

Our Ref: MCR-19-692

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
Level 27
145 Ann Street
Brisbane Qld 4000

Dear Mr Millsteed,

This letter encloses Queensland Rail's submission on proposed variations to the West Moreton and Metropolitan Network Reference Tariffs resulting from Review Event conditions applicable under Queensland Rail's Access Undertaking 1 (AU1).

On 24 June 2019, Queensland Rail and New Hope Coal (New Hope) executed the 2019 New Acland Access Agreement for access rights for coal haulage for the period 1 July 2019 to [REDACTED].

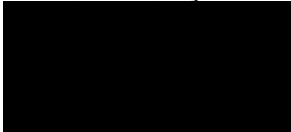
The 2019 New Acland Access Agreement decreases the number of contracted Train Services for coal haulage on the West Moreton Network. Queensland Rail considers the reduction in contracted Train Services to be a material change in circumstances that gives rise to a Review Event for the purpose of clause 5.1(a)(ii)(A), Schedule D in AU1.

Queensland Rail is also proposing to vary the Reference Train Service via a Draft Amending Access Undertaking (DAAU1) which Queensland Rail will lodge with this submission. The variation follows successful trialing of longer 42 wagon coal trains from Cameby Downs and Jondaryan to Fisherman Islands.

Subject to approval of DAAU1, Queensland Rail will agree to permanently operate the longer coal trains from 1 January 2020. Queensland Rail considers the proposed change to the Reference Train Service requires variation to the Reference Tariffs as defined for a Review Event in AU1.

If your officers have any questions in relation to this matter, they can contact Mr Neil Buckley, General Manager Rail Access Solutions on (07) 3072 1145 or neil.buckley@qr.com.au.

Yours sincerely



Nick Easy
Chief Executive Officer

22 September 2019

Review Event — West Moreton and Metropolitan Network Reference Tariff Review

September 2019

Commercial-In-Confidence



QueenslandRail



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1. Review Event

Queensland Rail Limited (Queensland Rail) provides this submission to the Queensland Competition Authority (QCA) for review of the West Moreton Network Coal Reference Tariff and Metropolitan Coal Reference Tariff under Review Event provisions of Queensland Rail's Access Undertaking 1 (AU1).

1.1 Background

Queensland Rail has been advised that New Hope Coal's (New Hope) New Acland Stage 2 mine is forecast to exhaust coal production [REDACTED]. New Hope has subsequently chosen to reduce its contracted train paths from New Acland between January 2020 and [REDACTED] in the recently executed 2019 New Acland Access Agreement.

Queensland Rail can contract up to 97 return paths per week for coal services from the West Moreton system. [REDACTED] return paths are contracted to 31 December 2019, dropping to [REDACTED] return paths per week when the change in the 2019 New Acland Access Agreement comes into effect on 1 January 2020.

While there is the prospect that the next undertaking period could see a short-term drop off in coal tonnes moved on the West Moreton system, Queensland Rail does not consider that there is a realistic prospect of this volume of coal becoming the long-term outlook for the system.

New Hope have confirmed that it remains committed to delivering the New Acland Stage 3 project and is actively working with the relevant authorities to progress approvals¹. [REDACTED]

Queensland Rail remains of the view that for the medium term, the system will at least operate up to the 9.7mtpa that is currently available².

In the meantime, with thermal coal commodity pricing returning to long term average pricing³, and a low Australian dollar⁴, Queensland Rail considers there will be continuing demand for coal train paths and a need to find productivity improvements to increase haulage efficiency.

1.2 Increasing above rail productivity

Aurizon Operations (Aurizon) is the only rail operator running coal trains in the West Moreton system.

To better deliver for a 9.7mtpa system, Queensland Rail, Aurizon and supply chain partners have been exploring various ways of fully utilising Aurizon's existing locomotive capability to operate a longer 42-wagon consist thereby increasing above rail productivity.

The current Reference Train Service used to transport coal includes the following characteristics:

- 2 x DEL 2300 class locomotives
- 41 bulk wagons
- Gross train weight of 2,772 tonnes
- Net payload of 1,960 tonnes

Aurizon's load table states that the combined 2300 class locomotive has the capacity to haul a maximum 42 loaded coal wagons with a comparison length of 688.4m.

