

Aurizon Network Access Undertaking (2010)

Proposed New Reference Tariff

Caval Ridge to Hay Point Services Coal Terminal

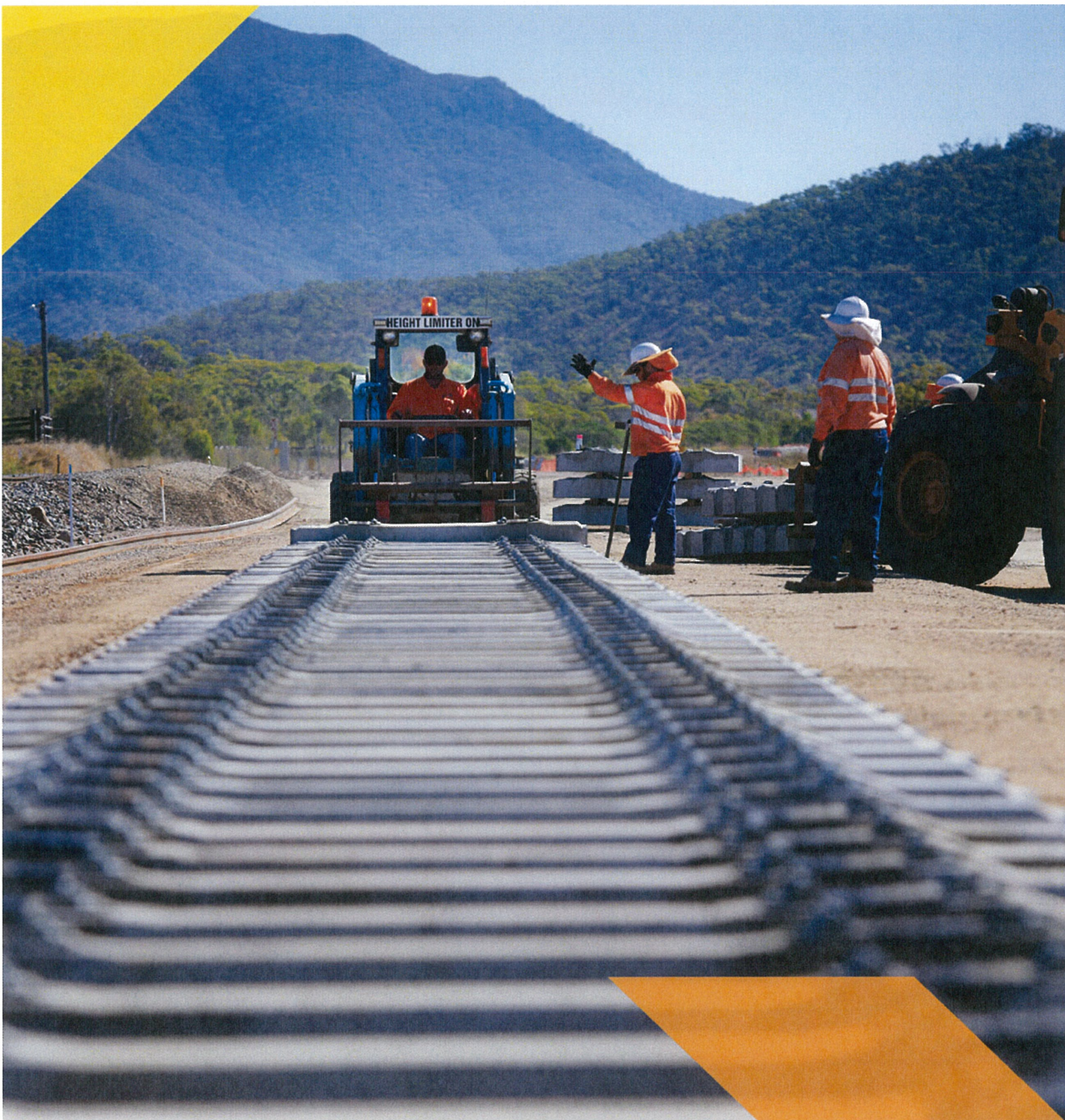


Table of Contents

- 1 BACKGROUND..... 3
- 1.1 INTRODUCTION..... 3
- 1.2 CAVAL RIDGE MINE..... 3
- 1.3 VOLUME FORECASTS 4
- 2 AURIZON NETWORK’S UNDERTAKING 5
- 2.1 SCHEDULE F PROVISIONS..... 5
- 2.2 REVENUE REQUIREMENT 5
 - 2.2.1 *Private Incremental Costs*..... 6
 - 2.2.2 *Incremental Costs* 6
 - 2.2.3 *Minimum CCC*..... 6
- 3 PROPOSED REFERENCE TARIFFS 7
- 3.1 APPLICATION OF SUBCLAUSE 4.1.2 7
- 3.2 REFERENCE TRAIN..... 7
- 3.3 CAVAL RIDGE REFERENCE TARIFF DISCOUNTS 7
- 4 GLOSSARY 9
- ATTACHMENT 1: LETTER OF ENDORSEMENT..... 10

1 Background

1.1 Introduction

The purpose of this submission is to obtain the approval of the Queensland Competition Authority (QCA) for a new 'transitional' Reference Tariff for coal carrying Train Services between the Caval Ridge mine and the Hay Point Services Coal Terminal (HPSCT) for FY2015, to be applied from 1 July 2014.

