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Rio Tinto's Submission to the QCA in Relation to the Aurizon Network 2017 Electric Traction DAAU – Feb 2018

Rio Tinto Coal Australia (RTCA) appreciates the opportunity to make a submission to the Qld Competition Authority (QCA) on this issue. Key points as follows -

1. **Application of historical investment argument needs to be consistent –** RTCA helped fund Pacific National (PN) to invest in Blackwater diesels despite the higher capital costs and operating expenses. We stand by our commercial decision - No socialization of these additional capital and operating outgoings was expected at the time. Any argument around purchasing an option to run electrics at a later date was not considered in this transaction. RTCA would propose that historic investment in diesels should be exempted from socialized tariffs. Changes to the pricing structure should be 'forward looking' and, where possible, avoid any impact to the commercial arrangements governing rail haulage that have already been agreed between parties" (See also conflict of interest below).
2. **Reduction in accountability for poor Investment Decisions** – Aurizon Network has also made matters worse by choosing to electrify the WIRP balloon loop even though WICET users chose originally to operate predominately diesel. Was this investment decision made independently of Aurizon Operations requirements? (see also conflict of interest below)
3. **Aurizon's Conflict of Interest** – RTCA notes that Aurizon Operations submitted a specific submission to the QCA in February 2017 that aligns with the Aurizon Network proposal. Aurizon Operations have constructed a significant fleet of electric locomotives in the Blackwater that will benefit significantly from this Network proposal. Further, some sections of track have been electrified in recent times with Aurizon Operations providing a single combined tariff to their customer. If so, why should this socialized tariff proposal provide relief to Aurizon Operation's commercial decisions ? Socialization of the tariff across traction choice underwrites Aurizon operations decision to exit diesels from the Blackwater & prevents unwanted competition from traction choice in the above rail space. Further Aurizon's broader approach to this issue provides a clear example to the both Qld Government Treasurer and the QCA of the need for ongoing regulation beyond 2020.
4. **Treatment of the Capacity Multiplier** – Our PN diesel trains have been subject to a 'premium' on AT2. This premium has been 1.52 in the Goonyella system and 1.1 in the Blackwater system. The argument for such a premium is on the basis that they claim that diesel services are less efficient than electric services [applying 6.2.3 (c) (ii) of UT4]. RTCA would like the QCA to review whether these multipliers reflect reality and what role they have with a socialized tariff model.
5. **There is a mechanism in place to address electric investment recovery** - UT4 has included a new provision where any electric enhancements/investments going forward will be included in the take or pay arrangement. That is, users that benefit from these enhancements will be subject to AT5 as a take or pay component based on 'contracted' tonnes. The QCA has included this in UT4 to address the concerns Aurizon Network has regarding the recovery of investments of electric assets going forward.
6. **A convenient argument at a point in time - Diesel Prices could rise.** Aurizon Network appears to assume that electric prices will continue to rise and diesel prices to

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drop. What happens if it tips the other way where electric prices drop and diesel prices go up? Socialization stifles competition between traction choices and provides a disincentive to invest in new technology.

7. **This could artificially inflate AT3 very rapidly** – One major diesel entrant will lead to artificially inflating the AT3 component at the cost of existing diesel players.
8. **Load points that are reliant upon diesel need to be exempted** – Aurizon Network argues that the future electric option has significant intrinsic value for all future users. This argument is flawed. Any socialization proposal needs to recognize that some load points require diesels to operate. The Kestrel operating mode is dependent upon having diesel capable crews to push–pull diesel trains north to DBCT. Electric trains cannot push/pull and electric crews are generally not diesel capable. Kestrel's access agreements to DBCT have been negotiated on the basis of using diesel traction. From a practical crewing / operating mode perspective kestrel operates diesels to maintain destination flexibility. The Blackwater electric option value from a Kestrel perspective is zero. Network's future electric option value argument would appear to endorse that diesel dependent load points should be exempt from a socialized tariff.

In conclusion -

- Any tariff socialisation changes need to be forward looking. Any historic investment in diesels should be exempted.
- Aurizon Network's argument that the electric option has intrinsic value for all users is flawed. Any load point reliant on diesels as part of their operating mode should be exempt from socialisation of electric /diesel tariffs. The value of the Network's future electric option argument for these load points is effectively zero. This is the case for the Kestrel given its requirement to push –pull trains north and maintain destination flexibility.
- Any implementation of socialisation of tariffs changes needs to consider the level of commercial conflict /gain by the broader Aurizon entity. Socialisation of traction choice should not reduce haulage competition or provide a windfall gain to Aurizon Operations. RTCA understands Aurizon Operations provide a combined track/haulage tariff to some customer(s). Neither existing or future diesel customers nor Pacific National should subsidise the commercial choices of Aurizon Operations.
- The capacity multipliers should be reviewed independently by the QCA as part of this review.
- This issue outlines Aurizon's difficulty in separating conflict/potential conflict between its haulage and track operations. It provides a clear example of the ongoing need for regulation of track beyond 2020.

Ian Gibbons