

# AUSTRALIAN RAIL TRACK CORPORATION LTD

## ARTC HUNTER VALLEY ACCESS UNDERTAKING

### CAPACITY LOSS REVIEW

SUBMISSION BY:

CENTENNIAL COAL



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## 1.0 Introduction

Australian Rail Track Corporation (ARTC) in accordance with a requirement in the Hunter Valley Access Undertaking (HVAU) is conducting a review of the incentive mechanism to reduce capacity losses contained within Access Holder Agreements between access holders and ARTC.

The current incentive mechanism includes an option to remove train paths from access holders on the recommendation of the Live Run Superintendents' Group, a body of experienced service providers. This recommendation is formed on the basis of train cancellations through a documented process. To date no train paths have been removed from access holders as a result of this process.

ARTC collated information on train cancellations and, in the sample period, the category of service provider to whom each cancellation was allocated ( $n=1,430$ ) is included in the Table 1.

Table 1 Allocation of Cancellations by Service Provider Category

Service Provider Category	Percentage
Train Operators	60%
Access Holder Load Points	19%
ARTC	12%
Port Terminal Operators	8%

## 2.0 Issues with Existing Process

ARTC has identified the following issues with the use of cancellations as an incentive mechanism to promote better supply chain performance:

- a) Cancellations are attributed to access holders (AHs) when they are directly responsible for the events giving rise to each cancellation. The HVAU process implies that cancellations due to the AH's train operator would be attributable to the AH but there is no second order attribution process to permit this allocation.
- b) Once a disruption has occurred, cancellations can be part of the recovery process to restore operations back to plan. As cancellations are a consequence of the accumulation of capacity loss, they are not the cause and so cancellations may not be the best measure of the loss of capacity.
- c) Voluntary cooperation of the parties is required in the existing process to determine the causes of the cancellation. Commercial realities may intrude on this process making it less workable if consequences are increased.

In addition to these issues, determining the root cause of cancellations can be a time-consuming and frustrating process for staff each day.

ARTC recognise that cancellations can be useful in the management of the system as the system requires many resources to be targeted to successfully assemble a cargo. Cancellations can be a useful remedy to enable the daily plan to return to plan.

### **Centennial Comment**

The issues identified by ARTC are significant and indicate strongly that incentive mechanism should not be based on the number of cancellations occurring in the system. If possible, the development of a positive rather than a negative mechanism is to preferred.

### **3.0 Current Allocation Process**

The Live Run Superintendent's Group (LRSG) is a representative group of service providers excluding RailCorp. The LRSG follow a comprehensive process to review the cause of each cancellation each day. ARTC note that AHs who represent 19% of cancellations are not directly represented on the LRSG.

### **Centennial Comment**

The structure of the LRSG may be rejigged to have AHs added to the group though this option does not solve the difficulties inherent in allocating the root cause of cancellations.

However the LRSG may be able to play a useful role in the implementation of the alternative approach put forward by Centennial later in this submission.

### **4.0 Attribution of Losses to Access Holders**

ARTC has noted that the current attribution process applies responsibility to the immediately identified party, commonly the train operator, rather than to the AH as the current mechanism does not enable this "second order" attribution of responsibility to the AH.

ARTC noted that some stakeholders considered that, if all cancellations were assigned to an AH, it would reinforce the commercial relationship between the AH and its Train Operator. Over time ARTC considered that this approach could lead to a positive incentive and discourage capacity losing behaviour. Remembering the statistic that only 19% of cancellations are directly attributable to AHs, ARTC ask whether the current process incentivises the reduction in capacity loss on the part of the Train Operators through the operation of the Access Holders Agreement (AHA).

### **Centennial Comment**

It seems clear that the current mechanism is not "incentivising" a gain in capacity. There is certainly an advantage in encouraging capacity enhancing behaviour by AHs as they are direct beneficiaries.

### **5.0 Developing an Enabling Mechanism via the AHA**

ARTC notes that the AHA mechanism does not currently address 80% of cancellations and further notes that no current entity exists within the coal chain that is able to set up an effective mechanism that covers all coal chain capacity losses under the existing contractual framework.

### **Centennial Comment**

Development of an effective incentive mechanism may need regulatory approval but that hurdle should not deter ARTC from seeking a positive outcome.

## **6.0 Alternative Measures**

ARTC has identified two possible alternative measures:

- a) Dump slots lost at the coal terminals
- b) Time lost by trains in transit compared to their planned time.

Centennial has considered each option below.

### **6.1 Dump Station Slots**

Centennial considers that measuring dump station slots achieved at the coal terminals against plan can provide a ready and positive indicator of coal chain performance. This KPI also meets the well-known SMART criteria, namely:

- **Specific** as it provides a reasonable proxy for the performance of the Hunter Valley coal chain without being too broad a measure;
- **Measurable** as the slots met and planned can be readily and automatically determined;
- **Attainable** as targets can be set; and
- **Realistic** as slots met in the daily plan can be seen as a useful goal for the coal chain.

In support of this KPI, the Hunter Valley Coal Chain Coordinator (HVCCC) see that introducing dump slot compliance as a measure of capacity utilisation can drive the right behaviours to optimise available capacity and plan to commence the collection of this statistic early in CY2013.

ARTC indicates that any proposed measure, as set out in section 5.8 of the Hunter Valley Access Undertaking, needs to be relevant to access holders and their operators. Any such measure also needs be able to identify capacity losses and potential incentive mechanisms where there is a material impact on coal chain capacity or the capacity entitlements of access holders.

#### **Centennial Comment**

In Centennial's view, dump station slots lost by the terminals themselves would need to be identified to determine the availability of the dump stations for use by access holders' train operators. Losses caused by ARTC would also need to be identified and separated from those losses due to access holders and their train operators.

### **6.2 Time Lost by Trains in Transit Compared to Their Planned Time**

During consideration of the dump slots alternative Centennial came to the conclusion that this time lost alternative would form a part of the cycle time analysis that would need to be undertaken when a dump station slot is lost. This process would be a necessary component of the process to understand the delays that led to the dump slot being missed. The time lost measure is an input to the system whereas the dump station slot lost is an output of the system.

## 7.0 Conclusions

Centennial appreciates the opportunity to make a submission to ARTC on this matter.

Centennial's conclusions are:

- Cancellations seem to be a poor indicator of capacity loss in the system;
- The HVAU does not seem to provide a simple way to develop a positive incentive mechanism to improve capacity in the coal chain without regulatory approval
- Linking responsibilities back to Access Holders seems like a key target in any incentive mechanism
- The port terminals currently measure dump slot utilisation
- Measuring dump slot utilisation against coal chain plans seems to offer significant advantages over the current system
- The particular roles and responsibilities of HVCCC, LRSR and ARTC need careful consideration in the proposed new system
- Agreement would be needed from the coal terminals to provide relevant dump station information to ARTC and HVCCC
- Centennial are keen to participate in the development of a better incentive mechanism with ARTC and other appropriate bodies