Aurizon Network prepared the submission in accordance with its obligations to develop Reference Tariffs under Clause 6.4 of the 2010 Access Undertaking (2010AU). Consistent with Schedule F (2010AU), the relevant methodology and underlying assumptions used in the development of Reference Tariffs are detailed in this submission.

The methodology is consistent with that adopted for new Reference Tariffs between the Middlemount mine and the Dalrymple Bay Coal Terminal, which were approved by the QCA on 19 June 2014.

If approved by the QCA, the Access Charge payable to Aurizon Network for the operation of the Train Service will be reduced by Caval Ridge's Private Incremental Costs. This will be effected by applying a System Discount to the AT₃, AT₄ and AT₅ tariff components of the Goonyella Reference Tariff. As a result, the discounted Reference Tariff for FY2015 will be:

- for AT₁ and AT₂, the Reference Tariff;
- for AT₃ and AT₄, the Reference Tariff less the Private Incremental Costs associated with the non-electric infrastructure; and
- for AT₅, the Reference Tariff less the Private Incremental Costs associated with the electric infrastructure.

The new Reference Tariff is proposed to apply until such time as a Reference Tariff for FY2015 is confirmed as part of the finalisation of Aurizon Network's proposed 2013 Access Undertaking (2013AU).

If this proposal is not approved by the QCA, the Goonyella Reference Tariff will apply.

In preparing this submission, Aurizon Network has relied upon information provided by BM Alliance Coal Operations Pty Ltd (BMA) as owner of the Caval Ridge Private Infrastructure. This includes electric and non-electric capital, maintenance and operating costs, which are considered Private Incremental Costs. Aurizon Network has not conducted an assessment as to the prudence of these costs. BMA is aware that they may be required to satisfy prudence tests directly to the QCA for these costs.

Aurizon Network has discussed this submission with BMA. BMA supports this submission and has provided a letter of endorsement.

1.2 Caval Ridge Mine

The Caval Ridge mine is an open-cut mine located south-west of Moranbah in Queensland's Bowen Basin. Caval Ridge is owned by BMA, a Joint Venture between BHP Billiton and Mitsubishi Corp¹, and has contracted rail and port capacity through HPSCT and the Abbot Point Coal Terminal. Operations commenced in April 2014.

¹ <http://www.bhpbilliton.com/home/society/regulatory/Documents/creisIntroduction.pdf>

The Caval Ridge mine has built its own Private Infrastructure (electric and non-electric) from the mine load-out to the point of connection with the Goonyella system. This infrastructure is privately owned by BMA. In assessing the Train Service against the requirements of the 2010AU, Aurizon Network has relied upon Private Infrastructure costs provided by BMA.

This submission relates to Train Services between Caval Ridge and HPSCT only. The Train Service will be re-assessed concurrent with the finalisation of the 2013AU and, consistent with the UT4 arrangements generally, the revised Reference Tariff is proposed to be back-dated to 1 July 2014.

Caval Ridge's contracted Train Services to Abbot Point utilise the "Northern Missing Link" via the Goonyella to Abbot Point Expansion (GAPE) system. The Reference Tariffs applicable to these Train Services are consistent with those proposed for the GAPE system for the UT4 period.

1.3 Volume Forecasts

On 12 June 2014, the QCA approved the extension of Aurizon Network's 2010AU until the earlier of 30 June 2015, or the date upon which UT4 is finalised.

The FY2015 volume forecast for the Caval Ridge to HPSCT Train Service is based on the 'transitional' System Forecasts approved by the QCA in June 2014. The volume forecast is specified in the financial model provided with this submission.

2 Aurizon Network's Undertaking

2.1 Schedule F Provisions

Schedule F of the 2010AU contains the Reference Tariffs applicable to nominated coal carrying Train Services. These Reference Tariffs have been developed in accordance with the principles contained in Part 6 of the 2010AU.

Subclause 6.4.2(b) of the 2010AU requires that where a new coal mine is developed which utilises Rail Infrastructure in the Central Queensland Coal Region, the Train Services will be incorporated in a new or existing Reference Tariff in a manner consistent with Schedule F.

