29 November 2013

Mr Martin Jones
General Manager Operations and Logistics
ARTC
33 Newton Street
Newcastle NSW 2292

By Email: **To: martin.jones@artc.com.au**

Dear Martin,

ARTC Consultation Paper – Specification of Final Indicative Service (Efficient Train Configuration)

I refer to ARTC's invitation to provide submissions regarding their consultation paper on the Hunter Valley Access Undertaking Specification of Final Indicative Service (**FIS**) (Efficient Train Configuration) dated October 2013. Vale appreciates the opportunity to provide this submission as part of the consultation process on the Efficient Train Configuration.

Integra Coal Operations Pty Ltd (**ICO**) (a related entity of Vale Australia Pty Ltd (**Vale**)), operates the Integra Coal Mine, as agent for and on behalf of the Integra Coal Joint Venture Participants. As a smaller producer in the Hunter Valley Coal Chain (HVCC), ICO is very interested in this determination of the train configuration and subsequent pricing levels so it can make informed decisions on future investments, both at a mine level, and as part of the wider HVCC development.

This consultation process is provided in accordance with section 4.18 of the Hunter Valley Access Undertaking (HVAU). According to the HVAU, within 30 months of the commencement of the HVAU, ARTC are required to:

> "...develop in consultation with the HVCCC, the proposed characteristics of the indicative services which ARTC considers will deliver the optimum utilisation of Coal Chain Capacity, given certain System Assumptions....."

And

> "....In support of its application to vary the HVAU for the adoption of the characteristics of the Final Indicative Services, ARTC will submit to the ACCC:
>
> Proposed characteristics of the Final Indicative Services which it considers will deliver optimum utilisation of Coal Chain Capacity including:
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> (A) Maximum train axle load;
>
> (B) Maximum train speed;
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> (C) Train length; and
>
> (D) Section run times;
>
> The proposed indicative access charges for the proposed Final Indicative "

The consultation paper provides a summary of discussions and analysis of options for infrastructure constraints such as train speeds, train length and load, rolling stock axle load, as well as some rolling stock opportunities. The modelling of these scenarios was completed using the HVCCC system model which allows for tonnage up to 208Mtpa. The consultation paper concludes that two configurations for the Final Indicative Service have the potential to provide efficient use of coal chain capacity. The two configurations proposed are:

Axle Load FIS – 35TAL, 1,606m length, payload 11,800t

Long FIS – 30TAL, 1,914m length, payload 11,800t

ARTC conclude that both of these configurations have the potential to increase train payloads and decrease train movements over the current Initial Indicative Service. ARTC believe these train configurations are outside the assumptions contained in the existing Hunter Valley Corridor, but are appropriate because:

1) Increments in train size have continued over the last several decades and there is no reason to anticipate that further incremental change will not occur.
2) Volumes have a potential to grow beyond the currently contracted 208Mtpa which will increase network congestion.
3) The improvement in rolling stock productivity will have flow-on benefits to Operators beyond the reduction in Network congestion and increased haulage task
4) The setting of an aspirational target for the FIS will also mean that the Final Indicative Access Charge will be aspirational

Vale supports the process to find an efficient train which will increase productivity of the coal chain by achieving higher throughput and relief of train congestion. Vale does agree that train sizes have continued to increase over time but much of this recent improvement appears to be in advances in rolling stock efficiency which was supported by existing track infrastructure. This underlying track infrastructure does not exist when you set an aspirational target outside the system assumptions, and therefore, raises some concerns with the management and development of the train configurations within the coal chain.

Vale is concerned that the setting of two train configurations with different characteristics may lead to capital investment inefficiency in the coal chain. The two configurations are likely to have different impacts on the coal chain. The consultation paper suggests that while the Axle Load FIS can fit within the current infrastructure, the heavier axle loads will result in a higher maintenance costs, however, the Long FIS would require capital expenditure to allow it to operate on the coal chain. This is likely to result in stakeholders having different views as to what costs, maintenance vs capital, should be applied to the Network. This inefficiency could manifest itself if one producer/operator decides to invest in longer trains which require capital investment even if there is expected to be very low utilisation of the infrastructure. This capital investment is likely to be required throughout the area of the coal chain on which it operates so the cost per tonne is expected to be very high.

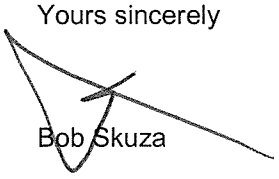
Vale is also concerned by the potential impact that a Long FIS could have on some of the new infrastructure that has or is being proposed to be constructed on the Network. The HVCC has undertaken and is continuing to undertake significant capital investment in an attempt to accommodate the below rail capacity that ARTC has contracted. For example, the RCG has recently endorsed the construction of the Hexham Relief Roads which Vale understands would not allow the Long FIS train configuration to be stored on these roads due to its length. Vale would like to understand as part of this process the implications of the proposed train configurations on any new or proposed infrastructure. For example, are the Hexham Relief Roads able to be extended if required or is there a potential for these roads to become less efficient due to a reduction in the number of trains that are able to access the roads?

Vale believes the implementation of the Long FIS configuration could result in inefficient operations if the coal chain is not ready to receive the longer trains. There is a risk that an operator could introduce a Long FIS configuration now or in the near future and due to a lack of passing loops or sidings with sufficient length to hold this train, it would have to receive priority on the coal chain to stay on the mainline. Vale believes if this configuration is approved, there would need to be management of this situation to ensure one operator does not introduce a train configuration that would impact other producers and operators due to the coal chain constraints imposed by its length.

The consultation so far has revolved around the operational issues and limitations of the train configuration. This has to a large part ignored the other important component of the train configuration which is the cost impact on the access charge. The consultation paper broadly indicates some increase or decrease in costs but there have been no quantifiable costs tabled. Vale does not believe that a fully informed decision on this train configuration can be made without some level of transparency on the potential costs required and the resulting Access Charge. Ultimately, the decision for a producer or operator to move to a particular train configuration will involve a commercial assessment of the value to their company. Without this information it is difficult to reach a final conclusion on the value of the Final Indicative Services identified in the consultation paper. Therefore, Vale would like to see some further transparency on the likely cost impacts on the Access Charge from the different train configuration options.

Vale would welcome the opportunity to discuss these issues further with ARTC. For further information regarding this advice please contract myself on (07) 3136 0911.

Yours sincerely



Bob Skuza

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Vale Australia Pty Ltd