

30 January 2015

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4000

Dear Dr Roberts,

NEW HOPE CORPORATION SUBMISSION

AURIZON NETWORK ACCESS UNDERTAKING (2010) PROPOSED NEW REFERENCE TARIFF FOR TRAIN SERVICES TO WIGGINS ISLAND COAL EXPORT TERMINAL, DECEMBER 2014

Thank you for the opportunity to provide a submission to the QCA.

This submission has been prepared to provide New Hope Corporation's views on the Aurizon proposed new reference train services to Wiggins Island Coal Export Terminal (WICET) submission. The submission is structured in two parts, an introductory background section followed by comments on specific sections of the Aurizon proposal.

Background

Colton Coal is a wholly owned subsidiary of Northern Energy Corporation (NEC) and NEC is wholly owned by New Hope Corporation Limited.

In March 2012, the QCA made a final decision on the access charge for Colton to Barney Point and RG Tanna Terminal. Both Aurizon Network (formerly QR Network) and the QCA acknowledged:

..... the unusual nature of the proposed service, particularly with regard to the:

- (a) relatively short (eight kilometre) section of QR Network's central Queensland coal network being utilised;*
- (b) use of significantly shorter trains than the existing consists operating on the Blackwater and Moura systems;*

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

CONTACT DETAILS

Phone: +61 7 34180 506
Mobile: 0409 149 652
Email:
awright@newhopegroup.com.au

DOCUMENT INFO

Page 1 of 5
A394293

The QCA further noted:

The tariff proposal is based on QR Network's reasonable assessment of the minimum contribution to common costs a new coal carrying train service would be required to make if it connected significant private infrastructure at the extremity of the Moura system and conformed to the reference train description.

The Authority is satisfied that QR Network's proposal for a two-part tariff effectively achieves this outcome, with the two part tariff based on:

- (a) the AT1 reference tariff component for the Moura system; and*
- (b) a train path charge equivalent to \$1.09 per net tonne.*

It is worth noting that the total cost of accessing the rail network from Colton to WICET will consist of two separate amounts levied by the two infrastructure managers, Aurizon and Queensland Rail. The first amount, the subject of this submission is the Aurizon two part access tariff for services between Parana and WICET, a distance of approximately 20 kilometres. In addition, there will be a Queensland Rail access tariff for the significantly longer travel distance of approximately 243 kilometres on that network, from the proposed Colton private loading loop to Parana.

Comments on Sections of the Aurizon Submission

1.3 Introduction

NHC agrees with the position outlined by Aurizon Network as follows:

Aurizon Network considers the full capital cost of the Blackwater Duplications should not be treated as Incremental Costs as per the 2010AU13, i.e. some or all of the duplications were still desirable in the absence of committed WIRP Train Services. Therefore, the full cost of these duplications should not be deemed as costs that are incremental to WIRP Train Services (Aurizon, p4).

NHC is of the opinion that:

- Prior to the WIRP Deed being executed, Aurizon (then QR Network), was unable to reliably demonstrate the true incremental capacity requirements for WIRP customers in terms of the number of duplicated sections required. WIRP customers were aware that there were pre-existing infrastructure capacity shortfalls as demonstrated by the request by the Gladstone Coal Exporters Executive to duplicate the remaining single line sections between Rocklands and Blackwater.
- Aurizon was assumed to have taken a commercial position not to invest in network extensions at the standard QCA approved weighted average cost of capital. The WIRP fee provided the necessary incentive to encourage Aurizon to commit to installing the necessary capacity for both pre-existing requirements and genuine incremental WIRP requirements. WIRP customers were of the understanding from Aurizon that the WIRP extensions would be socialised. This was consistent with WIRP customers accepting Aurizon's desire to electrify all duplications, holding roads and even the WICET unloading loop despite WIRP customers planning diesel hauled operations.

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

CONTACT DETAILS

Phone: +61 7 34180 506
Mobile: 0409 149 652
Email:
awright@newhopegroup.com.au

DOCUMENT INFO

Page 2 of 5
A394293

1.4 Historical Context

NHC agrees with Aurizon's assessment that the parties to the WIRP Deed believed that the 2010 Access Undertaking pricing principles as set out in Part 6 and Schedule F would be used as the basis for pricing for WIRP Train Services.

1.5 Operational Benefits

In addition to the operational benefits identified by Aurizon there were other significant benefits:

- The Kabra holding roads helped manage the misalignment between the 20 minute Blackwater Line headway and the North Coast Line 15 minute headway;
- The Aldoga and Kabra holding roads would allow loaded trains (e.g. bound for RG Tanna) to be held relatively close to Callemondah yard until congestion within the yard clears without blocking the North Coast Line;
- The design on the WICET balloon loop allows for approximately 3 loaded trains and one empty train to be held off the network; and
- Level crossing enhancements and upgrades.

2.1 Applicable Access Undertaking

NHC supports Aurizon's view that the 2010 Undertaking pricing principles were relied upon by WIRP customers and Aurizon.

2.2 2010 Access Undertaking: Part 6 Provisions

NHC supports the development of reference tariffs for WIRP customers under the part 6 provisions.

3.2.1 Incremental Capital Costs

NHC understands that the Blackwater Duplications were deemed required before WIRP was committed. The addition of significant above rail capacity in 2007 and 2008 failed to deliver any more tonnage throughput. It was concluded at the time that the network capacity was fully utilized resulting in very inefficient use of above rail assets.

