

16 April 2012

Paul Bilyk
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Paul

AT5 – Submission by Anglo American

As you are aware we act for Anglo American Metallurgical Coal Pty Ltd (**Anglo American**).

Anglo American opposes the Draft Amending Access Undertaking (**DAAU**) in respect of AT5 and electric traction.

Anglo American has not been a party to the most recent consultation process in respect of the AT5 DAAU between QR Network Pty Ltd (**QR Network**) and some producers. This submission does not take into account any discussions which took place during that consultation and is based upon the original application and submission made by QR Network.

Anglo American opposes the DAAU for the following reasons:

1. The model developed by QR Network is flawed in that:
 - (a) The analysis of cycle time is the most significant factor in showing that electric hauled trains have a lower Total Cost of Ownership (**TCO**). QR Network claims that this cost is incurred because a slower cycle time results in a "slower" system (which results in lower throughput) and therefore higher capex and opex is required. However, the cycle time used by QR Network includes time for refuelling the diesel locomotives, forming the bulk of the TCO differential to electric locomotives. Provisioning and refuelling are generally undertaken off the network in marshalling yards and, generally speaking, have no impact on the system nor throughput of the system. It also means that the additional capex and opex as suggested by QR Network for the slower diesel cycle time is actually mainly for off-network activities and not cycle time as such;
 - (b) The analysis of cycle time has been based upon a comparison of the electric locomotives with diesel locomotives which are used by QR National. Importantly, this means that the cycle times of the diesel locomotives are based upon diesel hauled trains which do not have EPC braking systems in operation. Pacific

National claims that the diesel locomotive hauled trains operated by it (which do have EPC braking systems) have almost identical sectional run times and

therefore do not cause the difference in cycle time claimed by QR Network in the TCO analysis;

- (c) The analysis includes \$400 million of Powerlink break costs. It is inappropriate to take into account the current contractual position in making an assessment as to whether electric or diesel traction has a lower TCO; and
 - (d) The analysis includes \$40 million to electrify the Rolleston branch, which is a branch to service the Xstrata mine. In circumstances where QR Network has publicly stated that it does not intend to construct or fund customer specific spurlines it is unclear why this amount has been included in the TCO modelling, nor why industry should be requested to effectively cross subsidise the branch.
2. There are a number of assumptions built into the TCO model which are subject to widely varying sensitivities which, whilst not necessarily incorrect, may significantly impact upon the output of the model. For example, the assumptions in respect of electricity and diesel costs. Further work should be undertaken in respect of these assumptions prior to a decision on AT5 being taken.
 3. The TCO model does not take into account the fact that QR Network has publicly stated that it will no longer pay for customer specific spurlines from mines to the network. It is understood that these spurlines will need to be either constructed by the coal producer and a Rail Connection Agreement entered into or the coal producer will need to user fund QR Network to construct the spurline. It is likely that in the future mines will be developed which are further away from the mainline network than the current operational mines. This increases the likelihood of coal producers having to construct or fund expensive spurlines to reach the mainline. If these spurlines are required to be electrified then it could significantly affect the economics of the relevant mine development.
 4. The approval of the DAAU in its current form is intended to have the effect of incentivising the coal producers to invest in electric traction, with the most significant benefits only being obtained if the entire system moves to electric traction. However, there are some disadvantages to pushing a coal system to solely to electric traction which has not been taking into account in the analysis. For example, a hybrid system provides a hedge against sustained power outages (which have previously occurred in the Queensland network).
 5. Socialisation between the Goonyella and Blackwater should not be supported merely because QR Network may have made imprudent investments in below rail electric assets or QR National in above rail electric assets.
 6. The DAAU may have a significant impact on Pacific National's competitiveness because it has already made significant investments in diesels, unlike QR National which invested in electric locomotives. Although the specific financial details of this impact are not clear, it would be a significant concern if there was any competitive impact. Even if the DAAU only impacted on Pacific National's profit level (as opposed to its ability to compete) this

raises a question of regulatory certainty. It is a fundamental principle of regulatory governance that regulation should be certain. Significant investment decisions are made based on regulation, which should not be changed lightly. Anglo American strongly supports competition in above rail services, as it has been the single largest benefit that the Queensland coal chain has received from the regulatory regime.

7. Anglo American believes that diesel traction choice can actually represent a lower TCO than electric traction, depending upon supply chain and haul characteristics and that any further discussion on long term investment choice for the coal systems is best undertaken through an industry consultative manner through the Coal Rail Infrastructure Master Planning process, or QR Network's intended future substitute for this process.

The above issues do not reflect all of the concerns and thinking regarding the proposal by QR Network. However, in light of the above, Anglo American opposes the application. Anglo American would be happy to meet with the QCA to discuss this further.

Please contact me if you require any further information.

Yours faithfully

Joanne Daniels
Partner