出光
IDEMITSU

Idemitsu Australia Resources Pty Ltd
ABN 45 010 236 272
Level 28, 10 Eagle Street
Brisbane, QLD 4000 Australia
GPO Box 1127, Brisbane QLD 4001 Australia
TEL +61-7-3222-5600 FAX +61-7-3222 5665

22 August 2013

Mr Matthew Schroder
General Manager
Fuel, Transport and Prices Oversight Branch
Australian Competition and Consumer Commission
GPO Box 520
Melbourne Vic 3001

(By email: transport@accc.gov.au)

Dear Mr Schroder

ARTC's Proposed Variation to the Hunter Valley Rail Network Access Undertaking to include Gap to Turrawan Segments

Idemitsu Australia Resources Pty Ltd (**Idemitsu**) welcomes the opportunity to provide the following submission in regards to the Consultation Paper issued (23 July 2013) by the Australian Competition and Consumer Commission (**ACCC**) in relation to the Australian Rail Track Corporation (**ARTC**) Proposed Variation to the Hunter Valley Rail Network Access Undertaking as varied on 17 October 2012 (**HVAU**) to include Gap to Turrawan Segments.

1. Introduction

Idemitsu is an active coal producer located in both the Hunter Valley and the Gunnedah Basin, utilising the current Hunter Valley Rail Network (**Network**) as defined in Schedule B of the HVAU. As part of Idemitsu's logistic operations from its Boggabri Mine located in the Gunnedah Basin coal is transported by rail originating in the Gap to Turrawan section, which is not currently defined as part of the Network under the HVAU. Historically, the Gap to Turrawan section was controlled by the Country Rail Infrastructure Authority (CRIA), however from 1 July 2011 this section was incorporated into the ARTC's Hunter Valley lease with the NSW Government. It is assumed these lease arrangements appropriately addresses the acquisition of the rail infrastructure assets contained in this section.

It is Idemitsu's understanding ARTC seeks the ACCC's approval to vary the HVAU by incorporating the Gap to Turrawan section as part of the Network from 1 January 2014. Under the proposed variation Pricing Zone 3 will be extended to incorporate Gap to Turrawan. ARTC has engaged a consultant to provide a Depreciated Optimised Replacement Cost (DORC) valuation of Gap to Turrawan as a means of establishing a Regulated Asset Base (**RAB**) which is currently not present under the New South Wales Rail Access Undertaking (**NSWRAU**). Until such a variation is approved Gap to Turrawan section will remain regulated under the NSWRAU.

Services originating from the Gap to Turrawan section are required to travel on the Network through Pricing Zone 3 and Pricing Zone 1 to arrive at the Port of Newcastle. Gunnedah Basin coal producer's trains share the Gap to Turrawan section and Pricing Zone 3 rail infrastructure with non-coal services such as grain, cotton, general freight and passenger.

The key components of the ARTC application are:

(i) extension of the existing Pricing Zone 3 to incorporate the section from the Gap to Turrawan into the Network;

(ii) establish an asset valuation using a DORC valuation for the Gap to Turrawan;

(iii) forecast Initial Indicative Access Charges for Initial Indicative Services for the extended Pricing Zone 3; and

(iv) drafting amendments to the HVAU to support the ARTC application.

1. Extension of Pricing Zone 3

Idemitsu considers the inclusion of Gap to Turrawan under the HVAU as reasonable and the most appropriate manner in which to undertake this is to extend the current Pricing Zone 3 rather than creating another Pricing Zone (such as Pricing Zone 4), but seeks the ACCC's consideration on such matters as the reasonableness of the proposed RAB value.

