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Mr Martin Jones
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Dear Martin

Section 4.18 of the Hunter Valley Access undertaking – Determination of the Final Indicative Service (Efficient Train Configuration & Appropriate Pricing Unit)

Idemitsu Australia Resources Pty Ltd (Idemitsu) welcomes the opportunity to provide the following submission in relation to the two consultation papers published by the Australian Rail Track Corporation (ARTC).

ARTC makes the following comment in its letter dated 25 October 2013:

*“Whilst a combined submission in relation to both matters will be accepted, it is ARTC’s preference that separate submissions are made.”*¹

Separate sections of this submission provide Idemitsu’s comments and queries on the matters raised by these consultation papers in the following order:

- Introduction and general comments;
- The FIS paper²; and
- The Pricing Unit paper³.

The separate headings in the attached submission will allow ARTC to clearly identify feedback on the issues raised in its consultation papers.

¹ ARTC, Letter to Stakeholders, Section 4.18 of the ARTC Hunter Valley Access Undertaking – Determination of the Final Indicative Service, 25 October 2013.

² ARTC, Hunter Valley Access Undertaking, *Specification of Final Indicative Service (Efficient Train Configuration)*, October 2013.

³ ARTC, Hunter Valley Access Undertaking, Section 4.18 Determination of the Final Indicative Service, *Is gtkm the appropriate pricing unit to encourage efficient consumption of Capacity?*, October 2013.

Where Idemitsu believes additional issues are evident relating to each consultation paper, but are not mentioned by ARTC, it has provided separate feedback on the matter. It is appropriate these matters are raised for discussion in this consultation process because they have a direct effect on the outcomes of ARTC's implementation of the HVAU and a direct financial and operational impact on all access holders (and new access seekers) for rail capacity.

In addition, the Attachments to the submission provides specific responses to the questions or issues raised by ARTC in each of the relevant Consultation Papers.

Idemitsu has no objection to making this submission available to the Australian Competition and Consumer Commission.

Should you have any queries in regards to this submission please do not hesitate to contact me.

Yours sincerely



Craig Forster
Idemitsu Australia Resources Pty Ltd
Manager Logistics and Infrastructure

Section 4.18 of the Hunter Valley Access undertaking – Determination of the Final Indicative Service (Efficient Train Configuration & Appropriate Pricing Unit)

1. Introduction

The summary of the Idemitsu coal transport operation presented in our letter to the Australian Competition and Consumer Commission (ACCC) dated 26 September 2012, continues to apply. The summary is as follows:

“Idemitsu is a coal producer located in both the Hunter Valley and the Gunnedah Basin and as such utilises rail services originating from both Pricing Zone 1 (PZ1) and Pricing Zone 4 (PZ4). The Idemitsu rail coal haulage services for its Muswellbrook operations originate in PZ1 and travel from the load point to the port of Newcastle where the coal is exported, this entire journey is contained exclusively in PZ1. However, Idemitsu also has rail coal haulage services originating in the Gunnedah Basin PZ4, which must travel through PZ4, PZ3 and finally through PZ1 to its final destination at the port of Newcastle. Travelling these extended distances through three pricing zones is significantly challenging for Producers in PZ4 and PZ3, but this is only part of the journey, for these train services are further exposed to the unplanned events that can occur daily within the Hunter Valley Coal Chain (Coal Chain) and unlike PZ1 Producers must share the demand for the limited rail infrastructure (in PZ4 and PZ3) with other rail services such as cotton, grain, flour and passenger services.

Given these required rail services to transport coal from its mines to the port of Newcastle, Idemitsu is uniquely positioned to provide this submission as it operates rail services originating from both PZ1 and PZ3 (with regard to the HVAU).”

In the period since the introduction of the Interim Indicative Service⁴ (IIS), Idemitsu has continued to seek operational and cost efficiencies for both its own commercial drivers as well as for the benefits of the overall Coal Chain. This has occurred because of the need to remain competitive in the global coal export market in what is now a very difficult economic environment, and without the need for an additional pricing signal under the HVAU through application of an “aspirational” definition of the Final Indicative Service (FIS).

Consultation leading to the FIS

ARTC has provided the opportunity for some stakeholders in the Coal Chain to have input to the Stakeholder Reference Group (SRG) in development of the modelling undertaken by the Hunter Valley Coal Chain Coordinator (HVCCC).

⁴ The efficient train as initially defined in the HVAU.

Through a number of meetings of the SRG since late 2012, for which minutes have been distributed to stakeholders, this has provided limited opportunity for the stakeholders in Coal Chain to get an understanding of the train path optimisation modelling, and for ARTC to gather industry input on development of an economically sustainable FIS.

