

SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY

SUBMISSION IN RESPECT OF THE WIRP PRICING

SEPTEMBER 2015

Table of contents

1. Executive summary	2
2. Inconsistency of modelling	3
3. Relevance of WIRP Access Conditions	3
4. Applicable pricing principles.....	3
5. Pricing approach on Blackwater	5
6. Pricing approach on Moura	6

1. Executive summary

Anglo American Coal Australia (**Anglo American**) welcomes this opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of the Reference Tariffs for Wiggins Island Rail Project Train Services (**Draft Decision**).

Anglo American supports the following conclusions of the QCA, in particular:

- (a) Rolleston continues paying a premium to reflect its higher costs, including those costs associated with Wiggins Island Rail Project (**WIRP**); and
- (b) there be no socialisation on the Moura System and the Moura WIRP customers paying a premium on the existing tariffs to reflect higher costs associated with WIRP.

Anglo American welcomes the findings of the QCA, whilst acknowledging the clear lack of evidence, also observing that the 2008 CRIMP process is not a determinative factor in allocating costs on the Blackwater System between WIRP users and non-users. Anglo American also supports the finding that no capital allocation for duplications on the Blackwater be allocated to existing users. However, Anglo American remains of the view that no allocation should be made to WIRP non-users for the Wiggins Island balloon loop.

In respect of Moura, Anglo American does not believe that it should be required to take any counterparty risk for WIRP users. Unlike the Blackwater System where any counterparty risk would effectively be spread across a number of users, Anglo American would take the full risk on the Moura System. Therefore, whilst Anglo American accepts the decision of the QCA in respect of the pricing approach on Blackwater, Anglo American believes that a different approach should be adopted on Moura. It proposes the following approach:

- (a) a separate Reference Tariff, System Allowable Revenue (**SAR**) and Take or Pay (**TOP**) be applied to the WIRP costs; and
- (b) WIRP users on the Moura System have a rule that prioritises existing train service entitlements over WIRP entitlements for the purposes of the calculation of TOP and billing purposes.

2. Inconsistency of modelling

Anglo American submits that, given the various positions taken by Aurizon Network in relation to allocation for the benefit of the WIRP expansion in both Blackwater and Moura systems throughout the process, that if any further 'evidence' were attempted to be placed before the QCA to support Network's position it could not be reliably considered.

3. Relevance of WIRP Access Conditions

Anglo American supports the conclusion of the QCA that the WIRP Access Conditions are a relevant factor in the assessment of the allocation of costs to WIRP users and non-users.

If Aurizon Network and a group of users agree a certain scope of works for the purposes of Access Conditions, it is not appropriate that Aurizon Network to then attempt to "socialise" part of those works across the broader network of users.

This is particularly the case, where Aurizon Network continues to claim confidentiality over the commercial arrangements relating to expansions. In Anglo American's view there is no justification for such claims of confidentiality as the approach taken by Aurizon Network and a sub-set of users to a particular expansion, can and does have implications for the remaining users.

4. Applicable pricing principles

Anglo American supports the conclusion of the QCA that the most relevant pricing principles are those contained in its draft UT4 decision.

Although UT3 did contain a bias toward socialisation, it also did envisage premiums in certain circumstances. Socialisation of expansions may have been appropriate in previous undertakings where regulation was being introduced at a time when the network had been in existence for a long period of time. Although UT3 was the first undertaking to consider the issue of the proper expansion of the network, it was drafted in absence of major expansion processes such as GAPE and WIRP. The pricing provisions in UT4 are the first provisions which substantively consider the issue of pricing of expansions with the benefit of experience gained in the GAPE and WIRP process. This history is relevant as it supports the view of the QCA that section 138 requires a balancing of the interests of all of the parties. It follows that

the UT4 provisions contain a balancing of interests taking into account valuable experience of GAPE and WIRP.

Anglo American notes the argument that UT3 provisions should apply because investment decisions were made on that basis. However, at that time, it was well known that at each regulatory reset, the QCA undertakes a review of all relevant provisions of the Access Undertaking including the pricing provisions. Each party on the network understands that the Access Undertaking can change for each reset. So although the WIRP customers were familiar with the UT3 pricing provisions, they would also have known that there would be a review. The question of whether socialisation should continue was an issue that was aired in UT3 and, for example, the Anglo American submission in respect of the draft UT3 (and UT4) states that socialisation should be considered on a case by case basis.

Anglo American particularly has difficulties in accepting the concept of it being faced with having to bear the costs and associated risks relating to expansions triggered by the WIRP users in the circumstances where Anglo American was frustrated in its attempts to have a voice during the WIRP process. For example, the WIRP Deed, to this day, remains a confidential document. Although parts of it were released, there were significant redactions which frustrated the ability to make fulsome submissions in respect of whether the Access Conditions could disadvantage existing or future users.