¹ New Hope Corporation Limited Quarterly Activities Report 30 April 2019 p.3

² Queensland Rail's Response to Industry Comments on DAU2 16 November 2018 p.10

³ Queensland Rail's Response to the QCA's Draft Decision on Queensland Rail's DAU2 p.10

⁴ AUD/USD exchange rate 0.6728 02 September 2019 RBA Exchange Rates

Following in-field review of the static length of various network configurations and associated controls, in February 2019 Queensland Rail and Aurizon began successful trials of the 42-wagon consist from Cameby Downs and New Acland to Fisherman Islands on a full consist cycle.

Subject to approval of the Draft Amending Access Undertaking 1 (DAAU1) (submitted in parallel), Queensland Rail will agree to operate the additional wagon on coal trains permanently on the system from 1 January 2020. The proposed change gives rise to a Review Event for the purpose of clause 5.1(a)(ii)(A), Schedule D.

AU1 defines a Review Event to include where:

*an Access Seeker or an Access Holder has presented to Queensland Rail a proposal which would require a variation to the Reference Tariff (including, if applicable, a variation to the **Reference Train Service** or new reference train service) to accommodate productivity or efficiency improvements to their Above Rail Services (or Queensland Rail devises a proposal in relation to improving the efficiency or productivity of its Below Rail Services);*

1.3 New Acland Stage Two

On 21 June 2019, Queensland Rail and New Hope executed the 2019 New Acland Access Agreement for access rights for coal haulage for the period 1 July 2019 to [REDACTED].

[REDACTED] New Hope has reduced entitlements between 1 January 2020 and [REDACTED].

The number of contracted paths under the 2019 New Acland Access Agreement is:

Jondaryan – Fisherman Islands

- [REDACTED]
- [REDACTED]

Ebenezer – Fisherman Islands

- [REDACTED]

The contracted number of weekly coal paths is a key input into the development of the approved reference tariff for the West Moreton system.

Queensland Rail considers that the decrease in contracted paths from New Acland to be a material change in circumstances that is also relevant for a Review Event for the purpose of clause 5.1(a)(ii)(A), Schedule D.

1.4 Submission

This Queensland Rail submission provides the revised West Moreton Network Reference Tariff and Metropolitan Reference Tariff resulting from the triggering of a Review Event under circumstances as defined and listed in AU1's clause 5.1(a)(ii)(A) of Schedule D.

2. Review event assumptions

This submission considers the impact on the determination of the West Moreton Network Reference Tariff and Metropolitan Reference Tariff arising from:

- a) the addition of the extra wagon to the Reference Train Service consist (varying the reference train service); and
- b) the forecast reduction in volumes (West Moreton Network Reference Tariff only) for the period 1 July 2019 to 30 June 2020.

On 24 June 2019, Queensland Rail wrote to New Hope and Yancoal seeking advice about expected ad hoc railings for the period 1 July 2019 to 30 June 2020.

█ have projected █ ad-hoc services on the system for the final year of the AU1.⁵ █ volumes are expected to continue █, albeit with a higher rate of per service GTKs, until the scheduled change █ on 1 January 2020.

All things being equal, recent demand shows that customers are expected to benefit from additional throughput per consist without further reducing contracted train paths.

2.1 Assumptions about expected raiing — New Hope Coal

New Hope Coal has advised █. Consistent with this advice, Queensland Rail has assumed New Acland's contracted paths reduce █, with █ ad hoc return paths from 1 July 2019 until the expiry of AU1. Refer Attachment 1 for advice from New Hope regarding forecast railings.

2.2 Assumptions about expected raiing — Yancoal

█

Following Cameby Down's approved expansion, the mine is now authorised to increase in production to 3.5mtpa, with an expected yield of approximately 2.8mtpa of product for rail transport⁶. The date for expansion is yet to be confirmed, █.

For this Review Event, Queensland Rail has assumed Cameby Down's █ contracted paths per week (as advised) are the most accurate forecast, with █ ad hoc return paths until the expiry of AU1. Refer Attachment 1 for advice from Yancoal regarding forecast railings. Refer Attachment 1 for advice from Yancoal regarding forecast railings.

