

**Asciano Submission to the
Queensland Competition Authority
in relation to the QCA Draft
Decision on Reference Tariffs for
Wiggins Island Rail Project Train
Services**

September 2015

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1 INTRODUCTION AND BACKGROUND

Asciano welcomes the opportunity to make a submission to the Queensland Competition Authority (QCA) on the QCA Draft Decision on reference tariffs for the Wiggins Island Rail Project (WIRP). The WIRP projects are a series of rail projects which have been undertaken to support the Wiggins Island Coal Export Terminal (WICET).

Asciano welcomes the QCA position that the WIRP access pricing is to be considered as part of the current Aurizon Network 2014 Draft Access Undertaking regulatory process rather than as a stand alone regulatory issue.

This submission contains no confidential information and may be considered a public document.

2 ASCIANO'S GENERAL POSITION ON WIRP PRICING

Asciano has previously provided comments on WIRP pricing to the QCA in an October 2014 submission on the Aurizon Network 2014 Draft Access Undertaking and a February 2015 submission in response to the Aurizon Network Proposed Tariff for Wiggins Island train services. Areas of concern to Asciano throughout these consultation processes have included:

- WIRP transition tariffs;
- WIRP volume forecasts;
- The potential inclusion of electrification costs and non-capital costs into the WIRP tariff cost base;
- The level of WIRP capital costs; and
- Socialisation of WIRP costs across existing Moura and Blackwater system users.

Asciano continues to support a position that WIRP related infrastructure costs and operating costs should not be socialised across Blackwater and Moura system users as this will result in existing non-WIRP users paying for infrastructure they do not need or do not use, with these non-WIRP users effectively subsidising WIRP users.

3 OUTLINE OF QCA WIRP DRAFT DECISION

The QCA Draft Decision does not approve Aurizon Network's proposed approach to the pricing of WIRP train services. The QCA Draft Decision has sought to minimise the risk that existing non-WIRP users will bear the costs of WIRP. In particular the Draft Decision does not allocate WIRP capital costs to existing Blackwater users.

The QCA Draft Decision's preferred approach to WIRP pricing is a "system premium approach" Under this approach a system reference tariff is set, but WIRP users pay an additional premium to reflect their higher incremental costs. This approach should result in customer groups paying a reference tariff that reflects the costs attributable to their train services.

4 ASCIANO COMMENTS ON THE QCA WIRP DRAFT DECISION

Asciano broadly supports the QCA Draft Decision including the "system premium approach" which minimises the risk that existing non-WIRP users will bear the costs of WIRP.

Specific Asciano comments on elements of the QCA Draft Decision are outlined in the section below.

CRIMP Customer Endorsement

Asciano agrees with the QCA's position (Draft Decision pages 16-17) that the 2008 CRIMP customer endorsement does not constitute customer approval of the allocation of WIRP costs to existing Blackwater system users. In particular Asciano notes that not all impacted stakeholders were consulted under the 2008 CRIMP process. Asciano believes that in the future any similar voting processes must ensure that all impacted stakeholders (including train operators) are involved.

WIRP Access Conditions

Asciano agrees with the QCA's position (Draft Decision pages 18-19) that the WIRP access conditions should be considered in making a decision on WIRP tariffs. In particular WIRP users should bear the volume and financial risks associated with the WIRP project.

Asciano notes that only WIRP users and Aurizon Network are party to the WIRP access conditions. Asciano believes that access prices and the terms and conditions

of access should be seen as parts of a complete access offering and thus pricing and terms and conditions should be considered as a whole access offering.

Applicability of "Sub Clause 4.1.2"

Asciano believes that it is unreasonable for an existing access holder to bear the risk associated with an expansion triggered by other users. Existing access holders should not be negatively impacted by expansions which do not benefit the existing access holder. Infrastructure enhancements, such as the WIRP project, are developed to increase capacity for the benefit of new users, not the benefit of existing users.

Given this position Asciano agrees with the QCA's position (Draft Decision page 22) that Subclause 4.1.2 of the Schedule F, Part B of the 2010 Access Undertaking is not an appropriate test to be used in pricing WIRP train services for the reasons outlined in the Draft Decision (pages 22 – 23).

Allocation of WIRP Capital Costs

Asciano agrees with the QCA's position (Draft Decision pages 30-33) that WIRP costs should not be allocated to non-WIRP users.

However, Asciano does have some concerns relating to the QCA's Draft Decision 4.3 (a) (Draft Decision page 33) whereby a portion of the Wiggins Island balloon loop costs are to be allocated to existing Blackwater system train services. Asciano believes any allocation should be supported by evidence that existing services will use the loop and should reflect the operational and monetary benefits received by non-WIRP users using the Wiggins Island balloon loop.

Asciano believes that in its Final Decision the QCA should clarify:

- the forecast volumes for non-WIRP train services using the Wiggins Island balloon loop; and
- the commercial arrangements in place that facilitate the use of the Wiggins Island balloon loop by non-WIRP train services.

Allocation of WIRP Operating Costs

The QCA's Draft Decision (page 34) states that the incremental operating costs for WIRP train services should be immaterial and accepts Aurizon Network's position of zero incremental operating costs for WIRP train services.

Asciano believes that in the event that the WIRP train services' incremental operating costs are not immaterial this matter should be reviewed; otherwise non-WIRP users will be subsidising WIRP users. The QCA should reserve the right to review WIRP train services operating costs in the future.

