

10 June 2013

Mr John Hall
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Via email: rail@qca.org.au

Dear Mr Hall

Aurizon Network's 2013 Blackwater Electric Pricing Draft Amending Access Undertaking

This submission is made by Springsure Creek Coal Pty Ltd (**Springsure**) in response to Aurizon Network's (**AuN**) Draft Amending Access Undertaking (**DAAU**) relating to the pricing arrangements for electric traction services on the Blackwater system, submitted by AuN on 24 April 2013.

Springsure has been an active participant in discussions regarding this matter including provision of the following submissions on AuN's previous AT5 matters:

1. the original Electric Traction Services draft amending access undertaking (**DAAU**) submitted by QR Network Pty Ltd (now AuN) to the QCA on 16 December 2011 (noting this was a joint submission with Washpool Coal); and
2. the Draft Decision of the QCA to reject the 2011 Electric Traction Services DAAU, which was supported by Springsure.

In January 2013 Springsure also participated in the QCA facilitated workshop that triggered AuN's reconsidered proposal for the pricing of electric traction infrastructure in the Blackwater system.

Springsure continues to have significant concerns with the proposed DAAU as it does not address the fundamental issues that have been previously raised by Springsure. In this regard, we oppose AuN's DAAU.

In summary, any proposal by AuN to electrify any part of the Blackwater system (including Springsure's spur line or any other new spur lines that developing mines require to operate on the Blackwater system) and bear the cost and risk of such electrification, needs to take into account at least the following:

1. Timing

The timing of such electrification is critical to ensure Springsure can perform its long term commitments in relation to Wiggins Island. There is currently no specific timing put forward by AuN to complete the necessary electrification projects (i.e. Bauhinia line) and how this may impact on the pricing methodology.

2. Multiple agreements / multiple parties

There are multiple agreements between multiple parties involved in the Wiggins Island project. Springsure, for instance, has already entered into an above rail haulage agreement with Pacific National for its mine. As a result, it is not simply a matter of AuN reaching agreement with Springsure on the issue of traction type. No decision can be made in isolation of the nominated operator.

3. Acknowledgment of pre-commitments

In terms of the timing of any transitional move to electric traction, Springsure considers that any investment decisions made by parties to the WIRP Deed irrespective of whether they were made after the submission of the AuN DAAU on 16 December 2011 should be immune from any risk that diesel users would be required to contribute to any revenue shortfall. Springsure, for instance, undertook a competitive tender process for rail haulage over six months and entered into an agreement with Pacific National in February 2012, based on the current regulatory framework and AuN's advice regarding pricing of a diesel versus electric traction operation. AuN should not be entitled to subsequently alter its position and adversely impact on Springsure's decisions.

As a result, Springsure and its above rail operator, Pacific National, have both made significant long term, economic pre-commitments to diesel traction based on the existing pricing principles. AuN's amended proposal (including any of the proposed UUP options put forward) would penalise Springsure for its prior investment decisions, undertaken legitimately within the current regulatory framework, and force upon it a greatly altered asset stranding risk to that upon which it based its investment decisions.

4. Lack of transparency

In order for users to make an informed decision regarding the potential benefits moving to electric traction, users must be fully aware of the assumptions and inputs into the electrification charge and the impact of any potential changes arising from UT4. We note that some of the methodologies used are inconsistent with AuN's UT4 Draft Access Undertaking.

5. Cost reflective pricing principles

Springsure acknowledges that AuN has provided a pricing methodology which reduces the AT5 component to incentivise use of electric traction, with only users of electric traction continuing to pay the AT5 tariff component.

However, Springsure reiterates its strong concern regarding the socialisation principles put forward by AuN. While the electric asset base and associated costs are no longer proposed

to be socialised across both Goonyella and Blackwater systems, any revenue not recovered is proposed to be socialised in some manner under the UUP options put forward.

The QCA has previously rejected socialisation of an electric tariff due to it not being consistent with the cost reflective pricing principles which underpin the access pricing. With this being the case, seeking socialisation of any UUP across the Central Queensland Coal Network (CQCN) users is not consistent with this methodology. We remain of the view that such a socialisation measure reduces both the operating and allocative efficiencies when costs specific to some users are socialised across all continues to apply.

6. Risk of establishing a precedent and perpetuating higher supply chain costs

Our concern regarding socialisation principles outlined above encourages uncertain, and unintended, precedents which may be sought by AuN in the future beyond that of electric assets.

The pricing methodology put forward by AuN assumes that additional capital expenditure (circa \$200M) is invested to electrify predominantly the Bauhinia line. With this being the case, there is no certainty that investment of this capital will incentivise a move to electric traction. As a result, this would perpetuate an illogical outcome whereby all Blackwater users under AuN's proposal would face higher supply chain costs due to investment of capital that may not have been required in the first instance.

Springsure would welcome the opportunity to contribute to any future discussion on this issue and confirms that this submission is public.

Yours sincerely



Matthew Scott
Chief Financial Officer