



## AUSTRALIAN RAIL TRACK CORPORATION LTD

**Ref No:**

20 July 2009

Ms. Fiona Towers  
Director Transport and Energy  
Independent Pricing and Regulatory Tribunal  
PO Box Q290,  
QVB Post Office NSW 1230

### **IPART Review of Remaining Hunter Valley Mine Life**

#### **Further submission in response to NSW Minerals Council Submission**

Dear Ms. Towers

ARTC has recently reviewed the submission in relation to your review of remaining mine life provided to IPART by the NSW Minerals Council (NSWMC) on 2 July 2009. This submission was made in response to your Draft Decision and Draft Report on the Hunter Valley remaining mine life to apply from 1 July 2009.

As you would be aware, submissions on the Draft Decision and Draft Report represent the final opportunity for stakeholders to inform IPART of views and positions in relation to the review. This follows a previous opportunity to make submissions following IPART's release of ARTC's proposal in December last year, and IPART releasing its Discussion Paper in February this year. Stakeholders were provided a further opportunity to state views on this matter at a public hearing on 1 April 2009.

ARTC notes that the NSWMC's and its consultant's advice in relation to remaining mine life has not been previously provided apart from some short comments at the public hearing. This makes it very difficult for other stakeholders to scrutinise the assertions made in the submission, particularly given that there is no formal part of the IPART's consultation process that permits submissions at such a late stage. On the other hand, ARTC's proposals have been available for public comment for more than half a year.

Given the lack of previous opportunity, ARTC seeks IPART's consent by allowing it to make a few final comments in relation to NSWMC submission as follows.

Following its broad review, ARTC found that many of the assertions made, and positions taken, by the NSWMC are:

- new to the review at such a late point in the consultation process;
- inconsistent in places to the views expressed by the NSWMC at the public hearing and previously expressed to ARTC; and
- unsupported by any detail, particularly in light of the fact that they would seem to be predicated on a form of macro industry modelling held by the consultant, which is likely to be based on a range of assumptions that are not known, and upon which the consultant has relied to make its assessment of future reserves and production.

In contrast, the assumptions made by ARTC and Booz in relation to approach, reserve estimates, production forecasts, and treatment of prospective developments are now well known to IPART and stakeholders through the Booz report, and a number of subsequent ARTC submissions and additional advice.

From the submission, ARTC notes some key assertions and positions taken by the NSWMC:

- ***'infrastructure system capacity constrained at 180Mtpa from 2013';***
- ***'export production growing from around 90Mtpa in 2009 to around 175Mtpa in 2020 and maintaining that level to 2025;***
- ***'the ARTC/Booz forecasts, made in mid 2008, have already been superseded by significantly lower forecasts provided by all producers to the industry logistics coordination group, the Hunter Valley Coal Chain Logistics Team, in March 2009'; and***
- ***'The ARTC/Booz approach moves away from the approach adopted by IPART in its 2004 and 1999 determinations on the advice of the NSW Department of Mineral Resources i.e. that a reasonable and readily determined assessment of the remaining mine life would result from dividing the current marketable reserves by the current production rate.'***

In relation to the first two assertions, the NSWMC stated at the public hearing:

'We also believe that it's not appropriate to assume, as ARTC and Booz have done, a production rate beyond the maximum capacity at the current port terminals at PWCS and



NCIG. A future production rate of no more than the planned capacity at PWCS and NCIG, which is potentially 211 million tonnes from 2013 onwards, should be used rather than ARTC Booz's assumed production of 240 to 260 million tonnes from 2013 and on.<sup>1</sup>

ARTC has in recent discussions and through further information provided to IPART, sought to clarify that it did not assume future production levels of the order indicated by the NSWMC, but that production assumptions for its preferred option were broadly in line with port capacity expansion and consistent with the NSWMC stated position at the hearing.