2.3 Forecast Train Services from 1 July 2019

Table 1 sets out the West Moreton Network coal Train Service forecast from 1 July 2019.

⁵ See Attachment 1 – Queensland Rail Letter and Response from New Hope and Yancoal

⁶ Yancoal QR 2020 DAU Submission in Response to QCA Draft Decision 11 July 2019 p.3

Table 1: AU1's forecast return Train Services per week, by mine

	1 July 2019			1 January 2020		
	Contract	Ad Hoc	Total	Contract	Ad Hoc	Total
Cameby Downs (Yancoal)	■	■	■	■	■	■
New Acland (New Hope)	■	■	■	■	■	■
Total	■	■	■	■	■	■

This Review Event carries forward ■ Train Services from Ebenezer mine per week until contract expiry.

2.4 Varied Reference Train Service

Table 2 sets out the proposed varied Reference Train Service versus the existing consist for the Review Event with proposed effect from 1 January 2020 (as per Queensland Rail's DAAU1).

Table 2: AU1 Reference Train Service Comparison

	41 Wagon Consist	42 Wagon Consist
Loading efficiency	1	1
Loco per consist (tonnes)	2	2
Per Loco Weight 2/3 fuel load (tonnes)	94.5	94.5
Wagons per Consist	41	42
Per Wagon Weight Unloaded (tonnes)	15.2	15.2
Per Wagon Weight Loaded (tonnes)	63	63
Per Wagon Weight Net (tonnes)	47.8	47.8
Total Wagon Weight (gross tonnes)	2,583	2,646
Total Wagon Weight (TARE)	623	638
Train Weight (loaded tonnes)	2,772	2,835
Train Weight (empty tonnes)	812	827
Net Tonnes/train (tonnes)	1,960	2,008

3. Review Event Reference Tariffs

3.1 West Moreton Network

The Review Event West Moreton Network Reference Tariffs proposed by Queensland Rail are set out in **Table 3**. Queensland Rail proposes that the Review Event Reference Tariffs be effective 1 July 2019 and 1 January 2020.

Table 3: AU1 West Moreton Network Tariffs (\$2016–17)

West Moreton Network

	Original Reference Tariff	Current QCA approved Reference Tariff effective as 1 July 2018	Proposed Review Event Reference Tariff as at 1 July 2019	Proposed Review Event Reference Tariff as at 1 January 2020
Base Rate (gtk)	\$17.92/'000 gtk	\$16.63/'000 gtk	\$18.28/'000 gtk	\$21.13/'000 gtk
AT1 (gtk tariff)	\$8.96/'000gtk	\$8.31/'000 gtk	\$9.14/'000 gtk	\$10.56/'000 gtk
AT2 (train path tariff)	\$3,011.49/ tp	\$2,965.51/ tp	\$3,376.83/ tp	\$4,294.25/ tp

The removal of ad-hoc paths beyond contracted reduces maximum allowable revenue from 1 July 2019, further falling (comparatively) when the change in the 2019 New Acland Access Agreement comes into effect 1 January 2020 (accounting for the reduction in variable costs).

The New Reference Train Service commencing 1 January 2020 slightly offsets the reduction, increasing the total GTKs per train service.

3.2 Metropolitan Network

In its decision on AU1, the QCA set a Metropolitan Network Reference Tariff of \$16.66/'000gtk (\$2016-17) to be applied as a two-part tariff for coal-carrying train services emanating in the West Moreton Network, escalating at CPI. The AT1 GTK rate is applied at 50% of the base GTK rate, with the residual determined on a train path basis.

While the 50% allocation of the GTK rate from the base rate holds, the proposed change in the Reference Train Service increases the number of GTKs per train service affecting the residual allocation. Holding the AT1 GTK rate constant at \$8.33/'000gtk (\$2016-17), the effective AT2 \$/tp rate increases from \$1,148.69/tp to \$1,173.75/tp (\$2016-17).

The subsequent Metropolitan Network Reference Tariffs proposed by Queensland Rail are set out in **Table 4**.

