

File Ref: 1246759

16 June 2017

Mr Anthony Timbrell
Chief Executive Officer
DBCT Management Pty Ltd
GPO Box 7823 Waterfront Place
Brisbane Qld 4001

Dear Mr Timbrell

DBCT Management's 2017–18 revenue requirement and terminal infrastructure charge

On 16 June 2017, the Queensland Competition Authority (QCA) approved:

- (1) DBCT Management (DBCTM)'s annual revenue requirement (ARR) roll-forward for 2017–18, consistent with the terms of the Dalrymple Bay Coal Terminal Access Undertaking 2017 (the 2017 AU)
- (2) the change in terminal infrastructure charge (TIC) associated with the reference tonnage review event submitted as part of the roll-forward application, also consistent with the terms of the 2017 AU
- (3) DBCTM's May 2017 Incremental Expansion Study draft amending access undertaking (DAAU), for the reasons set out below
- (4) amending the 2017–18 regulated asset base (RAB), revenues and tariffs to reflect the \$8.785 million in incremental expansion study costs in respect of the Dalrymple Bay Coal Terminal (DBCT or the Terminal).

As a result of these decisions, the approved ARR for 2017–18 is \$194.210 million, yielding a TIC of \$2.4677 per tonne, given an aggregate reference tonnage of 78.7 million tonnes per annum.

DBCTM 2017–18 ARR roll-forward and reference tonnage review event

The QCA has approved DBCTM's ARR roll-forward for 2017–18, as it considered it has been calculated consistently with the 2017 AU (schedule C, part A, clause 4(c)). The QCA has also approved the change in TIC associated with the reference tonnage review event submitted as part of the roll-forward application, as it considered it appropriate having regard to the pricing objectives in the 2017 AU (schedule C, part A, clause 4(f)).

May 2017 Incremental Expansion Study DAAU

On 2 February 2017, DBCTM submitted its earlier Incremental Expansion Study DAAU to the QCA for approval under the 2010 access undertaking (2010 AU). The DAAU sought to add study costs that DBCTM incurred from November 2013 to June 2016 into the RAB. However, on 16 February 2017, the QCA approved the 2017 AU, which included changes to definitions and provisions relating to feasibility studies. Relevantly, the 2017 AU did not include transitional arrangements to enable the inclusion of incremental expansion costs incurred under the previous 2010 AU.

Consequently, DBCTM submitted a revised DAAU on 14 March 2017, proposing to amend the 2016–17 RAB by including \$8.3 million incremental study costs, the 'March 2017 Incremental Expansion Study DAAU'. This DAAU included the incremental expansion costs as well as proposed transitional amendments to the 2017 AU to provide for these costs to be accepted.

On 10 May 2017, DBCTM withdrew the March 2017 Incremental Expansion Study DAAU. On 23 May 2017, DBCTM resubmitted a revised DAAU, retaining the drafting to allow transitional amendments to the 2017 AU and seeking to amend the 2017–18 RAB by including \$8.8 million in incremental study costs. The May 2017 Incremental Expansion Study DAAU includes interest during construction up to 30 June 2017.

QCA approach

The QCA considered DBCTM's DAAU under sections 143, 138(2) and 138(3) of the QCA Act.

Consultation

On 24 May, the QCA published DBCTM's DAAU and related material, inviting stakeholders to comment by 30 May 2017. The QCA advised stakeholders that subject to submissions, the QCA might publish a draft decision on the DAAU and seek further comment, or proceed directly to a final decision.

The QCA received no submissions from stakeholders.

Drafting of the DAAU

We have considered the drafting of the amendments DBCTM proposed to the 2017 AU and we accept they enable DBCTM to seek to have the costs of all feasibility studies completed in 2016 to be included in the RAB, via a Review Event taking effect from 1 July 2017.

As the provisions associated with the DAAU will remain in the 2017 AU even once the relevant adjustments to the RAB, ARR and TIC have been made, we would expect DBCTM to remove the amendments made to the 2017 AU in any subsequent DAAU.

