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Dear John

QR Network System Rules – Goonyella and Capricornia Coal Chains

BHP Billiton Mitsubishi Alliance (**BMA**) and BHP Billiton Mitsui Coal (**BMC**) supports the development of System Rules for all rail systems operating within the Central Queensland Coal System (**System**). We note two further QR National Network (**QRNN**) submissions are likely for the Newlands System and Cross System Traffic to manage the scheduling and operational interaction between the different rail systems.

The BMA Coal Chain

We believe BMA Coal Chain is uniquely placed to respond to the Draft System Rules from the holistic perspective of a producer, port owner/service provider and shipper within the System.

As you are aware, BMACC is a functional group within BMA which manages all BMA and BMC's transport logistics business operations. The coal chain managed by BMACC comprises all mines, ports and railways within the BMA and BMC asset portfolio, including:

1. BMC – South Walker Creek and Poitrel mines;
2. BMA – Goonyella, Riverside, Broadmeadow, Daunia, Peak Downs, Saraji, Norwich Park, Gregory Crinum and Blackwater mines;
3. Dedicated Export Coal Terminal - Hay Point Coal Terminal;
4. Multi-User Export Coal Terminal Contractual Entitlements - RG Tanna Coal Terminal, Barney Point Coal Terminal, Dalrymple Bay Coal Terminal and Abbott Point Coal Terminal (FY2012); and
5. Multi-User Rail Networks Contractual Entitlements – Goonyella, Blackwater and GAP-Newlands Systems (FY2012).

BMACC integrates its coal chain logistics planning to optimally match coal production, raiing, and shipping resources with customer demand in the operational planning horizon (0-24 months) and within the identified and emerging constraints of the System. Furthermore BMACC interfaces directly with the global BHP Billiton Marketing function to provide an integrated logistics solution which extends to the customer plant.

BMACC manages bi-directional coal movements across the System between the different ports, dependent on blending and market requirements, and monitors performance and optimisation capability to identify opportunities and drive improvement in its operation and throughput capability. In undertaking this role, the BMA Chain closely liaises with all external service providers to manage its planning, scheduling and operational requirements within the capability and constraints of the System. Due to the single user nature of BMACC, its direct coordination of all activities from mine to market ensures reliable delivery of product to the required quality whilst maximising throughput.

Schedule G of the 2010 Access Undertaking

It is important to understand the obligations and intent in the development of System Rules. System Rules are intended to provide more detail on the way in which QRNN will plan, schedule and control the operation of train services and ensure non-discriminatory treatment of all rail operators and producers occurs in the day of operations environment. The System Rules must be consistent with Schedule G and are not intended to be used by QRNN, producers, service providers or coal chain entities to amend or change contractual obligations and accountabilities which currently exist between producers and their service providers.

On this basis, we believe the System Rules must focus on clear, consistent, transparent and accountable planning and scheduling processes across all coal systems to provide all coal chain parties with planning, scheduling and operational certainty whilst maintaining contractual obligations held under access agreements. Given the growth in the System and the expected increase in cross system traffic, we believe it is fundamentally important to ensure QRNN's planning, scheduling and train control decisions can be independently audited to ensure QRNN compliance.

Governance Framework

We believe the System Rules meet the criteria set down under Schedule G as they do deliver greater detail around planning, train scheduling procedures and train control decision making framework to be applied in the day of operations environment. We support the consistency in application of the detailed processes within the System. As producers that operate across all systems, it is fundamentally important that we can align our planning and scheduling horizons and provide stable forward transport logistics planning for BMA and BMC.

We believe the proposed System Rules do deliver industry greater certainty and accountability around the treatment and delivery of rail access rights across the System. However, we note there remain some issues which require more detail and clarification before the System Rules can be endorsed by BMACC.

Methodology underpinning the calculation of contracted Train Service Entitlements

The methodology underpinning the calculation of Train Service Entitlements (TSEs) and the relationship to the capacity analysis undertaken by QRNN has never been clearly defined in either the Standard Access Agreement or the 2010 Access Undertaking.

In master planning and capacity forums, QRNN has advised producers that contracted TSEs are based on robust capacity analysis based on a number of system assumptions which effectively turns a theoretical capacity rating into a practical system capacity rating. In these discussions QRNN has always identified that the capacity analysis underpinning contracted TSEs assumes 12.25% Day of Operations losses to mimic the actual variability which exists in scheduling train services within an

even railings paradigm¹. QRNN's reference to the 12.25% scheduling flexibility inherent in the capacity model has always aimed to counteract any producer concern around whether sufficient infrastructure exists to deliver their contracted TSEs.

