrastructure will be included in the RAB.

(c) Is there an effect on optimisation risk, asset stranding risk and credit risk?

A number of other stakeholder submissions refer to the QCA’s decision with respect to the WIRP access conditions, claiming that socialisation of the WIRP infrastructure would be inconsistent with that decision. Those submissions contend that socialisation of the WIRP infrastructure would reduce the optimisation risk, asset stranding risk and credit risk to a level of a regulated environment, therefore removing the need for the special WIRP access conditions.

These arguments are not relevant. The optimisation risk, asset stranding risk and credit risk may be affected by whether or not the assets are approved for inclusion in the RAB (generally). However, those risks are irrelevant to any decision to socialise the WIRP infrastructure.

2 Expansion tariffs under UT4

Under UT4, principles have been proposed for the pricing of expansion projects. Those principles have been developed through consultation with the QRC. Although Wesfarmers supports those pricing principles, it is not appropriate to apply those principles in respect of the WIRP infrastructure.

The expansion pricing principles under UT4 have not yet been approved by the QCA. Even if approved, it is too late to contemplate developing a new expansion tariff in relation to the WIRP infrastructure.

The proposed expansion pricing principles are intended to ensure a new or expanding user is subject to an access charge at least reflecting the full incremental cost of providing the additional capacity via an expansion. This is based on the premise that existing users should not bear the cost of an expansion, where they do not benefit from that expansion. As a result, where the socialisation of the cost of an expansion would cause an increase in access charges for existing users, a new expansion tariff should be developed.

Clause 6.2.4 of UT4 sets out the process for assessing whether a new expansion tariff should be developed. That decision is deliberated as part of the “Pricing Proposal” which is provided to users following the Feasibility SFA becoming unconditional. At that point in time, the effect of the expansion on existing tariffs and the appropriateness of developing a new expansion tariff are evaluated.

That stage in respect of the WIRP infrastructure has long passed. The pricing principles for expansion tariffs are structured to allow stakeholders the benefit of making submissions in relation to a Pricing Proposal. To apply those pricing principles to the WIRP infrastructure would not allow stakeholders that benefit. Rather, the result would be to retrospectively force a pricing outcome on users without an opportunity for those users to voice an opinion. Wesfarmers considers that would produce an unreasonable and uncommercial outcome.

3 Conclusion

For the reasons outlined above, Wesfarmers considers the WIRP infrastructure should be socialised in the Blackwater and Moura systems. To decide to create a new coal system specific to WIRP would force an uncommercial outcome on WIRP users and constitute a decision made contrary to the principles reflected under the approved access undertaking.

Yours sincerely

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Curragh is part of **Wesfarmers Resources**