ARTC has now provided two consultation papers in accordance with the provisions of clause 4.18 of the HVAU, in which stakeholder feedback is requested within a one month timeframe, on a series of issues which are extremely complex and have implications for the competitiveness of coal producers using the Hunter Valley Rail Network (HVRN).

Idemitsu has a concern that the limited information provided and the short period for feedback is not sufficiently inclusive, adequate and detailed consultation which would be expected for such matters.

Information from the HVCCC

Idemitsu notes there has been limited information circulated on the HVCCC modelling and analysis process prior to the current consultation process. This has created some uncertainty for Idemitsu in how it should respond to these consultation papers.

Section 4.18 (c)(ii) of the HVAU says:

- “(c) *In consulting with the HVCCC, Access Holders and Operators, ARTC will:*
- (i) assist the HVCCC to undertake modelling; and*
 - (ii) will follow the principles of consultation set out in Schedule F, with the objective of determining the Coal Train configuration which will deliver optimum utilisation of Coal Chain Capacity and ARTC will use its best endeavours to agree with the HVCCC the characteristics to be submitted to the ACCC as the proposed Final Indicative Services.*”

Idemitsu requests ARTC to provide information to all access holder on whether or not ARTC has agreed the characteristics of the FIS with HVCCC. Further, it would be helpful for access holders to understand where ARTC has not agreed with what the HVCCC has recommended, so they can provide comments on any differences. This would assist ARTC in developing an FIS definition which is economically sustainable for the whole Coal Chain.

Modelling to support the FIS

Considerable effort has been undertaken by the HVCCC to develop modelling which supports the discussion of the many variables which impact on the development of a definition of the FIS. But in the ARTC consultation papers, the discussion provides numerous qualifications on the analysis and makes intuitive judgements (based on qualitative assessment) to arrive at the conclusions on an “aspirational” FIS. It is

unclear whether the lack of quantitative information provided in the consultation papers is because the modelling analysis is incomplete or it is inconclusive. Either way, the limited and qualified disclosure of information does not give access holders any confidence that the FIS proposed meets the requirements of the Coal Chain.

Of concern is the train configurations analysed have not been matched with estimates of the industry wide forecast capital, operating and maintenance expenditure requirements for both above and below rail investment which would allow those train configuration to operate. This limits the usefulness of the discussion, as optimisation of the rail network train paths may not necessarily equate to a practical FIS which enhances the near-term financial competitiveness and efficiency of the Coal Chain.

In addition, the access holders need to understand the impact of the proposed FIS on their operations. This has not been possible because ARTC has not disclosed the indicative pricing that it will charge to match the “aspirational” FIS. This is a critical input for access holders and would greatly assist with this consultation process.

An understanding of the financial impacts of the “aspirational” FIS is critical for coal producers to remain competitive.

2. Feedback on the FIS paper

In its FIS paper, ARTC make the following comment:

“With this in mind, and also being mindful of the limitations of the available modelling, ARTC is proposing to adopt an aspirational target which is reflective of a future train configuration that might be achieved within the medium term future.”⁵ (Idemitsu highlight)

The aspirational nature of the FIS is problematic. Current profitability pressures for coal producers have been sufficient for Idemitsu (and other producers) to invest in both above and below rail infrastructure to increase the HVRN capacity, which also has the indirect goal of reducing the coal producer’s unit costs. This investment has been through investment in the main line, mine infrastructure and through improved rolling stock. The aspirational nature of the FIS proposed is potentially a barrier to development for new and expanding mines, particularly for coal deposits in the west and north-west of New South Wales.

Idemitsu has concerns that the aspirational FIS as proposed will require significant investment by all stakeholders, which is ultimately borne by coal producers, and hence may not be an approach to improve economic efficiency within the overall Coal Chain.

⁵ ARTC, FIS Paper, page 22.

The following paragraphs cover some of the issues of concern to Idemitsu raised in ARTC's FIS paper.

Current Investment Program

Access holders are currently undertaking (via ARTC) significant investment which has been based on the characteristics of IIS and other settings used in the current pricing arrangements in the HVAU. The following are a list of some of large investment projects which have been or are soon to be undertaken:

- Hexham Relief Roads (PZ1) \$162m;
- KCT Arrival Roads (PZ1) \$156m; and
- 30 TAL Investments (PZ3 and PZ4) \$140m.

(Idemitsu notes there are a numerous other projects (in addition to the above) of lesser individual values, however in aggregate comprise a significant amount).