For the establishment of Reference Tariffs for new coal carrying Train Services, Subclause 4.1.2 of Schedule F (2010AU), Part B. specifies that:

“...the Reference Tariff applicable for a new coal carrying Train Service will be the higher of (on a \$ / net tonne kilometre (ntk) basis):

- a) the Reference Tariff for the relevant Individual Coal System Infrastructure; or*
- b) the sum of the new coal carrying Train's Service's Private Incremental Costs (if any), the Incremental Costs of using any Rail Infrastructure specifically related to the new coal carrying Train Service and the required minimum Common Cost contribution determined in accordance with Subclause 4.1.1,*

provided that the Access Charge payable to QR Network for the operation of that new coal carrying Train Service is calculated as the applicable Reference Tariff less the Private Incremental Costs...”

2.2 Revenue Requirement

In order to comply with Subclause 4.1.2 (Schedule F, 2010AU), it is necessary to determine all costs that are relevant to the Train Service between Caval Ridge and HPSCT. These include:

- Private Incremental Costs (capital, operating and maintenance costs associated with Caval Ridge's Private Infrastructure, including Rail Infrastructure paid for by BMA);
- Incremental Costs (capital, maintenance and operating costs associated with Goonyella system Rail Infrastructure required for the Caval Ridge mine, excluding Rail Infrastructure paid for by BMA); and
- A minimum Contribution to the Common Costs (CCC) of the Goonyella system.

This information is then used to calculate a revenue requirement for the Caval Ridge Train Service. This revenue requirement is summarised in Table 1 below.

Revenue Requirement (\$m)	FY2015
Private Incremental Costs	9.69
Incremental Costs	0.88
Minimum CCC	3.39
Total	13.95²

Table 1 Revenue Requirement: Caval Ridge to HPSCT

² Small variance to the financial model exists due to rounding.

2.2.1 Private Incremental Costs

BMA owns and funds the capital, maintenance and operating costs associated with the Caval Ridge Private Infrastructure. These costs cannot be added to Aurizon Network's AT₂₋₄ and AT₅ System Allowable Revenues, or form part of an existing Reference Tariff, for the Goonyella system.

In assessing the criteria under Subclause 4.1.2, Aurizon Network has relied upon information provided by BMA as to their electric and non-electric Private Incremental Costs. Aurizon Network has not conducted an assessment as to the prudence of these costs.

2.2.2 Incremental Costs

BMA contracted capacity between Caval Ridge and HPSCT for each year of the UT4 period. As these volumes were included in the volume forecasts proposed for UT4, they were considered when setting Aurizon Network's maintenance and operating cost estimates for this period. No further adjustments are necessary to these amounts.

For the purposes of determining the Incremental Costs associated with the Train Service, Aurizon Network has multiplied the relevant Goonyella system AT₁ Reference Tariff by the portion of Caval Ridge's total Gross Tonne Kilometre (GTK) forecast related to the Goonyella system Rail Infrastructure.

2.2.3 Minimum CCC

The minimum CCC is defined in Subclause 4.1.1 as:

“...the sum of the following components of the Reference Tariff that applies to that Individual Coal System Infrastructure:

- (a) AT₂ (adjusted for any variation that will be made pursuant to Clause 3 of Part A for that Train Service); and*
- (b) fifty percentage points (50%) of AT₃ for the distance that the Train Service will travel on the mainline of that Individual Coal System Infrastructure.”*

The minimum CCC for Caval Ridge to HPSCT must be calculated with reference to the Goonyella Reference Tariffs for each year. The minimum CCC is not equivalent to the published AT₃ Reference Tariff for the Goonyella system. Rather, it is a revenue requirement derived by applying the relevant forecast parameters (rtp, ntk) to the underlying Reference Tariffs, which exclude variations such as revenue cap. Calculations supporting the minimum CCC are contained in the financial model provided.

As indicated in the calculation above, there is no prescribed minimum CCC for AT₅ (the minimum contribution is effectively \$nil).

Modelling of Caval Ridge's Reference Tariff for UT4 will be under the proposed UT4 pricing principles, i.e. on the same basis as the other mines subject to a rebate arrangement under an Access Facilitation Deed (being those mines listed in Clause 8.2(b) of Schedule F of the proposed UT4 document). The CCC calculated for FY2014 will be preserved and transitioned to the price outcomes under section 6.2.5 of the proposed UT4 document via an escalation of the relevant rates. These principles are described in further detail in Section 9.9 of Volume 2 of Aurizon Network's submission on the UT4 document.

