



Penrice Soda Products Pty Ltd

A.C.N 008 206 942

A.B.N. 62 008 206 942

3rd April 2009

Nathan Petrus
Director Industry Analysis

Essential Services Commission of South Australia
50 Pirie Street
Adelaide
South Australia 5000

Dear Mr Petrus

2009 Rail Access Regime Inquiry: Issues Paper

Please find attached the submission of Penrice Soda Products Pty Ltd to the Essential Services Commission of South Australia's 2009 Rail Access Regime Inquiry Issues Paper.

We welcome this inquiry from the commission and we trust that our submission is of value to the inquiry process. I am available to answer any questions you may have in relation to the inquiry or the paper Penrice has submitted. I can be contacted on 08 8402 7216.

Yours Sincerely

Andrew Cannon

General Manager: Supply Chain



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Quality
Endorsed
Company
ISO 9001:2001 Lic. 10306
Standards Australia

Corporate Profile

About Penrice

Penrice is the only manufacturer of soda ash in Australia and a significant producer and distributor of sodium bicarbonate in international markets, exporting to 27 countries.

Its Chemicals business, based at Osborne South Australia, supplies two key chemical ranges:

- Soda ash is sold in the Australian market as a vital ingredient in products ranging from glass containers (especially wine and beer bottles), flat glass for building and construction, washing powder and the mining industry.

- Sodium bicarbonate is a specialty chemical used in a variety of applications as diverse as food, pharmaceuticals, medical, personal care products and stock feed. The Company focuses on a premium range of high-quality products which suit the most demanding applications.

Its Quarry & Mineral business is based at the Penrice mine at Angaston South Australia. While the mine supplies a vital ingredient into the chemical process at Osborne, it is also a significant supplier of aggregates and other materials to a variety of end-uses, such as civil & construction, roads, landfill, glass, mineral processing, agriculture, stockfeed and landscaping.

Penrice is an ASX listed public company, which has operated successfully since the 1930's.

The Company directly employs around 300 people, and is a major South Australian employer and a vital link in the Australian glass industry and other prominent downstream industries, such as the building industry and the wine industry.

Rail Usage

Penrice Soda Products currently transports approximately 500,000 tonnes of mined bulk stone by rail from our mine site located at Angaston to our manufacturing plant located at Osborne, Adelaide where it is utilised in the production of soda ash and bicarbonate of soda products.

- Rail haulage services are supplied by Genesee Wyoming Australia (GWA) under a long term agreement that has operated from July 2000 and expires at the end of June 2010
- GWA haulage services utilise a shared pool of broad gauge based locomotives and a dedicated fleet of 52 bulk ore wagons. The locomotive fleet and rolling stock are all ex SAR, ex ANR rolling stock now operated by GWA with an average asset life in the order of 30-40 years of age.
- Haulage services operate over rail infrastructure owned and controlled by three separate entities.
 - Angaston to Gawler controlled by Genesee and Wyoming Australia (GWA)
 - Gawler to Dry Creek controlled by TransAdelaide (TA)
 - Dry Creek controlled by Australian Rail and Track Authority (ARTC)
- In the last 12 months, Penrice Quarry and Mineral has commenced sales and delivery of rail ballast products into the South Australian market. To do this Penrice utilised these rail assets and haulage services to deliver the required products.
- Our business development plans for Quarry and Minerals call for the increased use of rail haulage services for the delivery of up to 1,000,000 tonnes per annum of "civils" aggregate and construction materials to service building and infrastructure developments

Commercial Agreements for Rail Access and Haulage Services

Penrice Soda Products has a contractual agreement in place with Genesee and Wyoming Australia for the provision of both rail access and rail haulage services for a 10 year period expiring at the end of June 2010. The contract offers a rail freight rate based on a pricing formula which declares the pricing components of 68% of the total rail freight rate. The remaining 32% is unspecified.

Within this formula the rail access charges payable to ARTC and TransAdelaide for rail access are itemised and declared and as a result they are known to Penrice. In contrast, rail access charges for access to the GWA controlled lines from Angaston to Gawler are not itemised and are "bundled" as an undeclared component of the rail freight rate formula. As a result, rail access charges for the use of the Angaston to Gawler line are unknown to Penrice through our existing arrangements.

