

**Submission to the ARTC**

**ARTC Hunter Valley Access  
Undertaking**

**Response to Section 4.18 –  
Appropriate Pricing Unit to  
Encourage Efficient Consumption  
of Capacity**

**November 2013**

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## **1 INTRODUCTION AND EXECUTIVE SUMMARY**

Asciano welcomes the opportunity to respond to the Australian Rail Track Corporation (ARTC) Consultation Paper on section 4.18 of the 2011 Hunter Valley Access Undertaking (HVAU) as it relates to the issue of whether gross tonne per kilometre (GTK) pricing is the appropriate pricing unit to encourage efficient consumption of capacity in the Hunter Valley coal rail system<sup>1</sup>.

Asciano is a major operator of coal trains in the Hunter Valley coal rail system and strongly supports initiatives to encourage more efficient consumption of capacity in the Hunter Valley rail system. While Asciano does not directly pay access charges on Hunter Valley coal rail system as it is not an access holder, Asciano remains concerned with the structure and levels of rail access prices as these prices provide strong incentives to access holders (and hence to operators) as to how train operations should be managed on the Hunter Valley coal rail system. Rail access prices which do not provide incentives for the operation of efficient trains will result in inefficient consumption of capacity in the Hunter Valley coal rail system.

The ARTC is required by section 4.18 of the HVAU to consult with access holders, operators and the Hunter Valley Coal Chain Coordinator (HVCCC) on whether GTK is the appropriate pricing unit to be used in the Hunter Valley Coal Chain to encourage efficient consumption of rail capacity. If, having regard to the consultation, ARTC believes that GTK is not the appropriate pricing unit to be used then the ARTC seeks the approval of the ACCC to provide for an alternative pricing unit in the HVAU.

Overall, Asciano believes that GTK is an appropriate pricing unit for the non- Take or Pay component of access pricing and net tonnes is a more appropriate pricing unit for the Take or Pay component of the access charge. Thus Asciano believes that net tonnes should be incorporated into the pricing structure.

Asciano believes that the level of pricing differentiation based on train size is the most important factor in ensuring that there are strong price incentives for access holders and operators to utilise capacity efficiently by operating trains with larger

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<sup>1</sup> The full title of the paper is "Hunter Valley Access Undertaking: Section 4.18 Determination of the Final Indicative Service: Is gtkm the appropriate pricing unit to encourage efficient consumption of capacity?"

payloads. This pricing differential combined with appropriate pricing units and pricing structures will provide incentives to encourage efficient consumption of capacity.

In making this submission Asciano notes that concurrent to this ARTC consultation process on GTK pricing there is also an ARTC consultation process on the efficient train being conducted<sup>2</sup>. Asciano has also made a submission to this efficient train consultation process.

This submission is public.

## **2 BACKGROUND**

During consultation on the HVAU in 2010 and 2011 stakeholders, including Asciano, raised concerns with the use of GTK as the pricing unit in the Hunter Valley coal rail system. These concerns were put forward by Asciano in various submissions to the HVAU regulatory process, particularly in submissions in March 2010, October 2010 and May 2011.

Asciano's concerns largely related to the fact that the GTK pricing, as then proposed, did not provide appropriate price incentives to encourage the operation of efficient trains in the Hunter Valley. In particular Asciano was concerned that within a pricing zone the same level of GTK pricing applied to a train regardless of the train configuration. Thus there was no price incentive for access holders and operators to operate higher payload trains which would use system capacity more efficiently than smaller payload trains, with the consequence that the capacity of the Hunter Valley rail system would not be efficiently utilised.

Since the HVAU consultation of 2010 and 2011 there have been several developments in relation to the HVAU including:

- detailed modelling of the impact of coal train configurations on the capacity and costs of the Hunter Valley coal rail system has been undertaken. This modelling has shown that larger trains are more efficient in utilising capacity in the Hunter Valley coal rail system; and
- changes to the HVAU pricing structure, in particular;

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<sup>2</sup> The full title of the efficient train consultation paper is "ARTC Hunter Valley Access Undertaking: Specification of Final Indicative Service (Efficient Train Configuration)"

- In 2011 the HVAU pricing did not differentiate between train configurations. Thus smaller trains paid the same unit price as larger trains despite the fact that the smaller trains did not utilise Hunter Valley coal rail system capacity as efficiently as larger trains.
- In 2012 amendments to the HVAU were introduced such that now HVAU pricing does differentiate between train configurations and smaller trains effectively pay a higher unit price than larger trains. The intention of this price differentiation is to take account of capacity impacts and provide an incentive to access holders and operators to operate more efficient trains. (The 2012 HVAU pricing amendments also sought to reflect the different impact that different train configuration had on track maintenance costs).