The duplications and holding roads were undertaken in a manner to enable them to be fully integrated into the Blackwater system including electric traction. Electric traction was not expected to be used by WIRP customers at the time of executing the WIRP deed.

3.2.3 Allocation of Capital Costs

NHC supports the methodology adopted by Aurizon to allocate costs among WIRP customers using a proportional share of the Gross Tonne Kilometres (GTK). NHC is of the opinion that Aurizon Network may have assumed a less efficient operation for the Colton train services requiring unnecessary additional travel distance of some 50% more than needed. Aurizon appears to have assumed that the Colton Trains will continue from Colton, via Parana, along the North Coast Line to Aldoga. This would result in inefficient use of the network and block more train paths due to the need to block the down road, cross the up road and then enter Aldoga. Similarly, on departure from Aldoga, the up and down roads would be blocked.

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

CONTACT DETAILS

Phone: +61 7 34180 506
Mobile: 0409 149 652
Email:
awright@newhopegroup.com.au

DOCUMENT INFO

Page 3 of 5
A394293

The above inefficient operation is not consistent with our operating plan which requires the train service to proceed no further north than Boat Creek on the North Coast Line. Having locomotives and crews on both ends of the train allows quick access to the WICET loop with only the down track occupied for a short period.

NHC relies on the QCA to validate the assumed GTK assumptions and the calculated incremental capital costs.

NHC considers the cost sharing between WIRP and non-WIRP customers should take account of proposals for full duplication independent of WIRP considerations as well as a fair cost share allocation for WIRP Customers sharing the Blackwater Line. The 50:50 split proposed by Aurizon is considered to be in favour of the existing non-WIRP Customers.

3.3.4 Incremental Maintenance and Operating Costs

Avoidable cost estimation is the usual methodology to determine the incremental cost of adding or removing a customer or group of customers.

The incremental maintenance cost of the Colton services has been correctly assessed as effectively zero value. Colton trains are unusual in that they are much shorter and have lower axle load than standard Central Queensland trains. The low axle load, being significantly lower than the 26.5 tonne allowable axle load infrastructure standard, is unlikely to have a measurable effect on the incremental maintenance cost. Given the low tonnage and short distance travelled, the avoidable cost is effectively zero, reflecting the absence of savings should Colton train services be removed.

Similarly the avoidable operational cost is likely to zero as there are proposed to be only 4-5 Colton return train services per week would not incur any additional operating costs for Aurizon nor would any costs be avoided if the Colton services were removed.

3.3 Minimum Contribution to Common Costs (CCC)

The methodology to determine the minimum contribution to common costs is not transparent. One could argue that the minimum contribution is zero given that there is spare capacity on the parts of the network that Colton services will operate, namely the North Coast Line and WICET Balloon loop.

The escalation factor of 5% is considered very aggressive and not substantiated with any rigour or compelling logic. Escalation should not exceed CPI movements and ideally should be less than CPI reflecting expected Aurizon productivity improvements.

3.3.2 Minimum CCC for WIRP_NCL Train Services

It is acknowledged that NHC supported the Aurizon Network approach to calculating a minimum CCC for Colton Train Service, which resulted in a train path charge equivalent to \$1.09 per net tonne (in FY2012\$). This approach was approved by the QCA in its Final Decision.

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

CONTACT DETAILS

Phone: +61 7 34180 506
Mobile: 0409 149 652
Email: awright@newhopegroup.com.au

DOCUMENT INFO

Page 4 of 5
A394293

It is considered reasonable for this amount to be escalated in line with CPI or slightly less than CPI as opposed to the aggressive 5% proposed by Aurizon.

3.3.3 Summary of minimum CCC

Concerning the Summary Table 21, the WIRP_NCL contribution of \$0.5m in 2016 presumably accounts for ramp up tonnage and \$0.7m in 2017 reflects the contracted tonnage. NHC will rely on the QCA to ensure the amounts are correctly calculated and the escalation rate is reduced to normal levels.

3.5 Summary of smoothed MAR requirement for WIRP Train Services

Given Colton Coal small volumes, rounding of amounts in million dollars can make a substantial difference to this train service. NHC relies on the QCA to validate the MAR: WIRP_NCL in Table 24.

5.3 Proposed Reference Tariffs

NHC supports the reference tariff being consistent with the Colton to Barney Point Alternative Access Charge submission, approved by the QCA in March 2012. NHC accepts that this Train Service will pay:

- the AT1 Reference Tariff component for the Moura system; and
- a train path charge equivalent to recover the Incremental Costs and minimum CCC associated with the WIRP_NCL Train Service.

However, the amounts of \$1.52 and \$1.53 in 2016 and 2017 respectively in Table 34 are considered overstated. The \$1.09 in 2012 escalated would be expected to be approximately \$1.17 in 2016 and \$1.20 in 2017 instead of the higher amounts of \$1.29 and \$1.35 in Table 20, assuming the incremental capital costs and AT1 calculations are correct.

Consequently, the AT2 tariff in Table 38 appears to be overstated, most likely due to the very high escalation applied from 2014.

5.4 Customer Impact

NHC requests that Colton revenue be in each of the systems for revenue allocation and pricing purposes and for the forecast Colton GTKs to be included in each of the systems for the purposes of the Take or Pay trigger.

Thank you for the opportunity to make this submission.

Yours faithfully,

NEW HOPE GROUP



Shane Stephan
Managing Director

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

CONTACT DETAILS

Phone: +61 7 34180 506
Mobile: 0409 149 652
Email:
awright@newhopegroup.com.au

DOCUMENT INFO

Page 5 of 5
A394293