



30 January 2015

Mr Malcolm Roberts
Chairman
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane Qld 4000

By email: rail@qca.org.au

Dear Malcolm,

Aurizon Network's Discussion Paper on potential short term transfer mechanism

Vale Australia Pty Ltd (**Vale**) welcomes the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of the Discussion Paper on potential short term transfer mechanism, submitted by Aurizon Network Pty Ltd (**Aurizon**). The discussion paper seeks views from stakeholders on the outline of the short term transfer mechanism to develop for the Central Queensland Coal Network.

Vale appreciates the approach by Aurizon to address this issue and supports a short term transfer arrangement. Vale agrees the objective of a short term transfer mechanism should be to provide flexibility to manage access rights through a timely transfer process which should support increased throughput in the rail system. While generally supporting this initial proposal Vale believes the transfer mechanism should incorporate the ability for both the holder of the access rights and the end user whose access rights are held by their train operator to actively participate. Vale would propose that any process to establish a short term transfer mechanism should include a review period of at least a year to determine if the mechanism is achieving the goals of additional flexibility to generate increased throughput.

Vale provides the following comments on the discussion paper released by Aurizon.

Capacity Considerations

Vale supports the concept that short term transfers should not be refused if the transferee will utilise the same route, have a common destination, and do not require additional access rights. Vale also supports the establishment of a pre-determined capacity assessment to allow for short term transfers that utilise part of the same route, have a common destination, and do not require additional access rights. It is unclear to Vale how or when the pre-determined assessment would be taken for a short term capacity transfer. Vale believes the pre-determined assessment should be assessed on a regular cycle to consider the changing demand over the year and reflect the short period being considered under these transfers. Vale would encourage a robust assessment

of the pre-determined available capacity to allow as much flexibility within a rail system to encourage the transfer of capacity and ultimately increase throughput.

Scope

The draft short term transfer mechanism proposes to limit the total maximum number of TSE's that can be transferred in a financial year to 25% of the TSE's in an access holder's access agreement(s) for the relevant origin to destination. It is unclear to Vale why this restriction should be established as it does not appear to align with Aurizon's principal objective to provide access holders with additional flexibility to manage demand variable. Vale also believes that the use of percentages in determining limits has a greater impact on smaller producers as they will have less capacity to transfer, and generally, if they only operate a single mine are more inclined to need this greater flexibility to manage the demand fluctuations that can occur within the coal market. Vale would prefer the that no limit was to apply and further work be undertaken on gaming protections to ensure short term transfers encourage greater utilisation of the rail network.

The discussion paper requires any short term transfer to have a common destination. Vale believes it will be important to provide further clarity on the definition of common destination. Vale believes that the common destination should be defined as the port rather than individual coal terminal to increase flexibility. This approach would allow a transfer to occur between coal terminals located at the same port. This additional flexibility would allow transfers between Dalrymple Bay Coal Terminal and Hay Point Coal Terminal in the Hay Point Port and RG Tanna, Barney Point, and Wiggins Island Coal Terminal in the Port of Gladstone.

It is not clear to Vale from the Discussion Paper as to what is the length of time being contemplated for a short term transfer. The scope appears to indicate that one of the requirements for a short term transfer is that it is required to commence in the next relevant period from receipt of the request for the short term transfer. Vale believes that restricting transfers to only a week would severely restrict the flexibility of a short term transfer mechanism. This lack of flexibility will be accentuated further for coal systems that operate with a cargo assembly mode of operation as it is often difficult to manage the required railings within a week. Vale believes flexibility would be increased if the short term transfer mechanism should allow capacity to be transferred for a period of up to 3 months. The transferee should be allowed to utilise this capacity across the months to reflect the transferor's original capacity allocation. Vale believes this would give a transferee greater flexibility and certainty to manage future short term increases in access capacity requirements.

Aurizon's paper proposes that transfers will only be permissible where there is a like for like train description for the train services. It is unclear to Vale as to what is considered in determining if a train is a like description. Vale believes this description should refer to the transferee's train operating within a train path matching the train service and not related to mode of traction, size of train, or other items that do not impact on it operation within a train path.

