



Ms. Tania Homan
Director – Aurizon Network
Queensland Competition Authority
Level 27
145 Ann Street
BRISBANE QLD 4000

11 April 2014

Dear Tania

Proposed New Reference Tariffs for Middlemount to Dalrymple Bay Coal Terminal

In accordance with Clause 6.4, Part B of Schedule F of the 2010 Access Undertaking (2010AU), please find attached Aurizon Network's submission to the Queensland Competition Authority (QCA) of proposed new Reference Tariffs for the Train Service between the Middlemount mine and the Dalrymple Bay Coal Terminal.

Calculations supporting the new Reference Tariffs for FY2012, FY2013 and FY2014 are in accordance with Clauses 4.1.2 and 6.4.2(b), Part B of Schedule F of the 2010AU. If approved by the QCA, the Reference Tariffs will be backdated to November 2011, with the net difference between interim and approved access charges being collected from the relevant Access Holder.

The submission has been discussed with, and is supported by, the Middlemount Coal Joint Venture. A letter of endorsement by the Joint Venture is expected to be provided to the QCA in response to the consultation process.

The submission is presented in such a way as to facilitate publication by the QCA should it choose to do so. A financial model supporting the 'building block' methodology is also provided. Aurizon Network requests that the model is not published as it contains information on the relevant Train Service which is confidential information under the relevant Access Agreement.

If you have any queries regarding the submission then please contact Michael Bray on (07) 3019 1077 or by email at michael.bray@aurizon.com.au.

Regards



Lana Stockman
Vice President Regulation

Aurizon Network Access Undertaking (2010)



Proposed New Reference Tariffs Middlemount to DBCT

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1. Introduction

1.1 Purpose

The purpose of this submission is to obtain the approval of the Queensland Competition Authority (QCA) for new Reference Tariffs for a coal carrying Train Service originating from the Middlemount mine, located at the 125.53km point in the Goonyella system, and unloading at the Dalrymple Bay Coal Terminal (DBCT).

This submission has been prepared by Aurizon Network in accordance with its obligations to develop Reference Tariffs under Section 6.4 of Aurizon Network's 2010 Access Undertaking. It proposes new Reference Tariffs for Middlemount to DBCT for FY2012, FY2013 and FY2014, effected via a discount to the relevant Goonyella Reference Tariff, equivalent to:

- For AT₁₋₄, the AT₁ Reference Tariff plus the Train Service's minimum Contribution to Common Costs (CCC); and
- For AT₅, the Reference Tariff less the private capital costs associated with the electric infrastructure.

If this proposal is approved by the QCA, the new Reference Tariffs will be effected by applying a System Discount to the AT₃, AT₄ and AT₅ tariff components of the Goonyella Reference Tariff.

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

This submission details the relevant methodology and underlying assumptions relied upon for the development of the new Reference Tariffs. The Reference Tariffs are structured in a manner consistent with calculating a Maximum Allowable Revenue requirement using the relevant 'building block' methodology approved in UT3 for FY2012 and FY2013 and proposed for UT4 for FY2014.

Specifically, the submission:

- Applies the relevant pricing principles including an evaluation of Private Incremental Costs; and
- Develops Reference Tariffs consistent with the Schedule F tariff structures.

In preparing this submission, Aurizon Network has relied upon information provided by Middlemount as to the electric and non-electric capital costs included within Private Incremental Costs. Aurizon Network has not conducted an assessment as to the prudence of scope, standard and cost of these capital costs.

An interim access charge, developed on substantially the same basis as the pricing principles in this submission, has been in place since November 2011, when the Train Service commenced, in accordance with the relevant Access Agreement. Aurizon Network's proposal for the treatment of the difference between the interim and approved access charges (i.e. the recovery of the difference and its return to Goonyella Access Holders) is set out in this submission.

A letter of endorsement of this submission by the Middlemount Coal Joint Venture (Middlemount) is expected to be provided as part of the QCA's consultation process.

This submission is presented in such a way as to facilitate publication by the QCA should it choose to do so. A financial model supporting the 'building block' methodology is also provided concurrently with this submission, Aurizon Network requests that the model is not published as it contains information on the relevant Train Service which is confidential information under the relevant Access Agreement.

1.2 Background

The Middlemount mine is an open-cut mine located 90 kilometres north-east of Emerald in Queensland's Bowen Basin and is a Joint Venture between Peabody Energy and Yancoal Australia. Middlemount has contracted rail and port capacity through DBCT and Abbot Point, and commenced full scale operations in November 2011.¹

¹ <http://www.yancoal.com.au/page/key-assets/mines/Middlemount>

Middlemount is the first greenfield mine development in the Central Queensland Coal Region, since the commencement of UT1, for which its rail infrastructure – electric and non-electric infrastructure from the mine load-out to the point of connection with the Goonyella system - is privately owned (by the mine's owner).

