

QRC

# submission

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**QRC submission to the QCA  
Electric Traction Services DAAU – further  
submission on Draft Decision  
November 2012**

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## 1. Introduction

In its previous submission on the QCA's Draft Decision, the QRC expressed its support for the Draft Decision and outlined some key objections of its members to QR Network's (**QRNN**) Draft Amending Access Undertaking (**DAAU**). The QRC reiterates its members' support for the Draft Decision and those objections to the DAAU.

The QCA has invited further comment from stakeholders after receiving a significant number of submissions variously supporting, opposing or commenting on the Draft Decision. The QCA has noted that there are particular issues on which it seeks comment. The QRC has addressed some of these issues in the comments below, but has limited its submission to comments on some of the key matters raised in the submissions, particularly those from QRNN and QR National. The QRC's principal reasons for opposing the DAAU, and suggestions for the course of action which should be adopted, are as set out in its previous submission. These are not repeated here.

The QRC remains of the view that the QCA should reject the DAAU, but that action in regard to the high level of AT5 is warranted. The QRC proposed at section 5 of its prior submission an alternative proposal.

The QRC confirms that this submission may be made public.

## 2. The 'better' traction type

Central to QRNN's submission is its view that, when considering the coal chain as a whole, electric traction is more efficient than diesel traction. In QRNN's view, it follows that the QCA should approve the DAAU so as to provide a price signal to encourage electric traction.

Other submissions on the Draft Decision are largely statements of why, in the opinion of their writer (many of which have a commercial incentive to hold a certain opinion) electric traction is or is not superior to diesel traction.

The QRC is not in a position to say whether electric traction is more efficient than diesel traction. It is however clear to the QRC that the analysis of efficiency is extraordinarily complex. Further, due to interdependencies in the coal chain, what is efficient now and in the future will be highly dependent on a number of factors which could ultimately change the conclusion at any one time. This supports the QRC's view that it is not appropriate to use a price signal to promote electric traction.

QRC remains supportive of cost-reflective pricing. This includes:



- Differential charging, for example through a capacity multiplier, where the characteristics of one service are shown to consume more capacity than another service.
- Ensuring that a service pays at least a sufficient tariff to cover the costs which the service imposes on the system. In QRC's submission on the GAPE DAAU, QRC supported charging GAPE traffic (which are diesel services) for the cost of enhancements in the Goonyella system which were required to accommodate the GAPE traffic. This included certain electrification work. QRC supported the proposal to charge diesel trains for this electrification work in this instance, because this appeared to be cost reflective (ie. the incremental cost was charged to the party which caused it to be incurred).

QRC's support of cost-reflective pricing does not extend to the claim that diesel trains impose "costs" on electric services by virtue of their failure to provide economies of scale which could otherwise reduce the average cost of electric services.

### 3. Asset stranding risk

QRNN's DAAU and further submission on the Draft Decision identify recovery of sunk investments as one of QRNN's key rationale for the DAAU. The QRC does not dispute that recovery of investments made to meet user demand is a legitimate objective for a regulated service provider.

The QRC does however dispute:

- (a) QRNN's characterisation of QRNN's role in the development of expansion projects, particularly the implied suggestion that QRNN is a passive infrastructure investor executing projects demanded by industry (for example, page 33 of the ARUP report prepared for QRNN seems to suggest that QRNN had no "previous right of veto" of these investments). The only party who holds all of the information and who is in a position to accurately scope projects and determine the demand for projects is QRNN. The projects are chosen by QRNN and approved by customers based on the information which QRNN chooses to make available. The final investment decision is made by QRNN subsequent to the customer approval process, as is evidenced by the numerous projects which have been approved by customers, which QRNN has later chosen not to undertake or to defer.
- (b) QRNN's view of the scope and effect of the approval given by industry through the customer approval process. The customer approval process allows QRNN to have the scope of a project included in the asset base. It is not a guarantee against optimisation. The information which industry has in the customer approval process is necessarily limited. This point was



highlighted by the QCA in its decision on the 2010 master plan customer vote. The customer approval process only provides for industry to consider from a technical point of view whether any proposed project could be undertaken more efficiently.

- (c) QRNN's suggestion that industry's lack of support for the DAAU (having passed the customer approval process) is 'strategic positioning' to gain the benefit of infrastructure without having to fully pay for it. Customers who are using electric traction remain willing to pay a reasonable price for this service. QRNN's DAAU acknowledges that the current AT5 price is not a competitive or reasonable price for the service, and customers would agree. What is not agreed is the appropriateness of seeking to address this by imposing additional charges on parties who are not using the service.

#### 4. QRNN's 'alternative solutions'

The QRC acknowledges that QRNN, like itself on behalf of its members, is attempting to propose solutions which address an issue of importance to all stakeholders.

Three possible 'solutions' which are alternatives to the DAAU or similar attempts to 'incentivise' use of electric traction are noted by QRNN in its submission on the Draft Decision:

- design of an 'efficient usage charge' that allows a choice for users between diesel and electric traction;
- implementing differential Reference Tariffs; or
- favouring access applications which would utilise electric infrastructure.

The QRC's members have not had sufficient time to consider the first option. There are a range of other issues currently being addressed by industry and QRNN (including the standard user funding model and other outstanding matters from UT3) and the time for reset of the Access Undertaking is rapidly approaching. It is therefore appropriate that engagement on any such model, as with any changes to AT2, be dealt with as part of the UT4 process.

The QRC does not view the second or third options as permitted by the Access Undertaking, as suggested by QRNN.

For the second option, there is nothing in the Access Undertaking which contemplates differential Reference Tariffs being developed so that one type of above rail service can 'remain competitive' with another. As was discussed earlier, QRC supports cost reflective pricing.



For the third option, QRNN appears to view the costs of electric infrastructure as Common Costs under the Access Undertaking. This characterisation may not be correct – as diesel traction services do not require electric infrastructure, it is difficult to see how the costs of this infrastructure could be characterised as other than Incremental Costs.

## 5. Conclusions

For the reasons outlined in its original submission and above, the DAAU should be rejected. Action is however warranted. The QRC has outlined alternative suggestions in section 5 of its prior submission. The QRC remains of the view that those suggestions should be pursued.