Submission in response to QR's 2019/20 QCA Levy Proposal

This submission is made on behalf of Yancoal Australia Limited (***Yancoal***), in its capacity as operator of the Cameby Downs mine, located on Queensland Rail's (***QR***), West Moreton rail network, in relation to QR's proposal of 11 November 2019 regarding the application for the 2019-20 QCA levy.

1 Allocation methodology is not appropriate to current circumstances

Yancoal considers that QR's proposal to allocate the same proportion (64.4%) of the QCA fees to the West Moreton users, is not appropriate in the context of the current materially declining volumes on the West Moreton network.

Yancoal accepts that it remains the case that a material proportion of the QCA's analysis relates to setting the appropriate West Moreton coal reference tariff, and that would be anticipated to result in a greater share being allocated to the West Moreton coal access charges.

However, there is a big difference between the greater share and an allocation of nearly two-thirds of the costs.

1.1 Circumstances are different from when the proportion was set

The proportions that QR is seeking to apply were originally adopted in 2014/15 when circumstances were materially different.

In particular:

(a) the QCA was spending a significant amount of time assessing QR's first undertaking;

(b) the West Moreton coal volume was a greater proportion of QR's total traffic over its various systems (noting that the West Moreton proposal will continue to shrink as QR's has noted in its review event submissions).

Given that the basis for the calculation of tariffs has now occurred under a number of QR undertakings, it would be expected that this amount of time would be reducing.

When this weighting was increased from 45.7% to 67.4% in the 2018/19 year, the QCA's final decision noted:

> *The QCA understands that a greater regulatory burden and associated costs derives from its consideration of matters specific to coal users. As such, these users should bear the greatest responsibility in cost recovery.*
>
> *The QCA considers it is appropriate to approve Queensland Rail's proposed allocation among freight and mineral users. Queensland Rail allocated North Coast line users the lowest proportion of costs among non-passenger transport, due its submission that on the North Coast Line there is 'direct competition with road transport' that limits the ability to 'pass through and recover the costs of the QCA levy from end customers.' For some products, road transport may not be a substitute for rail transport—the extent to which road transport for freight provides an alternative to rail may vary according to the nature of product and transport distance. However, the QCA recognises the prospect of some competition between rail and road freight transport on the North Coast line.*
>
> *In relation to the allocation for the Mount Isa Line, the QCA considers that Mount Isa line freight and mineral users have historically generated the greatest share of access charges among all users, which suggests these users would benefit more from the QCA's activities compared to other freight users*

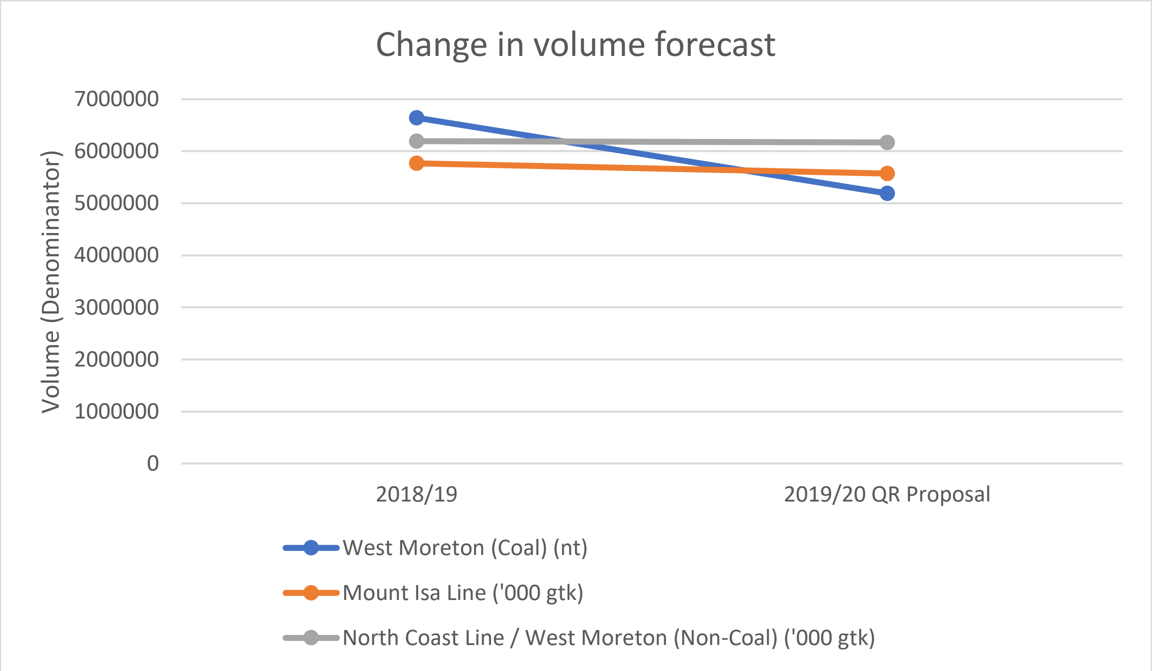
As the reference to the Mount Isa line volumes and access charges suggests, the appropriate allocation will vary to at least some degree with volume.