In assessing the Train Service against the requirements of the Undertaking, Aurizon Network has relied upon the costs of the Private Infrastructure as provided by Middlemount, volumes commensurate with the approved regulatory forecasts for the UT3 period (i.e. up to 30 June 2013) and forecast volumes for the UT4 period (i.e. from 1 July 2013)². The forecast volumes are based on a fixed term transfer of contractual entitlements from another mine in the Goonyella system that has a common destination (DBCT).

This submission relates to Train Services between Middlemount and DBCT only. Middlemount's contracted Train Services to Abbot Point utilise the "Northern Missing Link" via the Goonyella to Abbot Point Expansion (GAPE) system, and the Reference Tariffs applicable to these services are consistent with those outlined in the GAPE Draft Amending Access Undertaking (DAAU) approved by the QCA on 26 September 2013.

1.3 Glossary

In this submission:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the Central Queensland Coal Region;
- References to UT1 are to the period of Aurizon Network's 2001 Access Undertaking;
- References to UT3 are to the period of Aurizon Network's 2010 Access Undertaking;
- References to UT4 are to the period of Aurizon Network's proposed 2013 Access Undertaking;
- References to the Undertaking are to Aurizon Network's 2010 Access Undertaking;
- 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 Aurizon Network's 2010 Access Undertaking; and
- Terms that are defined in the Undertaking have the meaning given in that Undertaking.

2. Aurizon Network's Undertaking

2.1 Introduction

Schedule F of the Undertaking 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 Undertaking and have been endorsed by the QCA for application in accordance with the provisions set out in Schedule F.

Specifically, Clause 6.4.2(b) of the Undertaking requires that where a new coal mine is developed and Train Services servicing that mine will utilise 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.

The intent of Clause 6.4.2 is that Aurizon Network would submit, or the QCA could require Aurizon Network to submit, a proposed Reference Tariff and corresponding variations to System Allowable Revenue and System Forecasts, which would then be assessed in accordance with the provisions of this Clause.

Clause 4 of Part B to Schedule F of Aurizon Network's Undertaking provides for the establishment of Reference Tariffs for new coal carrying Train Services. Subclause 4.1.2 specifies that:

² Volumes for the 2013/14 year are based on the 'transitional' System Forecasts approved by the QCA in May 2013. Volumes for subsequent years will be based on the System Forecasts to be approved by the QCA for UT4.

'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.'*

Aurizon Network has a commitment to provide Reference Tariffs for the major coal regions to further foster transparency and certainty in pricing for Access Seekers. Clause 6.4.2(b) requires that:

"...where a new coal mine is developed and Train Services servicing that mine will utilise Rail Infrastructure in the Central Queensland Coal Region, the Train Services travelling between the mine (or, where the mine is or will be located on Private Infrastructure, the point where that Private Infrastructure connects to the Rail Infrastructure) and its most common destination will be incorporated in a new or existing Reference Train Service in a manner consistent with Schedule F."

The intention of Clause 6.4.2(b) is to provide a mechanism to submit a new Reference Tariff to the QCA for approval without the need for a formal DAAU process.

2.2 New Reference Tariffs

In order to comply with subclause 4.1.2, it is necessary to first determine the Private Incremental Costs relevant to Middlemount and the contribution that needs to be made to the Goonyella system.

Middlemount has funded certain of the Private Incremental Costs associated with the spur line (being the capital costs), but it also owns this line. These costs cannot be added to the AT₂₋₄ and AT₅ System Allowable Revenues, or form part of an existing Reference Tariff, for the Goonyella system.

Middlemount has contracted capacity to DBCT via a fixed term transfer. As these volumes were included in the original UT3 volume forecasts (albeit from a different mine), they would have been anticipated when setting maintenance and operating cost allowances for the UT3 period. As the Middlemount mine is already connected to the Goonyella system, it is therefore reasonable to assume that no adjustments are necessary to these allowances.

In assessing criteria 'B' of subclause 4.1.2, it could be implied that the only applicable costs would be the minimum CCC (i.e. that Private Incremental Costs are limited to assets owned by Aurizon Network). If this interpretation is correct, in assessing subclause 4.1.2 criteria 'A' would therefore exceed criteria 'B' (i.e. the system Reference Tariff would apply). However, in light of the fact that the Goonyella System Allowable Revenues contain the Private Incremental Costs of existing users, it would seem unreasonable under the UT3 pricing principles to require Middlemount to pay the Goonyella Reference Tariff without any recognition of the fact that Middlemount owns its spur line. Aurizon Network proposes that an alternative interpretation be applied, being that Private Incremental Costs include capital costs associated with a spur line regardless of ownership.

