

6 August 2015

Mr Hindmarsh
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane, Qld 4000

Dear Mr Hindmarsh,

Please find an additional submission for your consideration on the subject of Queensland Rail's (QR) 2015 Draft Access Undertaking ("DAU").

We would welcome consideration of this submission as part of your deliberations on a draft decision. If this is not possible, then please consider the submission as part of your deliberations on a final decision.

New Hope Corporation Limited ("NHC") is seeking competitive, sustainable and predictable access charges that allow users of the West Moreton System to compete effectively in downstream markets, and encourage further investments in coal production and supply chain efficiencies. We do not consider that it is appropriate for the QCA to approve a DAU containing the tariffs proposed by QR under Section 138(2) of the QCA Act, due to the requirement to have regard to the public interest, the interests of access seekers and the object of Part 5 of the QCA Act. QR's proposed tariff will not promote the economically efficient operation of, use of, or investment in, the infrastructure. Rather, the proposed tariff places the continuing use of the infrastructure, and any growth in that use, at risk. This submission provides additional information relevant to the establishment of tariffs in the West Moreton System.

To be clear, NHC is not advocating a subsidy or seeking special consideration due to low coal prices - NHC is accepting of coal price risk. Rather, we are seeking a tariff, and a tariff derivation methodology, which is sustainable in the long term.

NHC looks forward to a timely decision on QR's 2015 DAU.

Yours faithfully,
NEW HOPE GROUP



Shane Stephan
Managing Director

1. QR Tonnage Forecasts

NHC is of the view that QR's Forecast Coal Services¹ for the regulatory period is pessimistic given existing mine capacities, and QR's logic that includes New Acland Mine (NAC) coal railings post 2017. With the closure of the Wilkie Creek mine (one of the main causes being high rail costs) NHC concedes that system tonnage has decreased in the short term, however NHC believes QR's tonnage estimate for the regulatory period going forward is low.

1.1. 2015-2017

QR's assertion that NAC is limited to production of approximately 4.6Mtpa is incorrect². NAC is permitted to produce and rail 5.2Mtpa and expects to produce at this limit going forward, without additional capital expenditure. [REDACTED]

[REDACTED] NAC expects to export approximately 5.0Mtpa of coal to the end of 2017.

In January 2015 Cameby Downs mine was given approval to increase run of mine (ROM) production to 2.3Mtpa³ which will allow production of 1.800Mtpa of saleable coal – approximately 0.400Mtpa higher than historical production rates. One could therefore expect total coal railings of 6.80Mtpa through to 2017. Converting this into return train paths using the accepted formula gives 69 return train paths per week.

1.2. 2018-2020

NHC agrees with QR that the continuation of the NAC mine is not yet fully approved as it is subject to [REDACTED] external approvals, therefore tonnage beyond 2017 is uncertain. [REDACTED]

QR has included NAC in its forecasts post 2017. This assumes that the NAC continuation plan will be approved. Under that plan, [REDACTED] will export approximately 6.0Mtpa. QR's assumption that NAC will continue to produce coal post 2017, [REDACTED]

It is important to note that an application for a mining lease allowing for production of a maximum 7.5mtpa of saleable coal at NAC is currently in process⁴.

In summary, NHC believes that for 2018 onwards the forecast tonnage will be in excess of the current contractible coal capacity of the West Moreton System, even allowing for only 6Mtpa of coal railed from NAC.

Table 1: NHC versus QR's view of West Moreton System export tonnages, 2015-2020

Mine	QR 2015-2020	Export tonnages	
		NHC 2015-2017	NHC 2018-2020
New Acland		5,000,000	6,000,000
Cameby Downs		1,800,000	1,800,000
Wilkie Creek		0	0
WS Total Tonnes for railing	6,154,400	6,800,000	7,800,000
Weeks	50	50	50
Payload	1,960	1,960	1,960
Return Train paths/week	62.80	69.39	79.59

1.3. Contracting Behaviour and Volume Risk

QR states that more ad hoc rail paths are being utilised and users are not willing to contract capacity because there are plenty of spare coal paths⁵.

The level of ad hoc railing by NAC has not varied greatly for the last 3 years. The reason for these ad hoc railings is

Increased ad hoc railings implies there is additional demand that could be contracted thereby reducing QR's volume risk.

