Ref: SCS/PCF1114/pcf

8 June, 2005

SA Rail Access Regime:
Review of Regulator Components
Essential Services Commission of SA
GPO Box 2605
Adelaide SA, 5001
Attention : Mr. Luke Wilson

Dear Mr. Wilson

SOUTH AUSTRALIAN RAIL ACCESS REGIME – REVIEW OF REGULATOR COMPONENTS

1.0 Background

1.1 ABB Grain Limited – Company Overview

ABB Grain is a publicly listed company with market capitalisation of around $A1 billion on the Australian Stock Exchange. Its core business is the provision of storage, processing, logistic, marketing and trading services in agricultural commodities along an integrated supply chain. ABB Grain as it exists today was formed by the merger of three South Australian based grain companies, ABB Grain, AusBulk Ltd (formerly South Australian Co-operative Bulk Handling) and United Grower Holdings in late September 2004.

Based in South Australia, ABB accumulates grain from all the grain growing regions in Australia and New Zealand including barley, wheat, sorghum, canola, oats, field peas, faba beans, triticale, chickpeas, lupins, lentils, rye, safflower and maize. ABB exports these commodities to around 40 countries from storage facilities across Australia, but significantly from its own network in South Australia, which comprises 110 silos and 7 export shipping terminals. The company's storage network has a total capacity of about 10 million tonnes and is capable of handling the entire South Australian harvest.

In addition to its own network of storage and handling facilities, ABB Grain has a 50% interest in Australian Bulk Alliance, which it operates. ABA's network covers 7 country silos in Victoria and New South Wales. Through ABA, ABB Grain has a 25% interest in the grain terminal at the Port of Melbourne.

ABB Grain also operates the largest maltings network in Australia producing over 420,000 tonnes of malt annually, principally for export destinations, although it has significant long-term contracts with leading Australian brewers.

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Although grain is the core of the storage and handling business the company also handles a considerable amount (more than 2 million tonnes) of non-grain commodities such as dolomite, salt and gypsum through its terminal facilities.

1.2 Importance of Rail to ABB Grains Business

Rail services have a significant influence on ABB Grain's business via the following

- ABB Grain owns the vast majority of the country grain storage facilities in SA along with all of the States grain export terminals. 63 of the 109 country storage sites in SA are serviced by rail as are 3 of the 6 terminals currently exporting grain. As the major operator of grain storage and handling facilities in SA ABB Grain has major interface issues with rail service providers, including the potential for cost transference between the organizations. In addition, the service levels provided by rail have a significant influence on the ability of ABB Grain to accumulate grain stocks in an export position at the terminal in order to complete shipping schedules. Failure to achieve acceptable accumulation targets often results in adverse shipping demurrage/dispatch outcomes and affects the ability of grain marketers to satisfy customer expectations.

- Although ABB Grain owns the majority of the storage facilities we do compete with other storage service providers in various areas of the State. This is particular prevalent in the mid north where ABB Grain competes with Grainflow (AWB wholly owned subsidiary) storages and on the Victorian border where ABB Grain competes for grain with Graincorp storages in Victoria and SA. Since freight charges represent a major component of the cost structure at a particular site, ABB Grain's ability to compete for Growers grain is highly reliant on freight pricing. In areas where rail provides a lower freight option than road, then ABB Grain's competitive position is dependent upon the freight charge as determined by the rail service provider.

- ABB Grain markets approximately 50% of the SA grain crop, predominately barley, legumes and canola. Of the 2.5mt average grain rail task in SA per year ABB commodities accounts for approximately 1/3. Therefore ABB Grain is a major user of rail services in SA. Freight charges are ultimately paid for by the Grower, however for export barley which is subject to single desk arrangements in SA, ABB Grain has a responsibility to maximise returns to the Growers who contribute to the export pools. Since freight charges contribute to around 1/3 of the total supply chain costs of delivering grain to an export position, competitive freight rates have a significant influence on Grower returns for their commodities.

3.0 Coverage of the Access Regime

While the coverage of the SA Rail Access Regime is not directly the subject of this review ABB Grain provides the following comment on this issue. The current regime excludes private sidings, which we interpret as including the rail sidings which service our country storage sites on both the ARG owned branch line and ARTC owned main interstate lines. ABB Grain believes that these sidings should be included in the access regime since without access to these sidings it is not physically or economically viable for a competing rail operator to load trains.