We request more detail on the methodology by which QRNN allocates the 12.25% scheduling flexibility amongst producers. We recommend the current definition (including the calculation methodology for determining the number of contracted TSE) be clarified to ensure a 12.25% scheduling flexibility adjustment is made to all TSEs currently contracted under existing access agreements.

The current methodology applied by QRNN produces the lowest common capacity denominator for all producers, with no contractual flexibility for producers around the delivery of contractual entitlements. For example, under a scenario where a producer wants to contract 2mtpa of access entitlements, QRNN would calculate the required TSEs according to the following theoretical methodology.

<i>Calculation**</i>	<i>Monthly TSE</i>	<i>Weekly TSE*</i>	<i>Annual TSE*</i>
$2,000,000/10,133/12 \Rightarrow \times 2 \Rightarrow 50 \Rightarrow$ <i>(rounded up)</i>	50	$50/30 \times 7$ <i>(rounded up)</i>	50×12 <i>(rounded up)</i>

**Source: QRNN

*Weekly and Annual TSEs are only for indicative purposes in the contract.

This methodology is flawed when applied to the reality of a coal transport supply chain because the TSE calculation:

- requires 100% TSE utilisation in order to deliver 100% of contracted tonnage;
 - assumes no TSE cancellations, diversions or variations occur within the Weekly planning process
 - means QRNN does not contractually allocate any of the 12.25% scheduling variation capability assumed in its capacity model to any specific Access Holder;
 - Access Holders have no contractual right to any TSE scheduling utilisation flexibility, so any variability in an Access Holder's train order/consumption patterns will result in lost capacity entitlements, even where that variability is within the System's 12.25% design parameters;
- is based on the assumption that the rail network is available 360 days a year;
 - assumes planned and unplanned maintenance and construction consumption impacts have no adverse impacts on TSE availability throughout the year.

This outcome is at odds with the infrastructure flexibility required by producers and installed through the access agreement contracting framework. From a producer's perspective, any infrastructure built to deliver contracted tonnages and paid for through access charges, including infrastructure flexibility installed to support design variability, must be included as a component of the TSE contractual entitlements purchased by that producer.

¹ In June 2011, QRNN restated in a Supply Chain Update for Capricornia System customers, that its capacity model simulates the Day of Operations loss experienced in reality by the random cancellation of 12.25% of train paths in the Day of Operations. See also the 2009 Coal Rail Infrastructure Master Plan and the 2010 Coal Rail Infrastructure Master Plan for similar statements.

We therefore recommend QRNN give each customer a 12.25% variation uplift in contracted TSE to provide them guaranteed minimum level of TSE flexibility and certainty around variations which may occur within and between months. This approach will ensure all contracted parties have equal access to the existing installed infrastructure variation buffer within the System.

TSE variability which is outside the 12.25% system design parameters does result in a genuine loss of capacity to the coal system. Any capacity losses associated with greater than 12.25% variation must be attributed to the Access Holders/customers who are the source of that variability. It is important to recognise that different coal chains introduce different levels of variability into the rail system dependent on the associated infrastructure installed upstream or downstream from the rail network and hence can convert their TSEs into more tonnes or less tonnes dependent on the characteristics of that coal chain.

We believe that QRNN should have the obligation to maximise system throughput and as such, must reallocate unused TSE, thus ensuring the overall system coal throughput is maximised.

Disciplined Train Operations

The proposed System Rules intend to drive discipline into the delivery of train operations within the Monthly, Weekly, Daily (48 Hour) planning and scheduling environment. As Railway Manager of a fully operational railway, QRNN must juggle the short, medium and long term needs of producers, including (a) to deliver coal haulage services in the current market environment, (b) to manage the maintenance of the railway to ensure rail infrastructure continues to meet key performance standards and (c) to continue to upgrade and extend the network to meet increased demand requirements. In the event of conflict, resolution is required via a disciplined and transparent planning process to ensure QRNN can continue to meet maintenance and construction performance requirements whilst at the same time delivering to existing contractual entitlements.

We support disciplined train operations and seek to maximise utilisation of our scheduled train paths via the Monthly, Weekly and Daily Train planning process. The BMA Coal Chain is operated to ensure sufficient infrastructure and operational flexibility exists to efficiently manage our rail operations within QRNN's even railings operating paradigm, as identified in the System Rules. As operators of a portfolio of mines in the Goonyella System, we have installed sufficient operational latency at each of our loading facilities and at the Hay Point Coal Terminal to enable us to minimise variation across the portfolio of our mines and therefore maximise operational capability and tonnage throughput whilst maintaining even railings operations, aligning with below rail contractual entitlements.

