

November 2011

Mr John Hall
Chief Executive
Queensland Competition Authority

QR Network's application to establish an Access Charge for Colton Train Service

Dear John,

Thank you for the opportunity to provide comments on QR Network's application which seeks to establish an Access Charge for coal carrying train services operating from the Colton mine to the Port of Gladstone (specifically, the Barney Point or RG Tanna coal terminals). This submission is provided by industry to assist the Authority's consideration of QR Network's application.

The Council notes that due to the particular circumstances of the proposed Colton Train Service, the Authority's consent will be required for QR Network's proposed approach, in order to:

- Develop an Access Charge rather than a Reference Tariff;
- Approve the proposed contribution to common costs; and
- Approve the proposed Access Charge to be structured differently than the existing central Queensland multi-part tariff approach.

Given that the 2010 Access Undertaking provides the Authority with a level of discretion to approve QR Network's application, the Authority's position on these matters will need to be clearly articulated, to ensure any regulatory precedents established are consistent with the intent of regulatory regime. However, the timing of resolving this application by the Authority will be critical to the ultimate development programme of the entire Colton mine project. The Authority should seek to resolve this application with appropriate regard to these factors.

→ Limited train service levels

It is important that the QCA take into consideration that the proposed Colton Train Service will be entitled to a level of below-rail service, which is well below that currently held by existing Access Holders. The proposed Colton Access Rights are stated to be scheduled through the Daily Train Plan process ***only after all*** train order requests for existing Access Agreements have been scheduled, but before ad hoc train order requests:

associated with an Access Agreement which does not specify a train service entitlement for that origin to destination, or where the annual train service entitlement has been fully utilised.

QR Network Submission, pages 3-4

On this basis, the proposed Colton Train Service will not be guaranteed Access Rights but rather have a priority service amongst other train orders that have no contractual entitlements. QRC notes that the proposed Capricornia System Rules (a matter that is currently before the QCA) may need to be amended to reflect a scheduling hierarchy that accommodates proposed scheduling of Colton train services, existing Access Agreement train service entitlements and ad hoc train service train order requests.

→ **Development of an Access Charge rather than a Reference Tariff**

Irrespective of the Authority's approval for the development of an Access Charge, or the requirement for a reference tariff to be developed for the proposed Colton Train Service, QR Network's application highlights the importance of pricing matters being addressed well before the commencement of train services.

Coal producers need to make binding investment and contractual commitments well ahead of the current regulatory practice for setting below-rail prices. In the absence of rail access pricing certainty, coal producers are required to make large investment decisions without key project development cost inputs (specifically, below-rail access charges).

Under current regulatory arrangements, rail access pricing outcomes may be finalised just prior to, or even well after, commissioning of a new train service. Recent examples that highlight this issue include:

- The West Blackwater reference tariff application being approved on 20 August 2009, following the initial application dated 29 October 2008, although first train service operated from November 2005.
- WICET Stage 1 rail coal producers have made billion dollar commitments towards infrastructure investments (comprised of rail, port and mine developments), all in the absence of certainty as to the ultimate below-rail pricing approach to be adopted by the QCA.
- The pricing approach for the Goonyella-Abbot Point reference tariff remains unresolved. QR Network has not made an application for a proposed reference tariff, nor has the QCA sought to commence the process for the establishment of this reference tariff, even though:
 - the first train service is expected to operate around January 2012;
 - coal producers were required to enter into underwriting agreements (Access Conditions); and
 - prospective Access Seekers may be seeking to use this infrastructure without any indication of Access pricing.

While QRC appreciates the complexity of developing reference tariffs, especially those to which special consideration is required (including development of complex common cost contributions, asset valuation processes, treatment of systems with significant non-coal traffic, or finalisation of total project costs following commissioning), it is important that the QCA recognises the inherent value of pricing certainty for the large below-rail investments either being constructed now, or planned over the next five years.

The Authority's approach to below-rail pricing (socialisation, incremental, hybrid, or even those with special circumstances – such as the proposed Colton Train Service) should be made clear well before coal producers are required to make project commitments. Investment, pricing and contractual certainty are highly valued by industry.

QRC has previously made representations throughout 2011 regarding a more certain approach to pricing below-rail expansions and looks forward to responses from the Authority and QR Network on this important issue.

→ **Approval of the proposed contribution to common costs**

A matter of particular importance to industry is the determination of the appropriate common cost contributions for train services. While the proposed Colton Train Service does not easily integrate with the 2010 Access Undertaking's common cost approach, the proposed common cost contribution based on the higher of fixed weightings of the Moura or Blackwater AT₂ reference tariff components at least provides some certainty to a complex area of regulatory pricing theory.

QRC supports all revenue associated with the proposed Access Charge (excluding incremental maintenance costs associated with the proposed AT₁ reference tariff) being recorded as contributions within the Moura and Blackwater revenue-caps. In this way, any Access Charge revenue will be recognised as a contribution to common system costs. The allocation of revenue between these two systems, or the recognition of this revenue within System Allowable Revenue or Total Actual Revenue, should be determined as part of any future revenue-cap process by the QCA.

→ **Approval for the proposed Access Charge to be structured differently than the existing central Queensland multi-part tariff approach**

Given the embedded complexities associated with the current 6 or 4 multi-part reference tariff structure that applies to the central Queensland coal network, to the extent there are no proposed Take or Pay requirements that are dependent on the various individual tariff components, a more simplified tariff structure should be welcomed by the QCA.

Should you wish to discuss any of the issues raised in this submission, QRC would welcome the opportunity to assist with the Authority's timely consideration of this application.

Yours sincerely

Russell Silver-Thomas
Industry Policy Advisor