



Professor Roy Green
Queensland Competition Authority
Level 27
145 Ann Street
Brisbane QLD 4000

Submission on QCA's Draft Decision on Aurizon Network's 2017 Draft Access Undertaking (UT5)

12 March 2018

Dear Professor Green,

Aurizon Coal welcomes the opportunity to comment on the Queensland Competition Authority's (QCA's) Draft Decision on Aurizon Network's 2017 Draft Access Undertaking (UT5).

Aurizon Coal's previous submission on UT5 dealt exclusively with electric traction. This issue is now being dealt with outside UT5 through Aurizon Network's Electric Traction (AT5) Draft Amending Access Undertaking. As such, Aurizon Coal will not be commenting in this submission on the issue of electric traction.

1. Impact of Aurizon Network's amended maintenance and operating practices

On 30 January 2018, Aurizon Network announced that it would begin implementing new maintenance and operating practices consistent with the QCA's UT5 Draft Decision and GHD review of maintenance expenditure.¹

Aurizon Coal and its customers were (and continue to be) adversely impacted by this change. Of particular concern are the steps being taken by Aurizon Network to cease above-rail productivity improvements and reduce pathing availability, particularly in constrained systems such as Blackwater.

Based on the initial impact of the changes, Aurizon Coal considers the continuation of these practices will result in reduced throughput, system utilisation and supply-chain efficiency. These changes to network maintenance and operational practices have a direct and detrimental effect on the efficient utilisation of the infrastructure by Aurizon Coal, are adversely affecting our ability to schedule rail services for our customers, and are increasing cost.

The current situation is not sustainable and requires an expeditious resolution. Queensland coal producers must be competitive in, and able to respond to, international markets. They cannot do so unless the rail network has high levels of availability and reliability. Maintenance and other essential network services must be delivered in a way that maximises the ability of producers and rail operators to sustainably and efficiently transport coal. The economic

¹ GHD Advisory, Review of the Prudence and Efficiency of Aurizon Network's Proposed UT5 Maintenance Expenditure dated 15 November 2017.

interests of the Queensland coal sector are not being furthered by non-urgent network maintenance being prioritised over the operation of income-generating train services.

It is incumbent on the QCA must to ensure that Aurizon Network has an appropriate incentive to support above rail productivity improvement, that it minimises the impact of necessary maintenance on efficient above-rail operations, and capably and flexibly fulfils its role in the planning, scheduling and day of operations environments.

The immediate implications of the new maintenance and operating practices are set out below.

(a) Important supply-chain productivity improvements have been ceased

Aurizon Coal (and other operators) has undertaken extensive trials of overlength trains for a considerable period and considers their use to be a low cost, efficient and effective mechanism to maximise throughput of the supply chain.

The operation of overlength trains creates some additional scheduling and day of operations complexity due to their interaction with other train services. Until recently, Aurizon Network has accommodated that complexity by facilitating the scheduling of overlength services by Aurizon Coal and other operators.

An immediate consequence of Aurizon Network's new operating and maintenance practices, was the cancellation of the operation of overlength trains. Aurizon Network stated that this was necessitated by the implementation of new maintenance and operating practices which significantly reduce scheduling flexibility and reduce the ability of Aurizon Network to facilitate overlength trains.

Aurizon Coal considers that innovations such as increasing train payloads are a significant enabler of competition in the above rail market. For this reason the regulatory regime should ensure that Aurizon Network remains incentivised to appropriately consider and allow for the trialling and permanent implementation of such innovations, and must consider the benefits to the supply chain of such low-cost methods of increasing supply chain capacity and efficiency.

This is consistent with the introduction in UT5 (reflecting consensus amendments) of the 'low cost' relinquishment of excess paths resulting from initiatives to increase train payloads. The relinquishment provisions, which facilitate the introduction of above rail productivity improvements and contemplate the interests of Access Holders and Aurizon Network, are considered to promote the efficiency of the system by the QCA in the Draft Decision. The QCA also recognises "*the need for a reasonable amount of flexibility to allow for testing of innovations*"² specifically in relation to the trialling of longer trains.