Idemitsu has major concerns the proposed FIS specifications will make the above and other rail infrastructure projects undertaken by ARTC and access holders in recent years ineffective as nearly all will require upgrades based upon dynamic loading, train lengths and infrastructure integrity.

Increase in train length

The combined efforts of ARTC, rail operators and Gunnedah Basin coal producers have rapidly increased train lengths for services originating from the Gunnedah Basin, which has improved train path capacity utilisation by Gunnedah Basin coal producers. This has occurred without the need for additional pricing signals under the indicative access charge arrangements within the HVAU. The following list demonstrates the rapid development of Gunnedah Basin train configurations:

- Initial 42 wagon trains (approx. 2006);
- Increase to 72 wagon trains (approx 2007);
- Increase to 80 wagon trains (2012);
- Increase to 82 wagon trains (2013);
- Minor increase to payloads per wagon (2013); and
- Target for 30 TAL (Q1 2015).

These changes to train configuration have required investment by both above rail operators and ARTC, however these have ultimately been underwritten by the Gunnedah Basin Producers through commercial arrangements. Such improvements have led to improved train path efficiency through increased payloads and overall increased utilisation of Coal Chain capacity which has benefited all stakeholders, all the while not requiring strong pricing signals and well in advance of the FIS.

These changes have train lengths [originating in the Gunnedah Basin] at a maximum of 1,350m which is approaching the existing limits of the passing loops for this

region. The train lengths originating in the Hunter Valley already operate at the passing loop limits at approximately 1,550m to 1,570m in length.

Therefore a suggestion to have an “aspirational” FIS at 1,606m (for 35 TAL) or 1,914m (for 30TAL) will require significant additional investment in below rail loop infrastructure in all pricing zones throughout the Hunter Valley and Gunnedah Basin. In addition, current signalling infrastructure is constructed for these current train lengths. To make appropriate adjustments to the HVRN to accommodate the proposed FIS will require considerable investment additional to current investment listed above. The degree that current investments will become stranded (or sunk) by adoption of this “aspirational” FIS has not been determined. Understanding the implications of the FIS in regards to HVRN projects about to be approved is paramount and raises the question of whether such HVRN projects are required and should be reviewed.

Difference between Options 2 and 3

ARTC has presented the modelling outcomes for three options in relation to the Gunnedah Basin train configurations as follows:

- Option 1: mass limited to current maximum at 25 TAL;
- Option 2: mass limited to current maximum at 30 TAL; and
- Option 3: mass constant across Gunnedah Basin, and central and western Hunter Valley (Idemitsu assume this to be 35 TAL).

While Idemitsu is actively participating in investing towards 30 TAL in the Gunnedah Basin, it is clear a move to a 35TAL will require significant additional investment to that already being undertaken to reach the 30 TAL.

Neither the 30 TAL (due to be implemented in the Gunnedah Basin in January 2015), nor the 35 TAL will be able to be run at the “aspirational” FIS train length of 1,914m or 1,606m respectively through the PZ4 or PZ3 zones of the existing Gunnedah Basin track (or indeed through the Hunter Valley through to Muswellbrook) due to passing loop restrictions and potential signalling issues. The additional train length will require significant additional investment in the Gunnedah Basin, and also at the ports (as identified in the consultation paper by ARTC).

Finally, the graphical representation of performance provided by ARTC (e.g. See Figure 1), indicates the major advances in train path volume efficiency arise in moving from Option 1 to Option 2. There is very little additional advantage in moving from Option 2 to Option 3, for any train payloads above 9,800t . While the modelling output has not explored Option 2 payloads between the current IIS at 9,100t (in PZ1) to the 9,800t, Idemitsu is yet to see an advantage for investment to reach 35 TAL which outweighs the potential costs, particularly for Gunnedah Basin coal producers.

Modelling for 208mtpa

Idemitsu notes that the Coal Chain volume throughput has been modelled at 208 Mtpa, which is based on the current contracted volumes. From the modelling output summary provided by ARTC, there are a number of points which arise which raise queries and suggest further information needs to be provided by ARTC to access holders so that they can better understand the outputs and make meaningful comments to assist ARTC in developing the FIS. These issues and queries are as follows.

