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11 October 2013

By email

Mr Paul Bilyk
Director – Ports and Rail
Queensland Competition Authority
GPO Box 2257
Brisbane, QLD 4001

Email: rail@gca.org.au

Dear Mr Bilyk,

Rio Tinto Coal Australia (RTCA) submission in response to UT4

RTCA welcomes this opportunity to respond to the initial stage of the UT4 consultation process and I enclose our submission.

RTCA views the UT4 process as providing a critical opportunity to build upon UT3 to deliver a stable 'best practice' regulatory framework, to support investment and growth in the Queensland coal industry.

The draft UT4 proposed by Aurizon Network highlights a fundamental difference in perspective between industry and Aurizon Network over the role of regulation in the sector. It appears that Aurizon Network sees UT4 principally as a tool to redesign the regulatory framework in a way that would shift the Queensland industry towards the substantially deregulated model of the United States Class 1 railways.

If this were to occur, it would undermine investor confidence by unwinding key protections contained in UT3 as well as abandon the deal reached by industry with the State Government at the time of privatisation, which secured continued investment in rail infrastructure at an efficient, regulated rate of return.

This debate is also occurring against a backdrop of immense cost and margin pressure (Queensland mines have been found to be amongst the most expensive in the coal sector¹) and slowing growth (Aurizon Network forecasts year on year growth between 2012 and 2013 of only 4%). Over the same period, however, Aurizon Network expects to *increase* regulated revenues by 22% and EBITDA by 48%.² This does not suggest that the current regulatory arrangements are imposing undue commercial disadvantage on Aurizon shareholders.

RTCA believes that the interests of the Queensland and national economy are best served by a competitive and growing coal industry. UT4 plays a critical part in achieving

¹ Port Jackson Partners, Regaining our competitive edge in minerals resources, Minerals Week Presentation (30 May 2012).

² Aurizon Network, *Further information on Aurizon Network*, May 2013, slide 12.

that outcome, as RTCA estimates that rail infrastructure costs contribute approximately 30% of the effective commitment for a new mining project.

Over the UT2 and UT3 regulatory periods, the State of Queensland has fallen behind the Hunter Valley, which has developed more integrated, transparent, flexible and efficient regulatory arrangements.

RTCA does not accept that UT4 should involve radical and disruptive changes to the regulatory framework. Rather, the emphasis in UT4 should be to learn from other regimes and build on UT3 to achieve real, targeted improvement in three key areas:

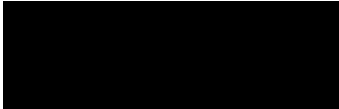
- improving the structure of the capital planning process to provide for greater transparency, direct involvement by coal producers and other stakeholders, and a more integrated process with the rest of the coal chain;
- improved operational flexibility – including in key areas such as the management of take or pay entitlements, scheduling and the development of System Rules; and
- realigning the cost of capital to reflect market developments.

We set out in the attached submission more detailed proposals in relation to each of these areas.

Given the significant problems with the draft UT4 as proposed, RTCA submits that it is not capable of acceptance and should be rejected by the QCA.

Please do not hesitate to contact Xiao Fan Zhuang on 3625 5197 or myself on 3625 5533, if you would like to discuss any aspect of our submission or our proposals for positive, incremental reform of the Queensland framework.

Yours sincerely,

A solid black rectangular box used to redact the signature of Tim Renwick.

Tim Renwick
General Manager - Infrastructure