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Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Sir

**Peabody Energy Australia Pty Ltd "Peabody" Submission to the
Queensland Competition Authority – Aurizon Network System Rules
Northern Bowen Basin Coal Systems.**

In response to the Queensland Competition Authority's request for submissions in relation to Aurizon Network System Rules Northern Bowen Basin Coal Systems, we enclose Peabody's submission.

Regards

1. Introduction

In August 2013, Aurizon Network ("Aurizon") submitted to the Queensland Competition Authority the Aurizon Network System Rules Northern Bowen Basin Coal Systems ("System Rules") which aims to implement planning, scheduling and train path allocation processes in the Northern Bowen Basin coal systems.

Peabody Energy Australia Pty Ltd and Peabody Energy Australia PCI Pty Ltd together "Peabody" submit the following submission in response to the System Rules. In this submission, Peabody will outline reasons for the inability to accept the System Rules in their present form and aim where possible to provide comments on areas that can be improved within the System Rules that may lead to acceptance.

The comments provided in this submission may not an exhaustive list but seek to demonstrate some of the key issues within the System Rules.

2. Background of Peabody

Peabody operates 11 coal mines in Australia with a total export capacity of over 30 Million tonnes per annum. Of these 11 operations, six are located within the Goonyella coal supply chain with contracted export capacity via the Dalrymple Bay Coal Terminal ("DBCT") located south of Mackay. These six mines represent a significant investment and volume capacity for Peabody and are the driver of continued development in the region and the country.

3. Peabody's position on the System Rules

3.1 Review Schedule of System Rules

Section 1.2.1 of the System Rules outlines that stakeholders may request reviews of the System Rules at any time and Aurizon will consider such requests. As it appears that the System Rules may ultimately sit outside of the access undertaking and the requirement of review may not be absolute; Peabody submits that it is imperative that producers maintain a right to review of the System Rules with QCA oversight in the event of the inability to reach agreement with Aurizon Network and to authorise the operation of the System Rules under the access undertaking. While it is expected that the System Rules will be reviewed on an ongoing basis, it would be expected that a formal review occur at least annually to ensure alignment with current and future operations.

3.2 Train Service Entitlement Obligation

Section 4 of the System Rules outlines the Master Train Planning Process in order to demonstrate the ability of Aurizon Network to deliver access holders Train Service Entitlements (TSE's). Peabody submits that while this process provides some level of transparency it does not provide the level of transparency required to demonstrate contracted entitlement availability over annual and monthly periods which can then assist in aligning maintenance activities with other supply chain operations. It would also be expected that the transparency of the system extends to capacity availability for each of the system areas (i.e. Dysart area operations) and to an extent of surge capacity to account for any Aurizon Network losses, misalignment of maintenance activities and alignment with in-loading dump slots at each specific coal terminal.

3.3 Train Service Entitlement Consumption

Peabody supports the consumption of TSE's within the 48Hour period however notes that the cut-off for TSE's within a weekly period Monday-Sunday is unable to be supported where contracted entitlement for TSE's is on a Monthly basis.

The Monday-Sunday period could be used for reporting purposes to assess coal chain performance and variability to drive improvement initiatives, but should not be used as a consumption mechanism where contract is on a Monthly basis.

Furthermore, irrespective of a cyclic train network, Peabody submits that the risk of non-performance applies to the party responsible, such that Aurizon Network should also be responsible where loss to the network or unavailability on the network due to Aurizon Network causes loss to access holders and/or producers.

3.4 Ad Hoc Services

Peabody submits that the use of Ad Hoc services should be reviewed to a hierarchical scheduling basis on a constrained or fully contracted network to ensure that additional revenue services are not sold above the existing contracted level. Note that the mechanisms around the redistribution of take or pay or other financial areas are outside the scope of this submission, however, Peabody notes that previous submissions such as the Draft Incentive Mechanism may have impact to this area and can be explored separately.

3.5 Cross System Operations

The System Rules as drafted do not adequately address cross system traffic issues and the transparency required around the operational delivery of capacity to meet the contractual requirements in each supply chain. As supply chains compete with each other for capacity it should be demonstrated how capacity is allocated, recovered due to Aurizon Network issues and transparency where there is inconsistency.

3.6 Access Undertaking

Peabody recognises that the System Rules as submitted are based on the undertaking 3 requirements. Peabody submits that irrespective of which Undertaking the System Rules are developed, implemented or amended that they maintain transparency, oversight from the QCA including the powers of decision making, mandated interaction with access holders / producers, and alignment to the operation of the supply chain(s) to which they are intended.

4. Summary

Peabody is unable to support the System Rules in their present format due to issues with

- The ability to enforce a review of the System Rules and the use of the QCA to provide decision support where agreement between parties is unable to be met.
- Transparency of Train Service Entitlement over an annual and monthly basis
- Consumption of Train Service Entitlement in the weekly period where those services are unable to be utilised and not consumed in the 48hour period.
- Ad Hoc Services and potential Links to other undertaking provisions
- Capacity provision between coal supply chains
- Recognition under current and future undertaking periods.

Peabody does however support the efforts of Aurizon Network in seeking to provide greater general transparency and working toward collaboration with the supply chains and looks forward to resolving these issues along with the QCA.