In its discussion paper (page 12) the ARTC notes that these 2012 pricing changes have already resulted in more efficient capacity utilisation with an increase in average train size in 2013, facilitating volume increases without the need for additional track infrastructure.

These 2012 pricing changes to the HVAU have partially addressed Asciano's concerns relating to GTK pricing, although Asciano continues to have concerns regarding optimal pricing units and the relationship between pricing and the utilisation of capacity as outlined in this submission below.

### **3 ASCIANO POSITION ON ISSUES RAISED IN THE ARTC GTK PRICING CONSULTATION PAPER**

#### **HVAU Price Structure**

The current HVAU pricing structure is a two part tariff:

- the non-Take or Pay component of the access charge is applied to actual GTK resulting in Non-Take or Pay revenue.
- the Take or Pay (TOP) is applied to contracted GTK resulting in non-Take or Pay revenue. This charge is essentially fixed irrespective of actual utilisation of paths.

The current HVAU pricing structure encourages efficient utilisation of capacity in two ways:

- the actual rates charged differ depending on the train configuration. Larger trains pay a smaller per unit charge, thus encouraging the use of larger trains; and
- the two part pricing with a fixed and variable component results in an incentive to utilise paths and hence capacity regardless of train size as the fixed charge can then be allocated across more tonnes of coal.

### **GTK as a Pricing Unit**

In the discussion paper ARTC explicitly seeks stakeholder views on the continuing use of GTK as a pricing unit for the Take or Pay component of the Access Charge and whether the use of GTK as a pricing unit impacts on the encouragement of efficient consumption of capacity.

Asciano believes that GTK is a reasonable pricing unit to be used when seeking to reflect the costs of the track provider; however it may not be the optimal pricing unit to be used when seeking to reflect the primary function of the coal supply chain. The primary function of the Hunter Valley coal rail system is to move tonnes of coal and the use of net tonnes as a pricing unit more completely aligns with this primary function and thus is more appropriate in sending pricing signals to participants in the supply chain.

Asciano has no issue with the continuing use of GTK as a pricing unit for the non-Take or Pay component of the access charge.

Asciano believes that net tonnes may be a more appropriate pricing unit for the Take or Pay component of the access charge as it more completely aligns with the aim of the coal supply chain. The use of net tonnes as a pricing unit provides the strongest incentive to supply chain participants to facilitate the movement of additional tonnes, and consequently this provides incentives for larger payload trains (i.e. a more efficient train). Incentives for larger payload trains are likely to result in increasing the level of innovation and development in wagon design. In addition,

Asciano believes that net tonnes are a more appropriate pricing unit for the Take or Pay component of the access charge as it provides incentives to increase train payload.

In its previous submissions Asciano's primary concern was with the application of the same level of GTK pricing to train configurations regardless of whether the train efficiently utilised capacity. Asciano was seeking that pricing encourage efficient utilisation of the Hunter valley coal rail system by providing pricing incentives that encourage the use of trains with a higher payload. The current pricing system, introduced in 2012, includes a level of price differentiation between larger and smaller trains and so provides such a pricing incentive. This incentive could be further improved by using GTK as the pricing unit for the non- Take or Pay component of the access charge and net tonnes for the Take or Pay component of the access charge.

Overall Asciano believes that net tonnes are an appropriate pricing unit for the Take or Pay component. However, Asciano believes that what is most important is not the pricing unit but the pricing differential. This pricing differential combined with appropriate pricing units and pricing structures will provide incentives to encourage efficient consumption of capacity.

#### **Alternative Price Structures**

The Consultation Paper puts forward several alternative pricing structures including:

- pricing or a pricing component based on train paths or train path kilometres;  
or
- a multipart pricing approach using different pricing units such as GTK, train paths, net tonnes and / or net tonne kilometres. (The rail access pricing approach in the Central Queensland Coal Network is based on GTK, train paths, net tonnes and net tonne kilometres).

ARTC has explicitly sought stakeholder views in relation to the adoption of train kilometres as a pricing unit for the Take or Pay component of the access charge. As outlined above Asciano's view is that that a net tonnes pricing unit is the most appropriate pricing unit for Take or Pay.