3 Proposed Reference Tariffs

3.1 Application of Subclause 4.1.2

In order to determine the Reference Tariff applicable to this Train Service, Aurizon Network has expressed the criteria specified in Subclause 4.1.2 (outlined above), in terms of \$ per thousand Net Tonne Kilometres ('000 NTK). The results are outlined in Table 2 below:

\$ per '000 NTK	FY2015
Criteria (a)	15.28
Criteria (b)	14.49

Table 2 Access Charges expressed in \$ per '000 NTK

The results above indicate that criteria 'a' exceeds criteria 'b' in FY2015 and that the Goonyella system Reference Tariff should apply. However, the Access Charge payable to Aurizon Network must be adjusted to take the Caval Ridge Private Incremental Costs into account.

Aurizon Network proposes to effect this adjustment by applying a discount to the relevant Reference Tariff components (specifically AT₃, AT₄ and AT₅). This approach is consistent with the way in which Aurizon Network currently applies Revenue Cap adjustments. The value of the discount is equivalent to the FY2015 revenue requirement calculated for the Caval Ridge Private Incremental Costs at the specified volume forecast.

The Access Charge Caval Ridge pays is proposed to be:

- for AT₁ and AT₂, the Reference Tariff;
- for AT₃ and AT₄, the Reference Tariff less the Private Incremental Costs associated with non-electric infrastructure; and
- for AT₅, the Reference Tariff less the Private Incremental Costs associated with electric infrastructure.

3.2 Reference Train

The Reference Train configuration is as per the Goonyella system.

3.3 Caval Ridge Reference Tariff Discounts

The proposed Reference Tariff is presented as a System Discount applied to the Goonyella system AT₃, AT₄ and AT₅ Reference Tariff components.

Aurizon Network and BMA have agreed the following:

- The Goonyella system Reference Tariff will be applied for Train Services operated from April to June 2014. This is required so that the FY2014 Adjustment Charge process, which is progressing concurrently with this submission, is not delayed.
- BMA will continue to be charged the Goonyella system Reference Tariff until such time as this submission is approved.

- If the proposed Reference Tariff is approved, then Access Charges will be back-dated to 1 July 2014 in accordance with the Standard Access Agreement.
- If the revised Reference Tariff is not approved, the Goonyella system Reference Tariff will be confirmed for FY2015.

The proposed Reference Tariffs are “transitional” as the final Reference Tariffs for FY2015 (i.e. those associated with the 2013AU) are yet to be approved. Any variance between the approved transitional Access Charge and the Access Charge associated with finalisation of the UT4 process will be recovered from, or returned to BMA via an Adjustment Charge. The Reference Tariff discounts for FY2015 are outlined in Table 3 below.

Reference Tariff Discounts	FY2015
AT ₃ (\$/000 ntk)	(3.56)
AT ₄ (\$/nt)	(0.75)
AT ₅ (\$/000 egtk)	(0.88)

Table 3 Proposed Reference Tariff Discounts

Note that the figures in Table 3 represent the amounts to be deducted from the relevant Goonyella Reference Tariff (published) components. This presentation is consistent with Schedule F of the 2010AU.

4 Glossary

In the submission:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the Central Queensland Coal Region;
- References to the 2010AU are to Aurizon Network's 2010 Access Undertaking;
- References to the 2013AU are to Aurizon Network's proposed 2013 Access Undertaking;
- References to UT3 are to the period of the 2010AU;
- References to UT4 are to the period of the 2013AU;
- References to FY are to the relevant financial year ending on 30 June;
- Unless expressly stated otherwise, all references to Clauses, Subclauses and Paragraphs refer to clauses, subclauses and paragraphs in Schedule F, Part B of the 2010AU; and
- Defined terms have the meaning given in the 2010AU.

Attachment 1: Letter of Endorsement



BHP Billiton Mitsubishi Alliance

29 August 2014

Ms Tania Homan
Director, Rail
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Ms Homan

Proposed new Reference Tariffs for Caval Ridge to Hay Point Services Coal Terminal

We refer to Aurizon Network's submission to establish a new reference tariff for Caval Ridge to Hay Point Coal Terminal.

BHP Billiton Mitsubishi Alliance (BMA) supports Aurizon Network's submission on the basis that it is consistent with its obligations to develop a reference tariff under clause 6.4 of the 2010 Access Undertaking (UT3).

BMA is aware that the pricing principles for the 2013 DAU are under negotiation and yet to be approved by the Queensland Competition Authority (QCA). Further, BMA has not requested any changes to the existing UT3 pricing principles relating to the connection of a new loading facility to the central Queensland coal network (CQCN). Accordingly, BMA supports the continued application of UT3 pricing principles for the assessment of proposed new tariffs for services between Caval Ridge and Hay Point coal terminal.

If you have any queries or require more information, please contact Ruchi Gupta on (07) 3329 2348 or alternatively on 0430 594 428.

Yours Sincerely

A solid black rectangular box redacting the signature of Geoff Streeton.

Geoff Streeton
Head of Business Development
BHP Billiton Mitsubishi Alliance