



Final Decision

QR Network's Proposed Alternative Access Charge for Colton to Barney Point Service

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1. SUMMARY OF QR NETWORK'S APPLICATION AND THE AUTHORITY'S ASSESSMENT

1.1 Background

On 27 October 2011, QR Network Pty Ltd (QR Network) submitted for approval a proposed alternative access charge for a new coal haulage train service intended to operate between the Colton mine (located approximately 15 kilometres north of Maryborough) and the Port of Gladstone (unloading at either Barney Point or RG Tanna coal terminals at the port).

QR Network's submission argued that, as the proposed service would use only a small proportion of QR Network's rail transport infrastructure, the application of the nearest relevant reference tariff may not provide an appropriate balance of interests between the user of the proposed service (Northern Energy Corporation (NEC)) and existing users of the Moura and Blackwater systems.

Instead, QR Network proposed an alternative access charge for provision of the service and sought approval to vary the normal tariff setting requirements in relation to several obligations contained in its approved 2010 access undertaking, namely the requirements to:

- (a) develop a reference tariff in accordance with clause 6.4.2(b) of the undertaking;
- (b) ensure the service makes a minimum contribution to common costs; and
- (c) where a reference tariff does not apply, calculate access charges in accordance with the criteria detailed in clause 4.3 of Part B of Schedule F of the undertaking.

The 2010 undertaking provides for each of these obligations to be varied with the approval of the Authority. Essentially, QR Network has sought the Authority's approval to diverge from the standard reference tariff setting principles in establishing an access charge for the Colton train service.

1.2 Characteristics of Proposed Train Service

QR Network's submission indicates that the proposed Colton train service will have the following characteristics:

- (a) the service will operate on the Queensland Rail network between the Colton mine and Parana;
- (b) at Parana, the service will enter QR Network's declared central Queensland coal network and operate on a short (approximately eight kilometres) section of the network to the RG Tanna and/or Barney point coal terminals at the Port of Gladstone;
- (c) the service constitutes intermediate arrangements only and is designed to assist in the early development of the Colton mine and reduce the ramp-up profile of the mine, and will be replaced with new arrangements to unload coal at the Wiggins Island Coal Export Terminal (WICET) once that terminal commences operations. The arrangement for access rights at RG Tanna and/or Barney Point terminals will then cease;
- (d) the service will be operated by significantly shorter trains than the existing trains that operate on the Blackwater and Moura systems servicing the Port of Gladstone (typically, the trains operating the service will be have a length of 570 metres, with the possibility of some trains of 670 metres – existing Blackwater trains have a maximum length of 1709 metres and Moura trains 1000 metres);

- (e) the service is being negotiated with a single customer - NEC, operator of the Colton mine, which is supportive of the QR Network proposal;
- (f) QR National Coal is the proposed coal hauler for NEC;
- (g) QR National Coal has been offered train paths on a 'subject to availability' basis only, for up to 0.5 million tonnes per annum (mtpa).

1.3 Tariff Proposal

QR Network said that the proposed Colton train service is not consistent with the typical access rights for which the pricing requirements in the approved access undertaking are designed, primarily because of the smaller trains, relatively short length of the central Queensland coal network being utilised and the 'subject to availability' offer of train paths.

As a consequence, rather than charge an existing reference tariff or establish a new reference tariff, QR Network proposes to levy an alternative access charge (or tariff) that it believes will better reflect the opportunity cost of the train paths utilised. Specifically, QR Network has proposed a tariff based on its assessment of the minimum contribution to common costs a new coal carrying train service would be required to make if it connected significant private infrastructure at the extremity of the Moura system and conformed to the reference train service description. QR Network considered that this represented a reasonable proxy for the opportunity cost of utilising a train path in a congested network. QR Network also indicated that it used the Moura system rather than the Blackwater system (which would have resulted in a higher charge) as the train service description (by size of train and part of the network used) is closer to a Moura train than a Blackwater train.

On this basis, QR Network has proposed a two-part tariff based on:

- (a) the AT₁ reference tariff component for the Moura system; and
- (b) a train path charge equivalent to \$1.09 per net tonne.

1.4 Stakeholder Comments

QR Network's submission was published on the Authority's website in November 2011 and three submissions in response were received from stakeholders, namely, the Queensland Resources Council (QRC), BHP Billiton Mitsubishi Alliance (BMA) and Asciano Limited.

While none of the stakeholders objected to the proposed access charge, they did question the impact the proposed train service may have on scheduling and capacity for existing train services delivering to the Port of Gladstone.

In particular, QRC, BMA and Asciano all stressed that the scheduling of the proposed Colton to Gladstone service must be consistent with the system rules for Capricornia (Blackwater and Moura systems), for which draft rules are presently before the Authority for approval.

