



18 November 2011

Mr John Hall  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
Brisbane 4001 QLD

By email to: [rail@gca.org.au](mailto:rail@gca.org.au)

Dear Mr Hall,

## **Asciano Response to QR Network 2010-2011 Revenue-Cap Adjustment Application to the QCA**

Asciano welcomes the opportunity to respond to the QR National Network Services 2010-2011 revenue-cap adjustment application of September 2011.

### **Need for Strong QCA Oversight**

Asciano understands from the application that in 2010-11 QR Network under-recovered by \$49.2 million, with the bulk of the under-recovery being in the Blackwater AT5 tariff, the Blackwater AT2-4 tariff and the Goonyella AT5 tariff.

In the previous four years the revenue-cap adjustment amounts have been between \$43.6m and \$0.1m (and averaging at \$25.6m over these 4 years). Thus the current adjustment amount is the largest revenue adjustment amount in the last four years and approximately twice as large as the average adjustment amount. As such the QCA should be particularly diligent in assessing the merits of this revenue-cap adjustment application.

Current contractual arrangements between above-rail operators, such as Asciano, QR Network and end users results in much of the information underpinning the revenue-cap adjustment application being confidential. While this confidentiality is appropriate, it limits the comments that can be made on the appropriateness of the QR Network 2010-2011 revenue-cap adjustment application and reinforces the need for the QCA to be diligent in assessing the merits of the application.

To this end Asciano notes that Synergies Economic Consulting has reviewed the QR Network modelling. Asciano believes that a QCA audit and reconciliation of the models is also required.

### **Need for Further Forecasting Information**

QR Network provides information on volume forecasts by system. Given the level of under-recovery of AT5 tariffs Asciano believes that these forecasts should be further split into electric and diesel forecasts by system.

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1

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## Take or Pay Considerations

The QR Network application has stated that in Blackwater, Goonyella and Moura systems the volume shortfalls triggered take or pay clauses.

The Take or Pay clauses under UT1, UT2 and UT3 all differ, and as such the already constrained transparency of this revenue adjustment process is further diminished. In particular Asciano is seeking assurances from QCA that the treatment of take or pay in the QR Network 2010-2011 revenue-cap adjustment application is appropriate and that there is no potential for "double dipping".

This difference in Take or Pay clauses under UT1, UT2 and UT3 also contributes to the potential for inequitable treatment of access holders and end users.

## Future Pricing Impact

The size of the under-recovery at \$49 million is likely to have material pricing impacts in the future. Asciano is seeking that when the QCA and QR Network implement tariff increases in the future to address this current 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 (such as the Goonyella AT2-4 tariffs which were not under-recovered).

The Goonyella system did not under-recover its AT2-4 tariff and as such diesel services in the Goonyella system should not have tariffs increased to support under-recovery of AT5 tariffs.

Asciano believes that tariffs should be cost reflective to ensure productive and allocative efficiency. Cost reflective tariffs are needed to ensure that:

- there are no inter- fuel cross subsidies; the cost of electric infrastructure should be borne only by electric trains; and
- there are no distortions to locomotive investment decisions. Future train operator investment decisions as to whether to invest in diesel or electric locomotives should be made based on cost reflective tariffs rather than tariffs which contain an element of cost socialisation.

Socialising tariff adjustments across a broader range of tariffs may result in distorted locomotive investment decisions and inter-fuel cross subsidies

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

A handwritten signature in black ink, appearing to read "Stuart Ronan".

Stuart Ronan  
Manager, Access and Regulation