- The “aspirational” FIS which has been modelled does not produce the 208 Mtpa contracted volume, and neither do higher train payloads. This raises the question as to what is limiting the Coal Chain throughput volume? It would assist stakeholders to comment if ARTC were to provide information on the reasons for the shortfall, so they can be discussed. Is it train path availability, loading and unloading capacity, port capacity or other?
- There is no information provided on how many train paths exist for each of PZ1, PZ2, PZ3 and PZ4 when the IIS and “aspirational” FIS definitions of coal train configuration are compared. It would be helpful to better understand the impact on train paths used by coal services and non-coal services when the FIS is operating, (i.e. grain, cotton, passengers etc.), and how many of these are “effective paths”?
- While some modelling with a higher assumed Coal Chain throughput volume has been undertaken no data has been presented on these outcomes. ARTC has presented Figure 2 as an approximation of what might happen at higher contracted Coal Chain throughput. Idemitsu suggests additional modelling be undertaken to produce the output at (say) 248 Mtpa and 288 Mtpa, so that this modelled output can be presented to the access holders. This will assist to provide more informed comments to ARTC.

Greenfields vs Brownfields investment

In its discussion on axle loads to be adopted in the FIS, ARTC draws a comparison to *“the new Fortescue iron ore railway in Western Australia [which] has been purpose built to a 40 TAL, 80 kph standard, and is currently looking to move this to 42 TAL”*⁶. Idemitsu does not think this is a valid benchmark to use because the Fortescue iron ore railway was designed and built in a greenfields environment and any development in the HVRN needs to occur in a brownfields environment. The brownfields environment increases costs for upgrading all aspects of the rail network from wholesale replacement of structures, major strengthening of the track and its formation, for longer loops, for locomotives and wagons, and for port infrastructure. The same issues arise with adopting an overseas AAR standard at 32.4 TAL, as similar changes to existing infrastructure would still likely be required.

Therefore Idemitsu believes such targets are not economically feasible in the current environment and with existing brownfields constraints.

⁶ ARTC, FIS paper, page 23.

Electrification for coal haulage

Idemitsu agrees with ARTC that at this stage electrification of the HVRN “*should not be a consideration for the FIS*”, nor within the period of the remaining engineering life of the current locomotives.

Conclusion on the Aspirational Nature of the FIS

Idemitsu believes the two “aspirational” FIS proposed by ARTC are not appropriate within the “*remaining economic life of the Network, based on weighted current anticipated lives for the mines serviced by the Network, is 19 years*”⁷. The information to justify its proposal has not been presented and made transparent.

If adopted, the “aspirational” FIS will have many of the coal producers paying for additional capacity in their access price which may not be needed in the term of the current or next HVAU, and which cannot be delivered in the foreseeable future. At the same time, coal producers will be required to make significant additional investments in load points, main line and passing loops and contribute to wagon upgrades.

While ARTC’s regulated asset base will likely be expanded as a result of these “aspirational” FIS definitions, the benefits for the broader Coal Chain stakeholders have not been adequately demonstrated within this consultation process.

3. Feedback on the Pricing Unit paper

The following paragraphs address the issues arising out of the Pricing Unit paper.

Approach to Capacity Reservation (TOP)

ARTC’s Pricing Unit consultation paper focuses on the take-or-pay (TOP) component of the access charging and its effect on efficient use of train path capacity by access holders, as required by clause 4.18 (b)(i) of the HVAU.

Use of gtkm as TOP Billing Unit

The level of gtkm on which TOP charges are payable is locked into contracts based on a forecast tonnage profile and train characteristics of each access holder. This turns what appears to be a variable price into a fixed charge. Other billing units, such as train kilometres (tkm), if applied in the same manner, will provide a similar result. The TOP charge is effectively a fixed \$/month amount, despite being expressed in terms of \$/gtk. It is the fixed nature of the charge which provides a large incentive for each access holder to maximise the tonnage they are able to transport using their reserved train paths.

In ARTC’s proposed approach, price signals to drive efficient operations come from the calculation of differential \$/gtk prices, rather than from the expression of the price elements. Depending on how this is applied, this approach could potentially

⁷ ARTC FIS paper, page 5.

lead to similar outcomes and signals as are achieved under the Central Queensland Coal Network (“CQCN”) multi-part tariffs. In the CQCN case, the multipart tariff is intended to provide certain signals. For example, AT2, the ‘per path’ element, will provide a strong incentive to maximise payloads, while the gtkm element provides an incentive (where possible) to minimise the ratio of train weight to payload. This approach provides a very transparent method to adjust the effective cost of access for trains of various configurations. However, the reference tariffs are applied only to Reference Trains, which must have certain characteristics. For trains which are not Reference Trains, Aurizon Network may propose alternative tariffs based on certain criteria. Where this occurs (which is rare), the situation becomes similar to ARTC’s approach, in which a price is calculated for a non-indicative service based on certain criteria.