Specific concerns raised by stakeholders related particularly to:

- (a) the view that there is a danger that the proposed service may not comfortably align with the categories and scheduling hierarchy detailed in QR Network's proposed Capricornia system rules. Under the proposed system rules, train paths can be either contracted train service entitlements, additional requested contracted services or ad hoc services. The proposed Colton to Gladstone service has not been guaranteed access rights but it has a higher priority than ad hoc services and stakeholders are concerned as to whether this will align with the finalised system rules;

- (b) the impact that the operation of the Colton to Gladstone service may have on the running of existing coal services contracted through the Port of Gladstone, and the ability for existing customers to maintain existing contracted capacity. In this regard, BMA particularly pointed out that QR Network and the Gladstone Coal Export Executive (GCEE) are currently reviewing the system capacity parameters of the Capricornia System. As the Capricornia capacity review is only in its early stages, BMA believes it may be premature to attempt to properly identify the impact an additional 0.5 mtpa capacity for the Colton service, even when offered on a limited basis, may have on existing services to the Port of Gladstone;
- (c) the need to ensure that the alternative access charge or tariff is calculated and set in a transparent manner and that some regard is given to the fact that the proposed fixed charge component is lower than fixed charges levied by QR Network for light locomotive and empty rolling stock movements (issues raised by Asciano); and
- (d) the precedent value of the proposal – with QRC stressing that any approval of the proposal should clearly articulate the rationale for acceptance of an alternative access charge in this circumstance, while Asciano was of the view that any similar service that it might seek approval for at some stage in the future should be assessed on the same basis as the Colton service.

QR Network's Response

QR Network addressed the concerns expressed by stakeholders in its response by reiterating that the proposed service will not receive any scheduling priority over contracted train services and that access holders' access agreement and annual entitlements take precedence over the Colton service entitlements. More specifically, QR Network said that:

- (a) it has sought, and been provided with, confirmation that the access seeker has the complimentary (subject to availability) access rights at the port;
- (b) the use of those rights is subject to availability of both the port and rail and the ability to schedule trains through the daily train plan is contingent on the terminal operation making the coal handling facilities and stockpile available. Any coal terminal or port related treatment of contracted tonnages should be progressed with the terminal operators;
- (c) QR Network negotiated in good faith to propose a form of access which supports the mine development and reduces the risk to the Wiggins Island coal chain development. QR Network will treat all access seekers for these services in a consistent manner in the event there was more than one access seeker;
- (d) it confirms the proposed services will not receive any scheduling priority over contracted train services of an access holder's access agreement, such that where an access holder orders additional train services in a scheduling period and the access holder has not yet consumed its annual entitlement, then those orders receive the appropriate scheduling priority;
- (e) there are limited and specific circumstances where the proposed train services can be scheduled – i.e. they can only be scheduled under the following conditions (conditions which are not inconsistent with the operation of the contested train path decision making principles contained in contractual entitlements):
 - (i) there are available train paths in the daily train schedule which have not been ordered; or

- (ii) the train order is not competing for a train path order placed by an access holder who has not consumed its annual train services entitlement; or
 - (iii) the train order is only competing against other ad hoc train order requests which have no contractual entitlement; and
- (f) there should be no capacity implications as the proposed services can only operate where an existing access holder is under-utilising its entitlement. However, QR Network acknowledges that relevant system rules could be amended to improve transparency so that these services would be scheduled relative to contracted coal carrying train services.

1.5 The Authority's Assessment

In assessing QR Network's proposal, the Authority was mindful of the obligations in the 2010 access undertaking that QR Network is seeking to have varied, namely the requirements to:

- (a) develop a reference tariff;
- (b) ensure the service makes a minimum contribution to common costs; and
- (c) where a reference tariff does not apply, calculate access charges in accordance with the criteria contained in the access undertaking.

The Authority was also mindful of the fact that the undertaking does provide for each of these requirements to be varied with the Authority's approval. The implication of this is that it is envisaged that these requirements may be varied, but only in circumstances that are unusual and where there is a clear rationale for doing so.

In the case of the proposed Colton to Gladstone train service, the rationale relates to the unusual nature of the proposed service, particularly with regard to the:

- (a) relatively short (eight kilometre) section of QR Network's central Queensland coal network being utilised;
- (b) use of significantly shorter trains than the existing consists operating on the Blackwater and Moura systems; and
- (c) offer of train paths being on a 'subject to availability' basis only.

Given these characteristics, the Authority accepts that the proposed train service is unusual in comparison to the services normally offered in accordance with QR Network's approved 2010 access undertaking.

The Authority has also noted that:

- (a) QR Network appears to have negotiated in good faith with the end user and its proposed rail operator to find a workable solution to allow delivery of a service to the mine in question;
- (b) the proposal appears to provide benefits to the parties involved, without adversely impacting on existing access holders' rights and entitlements; and
- (c) strict application of the relevant requirements in the access undertaking would be likely to lead to a detrimental outcome for the parties, without providing any benefits to existing access holders.

