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Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001
Email: rail@qca.org.au

Attention Mr Ravi Prasad

Dear Sir

Aurizon Network's 2013 Blackwater Electric Traction Pricing Draft Amending Access Undertaking (the "2013 AT5 DAAU")

This submission is provided in response to the request from the Queensland Competition Authority (**QCA**) for comments on the Aurizon Network submission of 24 April 2013 relating to electric traction pricing in the Blackwater system.

Wesfarmers Curragh Pty Ltd (**Wesfarmers**) has previously made submissions on:

1. the original Electric Traction Services draft amending access undertaking (**DAAU**) submitted by QR Network Pty Ltd (now Aurizon Network) to the QCA on 16 December 2011; and

2. the Draft Decision of the QCA to reject the 2011 Electric Traction Services DAAU.

Wesfarmers also participated in the QCA facilitated workshop in January 2013 that triggered Aurizon Network's reconsidered proposal for the pricing of electric traction infrastructure in the Blackwater system.

As the above dates indicate, resolution of the AT5 issue has been a long time coming, with uncertainty existing for users since late 2011. Wesfarmers made decisions based on representations made prior to the publication of the original DAAU on AT5, as have other users, and has spent the last 18 months in a state of uncertainty regarding the Blackwater AT5 rates going forward. Wesfarmers considers that this issue needs to be closed as soon as possible.

Since December 2011, Aurizon Network has signed up access agreements for a significant volume of tonnages on the Blackwater system (BMA, Xstrata and Ensham) to use electric traction. The critical issue on the Blackwater system now appears to be not so much one of electric asset by-pass by users, but inaccurate overall system tonnage forecast during the project assessment for the electric traction assets in question.

Bearing this in mind, it is Wesfarmers' view that Aurizon Network's 2013 AT5 DAAU be considered in isolation from any future consideration of the Coal Rail Infrastructure Master Planning (**CRIMP**) process or Aurizon Network's proposed new Network Development Plan. Settling the pricing approach for Blackwater's electric traction assets should not be delayed any longer, but neither should the need to critique Aurizon Network's infrastructure expansion process and reassess alignment of infrastructure investment with user demand be prejudiced by the QCA's decision on this matter.

Aurizon Network's April 2013 Proposal

Aurizon Network appears to have taken on board the industry view that the Blackwater system electric access tariff (AT5) needs to be reduced immediately to a level that equalises the cost of running diesel and electric trains.

In order to do this Aurizon Network has proposed:

1. Replacement of the average-cost AT5 tariff with a fixed AT5 charge applicable for 8 years, to guarantee they recover the full costs of electric infrastructure asset investment that was approved under the regulatory investment process. The tariff will only be paid by users of the electric traction assets.

2. Payment of an electric infrastructure under-utilisation payment (**UUP**) to make up any difference between the total approved costs of the electrification assets and the revenue raised from the new fixed charge AT5 – at 2 instances – at end of the UT4 regulatory period and at the end of the UT5 regulatory period.

3. A number of options for how broadly the responsibility for UUP should be spread amongst Central Queensland Coal Network (**CQCN**) rail users. Determination of the quantum payable, however, is proposed to be made on a net tonnes basis and recovered through AT4.

Wesfarmers' View

Wesfarmers supports Aurizon Network's proposed approach, as detailed above, subject to a number of comments we would like to make on the detail of the proposal:

1. Consideration should be given to whether 8 years is a long enough period over which to defer recovery of the investment given the expected life of the assets. There is logic in fixing the deferral period to the regulatory period, however, it is Wesfarmers' view that any recover by Aurizon Network via the UUP should be deferred until the end of the 8 years – i.e. no UUP payments would be made at the end of UT4 as contemplated by the 2013 AT5 DAAU. This would allow time for the AT5 pricing mechanism to allow for increased electric volumes naturally (as Aurizon Network strongly contends that it will).

2. There should be no mechanism to 'review' the fixed AT5 tariff during either of the regulatory periods. Once set, it should stand.

3. Given the security that Aurizon Network would gain from achieving a QCA directive binding stakeholders for 8 years (or longer if the deferral period is extended) it would not be inappropriate for Aurizon Network to bear some of the burden concerning any UUP that might need to be levied. Wesfarmers suggests that if there is a deficit

between the total approved costs of the electrification assets and the revenue raised from the new AT5 tariff at the end of the UT5 regulatory period Aurizon Network should only be entitled to recover 85% of that amount from users. The remaining 15% it would bear itself. This would indicate to users that Aurizon Network "*has some skin in the game*" and is incentivised to grow volumes. This is particularly important in the current economic climate, and given the critical issue in Blackwater now seems to be accurate tonnage forecasting rather than the potential for electric traction by-pass.

4. All of the users in the CQCN stand to be affected by an increase in the WACC to accommodate higher investment risk on Aurizon Network's part, so Wesfarmers acknowledges that there is logic in spreading liability for the UUP across all users in the CQCN. However, given the strong opposition to cross-system socialisation, Wesfarmers appreciates that this is unlikely to be a popular choice with other miners. This being the case and if, in this instance, responsibility for the UUP is restricted to Blackwater users only, it is important to Wesfarmers that a consistent approach is taken to other coal systems if, in the future, those systems face similar issues.

5. The proposed drafting in Schedule K does not yet accurately reflect what Wesfarmers' believes is Aurizon Network's approach, and it is expected the QCA will give greater scrutiny to the specific drafting once the concept of the proposal is accepted.

Conclusion

Wesfarmers supports Aurizon Network's proposal to resolve the electric traction pricing issues in the Blackwater system, subject to the comments made above.

Our comments relate to the details of the approach and we do not see these presenting an obstacle to a speedy closure of this matter.

As noted above, going forward Wesfarmers believes that the CRIMP process (and the proposed infrastructure expansion process) demands scrutiny, and we are willing to engage with Aurizon Network and other industry stakeholders to ensure we achieve better alignment of future investment with user demand.

We would be happy to discuss any of the views expressed in this submission, and confirm that it may be made publicly available.

Yours faithfully

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Ben Pentelow
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