Table 4: AU1 Metropolitan Network Tariffs (\$2016–17)

Metropolitan Network

	Original Reference Tariff	Proposed Review Event Reference Tariff as at 1 January 2020
Base Rate (gtk)	\$16.66/'000 gtk	\$16.66/'000 gtk
AT1 (gtk tariff)	\$8.33/'000 gtk	\$8.33/'000 gtk
AT2 (train path tariff)	\$1,148.69/ tp	\$1,173.75/ tp

Attachment 2 summarises the modelling that supports the Review Event West Moreton Reference Tariff and revised Metropolitan Network split.

Attachment 1 — Correspondence with New Hope and Yancoal

Attachment 2: Modelling — Review Event Reference Tariff

West Moreton System Tariff Structure

Base in \$2016/17	2016/17A	2016/17B & 2017/18A	2017/18B	2018/19	2019/20A	2019/20B
Base Tariff \$/GTK (000)	\$ 17.92	\$ 17.48	\$ 15.89	\$ 16.63	\$ 18.28	\$ 21.13
Base West Moreton Tariff \$/GTK (000)	\$ 8.96	\$ 8.74	\$ 7.95	\$ 8.31	\$ 9.14	\$ 10.56
Base West Moreton Tariff \$/TP	\$ 3,011.49	\$ 2,964.71	\$ 2,791.20	\$ 2,965.51	\$ 3,376.83	\$ 4,294.25
Net Difference NPV of Allowed/Achieved Revenue Stream	\$ -	\$ -	Goal Seek			

Throughput & Rate Rosewood to Columboola Only	Year 1A 2016/17A	Year 1B 2016/17B	Year 1 2016/17	Year 2A 2017/18A	Year 2B 2017/18B	Year 2 2017/18	Year 3 2018/19	Year 4A 2019/20A	Year 4B 2019/20B	Year 4 2019/20
Net Tonnes										
GTK 000										
NTK 000										
Paths										
\$/GTK 000 (One Part)	\$17.92	\$17.48		\$17.91	\$16.29		\$17.47	\$19.69	\$22.75	
\$/GTK 000 (Two Part)	\$8.96	\$8.74		\$8.96	\$8.14		\$8.73	\$9.84	\$11.38	
\$/TP (Two Part)	\$3,011.49	\$2,964.71		\$3,038.83	\$2,860.98		\$3,115.64	\$3,636.47	\$4,624.44	

Summary Annual Revenue Rosewood to Columboola Only	Year 1A 2016/17A	Year 1B 2016/17B	Year 1 2016/17	Year 2A 2017/18A	Year 2B 2017/18B	Year 2 2017/18	Year 3 2018/19	Year 4A 2019/20A	Year 4B 2019/20B	Year 4 2019/20
AT1 (Under One Part Tariff Methodology)	19,067,624	18,759,410	37,827,034	22,840,359	15,943,114	38,783,474	39,755,592	20,475,519	20,236,339	40,711,858
AT1 + AT2 (Under Two Part Tariff Methodology)	19,067,624	18,759,410	37,827,034	22,840,359	15,943,114	38,783,474	39,755,592	20,475,519	20,236,339	40,711,858

NPV of Revenue as at 01 Jul 2016
\$ 140,555,357
\$ 140,555,357

2016/17A	=> For the period 01/07/16 to 31/12/16
2016/17B	=> For the period 01/01/17 to 30/06/17
2017/18A	=> For the period 01/07/17 to 31/01/18
2017/18B	=> For the period 01/02/18 to 30/06/18
2019/20A	=> For the period 01/07/19 to 31/12/19
2019/20B	=> For the period 01/01/20 to 30/06/20

Brisbane Metropolitan Tariff Structure

Base in \$2016/17	2016/17A	2016/17B & 2017/18A	2017/18B	2018/19	2019/20A	2019/20B
Base Tariff \$/GTK (000)	\$ 16.66	\$ 16.66	\$ 16.66	\$ 16.66	\$ 16.66	\$ 16.66
Base Bris Metro Tariff \$/GTK (000)	\$ 8.33	\$ 8.33	\$ 8.33	\$ 8.33	\$ 8.33	\$ 8.33
Base Bris Metro Tariff \$/TP	\$ 1,148.69	\$ 1,148.69	\$ 1,148.69	\$ 1,148.69	\$ 1,148.69	\$ 1,173.75

Attachment 3: Revised AU1 West Moreton Network Model