

Hunter Valley Access Undertaking Stand Alone / Incremental Cost Drafting

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ARTC

CONTEXT

- On 6 June 2016 the ACCC issued its final determination for ARTC's 2013 compliance assessment.
- The effect of the ACCC's decision was to:
 - Define the stand alone cost for Pricing Zone 1 and 2.
 - Determine the incremental costs (maintenance and capital at an asset component level) associated with Pricing Zone 3 Access Holders' use of Pricing Zone 1.
 - Allocate incremental costs between traffics on the basis of actual usage in Pricing Zone 1.
- The resulting variable nature of incremental cost has lead to:
 - A substantive change in the TOP / Non-TOP differentials in Pricing Zone 1 for access charges for 2016 H2 onward.
 - A higher degree of pricing uncertainty and volume risk for Producers, depending on actual tonnages railed.

INCREMENTAL CAPITAL

Simplistic Illustrative Example

Zone 1 - Major Capital Project A

Cost \$100
 Depreciation \$10

Traffics originating in:	PZ3	PZ1/2	PZ1 Total
% Contract	35%	65%	100%
% Forecast	38%	62%	100%
% Actual	32%	68%	100%

Pre 2013 Compliance Determination

Fixed Incremental 100% Contract Allocator
 0% N/A

Post 2013 Compliance Determination

Fixed Incremental 50% Contract Allocator
 50% Actual Allocator

	Fixed (TOP)	Fixed (TOP)	Incremental (Non-TOP)	Total
Depreciation	\$10.00	\$5.00	% Alloc \$5.00	\$10.00

Contribution to Depreciation - For Pricing

PZ3 Access Holders -
 Constrained Traffics (PZ1/2) \$10.00

Contribution to Depreciation - For Forward Pricing

PZ3 Access Holders - 38% \$1.90
 Constrained Traffics (PZ1/2) \$5.00 62% \$3.10 \$8.10

Contribution to Depreciation - For Compliance

PZ3 Access Holders -
 Constrained Traffics (PZ1/2) \$10.00

Contribution to Depreciation - For Compliance

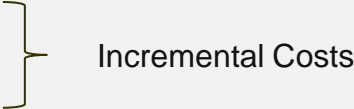
PZ3 Access Holders - 32% \$1.60
 Constrained Traffics (PZ1/2) \$5.00 68% \$3.40 \$8.40

Under / (Overs) Constrained Traffics (PZ 1/2) -

Under / (Overs) Constrained Traffics (PZ 1/2)