At the same time, we note that coal deliveries through Dalrymple Bay Coal Terminal (**DBCT**) cannot be characterised as even railings due to the rapid cargo assembly operating mode of the port. These operations are driven by:

- contractual obligations between producers and DBCT's owners
- DBCT Terminal Regulations which includes a turn of arrival berthing sequence;
- co-shipping arrangements amongst producers; and
- insufficient stockyard to throughput ratio held at the port.

QRNN's System Rules need to be sufficiently flexible to manage the different characteristics of the different coal chains in the System whilst at the same time maintaining QRNN's contractual commitments. At a minimum, QRNN's System Rules must:

1. Respect the right all users have to utilise their contracted rail entitlements, including the 12.25% scheduling flexibility,

2. Guarantee that the performance of one coal chain is not reduced by variability introduced by another, and
3. Provide flexibility to reallocate train paths that cannot be used by their contractual owner.

In terms of the current planning and scheduling procedures operating within the Goonyella System (termed the 48 hour planning process), we believe they do meet the requirements laid down in the Goonyella System Rules and so it could be continued unchanged once the System Rules are endorsed by the QCA.

Our reasoning for this position is that:

- The Goonyella System operates with a monthly and an indicative weekly train schedule and QRNN only locks down² the daily train schedule on a rolling 48 hour basis;
- The Goonyella System planning and scheduling environment allows the BMA Coal Chain to plan its services within the weekly train plan and provides Dalrymple Bay Coal terminal producers with the ability to manage their train services on a rolling 48 hour basis.
- The Capricornia System operates on a monthly and weekly train schedule but we understand the consumption of train paths is only locked down by QRNN 48 hours in advance of a service being operated.

A key Network Management Principle which we recommend is outlined in an appropriate level of detail in the System Rules is that once a train service is scheduled in a Weekly Train Plan, then that train service cannot be removed from the schedule unless at the request of the Access Holder of that train service³. This key principle ensures producers who can deliver in an even railings operating paradigm are not disadvantaged by producers that require more flexibility within a shorter planning horizon. All producers can simply chose to operate within the planning horizon that most suits their operating requirements. It also means that those producers operating within the 48 hour environment can manage alterations in train services within the weekly train schedule via transferring train paths between themselves in order to maximise the throughput at the designated port.

Capacity Consumption Accountability

It is important that rail operators and producers to understand the capacity implications of proposed scheduling practices and when a TSE is deemed to be consumed by QRNN regardless of whether or not a train has actually run.

Our position, based on current practice, is that schedule variations, diversions and cancellations in a Weekly Train Schedule can occur up to the finalisation of the Daily (or 48 hour) planning process without being treated as consumed TSEs.

QRNN Maintenance and Construction Consumption of Train Paths

The System Rules identify that the allocation of maintenance and construction consumption of train paths takes priority above the scheduling of TSEs. QRNN retains the flexibility to smooth TSE consumption over a month and this means Access Holders must also have the ability to vary their train orders to some degree within a month in order to receive their monthly TSEs. It is not clear how QRNN will manipulate these changes to monthly TSEs around the maintenance and construction lock downs in order to guarantee the delivery contracted TSE entitlements.

² “Locked down” is used in the sense of QRNN confirms that the train service is locked into the daily train schedule and then treats the train service as having been consumed (unless an unforeseen QRNN Network Cause occurs which prevents the service from being run) for the purposes of meeting its TSE contract obligations.

³ This principle is encapsulated in Schedule G and needs to be similarly mirrored in the System Rules.

We seek more information and transparency on the capacity impacts of maintenance and construction consumption on the delivery of monthly TSEs and how Access Holders are able to manage the utilisation of their TSEs around the maintenance and construction weeks to ensure full delivery of monthly TSEs.

We also request QRNN develop strict criteria and controls around when maintenance can be defined as “unplanned” and undertaken via an adjustment to weekly or daily train plans. This has been an issue of particular concern in the Capricornia System where unplanned maintenance has often consumed system capacity at a rate equivalent to that already consumed by planned maintenance and construction. Such an outcome creates further concern amongst producers as to whether their TSEs can be adequately manipulated to ensure full delivery of monthly TSEs.

Future Process

We provide this submission on the implementation of System Rules and request it be considered, in conjunction with our Goonyella System Rules submission. We reserve our final position on the implementation of System Rules within System, pending further consideration of any additional issues which may arise out of QRNN’s proposed Newlands and Cross System Traffic System Rules submissions.

If you have any queries or require more information, please feel free to contact Ms Tanya Boyle on mobile 0459 812257.

Yours sincerely



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