



23 November 2012

Mr John Hall

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

By Email: To: rail@qca.org.au

Dear Mr Hall,

QCA – Submissions on Authority’s Draft Decision QR Network’s Electric Traction Services Draft Amending Access Undertaking

Vale Australia Pty Ltd (**Vale**) welcomes the opportunity to provide a further submission to the Queensland Competition Authority (**QCA**) in respect of the draft decision of the QCA on the Electric Access Draft Amending Access Undertaking (**DAAU**) submitted by QR Network Pty Ltd (**QR Network**). Vale continues to support the QCA’s draft decision to not approve the proposed DAAU and provides further comment below on Vale’s position.

Capitalised terms in this letter have the meaning given in the 2010 Access Undertaking (**Undertaking**) unless otherwise defined.

Whilst Vale has conducted a high level review of the submissions presented as part of the draft decision consultation process it believes that many submissions presented do not necessarily provide any further clarity on the key issues Vale feels need to be resolved in the DAAU. Vale believes that any solution achieved in this process is likely to have future implications for the Undertaking and needs to include a review of not only the AT₅ tariff but also the AT₂ tariff and the CRIMP process. Vale still believes the key principles are:

- traction choice should be part of the competitive above rail market;
- the tariff structure should reflect the cost of capacity consumption as well as the appropriate pricing for electricity usage;
- the Goonyella and Blackwater systems have been developed as two separate coal chains; and
- the CRIMP process needs a more robust approach that involves QR Network, as the below rail expert, providing the knowledge stakeholders need to facilitate efficient investment decisions.

Vale believes the issues raised in its previous submissions of the 9 March 2012 and 25 September 2012 remain relevant and only provides a further brief statement on each of these principles.

1. Traction choice

Vale notes the high number of submissions that have been provided in response to the QCA’s draft decision and feels very encouraged by what appears to be, on face value, a high level of

competition between downstream manufacturers of both electric and diesel traction locomotives. Throughout this process Vale has been very supportive of a solution that provides the opportunity for competition in the above rail market that will promote innovation and efficiencies that will benefit the export coal market of Queensland.

Vale is of the view that this discussion should not be about whether one traction choice is superior to another, but rather whether there is competition in, and no barriers to entry to, the above rail market. QR Network has noted on page 31 of its original submission dated December 2011 that its approach is likely to create some barriers to entry to the above rail market for new and small operators. Vale believes that such barriers to entry would not benefit the coal chain and are not appropriate in creating competition in the above rail market. Vale is concerned that the QR Network approach to allow a percentage of the fleet to be diesel provides an advantage to its related above rail operator as the holder of the largest fleet. This allows an operator with a large fleet to utilise more diesel traction than a smaller competitor with no additional cost. Vale believes that a solution should be established that limits any barriers to entry and ensures that pricing is reflective of consumption of capacity.

2. Multi Part Tariff

Vale restates its point from its previous submission that loss of capacity due to traction choice should be reflected in the pricing regime. Vale believes the solution to this issue is potentially a multi part solution to pricing rather than only a change to AT₅ which is too narrowly focussed to provide a useful framework for pricing incentives to promote future efficient use of the CQCR. QR Network has argued that it believes that diesel trains are congesting the network and slowing down the electric trains. If this is indeed the case and can be supported by factual data then an appropriate pricing signal should be developed under AT₂ to ensure that the pricing approach is cost reflective and recognises the capacity utilised by diesel traction. Vale believes that to provide equity this pricing approach should be applied across all diesel traction services in a multi traction system. Vale is of the view that changes to the AT₂ tariff need to be addressed as part of this DAAU and the AT₂ tariff is inherently linked to this current discussion on train performance. Vale believes this approach provides a more cost reflective tariff that provides market driven incentives to influence behaviour and avoids market interference. In Vale's view, establishing a cost reflective pricing framework is important as it will inform future pricing decisions that may arise if other systems or rail connections combine diesel and electric traction.

Vale believes that if an AT₂ adjustment is made to reflect the additional capacity consumption and the identified future benefits of electric traction, then the AT₅ component of the tariff would only require a temporary adjustment mechanism. This could be made via a loss capitalisation mechanism as per the approach that QR Network has proposed in the GAPE system tariff. Vale believes the required adjustments to AT₂ and AT₅ are connected and does not believe it is acceptable for QR Network to seek to resolve the AT₅ tariff now while simultaneously deferring reform of the AT₂ tariff until UT4.