Idemitsu does not have a strong preference between these approaches, and on this basis is comfortable with the ARTC approach, however, Idemitsu does consider that substantially more transparency is required in regard to ARTC’s pricing of non-indicative services.

The information provided by ARTC regarding the basis of pricing non-indicative services is insufficient. The document is a broad description of matters which ARTC may “*have regard to*”. This provides customers with no ability to predict the pricing impacts of choosing to run a non-indicative service, and no effective ability to challenge ARTC’s determination of such prices. This is a particularly strong concern for Gunnedah Basin coal producers, given that it will not be possible to operate trains which comply with the FIS, and in fact it may be uneconomic, even in the long run, to seek to do so. In these circumstances, Idemitsu suggests that an FIS for the Gunnedah Basin should be developed. This will inform users of the train characteristics which are optimal in the long term, which may not be the same as the Hunter Valley FIS. Until this is developed, Idemitsu suggests that the basis of establishing access charges for these services should be clarified.

The following sections respond to ARTC’s specific questions on pricing mechanisms.

Use of tkm as TOP Billing Unit

As discussed above, Idemitsu considers that the units in which TOP elements are expressed is of little relevance when applied on a fixed basis to contracted volumes.

Use of Multi-part pricing

Idemitsu sees little benefit in a move to multi-part pricing, provided the basis on which ARTC calculates charges for non-indicate services is transparent, predicable and reflects capacity consumption and cost impacts.

Pricing for Coal Chain efficiency

ARTC raises the issue of whether a multi-part billing unit price structure may enhance the overall coal chain efficiency in the Hunter Valley. To the extent that this is possible, it can be achieved through the methodology employed to calculate charges for non-indicative services. Multi-part pricing is not required to achieve the desired outcomes.

Idemitsu also considers the role of ARTC in driving overall Coal Chain efficiency is subject to significant constraints. ARTC does not know the costs structures and the operational requirements of the mines, or the above rail haulage operators, or the ports operators, or the shipping companies. Each of these sub-sectors of the Coal Chain need to be responsible for their own pricing and operational performance, so that the competition in supply of such services, where possible, can lead to more efficient market outcomes.

The access holders in the Hunter Valley realise that co-ordination of planning and investment effort in the Coal Chain is critical to success for the coal mines and infrastructure owners, and their efforts through the HVCCC are aimed at delivering a more economically efficient outcome which benefits all. However, the model of competition in an open access rail and shipping environment can only go so far to replicate the potential outcomes from single ownership of all monopoly coal transport infrastructure. The output of HVCCC could be improved where additional confidential information on train costs were integrated with the rail and port investment and operational costs, and combined with the train path efficiency algorithm. Unless this more detailed analysis were done there appears little benefit in multi-part tariffs seeking sector-wide economic efficiency, as their basis through lack of complete cost information would be dubious.

The current approach to have separate pricing for the services provided by different access holders in the Hunter Valley, should provide reasonable outcomes in economic efficiency terms, provided the incentives embedded in prices for each service provider encourage efficient usage by each service user.

ARTC billing system complexity

As ARTC has indicated in its consultation paper a change to multi-part billing units will require it to undertake “*substantial re-development of ARTC’s billing systems*”. Idemitsu does not believe the costs of such re-development will further enhance the economically efficient use of the train paths in the HVRN. Also as access holders will eventually wear the recovery of these additional costs, Idemitsu cannot see the need for the additional complexity of moving to multi-part billing units.

Additional points related to billing

The following sub-sections provide additional support for Idemitsu’s position and on other matters which ARTC has not raised in the Pricing Unit consultation paper, but which are relevant to a consultation on matters associated with access pricing.

Approach to Non-TOP Billing Unit

ARTC has developed an HVAU which has a very strong emphasis on capacity investment and usage through the TOP billing arrangements which seek to recover fixed operating costs, depreciation being return of assets, and return on assets (assets being those existing and those commissioned during any year). The non-TOP billing arrangements seek to recover variable operating costs as direct costs based on usage, in this case with a billing unit of gtkm for both the Initial Indicative Access Charge (refer table in clause 4.17 (d) of the HVAU) and the Indicative Access Charge (refer table in clause 4.14 (c) of the HVAU).

Idemitsu accepts the continued use of gtkm as the billing unit for Non-TOP pricing under the FIS arrangements but is uncertain whether this billing unit meets the efficiency requirement for the HVAU.