2. Have Tariff Increases been reasonable over time?

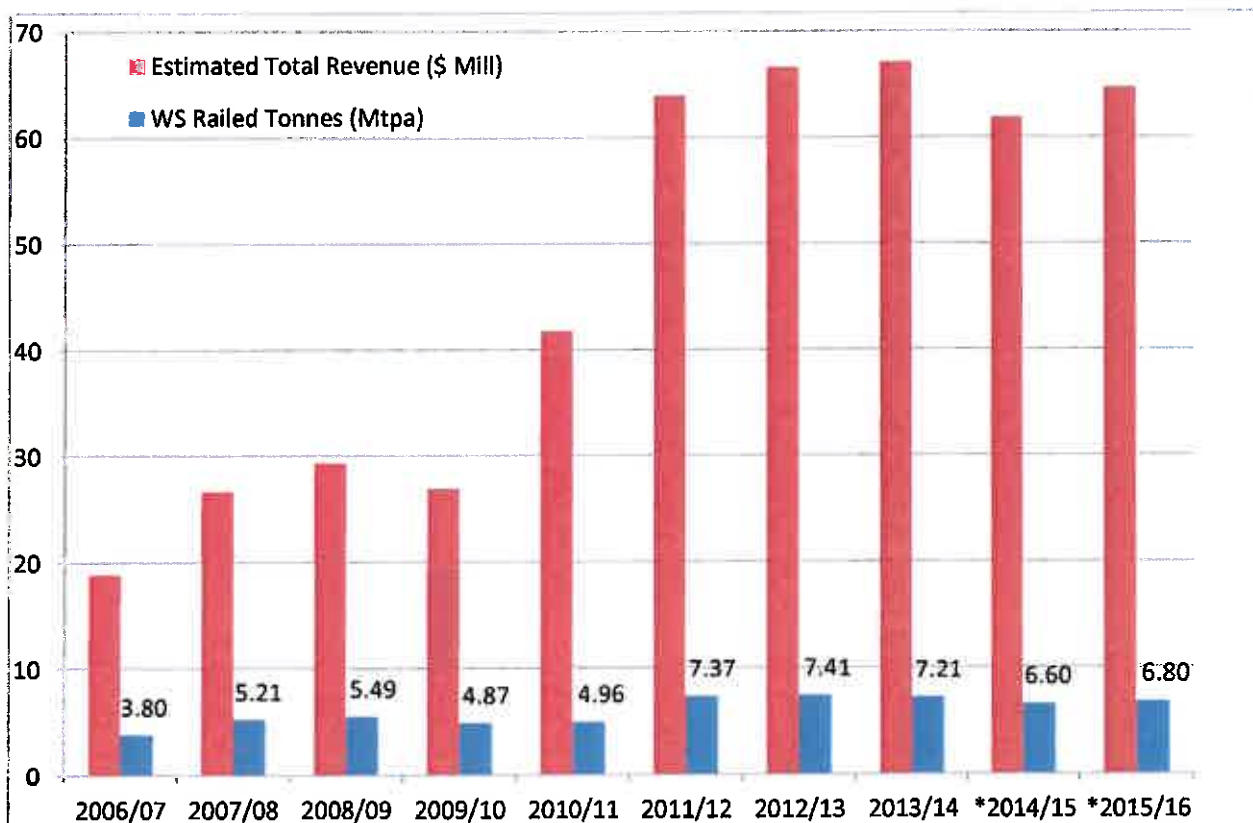
Western System tariffs have increased as follows:

- 2005 draft decision \$8.50/000 gtk.
- 2006 decision \$10.50/000 gtk.
- 2010 decision \$16.81/000 gtk.
- 2015 QR claim \$19.41/000 gtk. (\$34.92/000gtk ceiling)

Chart 1 graphically illustrates the increase in railed tonnage since 2006/07, and QR's massively increased revenue as a result of increased tonnage and tariffs. NHC acknowledges the figures are not precise due to timing differences in reporting of numbers and some estimation, however they give an accurate indication of the issue at hand. In all other rail systems a near doubling of tonnages railed would result in significant economies of scale, efficiencies and an overall tariff decrease rather than an increase to 228% of the 2005 base.

See Appendix 1, Table 1 for details of these calculations.

Chart 1: Estimated QR Western System Revenue & Railed Tonnes



REGISTERED OFFICE

PO Box 47, Ipswich, QLD Australia 4305
3/22 Magnolia Drive, Brookwater, QLD Australia 4300
+61 7 3418 0500 +61 7 3418 0355 newhopegroup.com.au

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Viewed in another context, for the 9 year period ending 31st July 2015 (forecast railings for 2014/15), and using a discount rate of 8% p.a., the revenue stream received by QR over this period is equivalent in NPV terms to the receipt of \$517 million in 2015 (excluding coal traffic from the Ebenezer rail loop) from Western System coal traffic. The basis for these calculations is contained in Appendix 1 Table 2.

