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Queensland Competition Authority
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Aurizon Network's Proposed Middlemount Reference Tariff

The Queensland Resources Council (QRC) appreciates the opportunity to provide feedback on Aurizon Network's April 2014 proposal to establish a Reference Tariff for Middlemount to DBCT.

The QRC generally supports the methodology proposed by Aurizon Network for establishing the new Reference Tariff. Subject to the QCA's review of relevant information which is not available to the QRC (including the financial model, and information verifying the Private Incremental Costs), QRC would support the approval of Aurizon Network's application.

QRC considers that the methodology adopted by Aurizon Network is consistent with the requirements of the undertaking, although not for the same reasons as those suggested by Aurizon Network. Aurizon Network proposes what it calls an "alternative interpretation" of Part B of Clause 4.1.2 of Schedule F, being that Private Incremental Costs can include capital costs associated with a spur line, even if the spur line is not owned by Aurizon Network. In our view, the only possible interpretation of Part B is that it includes costs incurred by parties other than Aurizon Network, and that it cannot include Aurizon Network costs. We based this view on the following:

- Private Incremental Costs are defined as costs of providing access to Private Infrastructure. Private Infrastructure excludes Rail Infrastructure.
- In Part B of Clause 4.1.2, Private Incremental Costs are added to Incremental Costs (which are Aurizon Network's costs).
- Private Incremental Costs (under the definition) must be "submitted to QR Network by the owner or operator of the relevant Private Infrastructure for the purpose of calculating Access Charges". Clearly it would not make sense for costs incurred by Aurizon Network to be "submitted to Aurizon Network".
- in relation to the 2006 draft access undertaking the QCA stated:

"The Authority agreed with stakeholders that QR's proposed treatment of private infrastructure could undermine competition in the provision of above-rail and/or below-rail services through the operation of the distance taper in common cost contributions. The Authority considered that a mine's total access charge should be the same regardless of whether its spur is constructed by QR or a third party."

The Authority proposed that the required common cost contribution be based on the mine to destination distance; and that the total access charge be determined on the basis of the efficient cost of the private infrastructure and any QR infrastructure specifically related to the mine, plus the contribution to common costs. The access charge payable to QR would then be determined as this total access charge less efficient private infrastructure costs. Such an approach would ensure that there is no disincentive to the provision of private infrastructure and that QR will receive a return that more than covers its incremental costs and makes a contribution to existing mainline common costs.”

Therefore Part B of 4.1.2 requires that the Reference Tariff be based on the addition of Middlemount’s Private Incremental Costs, Aurizon’s Incremental Costs, and the minimum Contribution to Common Costs. However, an additional requirement in 4.1.2 follows part B, stating that “the Access Charge for the Train Service is the Reference Tariff less the Private Incremental Costs”. Therefore it appears that strict adherence to the undertaking would require that the Reference Tariff include the Private Incremental Costs, but that the Access Charge for Middlemount would deduct these costs, giving the same result as that proposed by Aurizon Network. The difference appears to be that the approach provided in the undertaking would limit the discount to Middlemount, while any later Access Seeker using the spur line would need to pay the undiscounted Reference Tariff (inclusive of Private Incremental Costs). Assuming that there is no likelihood of other Access Seekers using this spur, QRC has no objection to Aurizon Network’s proposal to discount the Reference Tariff rather than the Access Charge.

In regard to AT5, we understand that the Reference Tariff should be based on Part A of Clause 4.1.2 of Schedule F (i.e. it is the reference tariff for the system), and that 4.1.2 would again require that “the Access Charge for the Train Service is the Reference Tariff less the Private Incremental Costs”. Again, Aurizon Network appears to have created a new discounted Reference Tariff rather than (as required by the undertaking) discounting the Access Charge for Middlemount while retaining the existing reference tariff. QRC has no objection to Aurizon Network’s proposed approach, which will give the same result in terms of the final Access Charge for Middlemount.

The QRC appreciates the opportunity to provide feedback on the DAAU. We would be pleased to discuss any of these matters with the QCA. We confirm that this letter does not contain confidential information and may be made public.

Please do not hesitate to contact me to discuss this submission further (davidr@qrc.org.au), (07) 3316 2522.

Yours sincerely



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