

Submission to QCA

GAPE Draft Amending Access Undertaking

Queensland Competition Authority

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This submission is made by Middlemount Coal Pty Ltd (**Middlemount**) in response to the Queensland Competition Authority's (**QCA**) invitation for submissions on QR Network's (**QRN**) GAPE Draft Amending Access Undertaking (**DAAU**), put forward by QRN on 5 September 2012.

Middlemount is a foundation customer of the GAPE and welcomes the opportunity to comment on the DAAU. Middlemount provides the following comments for the QCA's consideration.

Tariffs

Based upon the information provided by QR Network, Middlemount holds concerns on the following specific issues in development of the reference tariffs:

- Build-up of operating and maintenance charges. Given GAPE is a new railway, Middlemount views that the build-up of operating and maintenance charges should be developed on a bottom up approach. It appears that some elements of these charges have been extrapolated using historical system benchmarks for the existing rail network, which results in higher than expected charges, particularly in the tonnage ramp up phase.
- inclusion of equity raising costs. UT3 does not currently provide a mechanism for QRN to recover equity raising costs. As this inclusion is not specifically related to GAPE, Middlemount views that this issue requires broader consideration as part of the UT4 framework due to its relationship to other important elements such as WACC.

Middlemount requests that the QCA examine the appropriateness of these issues and supports the QCA obtaining further information from QRN, where required, to undertake a comprehensive assessment.

Future Expansions

QRN proposes that any new services (above those contracted to foundation customers) which utilise the GAPE will incur both the proposed GAPE Reference Tariff plus any incremental costs of expansion. Middlemount notes that this view is not consistent with existing practice or with the socialisation principles proposed by the QRC (noting that such an approach has been generally adopted by QRN in development of other aspects of the DAAU).

As a foundation customer, Middlemount is concerned that this may not lead to foundation customers deriving a benefit in the event that a socialised expansion cost leads to a lower reference tariff or total overall cost. This issue needs to be considered in light of the commercial arrangements entered into by the foundation customers. Middlemount requests that the QCA assess the merits of

such a proposal and more broadly, as part of any future reviews of access conditions sought by QRN, consider the impact on existing users that such access conditions may have.

Socialisation and Pricing

Middlemount notes that the DAAU proposes certain approaches to the socialisation of costs and associated pricing. Specifically, Middlemount wishes to raise an issue regarding recognition of private infrastructure costs in the DAAU.

As part of the Middlemount mine development, Middlemount privately funded construction of its 16km spur and balloon loop connecting to the southern Goonyella system. This spur and balloon loop is considered as Private Infrastructure under the Access Undertaking.

Middlemount has in place long term contractual obligations for all railings to Abbot Point via GAPE. A small portion of railings currently go to DBCT which concludes once the Abbot Point contract fully ramps up.

The Access Undertaking currently provides for Private Incremental Costs to be considered in the determination of new Reference Tariffs for a new Train Service. Middlemount is entitled to receive a discount on the relevant components of the Reference Tariffs for railings to DBCT to account for its contribution of Private Incremental Costs (note that these Private Incremental Costs are yet to be considered by the QCA).

Conversely, the GAPE Reference Tariff has been developed purely on an Incremental Cost basis. As there is no contribution to Common Costs, the discount associated with Private Infrastructure Costs will not apply (Schedule F, Part B 4.1.2 of the DAAU). This results in Middlemount's significant contribution to Private Incremental Costs not being recognised via a discount on the GAPE Reference Tariffs and creating a relative cost disadvantage compared to other GAPE users who have had the cost of their spur and balloon loops socialised through inclusion in the Goonyella or Newlands regulated asset bases.

Middlemount requests that this issue is considered by the QCA in the context of future network expansions which may apply similar principles i.e. all new mines utilising incremental infrastructure expansions on an Incremental Cost basis will not obtain any benefit for construction of their own private infrastructure relative to existing users who have benefited from having these costs socialised across all system users. Middlemount requests the QCA to evaluate the merits of alternate approaches (such as a socialisation principle applying to the Goonyella electrification infrastructure installed as part of GAPE) to facilitate recognition of the investment made in private infrastructure.

Middlemount would welcome the opportunity to contribute to any future discussion on this issue.