ARTC have outlined a number of potential benefits and efficiencies in extending Pricing Zone 3 which Idemitsu supports:

- All trains originating from the Gap to Turrawan section are also operated over the entirety of the existing Pricing Zone 3
- Infrastructure configuration and limitations in the Gap to Turrawan section is very similar to that of the existing Pricing Zone 3 (e.g. 25 tonne axle load trains, single track etc.)
- Network management arrangements on Gap to Turrawan sections are the same as existing Pricing Zone 3
- Both Pricing Zone 3 and Gap to Turrawan are both expected to be unconstrained
- Simpler and more efficient pricing arrangements
- Single application of the RAB, RAB Floor Limit, Loss Capitalisation and Unders and Overs Accounting
- Single application of the System Wide True Up Test to the extended Pricing Zone 3

ARTC has proposed the division of Gap to Turrawan into the four Segments based upon where each of the existing or proposed mines enter the Network:

- Gap to Watermark (31.1km)
- Watermark to Gunnedah (33.0km)
- Gunnedah to Boggabri (41.4km)
- Boggabri to Turrawan (27.0km)

This approach would seem consistent with that taken previously in Pricing Zone 1 and Pricing Zone 2.

In regards to the proposed lengths of the new Segments these are determined by the locations of a mine's entry to the Network and are consistent with the current Network methodology.

2. Depreciated Optimised Replacement Cost Valuation

It is Idemitsu's understanding that the Gap to Turrawan section was not ascribed a regulatory asset value under the NSWRAU and as such clause 4.4(a)(ii) of the HVAU is applicable and a depreciated optimised replacement cost (DORC) method of valuing the assets of this section should be applied to establish the initial RAB.

ARTC has provided a valuation report for Gap to Turrawan as at 1 January 2013 based upon an Optimised Replacement Cost (ORC) for each asset class and subsequent calculation of a DORC value for the asset classes.

Although DORC valuations are a common methodology in valuing infrastructure the application of the methodology in specific cases is subject to making a number of judgements and estimations, which may be subjective.

Idemitsu is not an expert in DORC valuations for rail networks and seeks the ACCC's consideration in regards to the reasonableness of the DORC valuation which establishes the initial RAB for the Gap to Turrawan section. Idemitsu has not conducted a detailed technical review of the valuation report in regard to the appropriateness of the judgements, estimations and interpretations used in the valuation report as they apply to such items as optimisation factors, depreciation per asset classification, replacement costs, unit rates, consumption, asset lives and asset classifications.

In regards to the appropriateness of mark ups applied to the direct costs in the valuation report it is Idemitsu's view these mark-ups are excessive and need further examination as they are all 100% or greater for the various asset classes.

Idemitsu is also concerned that the valuation may not be appropriate in regard to assets which will soon be scrapped. A significant infrastructure upgrade project is about to be undertaken in the Gap to Turrawan section (and in the Dartbrook to Gap section) converting 25 tonne axle load infrastructure to 30 tonne axle load infrastructure.. This substantial (financial and operational) project is being co-ordinated by ARTC with the support of current Gunnedah Basin producers. It should be noted there are other capacity related projects scheduled for construction in this section of the Network within the immediate future. Idemitsu considers the ARTC application and the valuation report has not sufficiently considered assets which will be disposed of by ARTC in the next 12 to 18 months as a result of Network improvements and upgrades. It would seem inequitable for a DORC value to be placed upon an asset which has an effective remaining life of only 12 to18 months unless the DORC value is calculated by reference to this very short remaining life. While the relevant assets may well have a physical remaining life which is greater than 12 to 18 months, it seems clear that the economic life or useful life of these assets will come to an end in 12 to18 months, and that the DORC value should reflect this fact.

3. Network Control Capital

The ARTC application provides for the allocation of Network Control capital based upon train kilometres, although this seems a practical method of allocation, it is not appropriate in this instance. The allocation of capital by distance within the Network does not provide a true representation of the required capital or application of such capital. It is Idemitsu's view there is no correlation between distance and the increased requirement for capital when considering Network Control capital. The extended Pricing Zone 3 is less congested in regards to train numbers and much greater distances between signals thus the amount of Network Control capital required to manage this would seem less when compared to Pricing Zone 1 where the Network is more congested and train numbers greater.

4. Assumptions/Limitations (Section 5)

Idemitsu considers the assumptions outlined in Section 5 of the valuation report to be fair and reasonable (e.g. brownfield construction, land acquisitions, access roads etc.)

In Appendix 6 of the valuation report a network map has been provided on the configuration (used to support the coal task in the extended Pricing Zone 3) considered in the DORC valuation Idemitsu acknowledges the configuration does support the coal task, however a number of the loops and sidings are used by other services (i.e. grain, cotton, freight and passenger services) which share the Gap to Turrawan section, the valuation report has suggested these have all been removed but don't contemplate the shared infrastructure.

