



21 August 2013

Dr Malcolm Roberts
Executive Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: rail@qca.org.au

Dear Dr Roberts

Asciano Submission to the QCA on the Energy Economics Report on Blackwater System Coal Railings Forecast Prepared for the QCA

Background

Asciano welcomes the opportunity to make this submission to the Queensland Competition Authority (QCA) on the report "Blackwater System Coal Railings Forecast" which was prepared for the QCA by Energy Economics. This submission is public.

In April 2013, Aurizon Network submitted a Draft Amending Access Undertaking (DAAU), which proposed changes to the pricing for electric traction infrastructure in the Blackwater system. In particular the DAAU proposed a new schedule to the access undertaking which would:

- introduce a mechanism which would recover Blackwater electric infrastructure costs over the next two regulatory periods; and
- introduce an infrastructure under-utilisation payment (UUP) to recover any difference between the fixed AT5 electric tariff and the Blackwater electric infrastructure costs. This UUP would be charged to all Blackwater system users including those users who had chosen to use diesel traction rather than electric traction.

In making the proposal the DAAU assumed a certain level of electric traction volumes and total volumes. If the volume assumptions are not met then a UUP is likely to apply in order to ensure Aurizon Network recovers its costs. Thus the volume assumptions are critical to determining whether the proposed AT5 charge will recover costs or, alternatively, whether a UUP will be required. Thus the volume assumptions should be tested.

Given this concern regarding volume assumptions the QCA engaged Energy Economics to assess the volume forecasts used to derive the proposed AT5 tariff. The Energy Economics' Report supports volume forecasts that are 6.6% lower than the Aurizon Network's forecasts used to support the DAAU. This implies a UUP will be required.

Asciano's Concerns

The Aurizon Network modelling underpinning the proposed DAAU and AT5 charge is based on numerous assumptions as outlined in the Aurizon Network April 2013 DAAU supporting submission (pages 5 and 6). Based on these assumptions a UUP is not required. Asciano

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believes that if these assumptions implied a UUP was required then the DAAU proposal would be subject to a greater level of scrutiny.

In particular Aurizon Network assumed electric traction volumes at the levels forecast for UT4 for the years 2013-14 to 2016-17 and then at 85% of all volumes beyond 2017-18. However, the Energy Economics' Report forecasts Blackwater system coal volumes which are 6.6% lower than the Aurizon Network forecast (Energy Economics' Report page 4, page 25). Asciano notes that the Energy Economics Report (page 4) recognises that their forecast may be too optimistic and "that the balance of risks to our [Energy Economics] forecast is weighted to the downside". Given this Energy Economics' conclusion, Asciano questions whether the volume assumptions underpinning the DAAU are reasonable.

If the actual Blackwater electric volumes are below the DAAU forecasts then a UUP will be required. Asciano has major concerns with the introduction of a UUP, particularly as a UUP will potentially apply to Goonyella system users (who do not use Blackwater electric infrastructure) and Blackwater system diesel users (who do not use Blackwater electric infrastructure). Asciano believes that such a UUP will result in economic inefficiency as prices charged to users will not reflect the costs of the infrastructure used by these users.

Asciano is further concerned that if one DAAU assumption is incorrect by more than 6% then it may be that other DAAU assumptions are also incorrect. To the extent that assumptions underpinning the proposed DAAU cannot be independently verified then Asciano queries whether the DAAU will support an outcome where no UUP is needed.

Regardless of the validity of the volume forecasts Asciano remains concerned that issues previously raised by Asciano in this regulatory process. These concerns relate to the principles underpinning the DAAU which have not been addressed by Aurizon Network. Asciano believes that issues related to Blackwater electric infrastructure can only be addressed when Aurizon Network addresses issues related to choice of traction type, cost reflective pricing, efficient investment decision making and the impact of the DAAU on above rail competition.

Asciano remains concerned that the DAAU promotes the socialisation of electric infrastructure tariffs across operators and users who do not use this infrastructure and promotes a pricing approach which reduces market choice in traction type for above rail solutions. The findings of the Energy Economics' Report adds to these concerns as the report shows that one of the assumptions on which the DAAU was based is potentially incorrect and that a UUP is more likely to occur than would otherwise be implied by the DAAU.

Asciano believes that the current DAAU should not be approved by the QCA.

Further to the issue of electric infrastructure and cost recovery Asciano believes that the continuing investment in electric infrastructure on both the Rolleston branch and the WICET balloon should be subject to further regulatory scrutiny to ensure that this current process of electric infrastructure cost recovery is not repeated in the future.

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Feel free to contact Stuart Ronan on 02 8484 8056 to discuss this submission.

Yours faithfully



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