As a consequence, the Authority has determined that it is appropriate to approve the proposed variation of the requirements in the access undertaking that QR Network is seeking.

With regard to the tariff proposal itself, the Authority has accepted QR Network's view that the alternative access charge proposed can be considered to represent a reasonable reflection of the opportunity cost of train paths that will be utilised by the proposed train service.

The tariff proposal is based on QR Network's reasonable assessment of the minimum contribution to common costs a new coal carrying train service would be required to make if it connected significant private infrastructure at the extremity of the Moura system and conformed to the reference train description. The Authority is satisfied that QR Network's proposal for a two-part tariff effectively achieves this outcome, with the two part tariff based on:

- (a) the AT₁ reference tariff component for the Moura system; and
- (b) a train path charge equivalent to \$1.09 per net tonne.

The Authority also notes that QR Network's proposal provides for:

- (a) the train path component of the alternative access charge to be reviewed if it falls outside of a reasonable range in comparison to the AT₂ reference tariffs for Moura or Blackwater, thereby maintaining a correlation with price movements in those systems;
- (b) volume forecasts for the proposed train service not to be included in system forecasts used for the derivation of reference tariffs; and
- (c) allocation of revenue earned between the Blackwater and Moura systems on the basis of relative under-utilisation within the relevant system.

Given these factors, the Authority has also accepted QR Network's proposal for determining the alternative access charge (tariff).

The Authority notes, however, that this application, and QR Network's AT₅ (electric infrastructure) draft amending access undertaking, which is presently before the Authority for consideration, both raise questions regarding the existing structure of the coal reference tariff; in particular, the level of the AT₂ (train path) component.

The AT₂ component was first assessed as part of the 2001 undertaking and has been indexed in subsequent undertakings. It might be anticipated that, with higher expansion costs, a bottom-up review might justify a higher AT₂ component, possibly offset by a lower AT₄ (net tonne) component. Such a structure might provide better signals for capacity consumption and may obviate the need for exemptions from tariff setting rules in the future.

The Authority is also conscious of a number of important issues raised by stakeholders in submissions.

While no stakeholder clearly opposed the QR Network proposal, all three stakeholders who provided submissions held concerns with specific elements of the proposal.

Of particular emphasis in this regard were the concerns raised about the need for the proposed Colton to Gladstone train service to operate and be scheduled in a manner consistent with the Capricornia system rules. The draft Capricornia system rules are presently before the Authority for approval. As part of its consideration of these rules, the Authority will require QR Network to clearly demonstrate that scheduling decisions for the Colton service will be made in a manner consistent with the finalised system rules.

The Authority has also noted the comments made by BMA in relation to the pending capacity review of the Capricornia system. In assessing the outcomes of this capacity review, the Authority will wish to satisfy itself that the 0.5mtpa of capacity proposed to be offered to QR National Coal, and its customer NEC, will not adversely impact the ability of existing users to receive contracted capacity.

In this regard, the Authority takes some comfort from QR Network's comments that the proposed service will get the lowest priority when it comes to scheduling services and be prioritised only over ad hoc services (i.e. services 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).

The Authority has also taken account of QR Network's advice that it has sought, and been provided with, confirmation that the customer has the complimentary 'subject to availability' access rights at the port.

The Authority is also particularly conscious of the potential precedent value of approval of the alternative access charge for the proposed service. In this regard, the Authority notes that:

- (a) there are very particular elements associated with the Colton to Gladstone service that mean that it can be considered unusual or not consistent with the typical access rights for which the pricing requirements in the access undertaking are designed, especially the short length of the central Queensland coal network being utilised, the relatively smaller trains, and that train paths are offered on a 'subject to availability' basis; but
- (b) it is fair for Asciano to expect that, in the event that it sought a similar access agreement with QR Network for a similarly unusual train service on a 'subject to availability' basis, its proposal would be assessed by QR Network on the same basis as the Colton service. The Authority would, of course, assess any application for approval of an alternative access charge for such a service on the merits of that application.

With regard to timing of the proposed arrangements, QR Network has advised that it views the proposal as constituting intermediate arrangements only that are designed to assist in the early development of the Colton mine and reduce the ramp-up profile of the mine.

QR Network has also advised that NEC has recently executed an agreement for conditional access rights to unload coal at WICET, once that terminal commences operations. Its arrangement for access rights at RG Tanna and/or Barney Point terminals will then cease.

The proposed alternative access charge will not apply to the WICET access rights. Instead, a separate access charge applying to those access rights will need to be developed and submitted to the Authority for approval prior to the access rights being exercised by NEC.

The Authority has thus concluded that the QR Network proposal is an appropriate temporary arrangement with regard to the Colton mine. Hence, the Authority has decided to approve the proposal.