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Queensland Competition Authority
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Online submission: www.qca.org.au/submissions

Dear George

Darlymple Bay Infrastructure Management - 8X Expansion Pricing Method

BHP Mitsui Coal (**BMC**) owns and operates coal mines and development projects within the Bowen Basin, is an existing user of the Darlymple Bay Terminal (**DBT**). For the avoidance of doubt, capitalised terms in this letter refer to definitions under the DBT 2017 Access Undertaking (**AU**).

BMC supports the Queensland Competition Authority's (**QCA**) draft determination that Socialisation is the appropriate pricing method for the whole of 8X¹. BMC would like to make the following additional comments that demonstrate that Socialisation is the most appropriate pricing method for 8X.

Materiality in the increase of the Terminal Infrastructure Charge (TIC)

BMC supports the general position enunciated by the QCA in its draft determination that while Socialisation of 8X may increase existing users' TIC by up to \$0.56/T², it will not have an impact on the use of coal handling services at DBT by existing users. Specifically, BMC agrees that:

- while Socialisation may result in a limited increase to the TIC, this increase is a small proportion of total mine site production and logistics costs;
- a reduction in handling charges will likely offset much of the TIC increase resulting from the socialisation of 8X³; and
- socialisation will maintain cost reflective price signals to Access Seekers and Access Holders. Economic efficiency relies on users' charges recovering at least the incremental cost associated with accessing DBT. In contrast to the characteristics of Aurizon's Central Queensland Coal Network which allow for individual segments to be dedicated to particular users, DBT provides a common service to all users, and it is not practical for individual segments of terminal infrastructure to be isolated and dedicated to a specific group of users.

¹ Queensland Competition Authority, 'Draft determination: DBIM's application for a price ruling – 8X expansion' (24 August 2021), available here: <https://www.qca.org.au/wp-content/uploads/2021/08/dbct-price-ruling-for-the-8x-expansion-draft-determination.pdf>.

² Modelling undertaken by the QCA in their draft determination in August 2021 estimated socialisation may increase the TIC by up to \$0.56/T, and on average \$0.47/T from 2026-27 to 2035-36. DBIM estimated socialisation increased the TIC by \$0.42/T on average from 2027 – 2036 which was replicated by modelling completed by PwC at the request of the DBCT User Group.

³ PwC, 'Review of Darlymple Bay Terminal 8X Expansion FEL2 Study: Application for Ruling on Pricing Method' (20 May 2021), page 5, available here: <https://www.qca.org.au/wp-content/uploads/2021/08/bmc-public-submission-on-dbim-application.pdf>.

Integration of the 8X Expansion within the Existing Terminal

BMC is aligned with the QCA's position that 8X will operate in an integrated way with the existing DBT terminal infrastructure⁴. As noted by DBIM, no components of 8X are capable of being operated standalone on behalf of a single user or group of users, or with a different operator. BMC is also aligned with the QCA's view that works within 8X are largely characterised by the replacement and upgrades of existing infrastructure and accordingly BMC is of the view that 8X will operate in an integrated way with the existing terminal and benefit both existing and expansion users.

Benefits to Existing Terminal Users

BMC is aligned with the QCA's position outlined in the draft determination that 8X:

- will benefit all users, existing and expansion; and
- will not materially affect the allocation of volume risk allocated to existing users.

BMC's position is that 8X will benefit all users through:

- a forecast reduction in Operation and Maintenance costs on a per tonne basis as contracted terminal capacity will increase by roughly 18% from 84.2Mt to 99.1Mt, while the operator's budget is projected to increase by only 3.4% from AU\$403M to AU\$417M⁵ resulting in a benefit for all users if 8X is Socialised;
- reduced risk of throughput losses from incorporation of projects that would otherwise need to be undertaken as Non-Expansionary Capital (**NECAP**)⁶ projects; and
- providing greater opportunity for the trading of port, and potentially rail capacity due to the additional terminal capacity available.

Additional comments

BMC would also like to take this opportunity to discuss a comment made in the submission by selected users (**the Group**) dated June 2021. The Group submitted that demand for metallurgical coal is highly uncertain beyond the initial 10 year period following completion of 8X (estimated 2034 onwards⁷). BMC disagrees with this statement, and notes that the Group has not presented evidence supporting this position beyond statements about the *"longer term coal market outlook and the possibility of terminal demand declining beyond the contracted pricing period"*.⁸

Relevantly, the QCA commissioned Resource Management International (**RMI**) to prepare a report titled "DBCT 2019 DAU - Review of the Economic Life of DBCT Assets", which was publicly released in February 2021. In this report, RMI noted that:

- *"despite zero carbon emission targets, seaborne thermal and metallurgical coal demand into South East Asia, India, Pakistan and Bangladesh is likely to continue to grow for at least the next 10 years, possibly peaking around 2035"*; and
- *"that the demand growth for thermal and metallurgical coal will remain flat from 2035 to at least 2060 as new energy and steel demand is progressively met by carbon neutral technologies"*.⁹

This supports the ongoing utilisation of the expanded terminal at Darlymple Bay Terminal in excess of the initial 10 year access period.

⁴ Queensland Competition Authority, 'Draft determination: DBIM's application for a price ruling – 8X expansion' (24 August 2021), page 35.

⁵ PwC, 'Review of Darlymple Bay Terminal 8X Expansion FEL2 Study: Application for Ruling on Pricing Method' (20 May 2021), page 5.

⁶ DBIM, 'Application for a ruling on the pricing method for the 8X expansion', page 35, available here: <https://www.qca.org.au/wp-content/uploads/2021/03/dbim-application-for-qca-ruling-on-pricing-method-redacted-version.pdf>

⁷ DBIM, 'Application for a ruling on the pricing method for the 8X expansion', page 12.

⁸ Synergies, 'DBIM pricing method for 8X expansion', page 34, available here: <https://www.qca.org.au/wp-content/uploads/2021/08/synergies-submission-on-dbim-application.pdf>

⁹ RMI, 'DBCT 2019 DAU – Review of the Economic Life of DBCT Assets' (February 2021), page 20, available here: <https://www.qca.org.au/wp-content/uploads/2021/03/rmi-review-of-the-economic-life-of-dbct-assets-redacted.pdf>

The view expounded by RMI is consistent with BHP's metallurgical coal commodity outlook, which notes that:¹⁰

- *“Longer term, we argue that the continued policy focus on environmental considerations and financial sustainability in Chinese coal mining, in addition to the intent to embark upon a decarbonisation path for steel making, should highlight the competitive value of using high quality Australian coals in China's world class fleet of coastal integrated mills”;*
- *“China's steel industry is still in the optimisation phase of its decarbonisation journey, in which higher quality raw materials make a clear difference to the energy and emissions intensity of the BF–BOF route, which accounts for 90% of Chinese and 70% of global crude steel production”;* and
- *“blast furnace (BF) iron making, which depends on coke made from metallurgical coal, is unlikely to be displaced at scale by emergent technologies this half century”.*

BMC welcomes a final decision from the QCA that supports Socialisation as the appropriate pricing method for the whole of 8X.

Yours sincerely



Roxann Di Pietro
BHP Mitsui Coal
Manager Port & Rail Access and Asset Integration

¹⁰ BHP's Economic and Commodity Outlook - Financial Year 2021 (August 2021), available here: <https://www.bhp.com/news/prospects/2021/08/bhps-economic-and-commodity-outlook>