Simplicity or Complexity

Idemitsu is of the view that simplicity of approach for TOP and Non-TOP access pricing should be preferred over complexity. The approach ARTC adopts should also provide access holders with simply structured but appropriate pricing signals to provide incentives to encourage access holders in the appropriate direction for improved efficiency.

Transparency in pricing determinations

While Idemitsu applauds ARTC in its commitment to the guidance provided by the HVAU, it also believes the amount of transparency provided by ARTC in the overall price setting process could be improved.

For example the consultation papers provided by ARTC do not provide the equivalent access charge table as was provided for the interim indicative pricing table in clause 4.17 (d), and as provided for annually in relation to clause 1.14 (c) of the HVAU.

Given ARTC has proposed an “aspirational” FIS in these consultation papers, it would enhance the consultation process with access holders if it were prepared to provide the access charge table which is associated with this “aspirational” FIS and with existing non-indicative services.

Idemitsu acknowledges that under clause 4.18 (b) consultation appears limited to the characteristics of the FIS and the Billing Unit to encourage the efficient consumption of capacity, but under clause 4.18 (d)(ii) ARTC must submit to the ACCC the proposed indicative access charges for the proposed FIS.

ARTC’s submission to the ACCC would be enhanced where the indicative access charges proposed by the ARTC relating to the “aspirational” FIS have been shared with the HVRN access holders and subject to consultation with the access holders.

While the ACCC could and likely will require consultation with all access holders before it approves the FIS., the pricing unit and the access charges for the FIS, an earlier disclosure of the access charges will shorten the consultation process.

The goal of economic efficiency

In ARTC's consultation papers efficiency is used to refer to a single dimensional efficiency, such as 'train path efficiency'. This may not correlate well with the economic efficiency concept across the whole Coal Chain. This is because of the significant inter-relationships between the different elements of the Coal Chain transportation infrastructure, and the separate nature of the pricing of each element.

Indeed ARTC's comment that "*it is not clear that pricing with respect to the use of the terminals, nor above rail resources, is differentiated having regard to consumption of Coal Chain Capacity*" and therefore "*it is arguable as to whether pricing with respect to one part of the Hunter Valley Coal Chain (the rail network) should be used to provide incentives to use Coal Chain Capacity efficiently*"⁸.

Idemitsu believes this is a valid point, and therefore advocates caution in trying to force train path efficiency as the primary driver of overall Coal Chain capacity efficiency. Large signals are not likely to succeed and may damage the overall competitiveness of coal producers. The pricing mechanisms for the port infrastructure and above rail operators need to work competitively to enhance the approach adopted by ARTC.

Transparency of FIS Pricing

Idemitsu is concerned there is no disclosure or transparency of the aspirational FIS pricing (access charges) or any associated disclosure on potential differentiation for any non-indicative services (Idemitsu notes the methodology identified in Attachment A, Table 2). These need to be appropriately disclosed to all HVRN access holders to enable them to understand and assess the financial impacts of the proposed FIS to their respective operations.

Conclusions on Billing Units and related matters

Idemitsu accepts that a billing unit based on gtkm using forecast data for the TOP component of cost recovery for ARTC.

Idemitsu accepts that a billing unit based on gtkm using actual data for the Non-TOP component of cost recovery for ARTC.

Idemitsu has a significant concern that ARTC's proposals:

⁸ ARTC, Billing Unit paper, page 22, paragraph 4.

- Require further transparency and disclosure so that access holders can make more informed submissions on the pricing impacts of moving to the FIS, including impacts on pricing for non-indicative services;
- Will encourage it to undertake capital expenditure projects which are not as yet needed for the current and near term contractual export commitments of the coal mines in the Hunter Valley.

Attachment A – Detailed Response to FIS paper

ARTC (Clause 6, page 25. Last dot point) The setting of an aspirational target for the FIS will also mean that the Final Indicative Access Charge (FIAC) will be aspirational. ... As the FIS represents a higher payload Coal Train configuration (resulting from longer length and/or axle load) than existing Coal Train configurations, it could be expected that pricing for existing Coal Train configurations will be higher than the FIAC (on a per GTK or tonne basis).

The HV access holders are already moving towards these “aspirational” FIS targets because increased payload per train path reduces each mine’s unit costs and improves their profitability, so there is no need for an additional price signals to drive mines or rail operators towards these targets. The justification for increasing a regulated asset base for no benefit beyond the existing business-as-usual (BAU) scenario, needs to be further considered by ARTC.