The new assertions now put forward by the NSWMC would appear to contradict the NSWMC position at the hearing. It is unclear as to the basis for the NSWMC consultant's assessment. It would seem however, based on producer production forecasts used by Booz, that the NSWMC consultant is forecasting that production will be constrained by coal chain capacity by between 27% and 42% during the 8 year period between 2011 and 2018. This extent of constraint over most of the next 10 years would seem to fly in the face of industry efforts over the last 18 months to develop a new approach to port and rail capacity development that will see greater certainty in investment and greater certainty of access to the infrastructure, rather than a continuation of the compression of export coal caused by coal chain constraints that have existed until now. For the NSWMC to now put forward such a position would seem to put to question how serious coal producers are to solving this fundamental industry constraint as they appear to recently have been.

In any event, in its latest submission to IPART, ARTC proposed a further option that considered a more conservative ramp of port capacity than that assumed by Booz. This showed only a minor impact on the remaining mine life estimate.

In relation to the third assertion, the Booz assessment was undertaken to underpin ARTC's proposal for IPART consultation in November 2008. The assessment was largely based on production forecasts provided by producers around mid 2008. ARTC understands that over time both production and reserves estimates will change.

ARTC, which is a member of the HVCCLT, confirms that it is not aware of any producer forecasts that may have been made available in March 2009. ARTC has recently confirmed with the HVCCLT that revised forecasts were made available, on a confidential basis, in March 2009. ARTC was not made aware that the forecasts were being sought, nor of the forecasts themselves.

ARTC has recently (early July) sought and, for almost all producers, received confidential 10 year indicative production forecasts commencing in 2010. ARTC's initial review reveals that there is nothing in the forecasts to suggest that the overall level of Hunter Valley coal production assumed by Booz and ARTC over the ten year period is excessive.

---

<sup>1</sup> IPART Public Hearing, 1 April 2009, Transcript p 23.



In any event, clearly any assessment can only be carried out in the context of best available information at the time. In 1999 and 2004, the assessments used current production levels at the time (or even the year before). It is likely that the production level of any mine can change from year to year and would reflect a range of factors. Similar factors would also impact of the marketability of reserves. It is reasonable to expect that movements over time of marketable reserves and production levels may be reasonably closely related.

With any assessment like this, it is necessary to select a point in time as a reference for measurement. The NSWMC has argued that the producer forecasts in 2008 were prepared at the peak of the market. This is arguable given that the global financial crisis first took hold in late 2007. Economic conditions in East Asian countries, including Japan, had deteriorated considerably before mid-2008. It would be surprising if producer forecasts made in mid 2008 were not tempered to some extent by the weakened global economy.

In any event, it could be argued that if producer forecasts reflected the peak of the market, it is likely that the marketability of reserves (which depend on economic assumptions) would have been assessed on a similar basis.

At the hearing, the NSWMC was very positive about the future of Hunter Valley coal market growth, as is evidenced below.

'Even with the significant escalation in mining costs during the past two years there is scope for the mines to take a considerable price decrease before mine closures would be contemplated. Moreover, Hunter coal is good quality, it's mined efficiently and it uses efficient rail infrastructure and it is located close to many major Asian markets and it is strongly competitive in world terms. In the event of a major downturn in demand for coal Australia and the Hunter are likely to be among the least affected.

The production of coal in Australia and the Hunter, while occupying a large share of the world seaborne coal trade is only a very small proportion, less than 5 per cent of world production. This means that provided Australia remains at the low end of the world cost curve, then continued expansion is expected. The reserves in the west of the Hunter Valley are very substantial and require very substantial investment by the mining companies to develop. By comparison, the amount of rail infrastructure required to support the mines is relatively small and it does not make a significant difference to the total cost of extracting the coal.<sup>2</sup>

---

<sup>2</sup> IPART Public Hearing, 1 April 2009, Transcript p 12.

On this basis it is difficult to argue that production estimates obtained mid-2008, even if lower estimates existed before or after this time, would be unreasonably high in the context of the medium term (say, the next five to 10 years). The NSWMC statements would suggest that production expectations are likely to recover and be sustained in the medium term.

Signs have recently emerged that the global economy is already improving, particularly in some East Asian countries. As recovery takes hold and demand increases, it could be expected that production forecasts will also increase.

In relation to the final assertion, ARTC has previously indicated to IPART and stakeholders that it sought to improve on the approach adopted by Booz Allen Hamilton and IPART in previous assessments, with a view to increasing the reliability of the remaining mine life estimates by considering whole of life mine production (as opposed to current production only) and by considering coal chain constraints.