On this basis, criteria 'B' exceeds criteria 'A' (i.e. a new Reference Tariff applies). The 'total rail cost' to be paid by Middlemount should therefore reflect a minimum contribution to common costs plus its Private Incremental Costs (comprising capital costs, incremental spur maintenance costs and incremental mainline maintenance costs). Therefore, for the AT₁₋₄ Reference Tariff components, the contributions to Aurizon Network costs (i.e. the new Reference Tariffs) are equivalent to AT₁ plus the minimum CCC (capital costs and incremental spur maintenance costs are borne directly by Middlemount). For the AT₅ Reference Tariffs the contribution to common costs needs only to be positive (i.e. greater than \$nil).

In view of the above, Aurizon Network proposes to apply a discount to the equivalent Goonyella Reference Tariff components (specifically, AT₃, AT₄ and AT₅) such that the price Middlemount pays is equivalent to:

- For AT₁₋₄, the AT₁ Reference Tariff plus the minimum CCC; and
- For AT₅, the Reference Tariff less the private capital costs associated with the electric infrastructure.

This approach to pricing is consistent with both the current pricing principles for UT3 and the proposed pricing principles for UT4 for situations where a spur is fully owned by Aurizon Network but is subject to an Access Facilitation Deed (AFD) in which:

- The customer retains beneficial ownership of the spur;
- The spur is funded through ongoing or accelerated Access Facilitation Charges linked to the spur's capital costs; and
- Rebates equivalent to the depreciation and funding costs of the capital costs, are paid to the customer,

and those spur costs are sufficient to ensure that the resultant Reference Tariffs are reflective of the relevant minimum contributions.

In assessing the criteria under subclause 4.1.2, Aurizon Network has relied upon information provided by Middlemount as to the electric and non-electric capital costs within Private Incremental Costs. Aurizon Network has not conducted an assessment as to the prudence of scope, standard and cost of these capital costs.

2.3 Minimum CCC

The minimum CCC is defined in clause 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 Middlemount to DBCT must be calculated with reference to the Goonyella Reference Tariffs for each year. It is important to note that the minimum CCC is not equivalent to the published AT₃ Reference Tariff for Goonyella. Rather, it is a revenue requirement derived using the 'base' Reference Tariffs derived from the UT3 and UT4 Reference Tariff models (and which exclude Reference Tariff variations such as revenue cap). This approach is consistent with the development of minimum CCCs to support System Premiums for Train Services where the 'system test' under Clause 4.1.2 is failed. Calculations supporting the minimum CCC are contained in the financial model provided concurrently with this submission.

The minimum CCC is:

Table 1: Minimum CCC

Minimum CCC (\$)	FY2012	FY2013	FY2014
Middlemount to DBCT	\$663,527	\$623,916	\$713,018

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

3. Volumes

On 31 May 2013, the QCA approved Aurizon Network's 'Transitional Tariffs' DAAU which extends the UT3 period until the earlier of 30 June 2014, or the date that UT4 is approved.

The volumes adopted for the minimum CCC calculations above for FY2012 and FY2013 are equivalent to the regulatory forecasts for FY2012 and FY2013 associated with the fixed-term transfer and which were approved by the QCA as part of the relevant annual Reference Tariff variation process. The volumes adopted for FY2014 are equivalent to the regulatory forecast tonnes for FY2014 and are also associated with the fixed-term transfer, but rather were approved by the QCA as part of the process for the Extension DAAU.

These volumes are summarised below.

Table 2: Net Tonnes to 30 June 2014

Net Tonnes (Mtpa)	FY2012	FY2013	FY2014
Middlemount to DBCT	0.77	0.64	0.70

The fixed-term transfer does not continue past 30 June 2014. Aurizon Network's proposals with respect to FY2015 and beyond are discussed further at Section 4.5 below.

4. Proposed Reference Tariffs

4.1 Introduction

As indicated above, the Reference Tariffs proposed to apply to the Middlemount to DBCT haul are equivalent to:

- For AT₁₋₄, the AT₁ Reference Tariff plus the minimum CCC; and
- For AT₅, the Reference Tariff less the private capital costs associated with the electric infrastructure.

The proposed new Reference Tariffs are provided in Table 3 below and consistent with the UT3 pricing principles. They are presented as a discount to the relevant Goonyella Reference Tariffs (System Discount).

