

Submission to the ARTC

**ARTC Hunter Valley Access
Undertaking**

**Response to Section 4.18 –
Specification of Final Indicative
Service**

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 specification of the Final Indicative Service (FIS) in the Hunter Valley coal rail system¹.

Asciano is a major operator of coal trains in the Hunter Valley coal rail system and as such strongly supports initiatives to encourage optimal utilisation of Hunter Valley coal chain capacity.

Asciano supports the move towards the FIS in principle; however Asciano has some concerns relating to the details of the implementation of the FIS including:

- the FIS proposed train configurations cannot currently be operated in the Hunter Valley so using the FIS to set reference pricing is problematic as no access holder can receive the reference price. Asciano believes that access pricing should be based on an indicative service capable of widespread operation in the Hunter Valley. Thus reference pricing linked to the Initial Indicative Service should continue until the FIS train configurations can be operated;
- there are two proposed configurations for an FIS. In determining which FIS is elected a transparent set of criteria should be used; and
- further information is required on the cost for all supply chain participants and price impacts of the FIS and the timing of the implementation of the FIS.

Asciano also seeks confirmation that the FIS will only be used in the HVAU as an input into the determination of access charges.

Ultimately Asciano is seeking certainty as soon as possible on the access pricing to apply in the short to medium term, the FIS proposal to be selected and the details of the costing and timing of the transition to this selected FIS.

¹ The full title of the paper is “ARTC Hunter Valley Access Undertaking: Specification of Final Indicative Service (Efficient Train Configuration)”

In making this submission Asciano notes that concurrent to this ARTC consultation process on the FIS there is also an ARTC consultation process on gross tonne kilometre (GTK) pricing being conducted². Asciano has also made a submission to this GTK pricing consultation process.

This submission is public.

2 BACKGROUND

Background to HVAU Regulatory Process

During consultation on the HVAU in 2010 and 2011 stakeholders, including Asciano, raised concerns with the ARTC and the ACCC with both the proposed pricing for the Interim Indicative Service in the HVAU and the time frames which would apply to determining the FIS. Asciano's main concerns was that the Interim Indicative Service pricing and train configuration did not provide appropriate incentives for the operation of efficient trains in the Hunter Valley, with the consequence that the capacity of the Hunter Valley rail system would not be efficiently utilised. In particular Asciano was concerned that identical prices were applied to both larger and smaller train configurations, implying that both configurations were equally efficient in relation to the utilisation of Hunter Valley rail capacity. Asciano's position was that larger payload trains were more efficient.

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.

At its commencement in 2011 the HVAU reference coal service was the Interim Indicative Service, where the pricing of this service did not differentiate between train configurations. Since 2011 there have been several major developments in relation to the HVAU including:

- modelling of the impact of coal train configurations on the capacity and costs of the Hunter Valley coal rail system. This modelling has shown that larger

² The full title of the efficient train consultation 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?

trains are more efficient in utilising capacity in the Hunter Valley coal rail system; and

- changes to the HVAU pricing, in particular 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. In particular from October 2012 the HVAU reference coal service is the Initial Indicative Service. This service differentiates between train configurations, namely it differentiates between a 30 tonne axle load 1543 metre service and a 25 tonne axle load 1350 metre service

Proposed Final Indicative Service

The FIS is intended to be the Hunter Valley coal train configuration which delivers the optimal utilisation of Hunter Valley coal chain capacity. The modelling of the FIS has been undertaken with input from the HVCCC, access holders and operators (including Asciano). This modelling is based on certain system assumptions, including:

- the shipping queue is assumed at a maximum of twenty ships – Asciano believes that this is reasonable;
- coal hauls will become progressively longer in distance as mines closer to port reach the end of their economic lives – Asciano queries if this assumption is reasonable within the term of the current HVAU but recognises it is reasonable in the longer term; and
- existing infrastructure limitations are avoidable – Asciano queries if this assumption is reasonable within the term of the current HVAU but recognises it is reasonable in the longer term.

The modelling results in large gains in Hunter Valley coal chain capacity as train payload increases. In particular the modelling has resulted in two proposed configurations for an FIS, namely:

- a train of 30TAL with a length of 1,914 metres and a payload of 11,800 tonnes, or

- a train of 35TAL with a length of 1,606³ metres and a payload of 11,800 tonnes.

Asciano understands that the options are for either the higher TAL train or the longer train but not both combined. Asciano also understands that:

- a train of 30TAL with a length of 1,914 metres could currently operate on some paths in the Hunter Valley but this would be at the expense of system flexibility as such a train could only be used at several end user sites; and
- a train of 35 TAL could not operate in the Hunter Valley at this time (although this situation could change in a relatively short period of time if the relevant track was re-rated for a higher TAL).

