



2 September 2014

Mr Matthew Schroder
General Manager Fuel, Transport and Prices Oversight Branch
Australian Competition and Consumer Commission
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Melbourne Vic 3001

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Dear Mr Schroder

Submission re ACCC's Preliminary Views on ARTC's Proposed Final Indicative Service Variation

I refer to your Position Paper of 1 August 2014 seeking submissions on ACCC's preliminary views on ARTC's request to the ACCC to vary the Hunter Valley Access Undertaking (HVAU).

ARTC is seeking to incorporate its proposed characteristics and access charges for the Final Indicative Service (FIS) into the HVAU for implementation by 1 January 2015. ARTC has proposed that the characteristics of the "efficient train configuration" (ETC) in Pricing Zone 1 is a 96-wagon consist running on 30 tonne axle load (TAL) track.

In its position paper (p7), ACCC states that its preliminary view is that ARTC has proposed a configuration that "contributes to achieving optimum utilisation of capacity in the Hunter Valley".

This submission brings to ACCC's attention the disadvantage that coal producers suffer when they present to the ARTC network from the Sydney Trains network with the latter's capacity limitations and proposes a way forward for both Centennial and ARTC.

Background

The first stage of the Final Indicative Service (FIS) was implemented on 1 Jan 2013 after Centennial's requests for consideration of its position were held over for further discussion. Following negotiations with ARTC the parties reached a suitable commercial outcome that covers the period from 1 July 2013 until the termination of the HVAU on 30 June 2015.

Centennial retained a clear view that, while the commercial arrangements entered into had to some extent alleviated the access charges, Centennial's issues with the proposed access regime had not been addressed. These issues were outlined in a submission to ACCC on 18 March 2014 and noted in the ACCC position paper dated 1 August 2014 (p 46).

Centennial's Position

ACCC has formed a preliminary view that ARTC's proposed 96-wagon, 30 tonne axle load (TAL) combination is appropriate for Pricing Zone 1 based on the

results of HVCCC modelling. Centennial has strongly outlined its views on this proposal in the March paper and reaffirms them here.

Centennial's views are:

- a) Technical limitations of other networks prevent Centennial from conforming to ARTC's proposed characteristics.

Centennial has provided written conformation on these limitations from both network providers. These providers are John Holland Rail, network provider for the Country Regional Network (CRN), and the Asset Standards Authority (ASA) within Transport for NSW on behalf of the Sydney Trains Network. Their network rules require 25TALs and a trailing load of 4,600 tonnes or 46 by 100-tonne gross wagons. Centennial would also be unable to fully load the standard Hunter Valley (HV) 125-tonne gross wagon due to the axle load limitations of the other networks

Centennial has been working in CY2014 with ASA to lift the trailing load to 5,000 tonnes or 50 by 100-tonne wagons with 80 trial runs completed by 26 August and indications that this consist size may be able to run regularly from 1 January 2015. This small increment in train length has been achieved over a considerable period of time and indicates the complex environment in which Sydney Trains operates.

It seems to Centennial that the considerable impost of an ETC train is both discriminatory and unfair in pricing zone 1.

- b) Centennial is unaware of any HVCCC modelling that does not allow HVCCC to meet its annual Declared Inbound Capacity

Centennial has included the following excerpt from ACCC's position paper (p7) that ACCC's preliminary view of HVCCC's modelling has played an "important" role in its view in identifying:

"train configurations that would most likely contribute to achieving efficient utilisation of capacity of the Hunter Valley Coal Network over the next five to ten years" (p7)

Centennial accepts that modelling has played an important role in determining the best configuration for the Hunter Valley track west of the coal terminals. Centennial is unaware of any modelling south of the coal terminals.

Centennial has worked effectively with HVCCC in the past and has met HVCCC modelling outcomes to ensure that its load points meet HVCCC requirements for loading rates and daily peaking capacity. Centennial understand the importance of these parameters in enabling HVCCC to meet its Annual Declared Inbound Capacity (ADIC) and has striven to meet them.

Centennial is unaware if it has been a "drain" on HV coal chain network capacity in the past and would work hard to achieve its requirements to meet future ADICs over the next five to ten years as it has in the past five years.

An indication of Centennial's train provider's performance can be judged from its performance in HVCCC's slot management system. The system allocates trains to times at terminal dump stations. Prior to implementation in July 2013 on-time performance across all trains had been 20% on-time within one hour. Performance has improved so that HVCCC's target for CY2014 was 60% on time within one hour with actual August 2014 being 53%. Southern Shorthaul Railroad, Centennial's train provider, has consistently performed at 70% on-time. Better use of terminal slot times should assist the ADIC to be achieved.

c) Centennial's share of the HV network has only a minor impact

All Centennial's coal is hauled to the Newcastle terminals on ARTC track with an average distance less than 10 km. The role that the ARTC network plays in Centennial's haulage task can be seen in better perspective when the haulage task is explained:

- approximately two million tonnes of coal are hauled on the CRN and the Sydney Trains network for over 250 km from our western mines; and
- approximately two million tonnes are hauled for about 15km from our Newcastle mines on the Sydney Trains network.

This coal is then hauled for the final 10 km of the journey to the coal terminals on ARTC track

Financial Impact of Proposed Differential Charges

The following Table was included in Centennial's March submission to the ACCC and outlines the proposed differential charges in Pricing Zone 1 for a 96-wagon train, 82-wagon train and 46-wagon train foreseen at that time. Operating for over 95% of the journey in networks with restrictions on train size, Centennial faces unavoidable financial penalties as indicated in the Table below. If Centennial had not been able to negotiate a reduction in the access charge last year with ARTC, the company would be facing the full impact of the proposed 56% financial penalty.

Proposed Differential Payments for Varying Length Trains

Final Indicative Service - Pricing Zone 1			
Parameter	96-Wagon Train	82-Wagon Train	46-Wagon Train
Axle Load	30	30	25
Max Speed Loaded	60	60	80
Max Speed Empty	80	80	80
TOP + NON-TOP Charge per kgtkm	\$10.498	\$11.623	\$16.420
Increase over 96-Wagon Charge		10.7%	56.4%

Source: ACCC Consultation paper & ARTC correspondence

Initial pricing discussions with ARTC will commence when ARTC publishes its proposed CY2015 access charges in early October.

Conclusion

Centennial has identified its key concerns with the proposed ARTC train configuration and makes the following points.

- Centennial can only present trains to the ARTC network that accord with the network rules of adjacent networks;
- Centennial considers that its small tonnages and short distance on ARTC track makes it an “outlier” in statistical terms compared with other coal producers; and
- It is then difficult to accurately model the real impact of its trains;
- ARTC states that it is required to treat Centennial under the Hunter Valley Access Understanding and is unable to treat coal producers differently even given the constraints outlined above to meet the requirements of the proposed ETC; and
- Centennial has met its load point and slot system performance requirements and will continue to meet them.

Centennial submits that implementation of the proposed ETC will penalise it for factors beyond its control.

To effectively solve these issues Centennial will seek to establish a non-Indicative Service for its operations. ACCC indicates in its position paper (p48) that:

“there may be some instances where a non-Indicative Service may not necessarily impact on the efficiency or capacity of the rail network in practice”

The ACCC further notes (p48) that ARTC has discretion as to the applicable charges by reviewing factors outlined in section 4.15 of the HVAU. Furthermore ARTC has discretion to set charges higher or lower than the Indicative Service taking into account, inter alia, the impact of logistics and other services operating on the network. ACCC (p49):

“encourages ARTC and its customers to work together in these instances to determine appropriate charges”

Centennial looks forward to ACCC's decision.

Yours sincerely



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