4.0 Access Pricing Method

The Railways (Operations and Access) Act 1997 currently favours a negotiation and access on mutually agreed terms process, with a fallback to arbitration (within defined pricing principles) if

negotiation fails to provide a solution acceptable to both parties. Again while this issue is not a direct subject of the current review we offer the following comments for completeness.

Experience of access seekers in the Victorian rail access regime, which follows similar principles to the regime in SA, has shown that this process can act as a significant impediment to the introduction of competition for above rail services. ABB Grain therefore recommends a process where a potential access applicant can have more certainty in the range of access pricing which may be applied and which significantly shortens the time required to navigate the arbitration process.

5.0 Comment on Issues Identified

Issue 1 – Is there any merit in the Commission not establishing any pricing principles, that is, simply abolishing the existing ones?

ABB Grain's view on this issue is that the Commission should continue to determine pricing principles for access to rail track infrastructure, as long as the principles sufficiently define the access price range and provide the access seeker with sufficient comfort of access pricing to allow it to negotiate freight prices with its potential customers.

Issue 2 – How should the Commission design the floor pricing principles to best reflect the requirements of the ROA Act and why?

The cost allocations for the floor price defined in the South Australian Rail Access Regime, Information Kit - table 1 indicates that 20% of the total cost of providing "track and right of way", "train control and signalling" and "train planning" have been included in the floor price. As there is no detail provided in the Information kit regarding these assumptions, ABB Grain is unsure as to how the incremental costs have been establish and whether these allocations truly represents the lowest price at which the operator can provide the relevant service without incurring a loss.

Issue 3 – How should the commission design the ceiling principles to best reflect the requirements of the ROA Act, and why?

Currently the effect of the ceiling price determination is to provide a very large range between the floor and ceiling price. In the example given in the Information Kit for a 500,000gt pa task over a 200km line, the floor price is calculated at 0.203 cents per gtk or $40,600 per year compared to the calculated ceiling price of 9.061 cents per gtk or $1,812,000 per year. This represents an extremely large range within which the arbitrator would be bound to determine an access price and therefore provides little guidance to a potential access seeker. In fact by specifying such a wide range of outcomes the pricing principles may hinder a commercially base negotiation between the parties.

The Information Kit also describes a Reference Tariff, however the function of this tariff not defined by the document and it is difficult to determine from the information presented what status this figure would have in any negotiation or subsequent arbitration process.

Issue 4 – Should the commission establish different pricing principles for different classes of railway services (including the option of not establishing pricing principles for some classes of railway services)? Which pricing principles should apply to which classes of railway services, and why?

ABB Grain's view on this issue is that while the price determination guidelines are so broad there is probably little value in differentiating the principles between different classes of services. If the review of these principles results in a significant narrowing of the range

between floor and ceiling prices, then there may be a case for some differentiation particularly between long haul access arrangements such as on the mallee branch lines compared to access arrangements for small segments, such as for silo sidings or through rail marshalling yards.

Issue 5 – Which practices from other access regimes are or are not applicable to the pricing principles in the South Australian Rail Access Regime, and why?

As commented on above, the existing Victorian rail access and price determining arrangements have proven a major obstacle to the introduction of competition for above rail services. It is clear from the Victorian experience that a negotiate – arbitrate regime without adequate price determination guidelines is susceptible to a track owner/lessee who opposes third party access and can readily pass an application into a dispute process, which is then subject to delays.

In NSW there is complete separation between the rail track infrastructure and above track operations. The access regime in this state involves a standard access agreement which is varied to allow for specific circumstances of the service required, supported by various operational documents. This regime has been successful with a large number of operators working in the market, with a significant proportion of the rail task delivered by alternative service providers.

6.0 Summary

In respect to the rail access arrangements operating in SA ABB Grain considers that:

- The coverage of the regime should be extended to include the silo sidings on ARG and ARTC lines
- The access regime should move to a process which delivers the access seeker much greater surety of a commercially acceptable outcome.
- The pricing guidelines as defined by the floor and ceiling prices should be significantly tightened in the arbitration process.

Yours Sincerely

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