Asciano notes that the Consultation Paper (page iii) indicates that it is likely that Gunnedah Basin trains will not achieve the larger configurations being tested for the remainder of the Hunter Valley network. Asciano believes that the configuration and the access pricing for these Gunnedah basin trains throughout the Hunter valley network should be clarified by the ARTC.

Under clause 4.18 e) of the HVAU if the FIS is submitted to and accepted by the ACCC then the FIS access charges (as approved by the ACCC) will be used as the basis for charging for access.

Furthermore, under clause 4.18 e) iii) of the HVAU charging for non FIS services is undertaken in accordance with clause 4.15 of the HVAU. (This clause 4.15 outlines factors for the ARTC to take into account when determining charges for access for non-indicative services). Clause 4.18 e) iii) of the HVAU indicates that the Indicative Access Charges accepted by the ACCC in 2012 should be taken into account by the ARTC when it is determining access charges for non-indicative services under clause 4.15. Given these HVAU clauses, Asciano understands that if a current train is operating as an Initial Indicative Service configuration then the access charges for this train will continue to be in line with the current Initial Indicative Service tariff.

³ Asciano notes that the current constraint on the length of trains in the Hunter valley is 1540 metres. Asciano assumes that some capital work will be undertaken to allow a 1606 metre train to operate throughout the Hunter Valley.

Overall Asciano supports the move towards larger payload trains in the Hunter Valley but has some concerns as to the how the industry will transition towards these larger payload trains.

3 ASCIANO POSITION ON ISSUES RAISED BY THE MOVE TOWARDS THE FINAL INDICATIVE SERVICE

As noted above the FIS proposals are largely aspirational targets which cannot be easily operated in the Hunter Valley in the present time⁴. This fact raises several fundamental issues including:

- the relationship between the FIS and access pricing for trains currently operating in the Hunter Valley needs to be clarified;
- the criteria to be used for determining which of the two FIS proposals will be selected; and
- the planning and management framework to be used for the transition from the current operating model to the selected FIS operating model.

Current Pricing and the Final Indicative Service

As noted above, the FIS is based on an assumption that current infrastructure restrictions can be avoided; however in the short-term the reality is that such infrastructure restrictions cannot be avoided. Thus, Asciano has a concern that the proposed FIS trains are currently not capable of operating widely throughout the Hunter Valley coal rail system.

While Asciano supports the move towards the FIS, Asciano believes that there needs to be access pricing certainty in the shorter term.

Given that the FIS proposals are aspirational the relationship between the FIS and access pricing for trains currently operating in the Hunter Valley must be clarified by the ARTC. In particular the ARTC should confirm how pricing for trains currently being operated in the Hunter Valley will be determined. Many trains currently operating in the Hunter Valley are trains which fit the parameters of the Initial Indicative Service and as such these trains currently have a high degree of access pricing certainty, however in the shift towards the FIS these trains may no longer be indicative trains and as such their access pricing becomes less certain. Asciano

⁴ The Consultation Paper (page vi) recognises that the FIS train configurations may not be able to operate on the Hunter Valley network at the current time.

believes that clauses 4.15 and 4.18 of the HVAU indicate that if a current train is operating as an Initial Indicative Service configuration then the access charges for this train will continue to be in line with the current Initial Indicative Service tariff.

Asciano is seeking that ARTC confirm this view.

Given that the FIS cannot operate widely throughout the Hunter Valley at the current time the immediate impact of this is that Hunter Valley coal rail access prices will become uncertain as access holders and operators do not have the option of shifting to the FIS and obtaining the regulated price. Asciano is concerned with any move towards an increase in uncertainty around pricing as the resultant negotiated prices may not necessarily be efficient or encourage efficient utilisation of the Hunter Valley coal network nor be consistent between operators.

Asciano believes that in order to continue to encourage the efficient utilisation of the Hunter Valley coal network ARTC should continue to charge access prices based on the Initial Indicative Service until such a time as the FIS proposals are capable of being widely operated in the Hunter Valley coal rail system. Access charging based on the Initial Indicative Service will continue to provide an incentive for the operation of efficient trains within the current constraints of the network. (As it currently stands, no level of pricing incentive will result in the widespread operation of the proposed FIS due to infrastructure constraints).

In supporting the FIS Asciano notes that to date no access prices based on the FIS have been put forward. Until such pricing is put forward any assessment of the FIS and the prices linked to the FIS will be incomplete.

Asciano believes that the primary function of the FIS is that it is intended to be a service on which reference access pricing can be based. Access pricing based on the FIS is intended to provide an incentive for access holders and operators to move to the most efficient train, however if the FIS is not capable of being operated then there must be a pricing signal that provides incentives for operators and access holders to operate an efficient train that can be operated. Thus to the extent that the FIS cannot be operated then reference access pricing should be based on the Initial Indicative Service until such a time as the FIS can be operated. To the extent that pricing is based on the FIS then the FIS should be a service capable of widespread operation in the Hunter Valley.