Penrice has recently commenced the strategic sourcing process for the provision of rail access and rail haulage services beyond 1st July 2010. As part of this process we will be clarifying many of the issues under review through the commission's terms of reference. Specifically we will establish:

- The "below rail" charges for access to rail networks owned or controlled by GWA, TransAdelaide and Australian Rail and Track Corporation as a direct "access seeker"
- The "below rail" charges for access to rail networks owned or controlled by GWA, TransAdelaide and ARTC via a third party "access seeker" looking to supply Penrice with rail haulage services
- The "above rail" charges for rail haulage services from a variety of existing and potential service providers to Penrice.

Due to Penrice being in the early stages of this strategic sourcing task we cannot respond directly with authority to the key issues raised in the review for comment. We are of course vitally interested in the public comments of other intrastate rail users operating in South Australia and we provide our observations and experience to the commission for the purpose of assessing the current operations of our business,

It is the opinion of Penrice that the current rail access arrangements which allow for the ownership of the "below rail" assets in conjunction with the provision of "above rail" haulage services may provide a commercial scenario with significant benefits accruing to the owner of the joint assets. Whilst we have no evidence of this significantly lessening competition at this point, our operational experience has been that it does not lead to the most efficient service provision to a company purchasing rail haulage. Specifically the ongoing usage of a locomotive fleet of extended age has led to service interruption and rolling stock assets have been out of service for extended periods awaiting repairs. This has impacted the available wagon fleet and created a shortfall in available haulage capacity which has forced the use of road transport to perform a task perfectly suited to rail haulage operations. In a more contestable environment, perhaps these shortcomings would be overcome in a timely or commercial manner.

Strategic Issues

The commission has also welcomed comments on other issues that may relate to the rail access regime and in responding to this Penrice has identified key strategic considerations for the commission and the South Australian Government.

We believe that the change of gauge on intrastate railway lines is the most pressing strategic imperative we are aware of in relation to rail usage. The current rail lines used for the delivery of rail operations to Penrice are:

- Broad gauge (5'3") service from Angaston to Gawler. This line is privately owned by GWA and is approximately 37 kilometres long.
- Broad gauge (5'3") lines from Gawler to Dry Creek controlled by Trans Adelaide. The electrification and conversion of the metropolitan rail network from broad (5'3") to standard gauge (4' 8 1/2") is currently a key component of the State Government's Rail Revitalisation program.
- The dual gauge (5'3" & 4' 8 1/2") lines from Dry Creek to Osborne controlled by ARTC.

It is Penrice's view that our business will remain a willing rail user for our Angaston and Osborne operations and that the gauge conversion of this route (with access to the rest of Australia's standard gauge network) will be required for ongoing rail operations. To achieve this end, Penrice will have to invest capital in the upgrade and gauge conversion of its private sidings at both Angaston and Osborne if it wishes to use standard gauge.

Our outlook for ongoing rail usage is:

- The continuation of the transport of approximately 500,000 tonnes of mined bulk stone by rail from our mine site located at Angaston to our manufacturing plant located at Osborne.
- Additional sales by Penrice Quarry and Mineral to deliver rail ballast products into the South Australian market (and support State Government projects were required to do so)
- The increased use of rail haulage services for the delivery of up to 1,000,000 tonnes per annum of "civils" aggregate and construction materials to service building and infrastructure developments
- The use of interstate standard gauge rail services to deliver 90-130,000 tonnes of soda ash to existing eastern state customers currently serviced by road delivery.

The position of TransAdelaide in relation to the standardization of the rail gauge has been made clear through the State Government's direction under the Rail Revitalisation program.

GWA's intention in relation to their investment in gauge conversion of the line from Angaston to Gawler is not yet clear. Preliminary discussions with them on this issue indicate it is GWA's intention to seek the required capital from government sources. Given the critical nature of the Angaston/Osborne rail infrastructure to Penrice and our continuing operations we feel that the below rail infrastructure assets would be better developed within the ownership of the Government of South Australia.

By facilitating open access arrangements from Gawler into the Barossa Valley the potential for opening up a multi-modal freight hub and services to support the export driven wine industry with rail services to the installed port infrastructure of Outer Harbour could also be pursued. In such an environment Penrice's rail haulage volume from Angaston could provide a significant "base load" of traffic to underpin a container freight operation with the advantage of a daily service frequency through to the Port of Adelaide.