3. Socialisation

In section 2.5 of its submission dated September 2012, QR Network claims that the QCA has not considered or tested the argument that diesel trains in the Blackwater system provide buffer capacity for the Goonyella system and whether this provides spill-over benefits to Goonyella users. Vale believes that prior to the installation of the new electric assets the Blackwater system was unable to achieve a level of 100% electrification. Therefore, Vale believes the diesel trains remained in the Blackwater system to support above rail commercial contracts and the lack of electrification rather than any proposed buffering of the Goonyella system.

Vale also believes that if QR Network had this view at the time of the CRIMP vote on the electric network investments it should have identified the Goonyella users as part of the Customer Group to participate in the vote. Vale believes that by not doing this it implies that, at the time, QR Network did not consider that the Blackwater system provided a buffer facility for the Goonyella system, and therefore QR Network should not be allowed to now change the process

after the assets have been constructed. Under clause 3.2.1(a)(ii) of Schedule A of the Undertaking, QR Network must allow stakeholders the right to vote on capital projects if the inclusion of those assets in the regulatory asset base will have an effect on their access charge at any time in the future. Under this clause QR Network is required to provide a written request to each member of the Customer Group to seek acceptance and provide advice. As Vale, being a Goonyella user, was never granted this opportunity, it believes that it was never considered part of the Customer Group under clause 3.2.1(a)(ii), and therefore should not be required to accept an impact to its access charge. Vale can only assume that at the time of this voting process QR Network did not consider that the Blackwater system provided a buffer facility for the Goonyella system.

4. CRIMP

Vale feels that it is clear that there is a current failure in the CRIMP process and believes that this must be addressed, as well as the electric traction issue, to avoid future uncertainty to all stakeholders and facilitate the efficient development of each coal system. Vale believes the CRIMP is an important process for QR Network to provide a clear view, as the expert on the rail network, on what future developments are required to meet future demand.

The results of this evaluation should provide stakeholders with at least the following minimum details:

- expected capacity of expansion;
- expected timing of construction and availability of the future capacity;
- alternatives assessed and considered in the evaluation;
- clear scope of works to be undertaken for the project;
- forecast pricing movements as a result of the expansion;
- likely risks to the items above;
- assumptions used in the items above;
- a process to review the costs, scope and timing of the approved projects; and
- a time limit in which to commence the project before a new vote would be required to proceed to ensure the project is still appropriate and completed in a timely manner.

QR Network, as the owner of, and the expert on, the rail network, should be required to provide clear and regular information on future expansions and the potential impacts this will have on the operation, cost, and capacity of the network and the tariffs paid by users.

CONCLUDING REMARKS

Vale remains supportive of a QCA decision to not approve the DAAU as Vale believes the current approach proposed by QR Network:

- creates barriers to entry for small above rail operators;
- does not provide a sound approach to future pricing as it is only focussed on the electric asset issue and Vale believes that if electric traction is the solution then an AT₂ adjustment is required for diesel traction; and
- does not provide an appropriate outcome for pricing in the Goonyella system as the Blackwater system was previously electric constrained and Goonyella users were never considered part of the Customer Group in the voting process.

Vale also believes that any assessment and development of an alternative pricing approach to achieve the above outcomes must be completed in a manner that is transparent, independent or independently verified, and involve consultation with stakeholders. This consultation will not

only provide a better understanding to all stakeholders of the relevant issues but will also provide guidance to all stakeholders when making a decision on traction choice. Vale believes that greater understanding and transparency of the pricing mechanisms will lead to a more efficient and cost reflective coal chain.

Another item identified through this process is the potential failings of the CRIMP process in providing certainty in the expansion of the network for both QR Network and stakeholders. Vale believes the CRIMP process is an important aspect for the efficient development of the network but will only be relevant if projects provided for voting have undergone a robust evaluation. Stakeholders are reliant on QR Network, as the expert, to provide a clear picture of the impact of future expansions on the cost and capacity of the network.

For further information regarding this advice please contact myself on (07) 3136 0911.

Yours sincerely,



Bob Skuza
General Manager Logistics
Vale Australia Pty Ltd