Accordingly, if West Moreton coal volumes are dropping it is inappropriate to hold the allocations equally.

2 Practical consequences of constant allocation at lower volumes

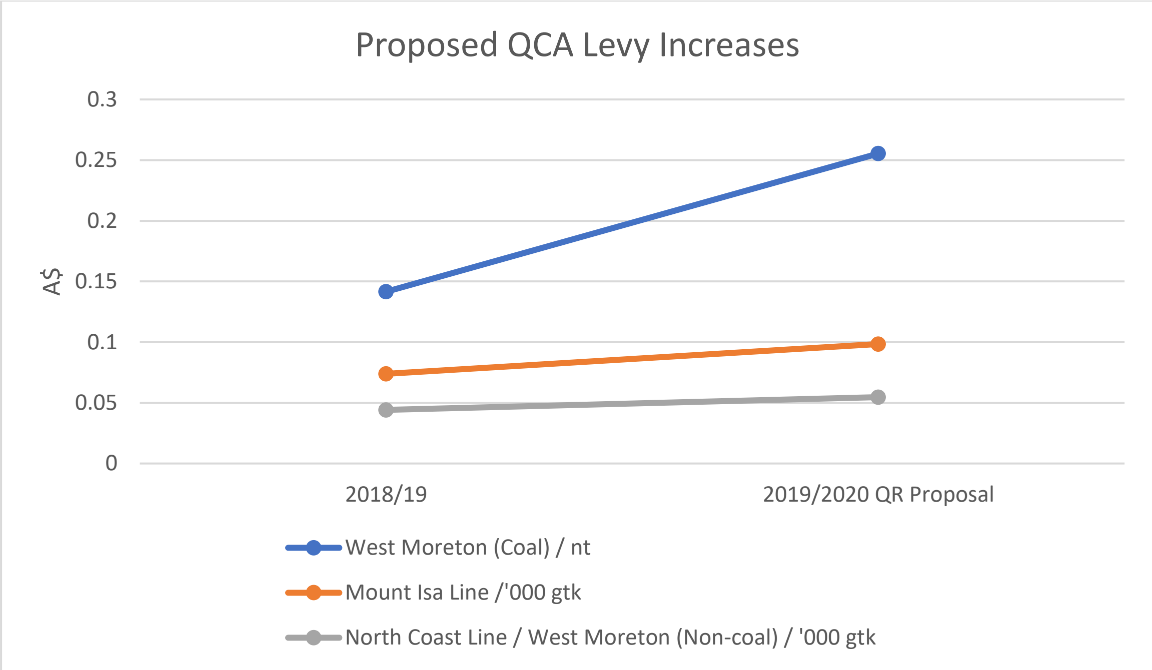
QR's most recent below rail financial statements (for the year ended 30 June 2018) indicated than West Moreton coal access charges only formed approximately 4.8% of QR's total below rail revenue (or 11.7% if the other coal revenue – presumably from the Metropolitan system – is included).

Since the period covered by those statements, the volumes for the West Moreton coal usage have fallen further, while the volumes for usage of the remainder of QR's major system have remained fairly constant. That is shown below in the comparison of the volume forecasts referenced in QR's last two QCA levy submissions:



The practical consequence of holding the percentage allocations for the QCA fees constant while the relativities of volumes is changing materially is shown below.

As the graph shows clearly, it results in extent of the increase in the QCA levy being significantly greater for West Moreton coal users than for other access holders. That impact will become even more pronounced in 2020/21 when volume declines further.



Consequently, QR's methodology will result in increasing costs per net tonne at a time when it is clear from the Review Event process and the submissions on reference tariffs under the 2020 draft access undertaking process that affordability is a major challenge for the remaining West Moreton coal users.

Yancoal does not consider that an appropriate outcome.

3 Yancoal's proposal

Yancoal acknowledges that much of the QCA's analysis is dedicated to the West Moreton system – but the undertaking applies more generally, and many parts of the undertaking, standard access agreement and operating requirements manual are of benefit to a wider range of users.

Given the extent of those common issues and the material change in relative volumes, Yancoal considers that materially reducing the West Moreton coal proportion would be appropriate.

Yancoal does not have sufficient information about the extent of the QCA's time dedicated to West Moreton specific issues (and acknowledges that, together with relative volumes, that is a relevant consideration), such that it is difficult to provide a precise estimate of the allocation that would be appropriate. However, Yancoal suggest that an allocation in the order of 45.7% (used in earlier periods prior to 2018/19) to 50% would be more appropriate.

That allocation could potential be reviewed again in 2020/21 if the relative proportion of volumes attributable to the West Moreton system continues to decline.

4 Conclusion

Based on the analysis above, Yancoal's firm view is that the QCA levy allocation proposed by QR should not be approved by the QCA. Rather it should be recalculated to reflect a lower proportion (in the range of 45.7% to 50%) being allocated to West Moreton coal users in recognition of the materially changing relativities in where QR's volumes and access revenues are derived from, while still taking account of the West Moreton tariffs being the focus of the QCA's regulatory work.

As always, please do not hesitate to contact Mike Dodd of Yancoal Australia Limited if you have any queries in relation to this submission.