GrainCorp submission on Aurizon Network's Minerva Draft Amending Access Undertaking

1 Executive Summary

GrainCorp welcomes the opportunity to provide a submission in relation to the Aurizon Network (**AN**) Minerva Draft Amending Access Undertaking (**DAAU**).

GrainCorp is a major user of the Burngrove to Nogoa corridor, and the Blackwater system more generally. GrainCorp has undertaken significant investment in facilities which rely on the Burngrove to Nogoa corridor, including investment at its Yamala site to deliver the enabling infrastructure for the Central Queensland Inland Port (**CQIP**). With the construction of the Yamala site, GrainCorp publicly committed to cost savings to be passed back to growers and increases in freight capacity. GrainCorp's investment at Yamala and commitment to use of rail is therefore strongly supported by growers. Use of rail instead of road is also widely supported by Government and other stakeholders, as demonstrated by the Government co-investment into Yamala and the CQIP.

GrainCorp has recently become aware of the potential implications of cessation of coal carrying train services from the Minerva mine. GrainCorp understands that as a consequence of coal services no longer operating on the Burngrove to Nogoa corridor, AN intends to significantly increase tariffs for non-coal trains operating on this corridor. GrainCorp estimates that, as a result of AN's proposed tariff changes, its rail cost would increase by around $27 / tonne (an increase in AN's access charges of approximately 500%). This would lead to GrainCorp's total rail cost almost doubling, and exceeding road costs by a very large margin. An increase in railing costs of this magnitude would likely render GrainCorp's use of the rail system uneconomic, and force significant volumes onto road.

This is an issue that has real and immediate implications for the interests of access holders, the public interest and efficient use of the rail system. It is an issue that needs to be urgently addressed.

The DAAU at least partly recognises the issues created for other users of the CQCN resulting from the cessation of coal carrying train services from the Minerva mine in FY23. The DAAU is positive insofar as it recognises these issues and takes some limited steps to address them. The DAAU provides for deferral of cost recovery on some existing assets that were previously allocated to coal carrying train services from Minerva ("Suspended Assets"). This means that the cost of these Suspended Assets will not need to be included in tariffs for other services using the Blackwater system.

While the DAAU represents a step in the right direction, GrainCorp considers that it does not go nearly far enough in addressing the issues raised by cessation of coal carrying services from Minerva. The AN submission (section 7) notes broader implications for non-coal users that are not addressed by the DAAU. In particular, it is noted that ongoing maintenance and operating costs for the Burngrove to Nogoa corridor will now need to be entirely borne by non-coal users. However the DAAU does not address this issue at all, and instead purely focuses on existing asset costs.

Therefore, while GrainCorp supports the DAAU as a step in the right direction, we consider that more needs to be done to address the broader implications for non-coal users of cessation of coal carrying services from Minerva.

One option may be for AN to have some flexibility around compliance with the undertaking floor limits, in circumstances where a strict application would lead to tariffs that are uneconomic or uncommercial. In other regulatory regimes, including the gas pipelines regime referred to by AN, service providers can be allowed to offer "prudent discounts" below regulated tariff levels where this is necessary to either respond to competition and/or maintain efficient use of the infrastructure. Where a prudent discount is given, the cost of doing so may be deferred for later recovery. It should be considered whether similar flexibility could be allowed in this case, given AN's apparent concerns regarding compliance with the undertaking floor limits.

GrainCorp would welcome the opportunity to meet with the QCA to explore options for resolving this pressing issue.

2 GrainCorp's interest in the DAAU

GrainCorp is a major user of the Burngrove to Nogoa corridor, and the Blackwater system more generally.

GrainCorp has undertaken significant investment in facilities which rely on the Burngrove to Nogoa corridor.

The most significant investment has been made into the Yamala site, which has included investment of $18.4m by GrainCorp and a further $2.6m by Government (co-investment) between 2018 and 2021. This $21m investment delivered the enabling infrastructure for the CQIP and the GrainCorp grain handling site, including;

- upgrade of the Capricorn Highway and Bonnie Doon Road Intersection;
- upgrade of Bonnie Doon Road;
- construction of new Industrial Access Road internal to CQIP;
- construction of 1.5km dead end rail siding; and
- construction of the grain storage site including bunker construction, weighbridges, sample stand, internal roads, rail out loading facility, workshop/storage shed, chemical storage and site office.

GrainCorp has also committed to using the rail network for transport of grain from these facilities to export terminals.

With the construction of the Yamala site, GrainCorp publicly committed **to at least $5/t savings** passed back to growers (in the form of grain buyers passing on freight cost savings in higher bids to buy the grain) and a 25% increase in train capacity per week through the construction of the site within the 24hr cycle range from Gladstone.[1]

Use of rail instead of road is widely supported by Government and other stakeholders, as demonstrated by the Government investment into Yamala and the CQIP. As per the media announcement made by Minister Cameron Dick on 30/8/2018 here:

- Member for Gladstone Glenn Butcher stated "*Safer and more efficient grain handling and transport [through use of rail], and the port's 24-hours-a-day, seven-days-a-week link to the Port of Gladstone is set to reduce costs and lead to increased exports*,"
- Central Highlands Regional Council Mayor Kerry Hayes said "*The co-investment by this council with the state government shows how important this project is to the region and how a collaborative approach to vital investment provides great benefits for industry, agriculture and services*."

GrainCorp therefore has a strong interest in ensuring that access arrangements for the Blackwater system continue to promote efficient operation, use of, and investment in, that system. This includes ensuring that railing costs for non-coal traffic remain competitive with road transport costs.

While GrainCorp is committed to use of rail, the financial decision between road and rail is finely balanced.

At current tariffs, in a normalised year, use of rail is significantly cheaper than road. This cost benefit relies on key aspects within the direct control and influence of the Network Manager, most importantly track access costs and train pathing availability. When the Network Manager provides adequate and suitable paths on the rail network pathing, rail transport provides significant volume to port each week, whilst also producing lower carbon emissions and delivering road safety efficiency benefits for each net tonne kilometre.

However GrainCorp has recently become aware of the potential implications of cessation of coal carrying train services from the Minerva mine. GrainCorp understands that as a consequence of coal services no longer operating on the Burngrove to Nogoa corridor, AN intends to significantly increase tariffs for non-coal trains. GrainCorp

[1] 'Graincorp secures Queensland site for new $18.5 million silo', *Australian Financial Review*, 25 July 2017.

understands that AN is still assessing the impact on Access Charges for non-coal services operating west of Burngrove – including the impact of the DAAU. However GrainCorp currently estimates that, as a result of AN's proposed tariff changes, its network cost would increase by a factor of approximately 500%, and its railing cost by around a factor of 170%, exceeding the road costs by a very large margin.

An increase of this magnitude would evidently make use of rail uneconomic for GrainCorp. GrainCorp sites generate value for the grower by incentivising a short haul road movement from the farmgate to the grain storage site. If that movement no longer results in a better price per tonne, the farmer will see the price signal to deliver directly to port (saving the double handling and storage costs).

The consequence of this is that GrainCorp would likely shift all of its volumes serviced by the Blackwater system onto road, and it becomes very likely the volumes serviced via the Goonyella system would follow suit due to the lack of critical mass for rail in the CQ region.

This shifting of volumes onto road would come at an efficiency cost, and would potentially result in some of the recent investment undertaken at Yamala (with Government support) being stranded. However this cost would be far outweighed by the increased cost of rail resulting from AN's planned increase in Access Charges.

GrainCorp expects that, if its volumes were no longer on the Blackwater system, this would further increase access costs for remaining users, including Government passenger and livestock transport services.

GrainCorp considers that, if tariffs for non-coal users are simply allowed (or forced) to increase to uneconomic levels, this would be contrary to the objects of Part 5 of the QCA Act. Not only would this be incredibly damaging to the interests of access holders, it would also:

- not promote economically efficient use of the rail system; and
- ultimately harm the public interest.

It is an issue that needs to be urgently addressed.

3 GrainCorp supports the proposal for treatment of Suspended Assets

The DAAU at least partly recognises the issues created for other users of the CQCN resulting from the cessation of coal carrying train services from the Minerva mine in FY23. The DAAU is positive insofar as it recognises these issues and takes some limited steps to address them. The DAAU provides for deferral of cost recovery on some existing assets that were previously allocated to coal carrying train services from Minerva ("Suspended Assets"). This means that the cost of these Suspended Assets will not need to be included in tariffs for other services using the Blackwater system.

GrainCorp therefore supports this aspect of the DAAU.

However we consider that more needs to be done to address the broader implications for non-coal users of cessation of coal carrying services from Minerva.

4 A solution is urgently needed for ongoing maintenance and operating costs on the Burngrove to Nogoa corridor

AN's submission notes that, following the cessation of coal carrying train services west of Burngrove in FY22, "all ongoing maintenance and asset renewal costs for the Burngrove to Nogoa corridor are considered incremental costs attributable to non-coal train services".[2] AN's position appears to be that, due to the floor limit for pricing in its current undertaking, all of these incremental costs will need to be recovered from non-coal Train Services. GrainCorp understands that the shifting of these costs onto non-coal users is the primary driver of AN's proposed tariff changes.

