

# Submission to QCA

## Electric Traction Services Draft Amending Access Undertaking

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This submission is made by Washpool Coal Pty Ltd and Springsure Creek Coal Pty Ltd (**Submitters**) in response to the Queensland Competition Authority's (**QCA**) call for submissions regarding the Electric Traction Services Draft Amending Access Undertaking December 2011 (**DAAU**) put forward by QR Network Pty Ltd (**QRN**) on 16 December 2011.

This submission is provided on the basis that the Submitters do not support any of the three part proposal put forward by QRN in it's current form, as separate components or as a complete package and respond to each aspect as follows.

### **Socialisation of Electric Assets and Costs**

QRN proposes to introduce a single network AT5 charge, combining the total costs and total forecast demand of the Blackwater and Goonyella electric networks.

QRN's proposal effectively spreads the infrastructure and maintenance costs of electric energy across both the Goonyella and Blackwater systems and provides for a single electric tariff (AT5) for both systems which is undifferentiated by actual system costs.

Socialisation of the electric tariff was previously rejected by the QCA as being inconsistent with cost reflective pricing principles which underpin access pricing, i.e. "user pays". There is nothing in QRN's current submission, nor has there been any subsequent changes to the operating environment to convince the Submitters that this issue should be revisited.

The Submitters are of the opinion that socialisation reduces both operating and allocative efficiencies when costs specific to some users are socialised across all. A clear delineation of assets that support different expansions and tonnages should be maintained.

Further, there is a concern that such broad socialisation principles would encourage uncertain, and unintended, precedents that QRN may seek to apply beyond the allocation of electric assets between the Goonyella and Blackwater systems in future undertakings. Even though the Goonyella system is currently insulated from the Blackwater system impacts, future rail expansion with diesel traffics could trigger similar utilisation impacts.

### **Application of AT5**

QRN's proposal is to introduce a requirement that operators pay AT5 for at least 90% of the train services in the Goonyella and Blackwater systems that could "feasibly be operated with electric trains", including services actually operated with diesel trains. This proposal effectively socialises electric infrastructure and maintenance costs across both diesel and electric users.

In the first instance the Submitters have concerns as to the ambiguity of “feasibly be operated with electric trains”, as QRN’s submission is not clear as to which services this would be applicable to.

The Submitters are opposed to QRN’s proposed application of AT5 as they have made material recent economic decisions based on information which was available at the time of making the decision, i.e. the current pricing principles on which access pricing is based.

The Submitters acknowledge that electric infrastructure investment decisions made regarding the Blackwater system in recent years, subsequent increases in AT5 and resultant decrease in the utilisation of electric consists, may have contributed in an increase in the risk of “stranding” of electric consists and overhead assets. The issue should be more a matter of who should be liable for this potential stranding risk within the regulatory regime. There is also an inequality in QRN’s proposal in that future system users will effectively be penalised for the infrastructure investment decisions made by incumbent system users, network providers and operators at a point which predated some new entrants who had not played a role in previous decision-making processes.

Diesel users on electric systems are also generally already penalised with an AT2 multiplier, albeit the multiplier’s intended application being for slower train services. It is not clear how the application of the current multiplier will be dealt with, or reviewed, in the context of QRN’s proposed DAAU.

### **5% Ceiling on Revenue Cap Adjustments**

QRN’s proposal is to limit the revenue adjustments in a single year for AT5 to no more than 5% per annum to recoup any under- recovery of the AT5 revenue cap.

The Submitters note that this ability to defer recovery of revenue cap amounts is a voluntary obligation only and questions the benefit to industry when it has no control over whether it is applied.

The principle of revenue adjustment under the regulation is to ensure that users in a discrete period of time meet the costs of providing the infrastructure during that period. QRN’s proposal has the potential to spread the recovery of any variation over a long period and may result in a deviation again from the “user pays” principle, for example, a new user in 2017 could potentially be liable for the under-recovery of AT5 revenue cap by QRN occurring in 2012, which is not considered reasonable.

The QCA has previously rejected an electric infrastructure revenue cap and we see no reason to alter this position. There is no material benefit to industry envisaged by this part of QRN’s proposal.

### **Summary**

The Submitters do not support any of the three part proposal put forward by QRN in its current form, as separate components or as a complete package. Any of the three discrete parts of the proposal would represent a departure from the established pricing principles on which the undertaking is based, resulting in broad cross-subsidisation of assets.

The Submitters are concerned about the precedents that would be established whereby current regulatory pricing principles would be modified to accommodate an immediate issue, which is largely a function of prior decisions made by QRN. The concern specifically relates to having ongoing

certainty of pricing into the future so as feasible investment decisions can be facilitated. The strict application of QRN's new proposed structure is likely to materially adversely affect the economic outcome for users that have committed to projects based on these assumptions.

The Submitters note that a detailed economic assessment has been undertaken by QRN in support of its submission however the Submitters are not in a position to agree with, or support, the outcomes of the QRN assessment as little is known about the key assumptions, inputs and applied methodology that underpin the assessment.

The Submitters acknowledge that QRN is seeking to prevent the potential under-recovery of electric assets however the proposed solutions put forward by QRN in its submission does not represent suitable/acceptable recovery mechanisms. As such, the Submitters are continuing to participate in a consultative process to work through the issues with QRN, and other stakeholders.