It is important to note that the practical effect of this interpretation is that other Goonyella users will have slightly higher Reference Tariffs than if the Goonyella Reference Tariffs are applied (i.e. if the new Reference Tariffs are rejected). The difference is due to the fact that:

- The Goonyella Reference Tariff is the sum of AT₁ through AT₅; and
- The proposed Reference Tariff is equivalent to the sum of the incremental maintenance (AT₁) plus the minimum CCC (AT₂, and 50% of AT₃) plus a discounted AT₅.

This impact is not material, at around \$0.01 per net tonne.

4.2 Reference Train

The Reference Train configuration is as per the Goonyella system.

4.3 Reference Tariffs

The proposed Reference Tariffs are summarised below.

The proposed Reference Tariffs for FY2012 and FY2013 are presented as a System Discount applied to the AT₃ and AT₄ Reference Tariff components. This presentation is not consistent with the Undertaking which applies the premiums and discounts only to AT₃. Aurizon Network confirms that the total revenue to be collected from Middlemount is not affected by this variation. The proposed System Discount for FY2014 is applied equally across the AT₃ and AT₄ Reference Tariff components consistent with the proposed UT4 document.

The proposed new Reference Tariffs will result in a small net revenue under-recovery for FY2012 and FY2013 represented by the difference between the interim and proposed Access Charges. This amount is not material with respect to the Goonyella System Allowable Revenues. Aurizon Network proposes the following:

- No immediate retrospective changes to Goonyella Reference Tariffs for FY2012 and FY2013;
- No changes in Goonyella Reference Tariffs for FY2014;
- That the variance between interim and final Access Charges for FY2012 and FY2013 be reflected in Goonyella Reference Tariffs for UT4 as part of the finalisation of the UT4 process, based on a methodology to be agreed with the QCA;
- That the year-to-date variance between interim and approved Access Charges for FY2014 be recovered from Middlemount via the Access Agreement; and

- That any variance between the approved Access Charge and the Access Charge associated with finalisation of the UT4 process for FY2014 be collected consistent with the methodology contained in Aurizon Network's proposed DAAU which further extends the UT3 period until the earlier of 30 June 2015 or the date that UT4 is approved.

Modelling of Middlemount'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 AFD (being those mines listed in Clause 8.2(b) of Schedule F of the proposed UT4 document). That is, the contribution to common costs calculated for FY2013 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.

Table 3: Proposed Reference Tariff Discounts

Reference Tariff	Discount		
	FY2012	FY2013	FY2014
AT ₃ (\$/000 ntk)	(3.66)	(4.23)	(3.40)
AT ₄ (\$/nt)	(0.72)	(0.84)	(0.63)
AT ₅ (\$/000 egtk)	(0.93)	(1.65)	(1.82)

Note that the figures in Table 3 represent the amounts to be deducted from the relevant Goonyella Reference Tariff (published) components.

4.4 Commencement Date

Subparagraph 6.4.2(i) specifies the commencement date for new Reference Tariffs. Specifically:

'If the QCA approves a proposed Reference Tariff submitted under Clause 6.4.2(a), or resubmitted under Subparagraph 6.4.2(j)(ii):

- (i) *the proposed Reference Tariff will apply from the earlier of:*
- the date of the QCA decision;*
 - where Clause 6.4.2(b) applies, the date of the first Train Service servicing the new coal mine; and*
 - where Clause 6.4.2(c) applies, the date when the relevant notice is given by the QCA,*

except where the QCA specifies a later date in its decision, in which case the proposed Reference Tariff will apply from that date.'

As mentioned in section 5.2 above, the impact of the discount has already been estimated in Middlemount's interim access charges and the Revenue Cap submissions for 2011/12 and 2012/13. Aurizon Network proposes to apply the discount from the date of the QCA decision, although under the terms of the Access Agreement the approved charges will be backdated as current access charges are on an interim basis.

4.5 Future Arrangements

The fixed-term transfer to Middlemount expires on 30 June 2014. The Reference Tariffs contained in the submission are only for the three year period ending 30 June 2014.

Reference Tariffs have not been calculated for any period after this date (i.e. for FY2015 onwards). Whilst not specifically related to this submission, for these railings Aurizon Network proposes:

- Where there is a transfer of contracted access rights, a new Reference Tariff to be established based on the principles contained in this submission (subject to those principles being approved by the QCA). In this instance, a separate submission to the QCA seeking approval of the new Reference Tariff will be made.

- Where there is no transfer of access rights (i.e. for ad-hoc railings), the Goonyella Reference Tariff to be applied. In this instance, separate QCA approval is not required.

This proposal is on the basis that it is appropriate to continue to recognise the lower Reference Tariff as the original Train Service commenced in UT3, but only on the basis that through the formal nature of the transfer Middlemount assumes risks associated with other contracted parties in the Goonyella system including Take or Pay.