



9 October 2015

Professor Roy Green
Chairman
Queensland Competition Authority

Dear Professor Green,

Re: DBCT Draft Access Undertaking

Please find attached the Draft Access Undertaking (DAU) and supporting documentation that DBCTM proposes to apply for the regulatory period due to commence 1 July 2016.

DBCTM and the Users of the terminal agreed a negotiated outcome to the last reset process but, despite the best endeavours of all involved, were unable to achieve the same outcome on this occasion. The parties began discussions in late 2014 and managed to work through a number of amendments to the undertaking but were unable to agree on a package of changes as a whole. In some areas within the supporting submission we have sought to identify where we believe there to be broad User support for a proposed position, however, we accept that some Users may ultimately hold a different view. The submission should therefore be viewed as DBCTM's own.

This submission is being made at a time of great uncertainty and volatility in global financial markets. Should the QCA apply an approach to DBCTM's allowed rate of return that is broadly consistent with its past decisions on these matters, it is inevitable that there will be a substantial reduction in the WACC to apply for the next regulatory period. Such a decision would be incongruous with the risk profile of the asset which has increased substantially during the current regulatory period.

Some companies within the coal industry are facing severe financial pressure from currently depressed prices and increased global production. And while Users of DBCT may suggest that cost relief is appropriate in such an environment, economic theory would prescribe that the systematic risk of an investment in DBCT is currently increasing. Increased compensation via the allowed rate of return would be the appropriate response to these current circumstances, however, a formulaic application of the CAPM in the current market is likely to have the opposite effect.

When faced with unusual market circumstances, the QCA must be prepared to be flexible in its determination of the WACC. While the risk free rate has declined substantially from its long run average, the hurdle rate of return required by investors has not. The reality of the global economy is that investment opportunities in Australia must compete for capital with similar projects in other parts of the world. The level of equity return DBCTM expects to receive from this reset process, using previous QCA decisions as a guide, will not justify putting further capital into the asset – either expansionary or non-expansionary.



DBCTM will continue to make capital available to ensure the safety and integrity of the asset. However, expansion plans will be put on hold while the allowed rate of return remains uneconomic. Further, major sustaining capital projects such as machine replacements will be similarly deferred with an expected increase in operating costs. Inevitably there will be flow-on effects to the local economy however these are unavoidable where the rate of return is simply not competitive from a global perspective.

DBCTM's submission is a reasonable compromise between the reality of the current financial markets and the ongoing need for sustaining capex in an ageing terminal.

DBCTM looks forward to your consideration of the arguments presented in the attached documentation and remains available to answer queries as your team works its way through the review process.

Thank you for your consideration of the matters contained herein.

Yours sincerely
DBCTM Pty Ltd

Anthony Timbrell
Chief Executive Officer