(b) Planning and day of operations impacts have become apparent, particularly in Blackwater

The changes implemented by Aurizon Network as a result of the Draft Decision have caused losses in throughput from both a reduced ability to schedule trains due to lower system availability, as well as from cancellations in the day of operations environment that have previously been avoidable or recoverable. In particular:

- Aurizon Coal has experienced a significant reduction in system availability in systems which are already considerably constrained, such as Blackwater. In the short period of time since the implementation of the new maintenance and operating practices, Aurizon Coal has been unable to schedule services to a full demand profile due to reduced pathing availability and an inflexibility in the planning of maintenance paths.
- Since the introduction of new maintenance and operating practices, Aurizon Coal has seen a decrease in Aurizon Network's flexibility in reallocating maintenance possessions to

² QCA, Draft Decision on Aurizon Network's 2017 Draft Access Undertaking, p 350.

allow for the optimisation of scheduled train services. Historically, as part of the Intermediate Train Planning (ITP) process, whereby the weekly schedule is finalised, Aurizon Network demonstrated a willingness to be flexible with their planning of specific paths for maintenance possessions. This flexibility allowed above-rail operators to optimise the schedule, taking into consideration that week's order profile. Whilst Aurizon Network was not always able to accommodate a change, Aurizon Coal believes that the overall impact of the flexibility was improved throughput.

- Further, a certain level of flexibility had also been afforded by Aurizon Network in the day of operations environment with regard to instances where train services that are off schedule³ would (as a result of its delay) run into a planned maintenance possession. Previously, the train service would generally be given priority over that possession (i.e. the possession would start after the service had cleared the section) in order to preserve throughput and not create further downstream impacts. It now appears to be the case that any such maintenance possession will now take priority above any other considerations. Aurizon Coal notes that whilst this practice directly affects one service in the day of operations, there can be considerable flow on effects and indirect consequences to other services and throughput as a whole.
- The effect of all of these practices is that primacy is being given to network maintenance (even non-urgent maintenance), rather than the efficient operation of train services. Should the current practices continue, Aurizon Coal expects a continued reduction in asset utilisation and a need to increase resource intensity to deliver the same throughput.

Aurizon Coal also observes that the present situation gives rise to concerns about the ability of the weekly scheduling process to achieve maximum productivity gains. Under the current process, Aurizon Network has, in effect, the first right to lay down its maintenance plan – the effect being both a reduction in the *total* number of available paths, and changes in how paths present throughout any given week. It then falls to the train operators to 'optimise' around Aurizon Network's maintenance plan through the ITP process. To do so, train operators require both paths to be available and for those paths to present in a way that allows trains to cycle productively (sometimes described as a need for 'usable' as against 'unusable' paths).

Operators are commercially incentivised to undertake this optimisation exercise, but their ability to achieve the highest throughput outcome is inherently limited for so long as network maintenance is fixed and immovable. For the CQCN to achieve and then maintain productivity gains, it seems clear that at least some network maintenance (e.g. non-mechanised maintenance) should be optimised in conjunction with trains being scheduled, such as to achieve a sensible balance between system cost and level of throughput.

Aurizon Coal considers that the QCA should have regard to the supply chain impacts of any maintenance and operating practices in its final decision. In particular, the QCA should have regard to the following:

- › **The alignment of incentives to facilitate above rail productivity improvements to benefit the efficiency of the supply chain;**
- › **The impact that any maintenance and operational practices have on system availability;**
- › **The need for network maintenance to be planned and deployed in conjunction with the optimisation of train operations;**
- › **The impact that any maintenance and operational practices have on the flexibility afforded to the scheduling and day of operations environments; and**

³ Deviations from the planned schedule can be caused by a wide range of factors not related to the above rail operator, including events affecting the availability of below rail infrastructure and loading/unloading facilities.

- › **The impact any lost system availability and flexibility has on the ability for the supply chain to efficiently optimise throughput.**

Aurizon Coal considers that the impact on above-rail providers and producers necessitates an expedited resolution.

2. Workability of Contested Train Path principles

In addition to the above issues regarding Aurizon Network's amended maintenance practices, Aurizon Coal has experienced some workability issues in the Contested Train Path (**CTP**) principles in Aurizon Network's 2016 Access Undertaking (**UT4**) which remain unchanged in UT5. These have not been raised in previous submissions as these issues have manifested in practice following the implementation of UT4 in October 2016. Aurizon Coal now has sufficient experience in their application to comment.

As the QCA is aware, the Draft CTP principles in clause 8.3 of the Network Management Principles contained in Schedule G of UT5 provide the decision making process by which Aurizon Network allocates Train Paths which are contested by multiple Access Holders during the development of the ITP. Its application is designed to ensure Aurizon Network meets its contractual obligations, does not unfairly differentiate between Access Holders and maximises throughput. The application of the CTP principles additionally provide enhanced transparency to the scheduling process, particularly in constrained environments.

