Submission to the
Australian Competition and Consumer Commission

HVAU Revenue Allocation Review

Anglo American Metallurgical Coal Pty Ltd

29 August 2014

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1 Executive Summary

Anglo American Metallurgical Coal Pty Ltd (***Anglo American***) welcomes the opportunity to provide this submission to the Australian Competition and Consumer Commission (***ACCC***) in response to the release of the ACCC Discussion Paper on the ARTC HVAU revenue allocation review.

Anglo American believes that the current HVAU does not provide the required clarity around the pricing/revenue allocations used between constrained and unconstrained zones, particularly expansion capital works.

Additional transparency and consultation was needed for producers to fully understand the revenue allocation ramifications for both the share of the common fixed costs and capital works being undertaken in PZ1. That is, Anglo American was unaware that PZ3 was not contributing to the PZ1 common corridor cost or capital works cost.

Had producers understood the specifics of the pricing/revenue allocation methodology, it may have led to different outcomes in capital project identification and cost allocation by PZ for the common corridor PZ1 projects.

Anglo American is of the opinion that each PZ should be responsible, at least, for their variable costs and share of capital works on the common corridor (PZ1).

2 Background

Anglo American provides this submission to the ACCC in response to the ACCC's request for information in relation to the ARTC HVAU revenue allocation review.

Anglo American, has operations in the Hunter Valley including in Pricing Zone (***PZ***) 1, exporting though the port of Newcastle.

3 Response to ACCC Questions

3.1 What information has ARTC provided to stakeholders about its revenue allocation practices?

It is noted in the ARTC Submission that Anglo American has received access undertaking consultation documentation in 2008. By this reference, it is assumed Anglo American was provided with the same materials as other stakeholders, in particular other Hunter Valley producers, and prior to the HVAU being approved. Anglo American, as a (represented) member of the Rail Capacity Group (***RCG***), has received the materials distributed to that group. Anglo American is not aware of any information provided to it specifically in relation to ARTC’s revenue allocation practices.

3.2 To the extent that ARTC has provided information on revenue allocation, has it been sufficient to understand how ARTC allocates revenue across Segments of the network?

Anglo American has identified an issue (as set out in Section 3.4 of this Submission) which suggests that the basis on which ARTC’s revenue allocation is conducted is not entirely clear or sufficent.

3.3 Do stakeholders consider they have sufficient information about ARTC's revenue allocation/reconciliation processes to make informed business and investment decisions?

On the basis of the issues in Section 3.4, it appears that ARTC's revenue allocation/reconciliation processes are not fully transparent so as to enable informed business decisions to be made.

3.4 Please identify and explain any other matters relevant to this revenue allocation review?

Anglo American (and it is assumed other producers) was not fully aware of the implications regarding construction of pricing between the constrained PZ1/PZ2 and unconstrained PZ3.

It is now apparent that PZ1 and PZ2 bear the full PZ1 fixed allocations for common costs and incremental expansion capital costs. That is, PZ3 is not allocated any share of the PZ1 incremental expansion capital projects, which it will utilise.

Anglo American was of the understanding that each PZ was contributing to their share of the PZ1 common corridor and expansion requirements. Clearly, this is not the case.

Capital projects within PZ1 have not been specifically layered into their respective PZ incremental expansion requirement. Rather, projects have been pooled to meet the gross system expansion requirements of PZ1, PZ2 and PZ3. It is now clear from the ARTC documentation that the pooling of projects, in this manner, works against the allocation of the respective share of these costs back to PZ3.

It could be argued that this incremental layering of projects may have actually been required by producers to be undertaken, if the pricing methodology was fully understood by producers. This would have made it clear what "avoidable" PZ3 incremental capital works fell within PZ1 that would have formed part of the pricing construct for PZ3, not PZ1 or PZ2.

Regardless of this and previous pricing decisions by IPART or ARTC, each PZ should be responsible, at least, for their variable costs and share of capital works on the common corridor (PZ1).

4 Conclusion

Anglo American considers, on the basis of the above, that there has not been sufficient transparency or consultation for producers to understand how ARTC intended to construct pricing between the constrained PZ1/PZ2 and unconstrained PZ3. This potentially has led to PZ1 and PZ2 paying for the incremental PZ3 expansion requirements falling within PZ1.

Had this been fully understood, then it is likely that the producers would have sought a different capital project and fixed cost allocation outcome.