Vale supports the approach by Aurizon to include a provision to ensure there is a genuine intention to utilise the TSE's provided to a transferee under a short term transfer. Vale believes this is important and suggests that an additional objective of the short term transfer mechanisms is to increase throughput of the rail system. Vale supports the concept of establishing a level of utilisation of prior transfers, but, does question the use of a percentage for establishing this limit. Using percentages can lead to some practical issues if a short term transfer is for a small quantity. For example if the transfer is for 3 train paths and only 2 were utilised, this would not meet the gaming provisions limit of 85% utilisation. Vale also believes that further assessment of the utilisation factor is likely to be required for a cargo assembly terminal, such a Dalrymple Bay Coal Terminal, as the operation of train paths within a week can be impacted by a variety of other influences beyond the control of the transferee. Aurizon has also indicated that it will consider the previous 3 months utilisation of a transferee when determining if there is genuine intent to utilise

the short term transfer. Vale is concerned that this approach may not reflect mine operational variations that could lead to a reduction in production, for example a long wall move, followed by a period of higher production that could lead to a need for more capacity. Vale believes an assessment of the past utilisation of capacity may not necessarily indicate future capacity requirements. Despite these concerns, Vale would propose that Aurizon consider these issues as part of an assessment of genuine intent to utilise capacity with further development of gaming protections with more experience of the use of the short term transfer mechanism.

Requests for a short term transfer

Vale supports the implementation of a simple provision of a form that can be signed by the relevant stakeholders to ensure a quick and easy response to a short term transfer.

Preconditions and contractual mechanisms

Vale supports the inclusion of the transfer provisions within the access undertaking as the transfer provision should be consistently applied across all users to ensure efficiency and no discriminations between users.

Transfer Fees

Vale supports the approach to not include transfer fees as this will ensure that transfers are conducted in a timely manner.

Reference Tariffs

Vale supports the short term transfer process only being allowable between train services which are subject to access charges based on the same reference tariff and not across reference tariffs for the initial stages of this implementation. Vale supports the proposal that any short term transfer train paths should become an addition to the transferee's capacity and be reflected as such for all pricing and billing purposes

Scheduling and day of operations

Aurizon has proposed that short term transfers be given at 2 different times. One option is prior to the train orders for the relevant period and the other is after the issue of the Intermediate Train Plan (ITP).

Aurizon has proposed that any short term transfer notices cannot be provided more than seven business days prior to the close of the train orders for the relevant period. Vale is unclear how this provides users with sufficient flexibility to manage their access rights within this limited time period. Vale believes a short term transfer is entered into to establish greater capacity within a month to reflect a decision to increase production. Restricting the notification and approval process to 7 business days prior to the train order is not likely to provide sufficient time or certainty for a producer to make these changes. Vale is also concerned that Aurizon is only required to provide a transfer refusal notice prior to the close of train orders for the first day of the proposed Short Term Transfer Period. Vale believes notice of a refusal notice should be required within 24 hours of the short term transfer notice to provide greater certainty to the access holder.

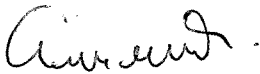
The second opportunity for a short term transfer to be completed is where the ITP shows there are paths available which could be used via a short term transfer. Vale believes this option will have limited benefit as the only parties that have access to this information are the train operators as access holders. Vale believes this information should also be transparent to the customers of the train operators as they generally incur the risk of TSE consumption and take or pay liabilities.

Review Period

Vale supports the efforts of Aurizon to establish this new short term transfer mechanism and the continuation of the consultation during the development of this process. Vale would also like to see, if implemented, a review period included in any approved proposal to encourage further assessment of this new mechanism. Vale suggests that a review should be conducted at least 12 months from implementation, and include robust consultation between all stakeholders to consider any changes that may be necessary to improve the efficiency and flexibility of the process. Vale believes a key consideration of the success of the Short Term Transfer mechanism to assist in managing access rights would be improved utilisation of the rail network and ultimately improved throughput.

For further information regarding this advice please contact myself on (07) 3136 0923.

Yours sincerely,



Anneliese Mattos
Manager Logistics Development
Vale Australia Pty Ltd