

29 September 2021

Professor Flavio Menezes
Chairperson
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Online submission: www.qca.org.au/submissions

Dear Professor Menezes

**DBIM APPLICATION FOR RULING ON PRICING METHOD FOR 8X EXPANSION –
SUPPLEMENTARY SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY**

1. EXECUTIVE SUMMARY

1.1 Whitehaven Coal Limited (**Whitehaven**) thanks the Queensland Competition Authority (**QCA**) for the opportunity to make further submissions in response to the QCA's draft determination published on 24 August 2021 regarding Dalrymple Bay Infrastructure Management's (**DBIM**) application for a ruling under section 150D of the *Queensland Competition Authority Act 1997* (Qld) in relation to the pricing method applicable to the proposed 8X expansion of the Dalrymple Bay Coal Terminal (**DBCT**) (**Draft Determination**).¹

1.2 Whitehaven welcomes the Draft Determination and fully supports the QCA's preliminary conclusion that socialisation is the appropriate pricing method for the proposed 8X expansion.² As outlined in Whitehaven's submission dated 4 June 2021,³ there are compelling circumstances justifying socialisation with respect to the 8X expansion costs. Whitehaven does not repeat those arguments here, but has instead provided some additional brief observations in support of certain views expressed in the QCA's Draft Determination. In particular, Whitehaven strongly agrees with the QCA's preliminary conclusions that:

- (a) it is a reasonable assumption that the DBCT's system capacity will remain fully contracted for the life of the asset, having regard to long-term demand for coal in global markets. It is also correct to conclude that socialisation of the 8X expansion costs would not expose existing users to any material increase in cost risk, volume risk or cross-default risk, in light of the same demand trends;
- (b) socialisation of the 8X expansion costs will help maintain cost-reflective pricing signals; and
- (c) the 8X expansion will deliver material benefits to existing users, and it is appropriate to take these into account in deciding whether it is justified to socialise the costs of the expansion, even if some details of those benefits are still to be confirmed. It is not correct to say there is "significant uncertainty" about the existence of those benefits, many of which are inherent in the nature of the expansion activities themselves.

Whitehaven has set out further detail regarding its position below.

2. DBCT SYSTEM CAPACITY IS LIKELY TO REMAIN FULLY CONTRACTED

2.1 The question of the longer term demand for coal handling services at the DBCT is relevant to several important issues addressed in the Draft Determination, including:

¹ Queensland Competition Authority, *Draft Determination, DBIM's application for a price ruling – the 8X expansion* (24 August 2021) available at <<http://www.qca.org.au/project/dalrymple-bay-coal-terminal/2017-access-undertaking-process/application-for-price-ruling-8x-expansion/>>.

² Draft Determination p 9 [1.4].

³ Whitehaven, *DBIM application for ruling on pricing method for 8X expansion – submission to the Queensland Competition Authority* (4 June 2021) available at <<https://www.qca.org.au/wp-content/uploads/2021/08/whitehaven-coal-submission-on-dbim-application.pdf>>.