Despite that history, Anglo American is now being asked to bear some of the cost and risk exposure associated with WIRP. Those costs and risks fall on the non-WIRP users and not Aurizon. For example, under the proposal for the Moura System, there will be one SAR, calculated using a combination of forecast volumes for non-WIRP customers and contract volumes for WIRP customers (the splits of which are not specified). The reliability of the volume forecast is critical to the process not only in considering the question of socialisation (in the incremental up/average down approach) generally but also when considering how a system premium or separate reference tariff is treated in the SAR. The SAR will include the System premium to be paid towards WIRP railings. Although it is not clear, it appears that the use of a combined SAR may in certain circumstances (e.g. substitution between WICET to RGTT) effectively socialise the WIRP premium as part of the total SAR against non-WIRP customers, where there has been an under-recovery of actual revenue which may also trigger

system Take or Pay. This may also lead Aurizon to roll the shortfall forward to a future recovery year for recovery against all customers of the System.

Therefore, Aurizon does not take the risk exposure of WIRP cost as the SAR mechanism will ensure it recovers all revenue from the remaining users.¹

5. Pricing approach on Blackwater

Anglo American agrees with the conclusion of the QCA that 0% of the capital costs of the duplications in Blackwater should be allocated to non-WIRP customers. There is no clear evidence of any benefit of such users.

However, Anglo American is unclear as to why there should be an allocation of Wiggins Island balloon loop costs to non-WIRP users. There is no evidence at all that non-WIRP users benefit from the Wiggins Island balloon loop costs. To ensure consistency with the decision of the QCA on the allocation of capital costs of the duplications, Anglo American believes that the onus is on Aurizon Network to prove a benefit to non-WIRP users. No benefit has been established and therefore there should be a 0% allocation.

If there is any agreement between other parties relating to the ability of existing production to use the Wiggins Island balloon loop, then this is an arrangement which is outside the regulatory regime and the non-WIRP users who are not a party to that agreement, should not be required to bear the costs through an allocation which impacts all non-WIRP users. If the allocation made in the Draft Decision is based on a confidential agreement then the facts and basis which support the allocation should be disclosed to allow parties to make proper submissions.

The Draft Decision goes through two options in detail, being the system premium option and the separate reference tariff option. The QCA concludes that the system premium option has the benefit that if there is substitution of paths from existing train services to WIRP train services then there is less impact on the likelihood of System TOP triggering and, therefore, less impact on existing users.

¹ The only risk taken by Aurizon Network is the risk of optimisation. However, Aurizon Network has mechanisms to remove this risk. For example, if Aurizon Network has returned to the CRIMP process after the project had changed significantly it could have obtain a fully informed customer pre-approval.

The system premium option is advantageous to existing users only if WIRP users either rail all of their contracted tonnes (both existing and WIRP) or they over-rail their tonnes. Anglo American believes that there is a reasonable risk of WIRP users under-railing. Even under a system premium option this may negatively impact on existing users. In addition, under a system premium option, the existing users take the counterparty default risk if the new or expanding user fails to rail or pay.

Therefore, Anglo American believes that the best approach to take is to adopt the same approach as GAPE (that is a separate system tariff) with priority billing as raised by the QCA. This eliminates the risk to existing users of WIRP users under-railing or defaulting thereby unnecessarily exposing existing users to System ToP and the priority billing addresses the concern of substitution.

Although there is a question of whether the billing arrangements may make arrangements more complex, it is more consistent with section 138 because pricing is cost-reflective. The billing arrangement is also essentially a transitional arrangement until such time as all contracts are consistent with the approach adopted by the QCA in UT4 of 'fixed TOP'. Once contracts are all fixed TOP there will also be no issue of substitution leading to an unfair triggering of system TOP.

6. Pricing approach on Moura

Anglo American has always been of the view that issues around the pricing approach on expansions, including the question of socialisation, should be made on a case-by-case basis.

Similar to what Anglo American proposes on Blackwater, in respect of the Moura System, it proposes the following approach:

- (a) a separate Reference Tariff, SAR and TOP be applied to the WIRP costs; and
- (b) WIRP users on the Moura System have a rule that prioritises existing train service entitlements over WIRP entitlements for the purposes of the calculation of TOP and billing purposes.

In the Draft Decision the QCA notes that in respect of GAPE a separate GAPE system and tariff was adopted because the proposed tariff was largely based on the incremental costs of

the GAPE infrastructure and avoided the sharing of GAPE costs with other users that did not benefit from the GAPE infrastructure.² The Moura System is similar, in that, there is no benefit at all to existing users, with the expansion being purpose built for the expanding user, and therefore it is appropriate to take the same approach.

² At 24.