While the lack of transparency regarding QR's costs and the lack of an approved asset value make it difficult to draw clear conclusions from this information, we present this data because we consider that it:

- highlights the substantial cashflows which have been received by QR in the absence of tariffs derived from a known and approved methodology. We do not consider that it is appropriate to ignore these cashflows when assessing future tariffs. NHC's views regarding QR's commitment to apply the final approved tariffs from 1 July 2013 have been explained previously. Further to this, we consider that it is open to the QCA to consider any prior over-recovery when establishing initial asset values. For example, prior excess cashflows could be considered to have reduced QR's effective investment in assets (as is the case where depreciation is accelerated); and
- supports, due to the absence of any evidence of unit cost reductions arising from substantial increases in volumes, the view that QR's capex and opex claims are unlikely to be efficient.

REGISTERED OFFICE

P: PO Box 47, Ipswich, QLD Australia 4305
A: 3/22 Magnolia Drive, Brookwater, QLD Australia 4300
T: +61 7 3418 0500 F: +61 7 3418 0355 W: newhopegroup.com.au

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References

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Volume 2 Section 1.2.2.2 Table 3 page 18
2. Explanatory Submission - Queensland Rail's Draft Access Undertaking 1 (2015)
Volume 2 Section 1.2.2.2 page 17
3. Yancoal website: Cameby Downs Continued Operations Project - Section 226
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http://www.yancoal.com.au/icms_docs/213903_Cameby_Downs_Continued_Operations_Project_-_Section_226_Consideration_Report.pdf
4. New Acland Project website: Executive Summary New Acland Coal Mine Stage 3
Project Environmental Impact Statement page 9
[http://www.aclandproject.com.au/files/files/NHG0040_ExecSummary_NAP_EIS_Web_Res_Ex\(1\).pdf](http://www.aclandproject.com.au/files/files/NHG0040_ExecSummary_NAP_EIS_Web_Res_Ex(1).pdf)
5. Explanatory Submission - Queensland Rail's Draft Access Undertaking 1 (2015)
Volume 2 Section 1.2.2.2 page 16

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**APPENDIX 1
ESTIMATED WS RAILINGS, TARIFFS AND REVENUE SINCE JULY 2006**

Table 1

Financial Year	POB Export Tonnes Coal (Mtpa)	AWM railings (Mtpa)	WS Railed Tonnes (Mtpa)	Tariff/000G/TK	Comment	Calculated NAC Tariff/tonne	# Estimated Ave Tariff/Tonne	Estimated Total Revenue (\$ Mill)
2006/07	4.226	0.425	3.801	\$10.50	QCA endorsed	\$4.32	\$4.97	\$18.881
2007/08	5.502	0.290	5.212	10.82	Escalation	\$4.45	\$5.12	\$26.684
2008/09	6.335	0.847	5.489	11.33	Escalation	\$4.66	\$5.36	\$29.423
2009/10	6.303	1.430	4.873	11.69	Escalation	\$4.81	\$5.53	\$26.953
2010/11	6.615	1.654	4.960	\$16.81	QCA endorsed	\$7.66	\$8.43	\$41.796
2011/12	8.570	1.201	7.370	\$17.32	Escalation	\$7.89	\$8.68	\$63.983
2012/13	8.583	1.173	7.410	\$17.94	Escalation	\$8.17	\$8.99	\$66.635
2013/14	8.106	0.892	7.214	\$18.56	**Escalation	\$8.46	\$9.30	\$67.111
*2014/15	7.400	0.800	6.600	\$19.14	**Escalation	\$8.72	\$9.38	\$61.881
*2015/16	7.600	0.800	6.800	\$19.41	** Proposed	\$8.85	\$9.51	\$64.694
*2016/17	7.500	0.700	6.800	\$19.90	**Escalation	\$9.07	\$9.75	\$66.311

POB Export Tonnes

Coal Sourced from Port of Brisbane

^A Tonnes railed from the Ebenezzer rail loop and excluded from calculation of the Access Tariff

* Estimated figure

Added between 7.5% and 15% to NAC tariff

** Subject to backdating once the 2015 DAU tariff is set

2015/16 onwards NHC estimation of coal traffic based on production of NAC and Cameby Downs

Table 2

Australian FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Years	8	7	6	5	4	3	2	1	0	
QR Revenue	\$18.88	\$26.68	\$29.42	\$26.95	\$41.80	\$63.98	\$66.64	\$67.11	\$61.88	\$403.347
2015 Present Value										
5%	\$30.094	\$40.123	\$41.737	\$36.070	\$52.767	\$76.205	\$74.871	\$71.138	\$61.881	\$484.884
8%	\$34.948	\$45.732	\$46.690	\$39.604	\$56.863	\$80.600	\$77.723	\$72.480	\$61.881	\$516.520
10%	\$40.474	\$51.999	\$52.124	\$43.409	\$61.194	\$85.162	\$80.628	\$73.822	\$61.881	\$550.692

All \$ are Million \$