Similarly ARTC has explicitly sought stakeholder views in relation to the adoption of a multi-part pricing approach similar to that applied in the Central Queensland Coal Network. Asciano's view is that a well designed multipart pricing approach may better reflect costs and cost drivers and provide incentives for efficient capacity

utilisation. As outlined above Asciano's view is that a net tonnes pricing unit is an important component of a multipart pricing approach.

The Central Queensland multi-part pricing approach has seven pricing components and this complexity raises concerns regarding the allocation of costs between pricing components and a general lack of transparency in pricing. While a well designed multipart pricing may be beneficial there is no guarantee that a pricing approach this complex will be beneficial and any benefit which arises may be offset by added costs arising from the complexity.

Overall Asciano believes that net tonnes should be incorporated into the pricing structure but that the pricing structure should not be overly complex. Asciano believes that what is most important is not the pricing structure but the pricing differential. This pricing differential combined with appropriate pricing units and pricing structures will provide incentives to encourage efficient consumption of capacity.

#### **Pricing Differential and Price Incentives**

HVAU pricing now differentiates between train configurations with smaller trains effectively pay a higher unit price than larger trains. However Asciano believes that further consideration should be given as to whether the current pricing differentials are sufficient to provide strong incentives.

ARTC recognises the importance of price differentials in its Consultation Paper (page 18) stating that the

*... encouragement of efficient consumption of capacity rests with the appropriateness of price differentials between different coal train configurations rather than the pricing unit in which prices are expressed.*

Asciano agrees that price differentials are important in driving efficiency and believes that further analysis should be undertaken to assess whether the current pricing differentials are appropriate. In particular, to the extent that smaller trains remain in the coal system (where the size of these smaller trains is not determined by specific infrastructure constraints) Asciano believes that consideration should be given to increasing the pricing differential.

Asciano believes that the size of these pricing differentials should be a particular area of focus in regulatory process leading up to the next Hunter Valley Access Undertaking.

Overall, Asciano believes that the level of pricing differentiation is the most important factor in ensuring that there are strong price incentives for access holders and operators to utilise capacity efficiently by operating trains with larger payloads.

### **Efficient Train and Pricing Incentives**

The efficient utilisation of the Hunter Valley coal rail system requires both:

- the determination of the efficient train configuration; and
- the development of a pricing approach which encourages access holders and operators to operate this efficient train.

Both of these components need to be in place for the capacity of the Hunter Valley coal rail system to be efficiently utilised.

As noted in section 1 of this submission Asciano is also making a submission to the ARTC on the efficient train. In relation to the efficient train Asciano has a concern that the efficient train as currently proposed is not capable of operating on the Hunter Valley coal rail system at the current time. Given this Asciano believes that any pricing approach based on this efficient train may not result in short term efficiency benefits. Asciano believes that from a pricing perspective ARTC should clarify how the proposed efficient train will be linked to pricing for trains capable of operating on the Hunter Valley coal rail system at the current time.

### **Other Issues**

In considering the issue of GTK pricing and capacity utilisation Asciano is seeking that the ARTC provide further clarity on the following issues:

- pricing for Gunnedah Basin trains (i.e. pricing zone 3 trains) when they travel through pricing zone 1. These trains are smaller than the efficient train due to infrastructure restrictions therefore imposing price incentives on these trains to become more efficient is unlikely to have any impact as the constraint on train size is not driven by the operator or access holder; and

- pricing for non-coal trains. Numerous non-coal trains use Hunter Valley rail infrastructure. Asciano assumes that charging approaches to these trains will remain unchanged.

#### **4 CONCLUSION**

Overall, Asciano believes that GTK is an appropriate pricing unit for the non-Take or Pay component of access pricing and net tonnes is a more appropriate pricing unit for the Take or Pay component of the access charge. Thus Asciano believes that net tonnes should be incorporated into the pricing structure but that the pricing structure should not be overly complex.

In previous submissions Asciano's primary concern was that pricing structure in force at that time did not encourage efficient utilisation of the Hunter Valley coal rail system. The current pricing system, introduced in 2012, includes a level of price differentiation between larger and smaller trains and so provides such a pricing incentive. Asciano believes that the level of pricing differentiation is the most important factor in ensuring that there are strong price incentives for access holders and operators to utilise capacity efficiently by operating trains with larger payloads.

This pricing differential combined with appropriate pricing units and pricing structures will provide incentives to encourage efficient consumption of capacity.