ARTC (Executive Summary, page iv) - The modelling is dependent on a precise location and profile of demand and it is known that the model is very sensitive to demand location. Therefore, it was not possible to gain a reliable indication from the model how the various train configurations might perform under circumstances in excess of 208 Mtpa

Idemitsu agrees that that the location of new mines and their production profile is uncertain, and that this affects the HVCC modelling of efficient train paths. Therefore it is unclear to Idemitsu why an “aspirational” FIS is assumed which aims to free up coal paths in the Gunnedah Basin, when mine expansion could well be in PZ2 to the west or towards Stratford to the north-east in PZ1. Train path constraints in PZ3 and PZ4 may not be the limiting issue on Coal Chain capacity in the Hunter Valley, where new mines are not locate in PZ3 or PZ4.

ARTC (Exec Summary, page vi) - The adoption of these FIS configurations will require an as yet unknown level of capital expenditure and may also have operating cost impacts for various service providers.

Economic efficiency can only be reasonably measured for an interrelated network system when estimates of the overall costs and benefits are included with operational optimisation to arrive at project (or scenario) comparisons on a Net Present Value (NPV) basis, inclusion of this additional element may enhance the outputs of the HVCCC modelling analysis and allow more informed decisions by ARTC with the oversight of the Coal Chain stakeholders.

ARTC (Clause 2.2, page 5) – However, anecdotally, it is understood that the Network access charge is not the most expensive component of the overall transport task.

Idemitsu would like to clarify that such an assumption is not accurate for all coal producers, particularly those based in the Gunnedah Basin and other areas limited by rail infrastructure.

ARTC (Clause 2.2, page 5, third dot point) - The making of such infrastructure modifications will be the responsibility of parties other than ARTC and ARTC is unlikely to be able to significantly influence the timing of such modifications by itself.

If this is truly the case, ARTC should not be proposing to use an “aspirational” FIS to impose penalty pricing on coal producers for rail access which is unlikely to improve the economic efficiency of the overall HV Coal Chain.

ARTC (Clause 2.2, page 6, second paragraph) - The adoption of the medium term allows for some degree of stability without locking in the train configuration beyond the reasonably foreseeable future nor locking out as yet unknown future technologies

ARTC has not properly defined the “medium” term in years. If train operators and rail infrastructure providers have significant assets with 19 years or above remaining economic lives, an “aspirational” FIS well outside current rail network structural and below track assets will likely reduce coal producer’s competitiveness by unnecessarily increasing their cost base in the short-term.

ARTC (Clause 2.4.2, page 10) - Also there is a limit to how much an existing track standard can be ‘pushed’ to handle higher axle loads and it is quite likely that investment would be required to make any substantial increase in the majority of the Hunter Valley rail infrastructure.

ARTC (Clause 2.4.4, page 11) - ARTC has not conducted a detailed study of the requirements but is of the view that substantial modification to the structure gauge for the Network is not practical.

From the above two comments by ARTC, Idemitsu asks the question – Then why does ARTC suggest an “aspirational” FIS whereby this uncertain significant investment will be required, and impose pricing to recover this investment well before the coal producers will be able to secure efficient train path pricing proposed (if ever)?

ARTC (Clause 2.5, page 11) - In recent years, the evolution of wagon design for the Hunter Valley has resulted in new wagons that are shorter while still carrying the same payload and having a reduced tare mass, allowing more wagons per train and more payload per wagon and hence increasing overall train payload.

If ARTC acknowledge this change is underway already, there appears to be no need for an additional ARTC access pricing signal. The evidence of these existing

changes provides a major argument for why the IIS should become the FIS, and that the “aspirational” nature of the FIS should be dropped.

ARTC (Clause 4.1, page 18 & Figure 6) - The results demonstrate the large gains in Coal Chain Capacity as train payload increases. These gains are then capped as demand approaches the modelled maximum of 208 mtpa.

Idemitsu asks the question – If incremental gains are small, why does ARTC suggest an “aspirational” FIS of 11,800t train when incremental benefits cease above about 9,408t payload?

Attachment B – Detailed Response to Billing Units paper

The following comments are provided against the specific questions raised by ARTC in its consultation paper.

ARTC seeks stakeholder views in relation to the continuation of using gtkm as a pricing unit for the TOP component of the Access Charge

Idemitsu accepts the use of gtkm as the unit of billing for reservation of capacity, where the gtkm is the value based on estimations by each coal mine prior to the beginning of year, and as agreed. The use of forecast (and agreed) gtkm values for this take or pay charge is the only way to ensure this charge can be considered to enhance economic efficiency. The use of actual gtkm values as a billing unit on a month-by-month basis will lessen the incentives of a fixed cost on access holders to improve usage of the reserved capacity.

