



Supplementary Submission to the
Queensland Competition Authority

**Draft Amending Access Undertaking –
Goonyella to Abbot Point Reference Tariff**

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Anglo American Metallurgical Coal Pty Ltd (**Anglo American**) welcomes the opportunity to make further submissions to the Queensland Competition Authority (**QCA**) in respect of the Draft Amending Access Undertaking (**DAAU**) relating to the proposed Reference Tariff for the Goonyella to Abbot Point Expansion (**GAPE**) project submitted by Aurizon Network Pty Ltd (**Aurizon**). Anglo American is pleased that elements of its initial submission dated 16 November 2012 (**First Submission**) have clearly been considered by the QCA and Aurizon. Terms which are capitalised but not defined in this submission have the meaning given in Aurizon's 2010 Access Undertaking (**UT3**).

1. Supplementary Submissions

Anglo American takes this opportunity to reiterate the following points:

1.1 Socialisation should be decided on a case-by-case basis

Aurizon has adopted an incremental pricing approach in relation to GAPE, whereby users pay all incremental costs associated with the enhancements that form part of the GAPE project. While Anglo American continues to support this approach, it submits that there should not be an holistic rule applied to all scenarios. Anglo American submits that the question of socialising or incremental pricing approaches should be assessed on a case-by-case basis considering the particular characteristics of every situation. Importantly, different expansion or extension projects will have different impacts on users. Examples include:

- (a) enhancements which occur on mainlines of a central system that benefit all users (directly or indirectly) should be socialised;
- (b) major expansions where only one user requires the additional capacity should be incrementally priced; and
- (c) major spur extensions in order to connect individual users' mines should be incrementally priced.

If socialisation is not applied on a case-by-case basis individual users may be forced to pay for extensions they did not require; or alternatively one user may be forced to pay for the whole cost of extensions that benefited all users in the system.

For further information see the First Submission at point 3.

1.2 No clarity on insurance requirements

Anglo American understands that the revised proposed Reference Tariff for GAPE still contains additional Risk Premium, representing an allowance for insurance. As previously discussed, however, there is no clarity in the quantum of this allowance, nor how Aurizon's self-insurance arrangements align with passing-through costs associated with significant events. Anglo American strongly requests QCA ensure that coal producers are not paying excess insurance premiums to protect against the repercussions of significant events and also paying for cost pass-through trigger events.

In particular, Anglo American notes the following issues:

- (a) Aurizon proposed that the Risk Premium on GAPE be calculated using the UT3-approved Risk Premium for Newlands. Contrary to this, UT3 does not contain an approved Risk Premium for the Newlands System, therefore, it is impossible to determine whether this is an appropriate rate;

- (b) Aurizon has provided no clarification as to what events are covered by the Risk Premium charge; and
- (c) Risk Premium simply constitutes 'double dipping' where Aurizon can (and does) recoup the cost through other channels.

Anglo American submits that the QCA should enquire as to what 'risk' Aurizon's Risk Premium is intended to protect against. Anglo American notes that Aurizon's recent cost pass-through applications to the QCA have all been successful with no alteration to the Amount requested. As such, Aurizon realistically bears no risk in the face of such events and so a Risk Premium charge is inapplicable.

For further detail see the First Submission at point 5.

1.3 Including electrification works in AT3 Tariff increases complexity

Anglo American reaffirms its position that cost electrification works should be borne by GAPE users. Anglo American does not support Aurizon's position that recovery of capital expenditure from electrification works should be via the AT3 Tariff as this will introduce unnecessary complexity into charges in the Central Queensland Coal Region. More appropriately, these charges should be built into the AT5 charges for GAPE users, allocating the capital cost of electrification works to the Goonyella system and requiring GAPE users to make common cost contributions to the Goonyella system. This will cover the cost triggered by the electrification works and not introduce further complexity in the methods of determining Reference Tariffs.

For further detail see the First Submission at point 6.

1.4 Aurizon must undertake capacity reviews required by UT3

As previously submitted, Anglo American notes that clause 11.1.4 of UT3 requires Aurizon to conduct a review of Capacity, especially the difference between Capacity and Committed Capacity, in respect of each Individual Coal System. Further, clause 11.3 of UT3 provides that where Aurizon has granted conditional Access Rights, then Aurizon is obliged to undertake an assessment of the change in Existing Capacity arising as a result of Infrastructure Enhancements. To date, Anglo American understands that Aurizon has not undertaken these required capacity reviews.

It is particularly important that the QCA enforce the provisions of UT3 and request capacity reviews from Aurizon, as any identified difference between the Capacity and Committed Capacity should be addressed by Aurizon undertaking the necessary works at the approved weighted average cost of capital (**WACC**). Similarly, Aurizon should undertake any necessary works to return the Goonyella system to its capacity prior to the connection of GAPE. This whole process should be completed by Aurizon at the approved WACC.

As Anglo America understands, Aurizon has not complied with these provisions of the existing undertaking.

For further detail see the First Submission at point 7.