Prudence and efficiency of costs

The QCA had previously appointed Flagstaff Consulting (Flagstaff) to assess the Incremental Expansion Study scope and expenditure, and to advise the QCA on whether it was prudent and efficient. While Flagstaff reviewed the claimed scope and expenditure in a draft application, its analysis and conclusion remain equally relevant to the resubmitted DAAU.

Flagstaff advised the QCA on whether:

- the scope of the Incremental Expansion Study was appropriate;
- the standard of the Incremental Expansion Study was not excessive; and
- the costs of the Incremental Expansion Study were reasonable.

Flagstaff concluded:

- the scope of works and services undertaken satisfied the requirements of both clause 12.5 (m)(3) of the 2010 AU and the Port Services Agreement (PSA)
- the standard of services undertaken satisfied the requirements of both Clause 12.5(m)(4) of the 2010 AU and the PSA

- the costs incurred were reasonable when assessed in accordance with the requirements of Clause 12.5(m)(5) of the 2010 AU
- the total direct study costs¹ were reasonable when assessed in accordance with the requirements of the 2010 AU and were prudently incurred.

The QCA accepts Flagstaff's analysis, which concludes that the Expansion Study costs were prudently incurred.

Cost modelling analysis and impact on ARR and TIC

The QCA has reviewed the cost modelling DBCTM supplied with the submission and found the modelling correctly reflects both the Incremental Expansion Study DAAU costs and the appropriate methodology. Consistent with past QCA practice, the review considered the calculations of the interest during construction, financing costs, ARR and TIC. This DAAU results in the ARR increasing by \$0.575 million and the TIC increasing by \$0.0073 per tonne for 2017–18.

Assessment criteria

The QCA has concluded that approval of DBCTM's DAAU is appropriate having regard to the matters listed in s. 138(2) (as required by s. 143).

The QCA found approval of the DAAU would promote the economically efficient operation of, use of and investment in the Terminal, with the effect of promoting effective competition in upstream and downstream markets (ss. 138(2)(a) and 69E). This is because:

- DBCTM conducted the Incremental Expansion Study to inform its decision on whether to invest in expansion of the Terminal, thus approval of the DAAU is providing an appropriate incentive for eventual efficient investment in new capacity
- it is providing an opportunity for DBCTM to recover its efficient costs.

Amending the RAB to incorporate the costs of the Incremental Expansion Study is in the legitimate business interest of DBCTM as operator of the Terminal (s. 138(2)(c)), because it:

- promotes incentives to invest in the Terminal and the efficient provision of declared services
- seeks to attract and contract tonnage for new and existing coal producers within the relevant region
- complies with the requirements of the PSA.

Approval of the Incremental Expansion Study DAAU is in the public interest (s. 138(2)(d)), given expansion studies are the precursor to eventual terminal expansions, which in turn can enable the Queensland coal industry to be competitive and efficient, in order for it to be sustainable over the long term.

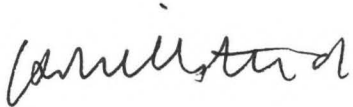
The Incremental Expansion Study was also exploring options to meet capacity requested in access applications. Some of these were made by existing DBCT Users, while others were from existing miners shipping through other Queensland coal ports, and potential new entrants to the market. Enabling DBCTM to amend its RAB to include the costs of feasibility studies to meet access seekers' capacity requirements is in the interest of access seekers (s. 138(2)(e)).

¹ Flagstaff did not review financing costs and interest during construction.

Final decision

For the reasons set out above, and in the absence of submissions on this matter, we are proceeding directly to a final decision. Our final decision is to approve DBCTM's Incremental Expansion Study DAAU, having regard to the criteria in sections 138(2) and 138(3) of the QCA Act.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Millstead', written in a cursive style.

Charles Millstead
Chief Executive Officer