- (a) DBIM's estimated notional contract tonnage, used to calculate the estimated Terminal Infrastructure Charge (**TIC**) (see section 2.2 of the Draft Determination);
 - (b) DBIM's forecast asset replacement program, and whether uncertainty in long-term demand at the Terminal casts doubt on that (see section 2.3 of the Draft Determination);
 - (c) the materiality of the estimated increase in the TIC, having regard to the strength of the Queensland metallurgical coal industry and the stable demand for services at the DBCT (see section 3.2 of the Draft Determination); and
 - (d) the risk that the 8X expansion will deliver additional capacity that will never be used or required, thereby increasing volume risk for existing users (see section 6.1 of the Draft Determination).
- 2.2 As the QCA is aware, Whitehaven is a proposed future user of the DBCT, for the purpose of exporting coal from its planned Winchester South Project in the Bowen Basin. As a company seeking to enter the metallurgical coal sector in Queensland, Whitehaven has a constant focus on global demand trends for coal, and the likely extent of future competition in the supply of seaborne coal.
- 2.3 Based on its experience and observations of relevant upstream and downstream markets, Whitehaven respectfully submits that the QCA's preliminary conclusions – supported by the findings in the report by RMI (as summarised on page 48 of the Draft Determination) – are sound. In particular, it is appropriate to assume for the purpose of each of the matters set out above that demand for coal handling services at the DBCT is likely to remain strong for the remainder of the current anticipated life of the Terminal. It is highly unlikely that the 8X expansion project will result in additional capacity at the Terminal that is not strongly utilised over an extended period of time. Even if contracts held by existing users start to roll-off as their mines reach end of life, it is safe to assume that demand from other existing users with expansion projects and from future users will absorb any capacity that becomes available.
- 2.4 Further, given the strength of the coal industry in Queensland, and the mix of both greenfield and brownfield expansions seeking 8X expansion capacity, there is simply no basis on which the QCA could conclude that the risk of contract default by future users will be greater than is currently the case with the existing users.
3. **SOCIALISATION WILL MAINTAIN COST-REFLECTIVE PRICING SIGNALS**
- 3.1 Whitehaven welcomes the QCA's finding that "socialisation of the 8X expansion will maintain cost-reflective price signals to access seekers and access holders, thereby promoting economically efficient investment in, and use of, the terminal".⁴
- 3.2 In particular, Whitehaven notes that given the close integration between the 8X expansion assets and the existing DBCT assets (as accepted in the Draft Determination), there will be no material difference in the nature or quality of the service to be provided to existing and future users of the Terminal, nor the Terminal facilities used to deliver the services. As such, the cost of access for existing users and future users should not reflect a different cost of service (and especially not where some estimates suggest that on a differentiated basis the price for future users could be six times higher than that for existing users, as discussed in Whitehaven's initial submission).
- 3.3 On a related point, Whitehaven strongly endorses the practical approach applied by the QCA in assessing whether the potential increase in the TIC to be paid by existing users is likely to be material. It is clear that the increase (even on the slightly higher basis calculated by the QCA of up to \$0.56/t) will not be material, having regard to:
- (a) the substantial nature of the operations of existing users, which are characterised by valuable, low-cost coal deposits in a premier global production region;

⁴ Draft Determination p 9, 33.

- (b) the small proportion of total production costs attributable to the use of the DBCT facilities (as outlined in section 3.2.1 of the Draft Determination); and
- (c) most importantly, the fact that even if the TIC increases, the total Terminal Access Charge (**TAC**) payable by existing users is likely to decrease due to a reduction in the handling charges. While the history of the DBCT has resulted in the operations and handling charges being paid to the independent operator as opposed to DBIM itself, the QCA is right to take into account the reality that existing users will be paying less overall to access the services they require from the Terminal if the 8X expansion proceeds. Disregarding this point when considering whether to socialise the 8X expansion costs would defy common sense, and would undermine the aim of achieving cost-reflective pricing.

4. **8X EXPANSION WILL DELIVER MATERIAL BENEFITS TO EXISTING USERS**

- 4.1 Some existing users have argued that there was insufficient information given to clearly demonstrate the benefits existing users would receive from the 8X expansion, and therefore that the expansion costs should not be socialised. Whitehaven does not agree with this position.
- 4.2 It is clear from the nature of the proposed expansion program that the expansion will benefit existing users of the terminal (which is the question the QCA must direct its mind to). The QCA Act does not require that DBIM quantify the precise extent of each benefit to some statutory threshold – the QCA is entitled to give weight to the benefits which are clearly inherent in the expansion activities, such as:
 - (a) Significant cost savings in DBIM's forecast asset replacement program (NECAP) as a result of the capital expenditure to be undertaken in connection with the expansion;
 - (b) reduced risk of through-put losses associated with the NECAP program through increased average capacity during 8X Expansion build timeline;
 - (c) improved reliability (including by reducing outages due to updates to the facility) and flexibility (through increased capacity) of terminal operations; and
 - (d) as noted above, reduced handling charges due to the introduction of new, higher capacity equipment without increased operating and maintenance costs.
- 4.3 Even if there are certain matters at the margins of these benefits which will be quantified over time as the expansion project proceeds, this cannot be said to amount to "significant uncertainty" as to whether existing users of the terminal will benefit from the proposed works, which will upgrade and improve many of the facilities directly used to deliver services at the Terminal.

5. **CONCLUSION**

- 5.1 Having regard to the circumstances outlined above, Whitehaven submits that the QCA should exercise its discretion to uphold the findings made in its Draft Determination and socialise the costs of the 8X expansion.

Yours sincerely



Keiron Rochester
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Whitehaven Coal Limited