



Professor Roy Green
Queensland Competition Authority
Level 27
145 Ann Street
Brisbane QLD 4000

Submission on the QCA's Draft Decision regarding Aurizon Network's 2017 Draft Access Undertaking

12 March 2018

Dear Professor Green,

I am writing on behalf of Aurizon Bulk in response to the Queensland Competition Authority's (QCA) Draft Decision regarding Aurizon Network's 2017 Draft Access Undertaking.

We appreciate the opportunity to respond to the Draft Decision, noting that the QCA invited submissions from non-coal stakeholders on their findings and recommendations, particularly as they relate to proposed changes to cost allocations that could impact on above rail costs.

Aurizon Bulk operates on the Central Queensland Coal Network to haul freight for customers in three product areas; grain, livestock and cement.

While we appreciate the statement of the QCA in the Draft Decision that it "is predisposed to making an allowance for non-coal services, but have not done so at this stage" (Draft Decision page 260), the potential changes to cost allocations that are discussed are of considerable concern.

Aurizon Bulk estimates that the potential additional cost distribution to all non-coal customers, based on the changes discussed in the Draft Decision, could be up to \$25 million per annum, comprising the following:

- an increase in the contribution from non-coal services to Network maintenance from 0 per cent to 12 per cent; and
- an increase in the contribution from non-coal services to network control costs from 9 per cent to 12 per cent

If the increases in maintenance and network control costs were to be distributed using the QCA's train kilometre methodology, we estimate this could result in a 97 per cent or \$4.5 million in costs attributable to Aurizon Bulk's customers.

Across the various groupings of customers, we anticipate this increase could be broken down as follows:

- costs attributed to Grain services cost could increase by \$1.5 million or 173 per cent;

- costs attributed to Livestock services could increase by \$2.06 million or 290 per cent; and
- costs attributed to cement services could increase by \$0.9 million or 30 per cent.

Aurizon Bulk regards the potential for these extremely large increases in cost allocations to non-coal services as having the potential to translate into increased costs with unintended consequences.

Rail freight services for bulk products are directly competing with heavy vehicle road providers in these regions. Any significant increase in costs for customers would result in these products shifting from rail to road. This would impose significant economic and community costs on Queensland due to increased number of trucks required to transport the freight.

Additional truck haulage would increase the cost of road maintenance requirements. Recognising that the volume of freight carried on one freight train is equivalent to the freight carried by approximately 120 heavy vehicles, any shift from rail to road would also have a negative impact on safety and the environment.

Aurizon Bulk also regards the QCA's proposition that train kilometres are an effective measure of impact on AZJ Network's cost base as flawed.

In relation to network control, the apportionment of network control resources on a train kilometre basis does not account for the significant seasonal fluctuations experienced year to year for the agricultural sector. An assessment made in FY16 or in FY17 is in no way reflective of the number of train services that may occur in future years as this sector is influenced by many factors not experienced by coal producers, particularly drought. By way of example, grain volumes across the CQCN from FY16 to FY17 increased by 275 per cent. This financial year (YTD FY18 – July 2017 to February 2018) grain volumes have dropped by 53 per cent when compared to the same period in FY17.

In relation to cement products, Cement Australia has 26 MTP paths per week operating 30km from East End Mine to Fisherman's Landing. These are planned paths, and based on feedback from Network, the effort to manage their transit of the network is negligible. Moreover, trains services for Cement Australia only interact with Coal services for less than 50 per cent of their actual train kilometres.

With regard to network maintenance costs, bulk services transiting CQCN are very different in nature to coal trains. Grain, livestock and cement services are substantively shorter and carry less product per train. In comparison to a standard coal service of 104 wagons, Grain consists are 63 per cent shorter, livestock services are as much as 81 per cent shorter and cement consists are 76 per cent shorter.

These services use less locomotives and lighter wagons than typical coal services, and the customers produce substantively less annual volume than a typical coal producer. The combination of the lower gross weight per service, and the lower product mass per service means that their impact on network maintenance is substantively less.

Given the major negative impacts on non-coal customers of these aspects of the Draft Decision, Aurizon Bulk recommends that the QCA reconsider the position it has outlined on potential changes to the allocation of network control and maintenance costs.

We further ask that the QCA recognises the likely detrimental impacts on customers and the community, and seek the continuation of the arrangements that apply under the current undertaking (UT4) particularly as they relates to the allocation of maintenance costs in relation to non-coal services.

If the QCA would like further information or has any questions about the matters raised in this submission Aurizon Bulk would welcome the opportunity to discuss further.

Yours sincerely,

Clay McDonald
Group Executive Bulk