As part of UT4, the CTP principles were redrafted from their UT3 position and it is Aurizon Coal's view that this has caused the application of certain principles to create unintended outcomes that are counter to the objectives of the CTP decision making process.

Specifically, the unchanged UT4 principles in clauses 8.3(a)(iii) and (iv) are now considered decision points in their own right. This is a departure from the UT3 CTP principles which had equivalent provisions which were not decision points but acted as modifiers to the relevant TSE consumption data calculated for the CTP decision points further in the process. These UT3 principles allowed for the consumption principles (allocating CTPs to the Access Holder most behind month to date or year to date) to take into consideration all relevant factors which affected an Access Holder's utilisation of Access Rights.

Aurizon Coal considers that in the UT5 (and UT4) form, the two CTP principles listed above provide little value as decision points in and of themselves and have the potential to create unintended consequences counter to the objectives of the CTP decision making process. See Appendix for further detail specific to each principle.

Aurizon Coal considers that the principles in clauses 8.3(a)(iii) and (iv) should be reinstated as modifiers to the TSE consumption data for the purposes of CTP decision points further in the process in order to:

- (a) manage rail access portfolios with multiple Access Rights ('pooling') without going through the short term transfer process which is difficult to achieve in very short timeframes (clause 8.3(a)(iii)); and
- (b) adjust TSE consumption data for the impact of Network Cause and Force Majeure for the allocation of CTPs to the Access Holder that is most behind month to date or year to date (clause 8.3(iv)).

The application in this way would assist in ensuring that Aurizon Network meets the objectives of the CTP decision making process, in particular maximising throughput in a fair and consistent manner between Access Holders.

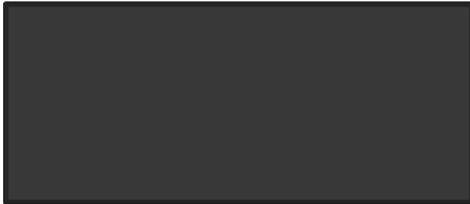
Aurizon Coal notes that the ability to manage access portfolios through 'pooling' was strongly supported by all operators as part of the UT4 consultation process and it was suggested the provision of rapid transfer of access rights was one way to facilitate this. The UT3 drafting of

the principle in clause 8.3(a)(iii) is an alternative way for Access Holders to benefit from 'pooling' as Access Holders can manage week to week variability (i.e. production or port variability) through the recognition of their portfolio of Access Rights in the CTP process.

Aurizon Coal submits that the QCA consider the redrafting of the provisions to reinstate their UT3 intent as modifiers to the data inputs for the later CTP principles, namely, the consumption principles.

Should you have any questions in relation to the submission, please contact Louisa Chung at Louisa.Chung@aurizon.com.au.

Kind regards,



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Head of Coal Customers
Aurizon Coal

Appendix: Contested Train Path Principles

Current application and consequence (UT4 & UT5):

Principle	Current application	Consequence
Clause 8.3(a)(iii)	<p>A train order will include a reference to the TSE for an Access Right (second entitlement) as being submitted as performance against the TSE for a different Access Right (first entitlement). Following the application of the entitlements as above, this principle acts as a question of scope between the two contesting Access Holders with regard to their weekly entitlement.</p>	<p>Applicable only to allow a train order for which the Access Rights are ad hoc or have exhausted their weekly entitlement to be considered in scope for the purposes of clause 8.3(a)(iii) by benefiting from the underutilised weekly entitlement of another set of Access Rights.</p> <p>Limited in its useability and value to access holders in achieving maximum throughput from their pool of Access Rights.</p>
Clause 8.3(a)(iv)	<p>Acts as decision on the basis of which Access Holder is within its annual scope of Train Service Entitlements (TSEs) as adjusted for Aurizon Network Cause and Force Majeure Events (NC/FM).</p>	<p>Does not recognise the impact of NC / FM in determining which Access Holder is most behind from a month to date and year to date perspective. This limits the value of this principle in achieving maximum throughput by allocating contested paths fairly and consistently between Access Holders.</p> <p>As the test is annual, even if an Access Holder was considerably more affected by NC/FM than an Access Holder against whom it was contesting, this principle would not be triggered until Annual TSEs start to become fully consumed.</p>

Proposed application:

