

13 March 2018

By internet portal: www.qca.org.au

Professor Roy Green
Chairman
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Dear Professor Green

Pacific National Submission - Draft Decision on Aurizon Network 2017 Draft Access Undertaking (DAU)

Pacific National welcomes the opportunity to respond to the Queensland Competition Authority (**QCA**) on its December 2017 Draft Decision on the Aurizon Network DAU.

Pacific National supports the QCA's position to not accept the DAU in its current form. In assessing the DAU, Pacific National seeks that the QCA consider both:

- the efficient operation of; and
- the need to ensure fair treatment to all rail haulage operators in the above rail market associated with,

the Aurizon Network rail infrastructure in the Central Queensland Coal Network (the **CQCN**).

We believe these principles can be met in part through:

- introducing broader incentive and efficiency mechanisms designed to reduce costs and encourage higher system throughput;
- ensuring prices charged to users reflect only the costs incurred by those users; and
- ensuring fair and non-discriminatory treatment for all rail operators using the CQCN.

Furthermore, Pacific National does not support recent actions by Aurizon Network to amend maintenance and operational practices ahead of a final decision by the QCA on the DAU. Pacific National is particularly concerned with suggestions that the volumes to be transported through the CQCN will be reduced as a result of these Aurizon Network decisions.

The annexure to this letter is a high-level overview of Pacific National's position. Further detail is contained in our full submission **enclosed** and in previous submissions made by Pacific National.

Yours faithfully

Brett Lynch
President – Coal
Pacific National

Enc. Annexure – Overview of Pacific National position
Pacific National Submission



ANNEXURE – OVERVIEW

PART A: PRINCIPLES FOR ASSESSMENT OF DRAFT ACCESS UNDERTAKING

1. Efficient operation of the rail infrastructure

Incentivisation: Pacific National believes the current 'revenue cap model' does not encourage Aurizon Network to efficiently expand network capacity. Aurizon Network has a assured revenue source, which provides limited incentives for Aurizon Network to grow volumes for haulage across the CQCN. As an alternative, a price cap model would secure a price for Aurizon Network, and as volumes increased the recoverable revenue would increase proportionately. This would provide a strong incentive for Aurizon Network to increase the throughput of the supply chain. This position is consistent with the Pacific National position on the need for incentive mechanisms in previous submissions, including submissions on UT4.

Pacific National further believes that innovation in technologies such as train control systems may allow throughput to be increased without large investments in physical track infrastructure.

As a minimum the Access Undertaking should include a requirement for Aurizon Network to submit an incentive mechanism proposal during the term of the access undertaking.

'User Pays' pricing model: Pricing should reflect the cost of the infrastructure that the users actually use. Attempts to socialise costs between broad groups of users will ultimately result in cross subsidies from one group of users to another group of users and reduce allocative efficiency.

2. Ensuring fair and non-discriminatory treatment for all operators in the above rail market

Effective ringfencing and compliance: Pacific National has previously raised concerns around the strength of ringfencing provisions as they relate to competition in the above rail market. Pacific National's concerns have increased due to the occurrence of three (3) ringfencing breaches in the past six (6) months. Given these breaches, Pacific National seeks that the QCA reconsider its position on ringfencing and confidential information in the Final Decision.

PART B: CHANGES TO MAINTENANCE PRACTICES

Pacific National does not support recent actions by Aurizon to amend maintenance and operational practices ahead of a final decision by the QCA on the DAU. Pacific National is particularly concerned with suggestions that volumes will be reduced by these Aurizon Network decisions.

Stakeholders could not have pre-empted such unprecedented actions taken by Aurizon Network that would significantly impact throughput of the CQCN and therefore impact the coal industry and the above rail haulage market in which Pacific National operates. Aurizon Network cannot be allowed to behave as such without consequential adjustments to their allowable revenue under the final access undertaking once approved.