



PORT WARATAH COAL SERVICES

19 February 2016

Mr Matthew Schroder
General Manager
Infrastructure & Transport – Access & Pricing Branch
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE. VIC 3001

By email: transport@accc.gov.au

Dear Matthew

AUSTRALIAN RAIL TRACK CORPORATION'S 2016 HUNTER VALLEY ACCESS UNDERTAKING - CONSULTATION PAPER

Port Waratah Coal Services Limited welcomes the opportunity to comment on the development of the Australian Rail Track Corporation's 2016 Hunter Valley Coal Network Access Undertaking (HVAU).

As a provider of coal export terminal facilities at the Port of Newcastle, ARTC's arrangements can directly impact on Port Waratah's operations as the substantial majority of coal shipped through our terminals is delivered by rail. Contractual and operational alignment between Port Waratah and ARTC was a key focus area at the time of developing the Capacity Framework Arrangements for the terminals and the 2011 HVAU. We recognise that some of the intended alignment outcomes have not been achieved to date and there has been a significant change in the coal industry environment in recent years. We however remain firmly of the view that greater alignment between the terminals, track and trains should be the goal and improvements can be made in the 2016 HVAU to support this.

The comments provided in this submission are limited to those aspects that are likely to directly impact Port Waratah and we have sought to align these comments with the relevant broader section headings outlined in the Consultation Paper as follows:

Term

Port Waratah supports aligning the timing of the 2016 HVAU to the broader calendar year operational and commercial cycle in the Hunter Valley. We also support Producers having the opportunity to align the term of their track arrangements with their existing ten year long term ship or pay terminal contracts.

Access Pricing Principles

Port Waratah supports access pricing principles that provide transparency and economic incentives for efficient use of Coal Chain capacity. Where price differentiation applies, we believe it should accurately reflect the relative cost of providing capacity for each type of service and not provide a cost subsidy to those who elect to not utilise the more efficient services.

Port Waratah considers that 'path based pricing' is aligned to the above principle.

Capacity Management

Whilst Port Waratah is not party to the contractual arrangements between ARTC and access holders, decisions by ARTC in managing track capacity impacts and contracts have flow on effects to Port Waratah. Positive performance incentives may lead to beneficial results for capacity and logistics costs, however mechanisms are also required to deal with capacity shortfalls on track. It is important to us that track capacity losses are identified and assigned to access holders, and that ongoing access rights to the coal chain are not triggered in excess of the lesser of track and terminal system capacity as adjusted for losses, otherwise this may result in high vessel queues and demurrage costs for Producers. Port Waratah's capacity and performance management system should not be relied on by ARTC to deal with the allocation of losses of track system capacity.

Capacity Investment Framework and RCG

There has been substantial capacity investment since the commencement of the 2011 HVAU. In recent years however, there has been a significant change in the coal industry environment. The focus has now shifted from rapid growth to the optimisation of infrastructure and cost reductions. The 2016 HVAU should be responsive to a range of industry conditions and cater for additional investment, optimisation of existing infrastructure and possible contraction of capacity where appropriate.

In terms of the membership of the RCG, we consider that representation by the terminal operators (in a non-voting capacity) could add value and context to the discussions of the group and contribute to addressing alignment issues.

Performance Measurement and Incentives

The current operational context of the Hunter Valley export coal industry is very different from that of several years ago. Port Waratah supports 'key performance indicators' and efficiency incentive proposals that are sufficiently agile to optimise coal chain performance at any given time.

Indicative Access Holder Agreement (IAHA) and Indicative Operator Sub-Agreement (IOSA)

The development of the 2016 HVAU presents an opportunity to review areas of misalignment or inefficiency with above rail operations from a system perspective and to facilitate these matters through the review and modification of these agreements.

In terms of access rights, the absence of identifying train paths by terminal operator means that the terminals (and HVCCC) do not have a clear view of their individual potential throughput. Port Waratah supports the proposal to include an indication of coal export volumes by exit terminal operator (Port Waratah or NCIG) as this would provide the terminal operators with greater transparency of volume differences.



The structure of ad hoc pathing also presents shorter term planning issues in that the availability or not of ad hoc paths is generally not confirmed until close to cargo assembly which has potential impacts for stockpile planning and order of vessel loading. This issue can lead to inefficiencies and costs for Port Waratah and its Customers, and should be reviewed.

Potential Privatisation of ARTC

Contractual and operational alignment between Port Waratah and ARTC was a key focus area at the time of the development of the Capacity Framework Arrangements. We remain firmly of the view that greater alignment between the terminals, track and above rail operators should be the goal.

Port Waratah believes it is important that any future owner(s) of ARTC are committed to the Capacity Framework Arrangements, the continued participation in and support of the role of the HVCCC in the coordination and alignment of the Hunter Valley export coal chain and the sound competitive pricing of services in a manner reflective of their cost.

Other Matters

As noted above, Port Waratah is not directly impacted by matters pertaining to ARTC's internal pricing and return requirements, including rates of return (WACC), access pricing structures and 'True Up Tests'. Broadly, Port Waratah supports regimes and systems that provide transparent pricing structures that facilitate the efficient use and provide the optimal management of the broader coal chain.

We are happy to engage with the ACCC and ARTC as it continues to finalise the 2016 HVAU. Please do not hesitate to contact me on (02) 4907 2344 if you wish to discuss this submission further.

Yours sincerely



HENNIE DU PLOOY
CHIEF EXECUTIVE OFFICER

