6 February 2015

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

By Email: aurizon@qca.org.au

Dear Dr Roberts,

Aurizon Network Proposed New Reference Tariff – Train Services to Wiggins Island Coal Export Terminal (Submission)

Cockatoo Coal welcomes the opportunity to provide comment in relation to Aurizon Network's submission regarding proposed new reference tariffs for train services to the Wiggins Island Coal Export Terminal (**WICET**).

This letter sets out Cockatoo Coal's views with respect to Aurizon Network's Submission. This letter does not contemplate the QCAs recent draft decision on Aurizon Network's 2014 DAU released on 30 January 2015 nor does it consider application of the principles proposed in that draft decision to the Wiggins Island Rail Project (**WIRP**).

This letter focuses on four specific areas of Aurizon Network's Submission, these being:

- applicable access undertaking;
- volume forecasts;
- proposed alternative minimum contribution to common costs for Moura WIRP users; and
- revenue smoothing and deferral.

Applicable Access Undertaking

The protracted timeframes associated with development and construction of expansions may result in an expansion investment decision being made under one access undertaking but becoming operational during the term of a later access undertaking, as has occurred with WIRP. This raises the question of whether the provisions of the original or later access undertaking should be applied to regulatory issues relating to the expansion such as the inclusion of expansion costs in the Regulated Asset Base (**RAB**) and determination of Reference Tariffs.

Due consideration must be given to the regulatory assumptions that underpinned not only the expansion investment decision but also potentially mine investment decisions. The retrospective application of new regulatory provisions may create an untenable degree of uncertainty and investment risk for expansion users.

Approval processes stipulated in later access undertakings should not be retrospectively applied where Aurizon Network is no longer capable of complying with those processes or where the application of those processes may detrimentally affect the outcomes for expanding users once an investment decision is made. In the case of WIRP, such issues arise with respect to the application of Aurizon Network's 2014 Draft Access Undertaking (**UT4**) instead of the approved 2010 Access Undertaking (**UT3**) which was the access regime governing extensions (including expansions) of the Central Queensland Coal Network at the time Aurizon Network decided to proceed with the WIRP investment and WIRP customers agreed to enter into commercial arrangements pertaining to the WIRP investment. Unlike UT3, UT4 requires a Pricing Proposal to be submitted to the Queensland Competition Authority (**QCA**) for approval within 80 days of a Feasibility Study Funding Agreement becoming unconditional. The time for submitting a Pricing Proposal in relation to WIRP has long passed making it impossible for Aurizon Network to comply with such an obligation should one be imposed. Further, commercial agreements relating to WIRP were executed in late 2011 and the WIRP investment is understood to be approximately 74% complete meaning WIRP customers are devoid of the opportunity to withdraw from WIRP based on either the content of the Pricing Proposal or any decision by the QCA on the Pricing Proposal.

Volume Forecasts

We note that in its Submission, Aurizon Network has opted to use an independent volume forecast prepared by John T Boyd Company for WICET as the basis for its volume forecasts except where WIRP users have subsequently provided more conservative forecasts. The approach adopted by Aurizon Network in its Submission is a more conservative approach to WIRP volume forecasts than that proposed by Aurizon Network in its UT4 submission however remains more optimistic that the Energy Economics volume forecast contained in the QCA's draft decision on Maximum Allowable Revenue. We support the approach to determining WIRP volumes proposed by Aurizon Network in its Submission.

Alternative Approach to Minimum Contribution to Common Costs

Regulatory mechanisms governing network expansions and new capacity must have sufficient flexibility to mitigate unintended consequences that may otherwise create barriers to market entry for new coal volumes.

Cockatoo Coal supports the alternative approach to Minimum Contribution to Common Costs proposed by Aurizon Network in its Submission. Strict application of the pricing principles contained in UT3 would have the presumably unintended effect of reducing costs for existing Moura System volumes while imposing significantly higher costs on Moura WIRP volumes (through the imposition of a disproportionate System Premium) for what is essentially the same service. We agree that new volumes should not result in increased costs for existing users however it is our view that pricing mechanisms should be sufficiently flexible and discretion applied so that new volumes do not cross subsidise existing volumes thereby distorting marketing competition.

Further, we note that Aurizon Network states in its Submission that *non-WIRP customers operating within the Moura system are also expected to benefit from the WIRP programme, specifically the Moura East and North Coast Line upgrades*. It is our understanding that these benefits include increased robustness of the Moura System and a reduction in required maintenance however are difficult to quantify therefore no costs associated with these upgrades have been attributed to existing Moura System users. It would therefore seem unreasonable for existing users to receive the operational benefits delivered by these WIRP upgrades and also receive the financial benefits associated with the strict application of the UT3 pricing principles to the detriment of the Moura WIRP volumes.

Revenue Smoothing

We note that Aurizon Network propose to defer a portion of its WIRP related revenue by applying a revenue smoothing factor such that the Present Value of smoothed and unsmoothed revenues remain equal. Cockatoo Coal supports the approach proposed by Aurizon Network as it better allows new and expanding producers to align costs incurred with revenue.

Conclusion

To the extent outlined in this letter, Cockatoo Coal supports the Submission put forward by Aurizon Network.

We urge the QCA to exercise its discretion in applying any provisions relating to Contribution to Common Costs to create an equitable outcome for both existing users and new volumes.

Cockatoo Coal is agreeable to this letter being made public.

Should you wish to discuss any aspect of this letter further, please feel free to contact me on (07) 3640 4723.

Kind regards

Janet Molloy

General Manager - Infrastructure