



25 September 2015

Mr John Hindmarsh
Chief Executive Officer
Queensland Competition Authority
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Dear Mr Hindmarsh,

Submission on Proposed Reference Tariffs for train services to Wiggins Island Coal Export Terminal - Draft Decision

BHP Billiton Mitsubishi Alliance (**BMA**) welcomes the opportunity to provide a submission on the Queensland Competition Authority's (**QCA**) draft decision on new reference tariffs for train services to Wiggins Island Coal Export Terminal (**WICET**).

Aurizon Network Pty Ltd (**Aurizon Network**) in its pricing proposal on new reference tariffs for WICET, proposed to socialise the Wiggins Island Rail Project (**WIRP**) infrastructure costs within the Blackwater and Moura systems. This would have resulted in all users (WIRP and non-WIRP), sharing the costs and risks of the WIRP infrastructure regardless of whether they were intending to rail coal to WICET. The QCA in its supplementary draft decision on pricing of WIRP train services has refused to approve the Aurizon Network's proposed pricing approach.

BMA is an existing Blackwater customer and supports the QCA's decision of a "system premium" approach to pricing as it appropriately balances the interest of WIRP and non-WIRP users. QCA's decision to not allocate the majority of capital costs to the existing Blackwater users for pricing purposes is consistent with the general pricing principle that prices should be reflective of services or benefits received. It has been clearly established that the Blackwater duplications were not required in the absence of the WICET development going ahead. This has also been evidenced from Aurizon Network's capacity modelling results prior to the WIRP investment decision.

One of the key considerations that the QCA has to take into account under s138 (2) (h) of *the Queensland Competition Authority Act* (the QCA Act), is predictability and regulatory certainty. BMA considers that the QCA's final decision on pricing for trains services to WICET should provide users in the Blackwater and Moura Systems with an appropriate level of investment certainty. For existing users commercial uncertainty is of particular concern in current markets when the coal industry is actively seeking to reduce costs and improve productivity to remain commercially viable and globally competitive.

BMA believes that the QCA should provide appropriate clarity around the proposed pricing principles and not just for the 2014 access undertaking period. This has also been noted in the QCA's supplementary draft decision that "*Existing users should, to the extent practicable, be confident of a relatively stable risk and access charge profile over time*"¹. That said, the QCA's draft decision on WICET trains services is silent on the principles for future undertakings.

BMA would like to take this opportunity to seek further clarity on the following issues:

- The QCA has notionally allocated a portion of the Wiggins Island balloon loop cost to the existing Blackwater system users. It is not clear to BMA what the expected benefit of this infrastructure is for non-WIRP train services.

¹ QCA (2015), *Aurizon Network 2014 DAU: Reference tariffs for Wiggins island Rail Project Train Services*, p22.

- BMA notes that Aurizon Network has proposed zero incremental operating and maintenance costs for WIRP train services, on the basis that the new WIRP infrastructure would require minimal incremental maintenance. However, it is not clear to BMA if this will be the case going forwards;
- Similarly, it is not clear to BMA what approach the QCA will adopt for the treatment of sustaining capital between WIRP and non-WIRP users. There should be clear principles outlining the treatment of sustaining capital going forwards. BMA reiterates its view that there should be complete transparency in the allocation of sustaining capital expenditure and the corresponding benefits received by the WIRP and Non-WIRP users; and
- Finally it is not clear to BMA if the maintenance allowances in the Maximum Allowable Draft Decision will be reduced to take into account the reduced capital indicator and reduced operating and maintenance allowance to reflect the new information provided by Aurizon Network in its December 2014 pricing proposal.

As a result of the QCA's draft decision on WIRP pricing, the existing users are not worse off because of the deferral of the capital charges relating to the proportion of the project not supported by WIRP tonnes. The QCA in its future pricing decision should ensure that it continues to be guided by the legislative requirements of the QCA Act.

Overall, BMA would like to reiterate again that it is supportive of the QCA's draft decision on the above matter and the pricing principle that the existing users should not be worse off as a result of the a major expansion. This should particularly be the case when Aurizon Network has been compensated through "access conditions" for additional risks associated with providing below rail access to WICET.

If you have any queries or require further information, please feel free to contact Ruchi Gupta on 07 3239 2348.

Yours Sincerely,

Geoff Streeon

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