5. Roll Forward 1 January 2013 DORC Valuation

ARTC's proposed roll forward of the 1 January 2013 DORC valuation subject to ACCC approval in accordance with the principles of the NSWRAU to 1 January 2014 are consistent with previous sections of the Network, specifically the initial Pricing Zone 3 RAB.

6. Indicative Service and Indicative Access Charges

ARTC proposes the rail infrastructure from Gap to Turrawan will form part of Pricing Zone 3 (extended Pricing Zone 3) for the purpose of determining the Indicative Service and the Indicative Access Charges. Idemitsu acknowledges the proposed efficiencies and advantage outlined by ARTC in the application:

- simpler pricing process aligned with other Pricing Zones;
- single application of the RAB, RAB Floor Limit, unders and overs accounting, and loss capitalisation; and
- single application of the system wide true up test.

The proposed Initial Indicative Service for the extended Pricing Zone 3 is appropriate as this service is the Initial Indicative Service currently prescribed under clause 4.14(d) of the HVAU and is the service currently used by the majority of coal producers in Pricing Zone 3 and Gap to Turrawan section. This service was subject to final ACCC determination (17 October 2012) and modelled by the Hunter Valley Coal Chain Co-ordinator (HVCCC) for efficiency.

ARTC has provided the following Initial Indicative Access Charges for the extended Pricing Zone 3:

Extended Pricing Zone 3	Non TOP $/kgtkm (exc GST)	TOP $/kgtkm (exc GST)	Initial Indicative Service Characteristics
Initial Indicative Service 1	0.958	6.276	• 25 tonne axle load • 80kph max speed (loaded) • 80kph max speed (empty) • 1,350 metres max

In determining the above Initial Indicative Access Charge for extended Pricing Zone 3 ARTC has had regard to a number of assumptions such as coal volumes, forecast operating expenditure, RAB and RAB Floor Limit roll forward with (non-approved) assumptions and pricing objectives set out in clause 4.13 of the HVAU.

In regards to the Initial Indicative Access Charge, Idemitsu has concerns in regard to the following:

(i) General lack of transparency in regards to the Indicative Access Charge cost build up and sensitivity to the above assumptions, particularly the ability to compare like for like is lost due to the current Pricing Zone 3 versus extended Pricing Zone 3.

(ii) One of the primary assumptions in the extended Pricing Zone 3 Indicative Access Charge is the RAB and RAB Floor Limit roll forward. In developing the 2014 prices it is not sufficiently transparent to Idemitsu how much loss capitalisation from 2013 has been included in the RAB (in determining the 2014 Indicative Access Charge) and the potential impact on future year prices. Idemitsu believes it is essential for ARTC to provide transparency in regard to this issue.

(iii) Out-dated 2014 aggregate coal volumes proposed pricing is based upon September 2012 industry forecasts. It is Idemitsu's understanding ARTC has received a number of industry forecast updates since September 2012. Although this would be addressed in the annual pricing process it is important to understand the impact of any revised volumes for the extended Pricing Zone 3 on the Indicative Access Charges

7. Drafting

Idemitsu considers the proposed drafting currently represents the intentions of the proposed changes to the HVAU, however the ARTC application remains subject to ACCC approval and with a number of concerns raised in this submission there may be a requirement for further drafting amendments. In addition, Idemitsu notes the ARTC comments in its application extended Pricing Zone 3 does not contemplate any amendments to Tier 1 or Tier 2 provisions on the Indicative Access Holder Agreement.

In conclusion, Idemitsu acknowledges there is a process in the HVAU to establish an initial RAB value for Gap to Turrawan by using a DORC valuation methodology, however this process does not contemplate the reasonableness of the RAB produced from that process. It is in the interest of all stakeholders the initial RAB is independently tested for reasonableness to ensure confidence for all future pricing.

Idemitsu would like to thank the ACCC for its consideration on these matters and if further discussion is required please do not hesitate to contact Mr Craig Forster (Ph +617 3222 5623) or Mr Gary Costello (+61 7 3222 5675).

Yours sincerely

Lee Gordon
General Manager Marketing and Logistics