BENTLEY
RESOURCES

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July 3, 2014

Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Sir,

Bentley Resources Response to Queensland Competition Authority Consultation Paper – "Queensland Rail's Western System Coal Tariffs"

Bentley Resources is currently in the process of purchasing the Wilkie Creek coal mine that Peabody Energy closed in December 2013. As a future user of the Western Rail System, we have reviewed the Queensland Competition Authority (QCA) consultation paper and have attached our response for your consideration.

As a new entrant to this forum we are strongly of the view that the tariff structure proposed by Queensland Rail (QR) will be to the detriment of our efforts to re-establish the Wilkie Creek Mine as a long term competitive participant in the export thermal coal sector.

We are broadly supportive of the QCA analysis and recommendations offered throughout the paper that has clarified a number of key issues around the impact of the metropolitan passenger system on the western system, identification of a practical method for valuing the coal asset base component of the metropolitan system and the less than optimal approach that QR has to maintaining and operating the western system.

On the basis of analyses and recommendations provided in the QCA paper, Bentley Resources supports the Holistic Cost Approach as the basis upon which the below rail coal access tariff should be reset for the western system.

We look forward to a timely determination of the below rail coal access tariff.

Sincerely,

Scott Winter
Chief Operating Officer

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Questions

· Do you agree with the QCA's estimate that the effect of the metropolitan blackout is a reduction of 22% of possible western system train paths? If not, please provide supporting evidence with reference to the analysis in Appendix 3 of B&H's report?

· Do you agree with the QCA's proposed approach to use contracted train paths in determining the volume estimate? If not, why not, and please provide supporting evidence

Bentley Resources is of the view that the QCA estimate of the effect of the Metropolitan blackout underestimates the actual impact on the Western System for the following reasons;

1. There is a lack of recognition of the impact of the ramp up to and run down from the "blackout" period as a consequence of single point stabling of the metropolitan passenger fleet
2. The lack of coal train stabling facilities on either side of the metropolitan network imparts a "resumption of services" inefficiency that is difficult to quantify accurately
3. The impact of the recent increase in metropolitan service frequency on coal paths has not been evaluated and included in the estimate
4. The impact of increased frequency of weekend maintenance possessions has not been evaluated and included in the estimate

As such, Bentley Resources supports the New Hope submission (31%) as a more accurate assessment of the impact that the Metropolitan "blackout" and maintenance activities have on the Western System.

Bentley Resources does agree with the QCA that the use of contracted train paths to determine the system volume is valid.

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Questions

· What is the appropriate asset valuation methodology for the western system?
Please provide supporting evidence.

· Are B&H's asset valuation and related asset lives appropriate? If not, why not?

Bentley Resources generally supports the depreciated optimized replacement cost (DORC) valuation methodology for the Western System, however as noted by New Hope, Aurizon and B&H, the Western Rail System is “close to being technically obsolete” and that “aspects of the network are dilapidated”. As such, the system bears little, if any, resemblance to a “modern engineering equivalent” necessitating significant moderation of the derived DORC valuation to more accurately reflect the service standard that the asset delivers.

The asset valuation and related asset lives, as determined by B&H, have been appropriately derived. Bentley is firmly of the view that pre-1995 assets should be excluded from the coal asset base as they were essentially assigned “scrap value” by QR in 1995. Hence the opening value of the coal specific assets adjusted accordingly ($133M).

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Questions

· Is the QCA's proposed approach to maintenance costs for the western system appropriate? Stakeholders are requested to have regard to the B&H report.

· Is the QCA's proposed approach to operating costs for the western system appropriate? Stakeholders are particularly invited to comment on the QCA's proposed estimate of train control costs.

Bentley Resources does not support the QCA proposed approach to maintenance costs for the Western System for the following reasons;

- The system should only be maintained to sustain a "fit for purpose"15.75t axle load system on the basis that there appears to be no coherent strategy to increase the rated axle load of this system in the near to medium term and that there is potential for this system to become a stranded asset. Maintenance materials rated above 15.75t axle loading should not be deployed on this system unless it can be demonstrated that its use will contribute to lower life cycle costs.
- There appears to be no integrated life cycle maintenance strategy for this system, giving rise to a highly inefficient ad hoc maintenance approach (e.g. laying and relaying the same timber sleepers within the undertaking period!).
- QR has maintained this system for a long time and should understand the full maintenance cycle to a point that on a yearly basis for the term of the undertaking, a definitive maintenance plan can be identified, accurately budgeted and implementation planned to ensure a highly efficient delivery of all maintenance activities.
- The proposed increase in maintenance expenditure of 64% (gtk equivalent) to that of the last undertaking period has not been sufficiently justified by QR. The incompleteness of the data supplied by QR denies any accurate assessment of, or challenge to, the expenditure proposed. The significantly increased spend might suggest that the system is in much worse condition than previously acknowledged or that past maintenance has been inappropriately targeted and inefficiently expended. There would also appear to be a need to clearly define those activities to be allocated to sustaining capital expenditure (e.g. bridge replacement) so that maintenance benchmarking can be accurately assessed.
- The majority of maintenance work should be outsourced to ensure efficient implementation.

In conclusion, Bentley Resources cannot support the level of maintenance expenditure as moderated by the QCA and recommends that, in the absence of a credible justification of the proposed increase, a modest increase in expenditure to that of the last undertaking period be applied.

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Bentley Resources believes the QCA proposed approach to operating costs for the Western System is appropriate.

The logic applied to the derivation of Train Control costs is sound, however the methodology could be seen as a “business as usual” approach based around traditional metrics. Application of modern technologies to train control should significantly improve the efficiency in the application of human capital with subsequent cost rationalization.

As a ground up train control costing model is not available, the suggested QCA allocation for train control cost is deemed appropriate and compares favorably with that of its peer ARTC.

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Questions

· What is the appropriate approach for determining the regulatory asset base for western system coal tariffs in the context of the QCA's approval criteria in s. 138(2) of the QCA Act? Stakeholder comments are sought on the QCA's proposed options – the asset allocation approach and the historic cost approach.

· Is there a way to address stakeholder concerns about high tariff levels while recognizing the interests of Queensland Rail in receiving adequate revenue?

· Is extending the western system tariff across the metropolitan system reasonable?

· Is it reasonable to have a separate asset base for coal and freight-specific investment in the metropolitan system? Please explain and justify any alternative approaches.

Bentley Resources is firmly of the view that the “historic cost approach” is the most appropriate approach for determining the regulatory asset base for Western System coal tariffs. The allocation of 100% of post 1995 capital expenditure on the shared asset base to coal should be reviewed in light of recent capital expenditure being clearly designated as “not for coal use”.

Bentley Resources is fully aligned with the stakeholder submission from New Hope that calls for a repeatable methodology for assessing reference tariffs, however the applied tariff should be reflective of the efficiency of the service provided (MEE basis) and pricing fairness principles.

All stakeholders are of the view that the ARTC precedent for recovering less than full RAB value to ensure that the tariff is efficient and does not disincentivise use of the infrastructure would be of significant assistance to improving the viability of coal mines using the western rail system. The foregone revenue could be accounted for through deferral of depreciation or loss capitalization.

Bentley Resources concurs with the QCA that extending the western tariff across the metropolitan system is not reasonable.

Bentley Resources believes it is reasonable to have a separate asset base for coal and freight specific investment in the metropolitan system as it gives transparency to the revenue return requirements for the depreciated value and provides incentive for continued incremental capital spending on the metropolitan coal specific assets.