Substitution of Non-WIRP and WIRP Train Services

The QCA's Draft Decision (pages 39-41) indicates that access holders which have both WIRP and non-WIRP train service entitlements can use these train services interchangeably. For example the Draft Decision (page 39) states:

...the situation is more complicated for existing brown-field mines that have been operating prior to WIRP. These mines have both WIRP (i.e. to WICET) and non-WIRP (i.e. to other Port of Gladstone terminals) train service entitlements, which are largely substitutable.

Asciano seeks that the QCA Final Decision clarify how this substitution applies from a take or pay perspective. A key issue to be considered is whether one path (whether it is a WIRP or non-WIRP path) can offset the take or pay liability of another path (whether it be WIRP or non-WIRP path). Without understanding how such a substitution will apply, Asciano cannot fully assess whether or not there are adverse impacts on other users or whether or not the WIRP volume forecasts are appropriate.

WIRP System Premium Pricing

The QCA Draft Decision (page 52) assesses three pricing options (namely socialised pricing where WIRP and non-WIRP users pay the same tariff; system premium pricing where WIRP and non-WIRP users pay the same tariff but WIRP users pay an additional premium and separate tariffs where WIRP and non-WIRP users pay separate tariffs). Due to volume risk and substitutability between WIRP and non-WIRP train services the QCA believes that the most appropriate approach is the system premium approach. Asciano supports this general approach in the instance of WIRP pricing.

Asciano believes that the QCA needs to further consider the details of such an approach. Particular issues include:

- Under the system premium approach the QCA (Draft Decision page 58) proposes to have WIRP and non-WIRP Rolleston train services pay a system premium in addition to the Blackwater system reference tariff, and all other train services (both WIRP and non-WIRP) pay the Blackwater system reference tariff.

While Asciano supports a system premium approach, Asciano believes there should be a separate and transparent system premium that applies to all WIRP users (not just Rolleston services). The current approach appears to potentially socialise some WIRP costs across all users of the Blackwater system such that non-WIRP users will be exposed to volume risk brought on by the WIRP project and WIRP users.

Asciano believes the QCA's apparent position that some WIRP users will not pay a system premium above the Blackwater system tariff should be further clarified in the Final Decision.

- With a system premium approach every user in the system (being WIRP and non-WIRP users) bears the take-or-pay liability if the system take or pay is triggered under a system revenue cap framework (Draft Decision page 52). Thus system take or pay may be triggered if WIRP volumes are not met (even if non-WIRP volumes are met or exceeded). Asciano believes this risk exposure should be minimised by ensuring that a realistic volume forecast is set for both WIRP and non-WIRP train services. The QCA should involve stakeholders (i.e. customers, train operators and port operators) and independent experts to assess Aurizon Network's proposed WIRP and non-WIRP volume forecasts.

Further to this take or pay issue Asciano believes that the QCA should consider adopting a system premium approach that separates the take or pay revenue cap relating to the WIRP project (i.e. the system allowable revenue relating to the WIRP project) from the baseline take or pay revenue cap (i.e. the Blackwater system allowable revenue prior to the WIRP project). Such an approach will minimise the extent that non-WIRP users bear additional take or pay liability as a consequence of WIRP volumes not being met. WIRP users will be subject to the take or pay liability relating to the existing system reference tariff and the system premium that applies to all WIRP users,

whereas non-WIRP users will only be subject to the take or pay liability relating to the existing system reference tariff.

- Where an access holder has both WIRP and non-WIRP train service entitlements there may be an incentive to prioritise WIRP train services due to take or pay obligations. In order to minimise the need to prioritise WIRP train services over non-WIRP train services Asciano believes that the end of year take or pay volume test should be assessed sequentially. That is non-WIRP train service entitlements (contracted prior to WIRP) are exhausted in the test first and any additional train service entitlements are treated as WIRP train service entitlements. This method would encourage users to increase throughput and minimise the need to substitute WIRP for non-WIRP train services. It would also be consistent with the current method by which Aurizon Network assess take or pay between access undertaking periods.

Aurizon Network Consultation

More broadly Asciano has a concern that in relation to WIRP pricing Aurizon Network has previously only consulted with WIRP users who contracted additional below-rail capacity to WICET. Asciano is concerned that existing users on the Blackwater and Moura systems railing to existing ports were not consulted although these users may be potentially impacted by WIRP pricing or WIRP-related operations. Asciano is seeking that in relation to future WIRP issues that Aurizon Network consults with existing users on the Blackwater and Moura systems.

5 CONCLUSION

Overall Asciano broadly supports the QCA Draft Decision and in particular supports the QCA Draft Decision “system premium approach” which minimises the risk that existing non-WIRP users will bear the costs of WIRP. However, Asciano has several concerns relating to the Draft Decision including:

- The QCA’s approach to non-WIRP users using the Wiggins Island balloon loop, and in particular the forecast volumes for non-WIRP train services using the Wiggins Island balloon loop and the commercial arrangements in place that facilitate non-WIRP train services using the Wiggins Island balloon loop;
- The QCA’s approach to system premium pricing whereby some WIRP services are not expected to pay a system premium; and

- The QCA's approach to the substitution between WIRP and non-WIRP train services and the separation of forecasting WIRP and non-WIRP volumes and how these approaches would impact on take or pay.

Asciano is seeking that these concerns be addressed by the QCA in the Final Decision.