ARTC seeks stakeholder views in relation to whether the use of gtkm as a pricing unit for the TOP component of the Access Charge, by itself, impacts on the encouragement of efficient consumption of Capacity, and whether the impact is adverse

The use of a gtkm billing unit in and of itself, is not the prime driver of efficiency for access holders. In Idemitsu's view the biggest incentive for efficient use of rail capacity is to impose an effectively fixed price for an agreed capacity reservation (a right) on a forward basis so that the coal mine is able to invest in its mine (and above rail) infrastructure to increase its volume throughput over the given reserved rail capacity for a given cost, in order to lower its coal haulage unit costs as much as possible.

Therefore the use of agreed forecast gtkm is in Idemitsu's view an acceptable billing unit which (in the absence of quantitative analysis which demonstrates otherwise) balances the use of capacity for coal haulage based on relative mine production tonnage and distance from the ports. Other billing units treated on the same basis could achieve the same signal.

ARTC seeks stakeholder views in relation to the adoption of tkm as a pricing unit for the TOP component of the Access Charge, in light of the costs and benefits of such an adoption suggested by ARTC

Idemitsu does not believe the qualitative costs and benefits discussion provide by ARTC in this consultation paper is sufficient to accept train kilometres (tkm) as the billing unit for access holders in the Hunter Valley in preference to the existing gtkm used for the interim period.

ARTC seeks stakeholder views in relation to whether there are any other benefits or costs associated with the adoption of tkm as a pricing unit for the TOP component of the Access Charge

Idemitsu believes the use of tkm will hamper the competitiveness of mines further from the ports and will be a barrier to the development of potential new mines, which are currently most likely to be situated further from the ports than the existing mines, and particularly in the west (PZ2) and the north west (PZ3 and PZ4) and beyond.

With this billing unit smaller mines further from the ports are likely to be uneconomic compared to larger mines at the same distance or closer to the ports. The potential expansion of mining activity further from the ports will likely be reduced using this billing unit.

ARTC seeks stakeholder views in relation to the extent to which the multi-part pricing approach applied to coal in the CQCR and the use of a range of different pricing units acts to provide incentive to consume network capacity efficiently

Idemitsu does not believe the use of multi-part pricing for the TOP will provide greater incentive for the economically efficient consumption of network capacity reservation, than the use of a balanced billing unit of (say) gtkm.

Each part of the multi-part price acts as a marginal pricing signal. As there are multiple signals, necessarily the pricing impact and hence the economic signal from each component of the price is diluted for the user. If there is little correlation between the billing units used and the costs borne by ARTC in delivery of the below track capacity for coal haulage, there is little point in adding the complexity of multiple billing units. ARTC has not provided any information on its costs structures nor correlations to the impact of alternative billing units, therefore it has not demonstrated the benefit of a multi-part binning unit approach.

If the prime objective is the economically efficient reservation of capacity, a single billing unit will be more effective than multiple billing units. The signal is larger hence the incentive to respond (or comply) with the least unit cost by the mine is largest.

In addition, Idemitsu would be significantly concerned if ARTC moved towards the multiple billing unit measures used in CQCR for monthly invoicing. The potential additional data gathering and verification requirements are likely to impact adversely on many access holders, without achieving any additional benefit in the incentive under the pricing arrangements to improve rail capacity utilisation.

ARTC seeks stakeholder views in relation to how the multi-part pricing approach applied to coal in the CQCR and the use of a range of different pricing units would result in substantive improvements over the existing coal access pricing approach in the Hunter Valley and the use of gtkm, in relation to encouraging efficient consumption of Capacity

Idemitsu does not believe there is any advantage in moving to a multi-part pricing approach as used in the CQCR methodology. The advantages posited would be unlikely to provide substantial improvements for either capacity utilisation of the

network or recovery of opex or capex costs by ARTC on the basis of the cost drivers it sees within its business.

The CQCR components of AT3 and AT4 are used for the recovery of allocated costs. As such the billing units cannot be said to represent the business cost drivers for the rail network, and hence the variable nature of the recovery is unlikely to change the behaviour of the rail operator or the coal producer, in order to reduce the costs seen.

ARTC seeks stakeholder views in relation to whether the benefits of adopting a multi-part pricing approach applied to coal in the CQCR and a range of different pricing units would significantly outweigh the costs associated with adopting such an approach

Idemitsu believes the additional time and costs of gathering the actual additional data on a train-by-train basis, and in a manner which can be verified and justified on a monthly billing cycle and for audit processes, will significantly outweigh the benefits ARTC will see in reduced costs for maintenance, network replacement or network expansion.