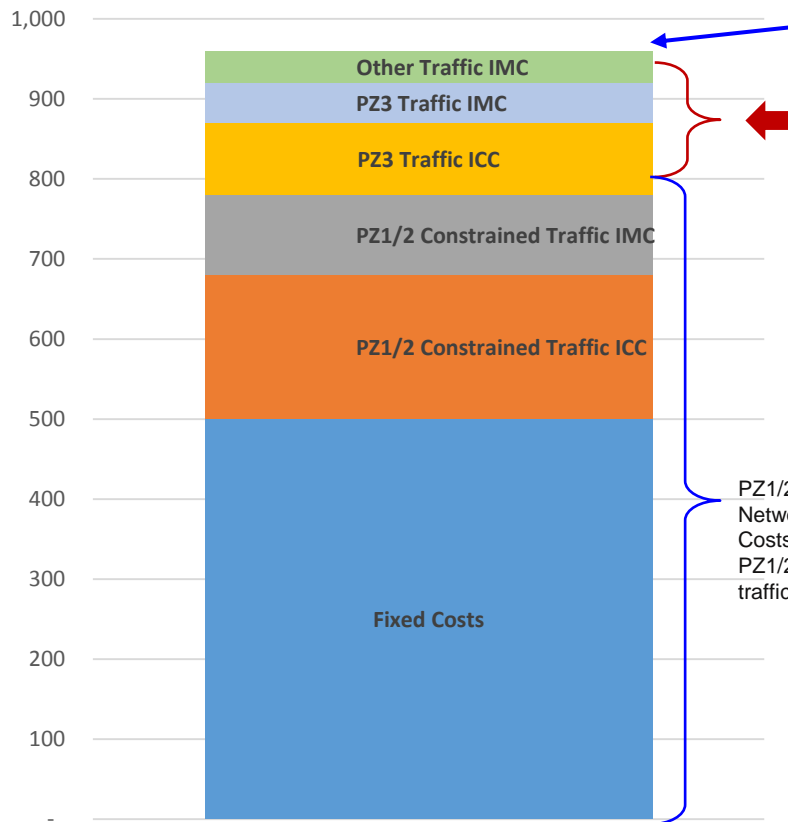
\$0.30

PROPOSED DRAFTING FOR 2017 HVAU

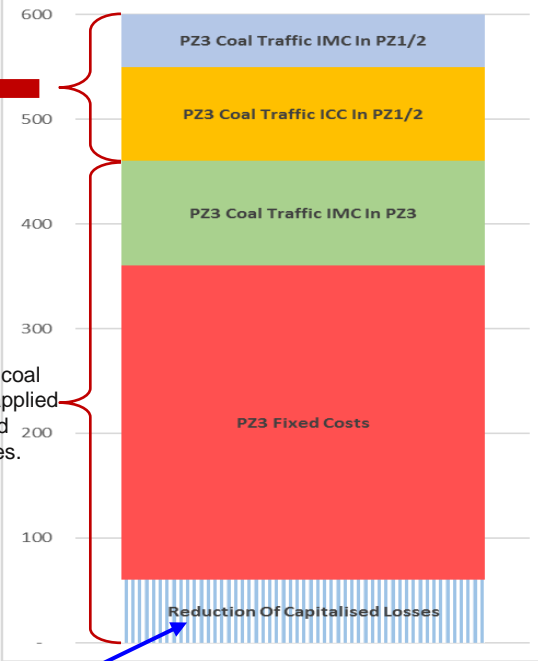
- ARTC has prepared drafting changes to incorporate the effect of the ACCC's 2013 compliance determination and WIK's approach. The changes:
 - Simplify the cost definitions:
 - Incremental Capital Cost
 - Incremental Maintenance Cost
 - Fixed Costs

Incremental Costs
 - Provide certainty that Pricing Zone 3 Access Holders will contribute incremental costs in Pricing Zone 1. To achieve this:
 - The stand alone costs (revenue ceiling) for Pricing Zones 1 and 2 excludes the incremental costs of Access Holders who's coal trains do not originate in those zones (eg Pricing Zone 3).
 - Revenue from Pricing Zone 3 Access Holders is first allocated to incremental costs with the remainder to Pricing Zone 3 segments.
 - Once capitalised losses are fully recovered, Pricing Zone 3 will be considered a separate Constrained Network and have a separate ceiling test to ensure continued contribution of incremental costs in Pricing Zone 1 by Pricing Zone 3 Access Holders in line with the ACCC 2013 determination.

PZ1/2 Constrained Network Costs



PZ3 Traffic Revenue Allocation



Recovered from non-coal and 'interstate' coal traffics

Remaining PZ3 coal traffic revenue applied to PZ3 costs and capitalised losses.

PZ1/2 Constrained Network Ceiling Costs recovered from PZ1/2 constrained traffics.

Once PZ3 becomes constrained, unders/overs mechanism will apply.

PROPOSED DRAFTING FOR 2017 HVAU

- ARTC is proposing one change to the WIK approach which is to allocate incremental capital costs based on contractual commitments rather than actual utilisation. This approach will:
 - Realign with the commercial framework take or pay principles.
 - Reduce pricing uncertainty for Producers.
- Incremental capital costs in Pricing Zone 1 will be recovered as take or pay charges.
- This will restore the approximate 85-90% portion of the overall pricing as take or pay charges in Pricing Zone 1, with the allocation of capital costs not being variable within a year based on actual utilisation.

INCREMENTAL CAPITAL

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% Actual	32%	68%	100%

Post 2013 Compliance Determination

Fixed 50% Contract Allocator
 Incremental 50% Actual Allocator

	Fixed (TOP)	Incremental (Non-TOP)	Total
Depreciation	\$5.00	% Alloc \$5.00	\$10.00

Contribution to Depreciation - For Forward Pricing

PZ3 Access Holders	-	38%	\$1.90	\$1.90
Constrained Traffics (PZ1/2)	\$5.00	62%	\$3.10	\$8.10

Contribution to Depreciation - For Compliance

PZ3 Access Holders	-	32%	\$1.60	\$1.60
Constrained Traffics (PZ1/2)	\$5.00	68%	\$3.40	\$8.40

Proposed 2017 HVAU

Fixed 50% Contractor Allocator
 Incremental 50% Contractor Allocator

	Fixed (TOP)	Incremental (TOP)	Total
Depreciation	\$5.00	% Alloc \$5.00	\$10.00

Contribution to Depreciation - For Forward Pricing

PZ3 Access Holders	-	35%	\$1.75	\$1.75
Constrained Traffics (PZ1/2)	\$5.00	65%	\$3.25	\$8.25

Contribution to Depreciation - For Compliance

PZ3 Access Holders	-	35%	\$1.75	\$1.75
Constrained Traffics (PZ1/2)	\$5.00	65%	\$3.25	\$8.25



Under / (Overs) Constrained Traffics (PZ 1/2)

\$0.30

Under / Overs Constrained Traffics (PZ 1/2)