In addition Asciano also seeks confirmation that the FIS will only be used in the HVAU as an input into the determination of access charges.

Options for the FIS

As outlined above there are two proposed configurations for an FIS. Asciano does not oppose the concept of moving over time to an FIS that is either the 1,914 metre 30TAL train or the 1,606 metre 35TAL train. Asciano understands that the options are for either a higher TAL or a longer train but not both combined.

In determining which FIS should be selected Asciano believes that there should be a transparent set of criteria used. Asciano is seeking that the ARTC outline a set of proposed criteria. Asciano would expect that the criteria would address issues such as capital and operating cost implications for the entire supply chain and the timeline for the transition to the FIS.

In addition it is necessary that all supply chain participants in the Hunter Valley supply chain have confidence that, once selected, the FIS will not change. This will allow all participants to undertake investments in long lived capital assets with a degree of certainty.

Asciano recognises that different participants are likely to be differentially impacted depending on which FIS proposal is selected. For example the 35TAL proposal is likely to require investment in new rollingstock. Asciano is seeking that a decision on the FIS option be made in the near future to minimise the potential for inefficient investments to be made by any supply chain participant.

Transition to the FIS and Longer Term Consequences

In supporting the FIS Asciano notes that to date no detailed costs based on the FIS have been put forward. Until such costing is put forward any assessment of the FIS will be incomplete. Asciano believes that the ARTC should establish a process that will allow further consultation on how the transition to the FIS will be managed and costed.

For both of the FIS proposals capital expenditure will need to be incurred by ARTC, end users, train operators and port facilities. Costs to consider in assessing and implementing the FIS include:

- costs to all participants arising from delays due to capital works;
- capital costs to the ARTC arising from either lengthening track infrastructure or strengthening track infrastructure;
- capital costs to train operators, particularly if substantial levels of new rollingstock are required. (This may be more likely under the 35TAL proposal);
- capital costs for end users, particularly costs for lengthening or strengthening mine balloon loops and upgrading mine load-outs;
- capital costs for port facilities; and
- operating costs for all participants. A change in the operating environment may result in increases in some operating costs (for example wagon maintenance and / or track maintenance).

Asciano believes that these costs will need to be considered and tested in the final assessment of the FIS proposals.

Asciano recognises that different participants are likely to pay differing amounts depending on which FIS proposal is ultimately selected (lengthening the train is likely to result in higher costs to ARTC whereas increasing the TAL is likely to result in higher costs to the train operators as rollingstock is replaced). As an operator Asciano is particularly concerned about the process for the phasing in new rollingstock (recognising that the life of rollingstock is approximately twenty years) and the potential for some rollingstock investments to become stranded. These concerns relating to rollingstock are more likely to occur under the 35 TAL proposal.

In addition Asciano believes that issues related to locomotive power need to be considered when assessing the FIS. Any situation where the FIS requires “half an extra locomotive” for motive power is unlikely to be cost efficient.

Overall Asciano supports the move towards the FIS but believes that further information is required on both the cost and price impacts of the FIS and the timing of the implementation of the FIS. Asciano recognises that the ARTC may not have this information at the current time and so is seeking that a consultation process be established to allow the exchange of information and the management of the transition to the FIS. Ultimately Asciano is seeking certainty as soon as possible on

both the FIS proposal to be selected and the timing of the transition to this selected FIS.

4 CONCLUSION

Asciano supports the move towards the FIS in principle; however Asciano has some concerns relating to the details of the implementation of the FIS including:

- the FIS proposed train configurations cannot currently be operated in the Hunter Valley, given these configurations are used to set reference pricing this is problematic as no access holder can receive the reference price. Asciano believes that access pricing should be based on an indicative service capable of widespread operation in the Hunter Valley. Thus reference pricing linked to the Initial Indicative Service should continue until the FIS train configurations can be operated;
- there are two proposed configurations for an FIS. In determining which FIS is elected a transparent set of criteria should be used.
- in order to provide the certainty required to underpin the investments in long term capital assets required by the FIS, the FIS, once selected, should not be changed;
- further information is required on:
 - the cost and price impacts of the FIS: and
 - the timing of the implementation of the FIS

Asciano recognises that this information may not be available at the current time and so is seeking that a consultation process be established to allow the exchange of information and the management of the transition to the FIS.

Ultimately Asciano is seeking certainty as soon as possible on:

- access pricing to apply in the short to medium term;
- the FIS proposal to be selected; and
- the details of the costing and timing of the transition to this selected FIS.