The DAAU does not address this issue at all. The DAAU purely focuses on existing asset costs, and does not address the implications of shifting these ongoing costs to non-coal users. As explained above, the implications of this are expected to be very significant – including a shifting of non-coal traffic onto road and potentially further increases in access charges for remaining users.

A solution is urgently needed for this broader issue of spiralling costs for remaining non-coal users following the cessation of coal carrying train services. It is potentially an issue that could have broader and longer term implications, beyond the Minerva DAAU.

One option may be for AN to have some flexibility around compliance with the undertaking floor limits, in circumstances where a strict application would lead to tariffs that are uneconomic or uncommercial. This could allow AN to avoid or mitigate the risk of a "death spiral" resulting from sudden and dramatic increases in access charges for remaining non-coal users.

In other regulatory regimes, including the gas pipelines regime referred to by AN, service providers can be allowed to offer "prudent discounts" below regulated tariff levels where this is necessary to either respond to competition and/or maintain efficient use of their infrastructure.[3] Where a prudent discount is given, the cost of doing so may be deferred for later recovery. It should be considered whether similar flexibility could be allowed in this case, given AN's apparent concerns regarding compliance with the undertaking floor limits.

GrainCorp would welcome the opportunity to meet with the QCA to explore options for resolving this pressing issue.

5 Other issues

5.1 Potential for bias in pricing of different traffic types

Market specific pricing is, generally, something GrainCorp believes is a reasonable pricing structure in an open access network. However it should be acknowledged that the corporate relationship between Aurizon Network and Aurizon Operations creates the potential for market specific pricing to form the basis of pricing bias against traffic types that are managed by 3rd party rail operators.

Aurizon Operations has market specific participation in CQ rail networks, *hauling only coal and container traffic*. Bulk grain trains, cattle trains, and passenger trains are all contracted to other operators (Watco, DTMR via Watco). This creates the risk of bias against non-coal / non-container traffic in the design of cost allocation frameworks and pricing. Access seekers and access holders need protection from bias.

GrainCorp acknowledges that AN's access undertaking contains ring fencing rules that are designed to maintain the independence of AN from other parts of the Aurizon Group. These ring fencing rules may provide some protection

[2] AN submission, p 8.

[3] For example: National Gas Rules, rule 96; National Electricity Rules, cl 6A.26.

against discrimination *within a traffic type* (e.g. between coal trains). However it is less clear that these rules would effectively prevent discrimination or bias *between traffic types*. It seems at least possible that market specific access pricing would be susceptible bias against the markets in which Aurizon does not have current active market participation.

5.2 Coal pathing directly limits the ability of GrainCorp to use the CQCN

Similar to the potential pricing bias, it seems possible that Aurizon Network could misuse their market power to impose non-pricing constraints on access to the CQCN to benefit the Aurizon Operations train servicers, by prioritising the pathing access granted to those trains in the market that Aurizon Operations participates (i.e. coal and container trains). GrainCorp's experience suggests that this may be occurring.

The current processes for provisioning of paths to GrainCorp trains using the CQCN results in the Network Manager allocating undesirable and inefficient pathing. This routine poor pathing outcome for grain trains is resulting in lost rail capacity each week, which in turn increases inefficiency (and cost) as rollingstock sits idle for many hours waiting for a path.

The pathing allocation given to coal trains ahead of grain trains directly limits the total number of train movements GrainCorp can run train on the CQCN, and given this limit is being imposed by the coal trains it seems reasonable that the coal should bear a significant portion of the costs for the network.

This undesirable pathing situation is in and of itself impacting the ongoing commercial viability of GrainCorp rail in central Queensland. The two largest GrainCorp sites in CQ (Mt.Mclaren and Yamala) are strategically situated to achieve 24hour cycles to their respective export ports (Mackay and Gladstone respectively), but the limitation on achieving this is a direct result of the Network Manager process for coal pathing allocation. The $21m investment made in Yamala was, in large part, based on achieving the improvement to 24hr cycles from Yamala to Gladstone.

Attempts at securing suitable pathing, via request for mandatory (timetabled permanent preserved) has been rejected by the Network Manager. The standard request process, no matter how early path requests are submitted, results in poor paths with significant dwell time imposed during, or ahead of, the path start.