This was primarily done to address those concerns with the 2004 approach raised by the NSWMC during public consultation at the time, as well as address the substantial investment in coal chain capacity planned over the next 5 or so years to which this remaining mine life assessment will apply.

It now seems odd that the changes made to the approach in 2008 to address the NSWMC concerns with the 2004 are now being referred by the NSWMC as a 'fundamental flaw' in the 2008 approach because it 'moves away' from the 2004 approach.

The NSWMC makes much of its assertion that Booz had failed to recognise any likelihood that the resource base in the Hunter Valley might be re-classified as reserves and then become marketable, and to recognise future developments.

Booz sought to use latest available information as a basis for determining its reserves estimates. Due to differences in reporting of reserves and resources for different companies and over time, a marketable reserves estimate was not always readily available. To address this lack of readily available information, Booz

- referenced a number of sources
- where marketable resources were not available, adopted available estimates of other classifications such as 'Recoverable Reserves', 'Total Reserves' and, in some cases, Resources.
- in some cases, estimated marketable reserves by assuming conversion rates based on evidence and experience.



In a number of cases, the Booz 2008 estimate for a mine is substantially higher than any estimates of marketable reserves that may have subsequently become available. Table 1 below show some examples.

Table 1

Mine/Development	Booz 2008 estimate (Mt)	Latest publicly available marketable reserve estimate (Mt)	Potential over-estimate (Mt)
Hunter Valley South	300	102 <sup>1</sup>	198
Mt Owen Complex	241	97 <sup>2</sup>	144
Narrabri	300	172 <sup>3</sup>	128
Mt Arthur	228	168 <sup>4</sup>	60
Wilpinjong	246	200 <sup>5</sup>	46

1 [http://www.coalandallied.com.au/documents/Volume\\_1\\_-\\_Part\\_A.pdf](http://www.coalandallied.com.au/documents/Volume_1_-_Part_A.pdf)

2 [http://www.xstrata.com/assets/pdf/x\\_reserves\\_resources\\_coal\\_20090129.pdf](http://www.xstrata.com/assets/pdf/x_reserves_resources_coal_20090129.pdf)

3 [http://www.whitehaven.net.au/pages/documents/CoalResourcesandReservesStatement\\_000.pdf](http://www.whitehaven.net.au/pages/documents/CoalResourcesandReservesStatement_000.pdf) Recoverable Reserves.

4 <http://www.bhpbilliton.com/annualreports2008/uploads/documents/BHPB-annual-report-2.15.2.pdf>

5 <http://www.peabodyenergy.com.au/nsw/wilpinjong.html> Recoverable Reserves.

On the other hand, Table 2 shows those mines where the Booz estimate is significantly below published marketable reserves. The shortfall has general arisen from recent upgrades of reserves to marketable reserves.

Table 2

Mine/Development	Booz 2008 estimate (Mt)	Latest publicly available marketable reserve estimate (Mt)	Potential shortfall (Mt)
Hunter Valley Operations	290	330 <sup>1</sup>	-40
Warkworth	245	278 <sup>2</sup>	-33
Cumnock	1	164 <sup>3</sup>	-163
Bulga	79	164 <sup>4</sup>	-85
Rix's Creek	35	64 <sup>5</sup>	-29

1 [http://www.coalandallied.com.au/documents/2008\\_CoalAllied\\_Annual\\_Report\\_Printed.pdf](http://www.coalandallied.com.au/documents/2008_CoalAllied_Annual_Report_Printed.pdf)

2 [http://www.coalandallied.com.au/documents/2008\\_CoalAllied\\_Annual\\_Report\\_Printed.pdf](http://www.coalandallied.com.au/documents/2008_CoalAllied_Annual_Report_Printed.pdf)

3 [http://www.xstrata.com/assets/pdf/x\\_reserves\\_resources\\_coal\\_20090129.pdf](http://www.xstrata.com/assets/pdf/x_reserves_resources_coal_20090129.pdf)

4 [http://www.xstrata.com/assets/pdf/x\\_reserves\\_resources\\_coal\\_20090129.pdf](http://www.xstrata.com/assets/pdf/x_reserves_resources_coal_20090129.pdf)

5 2006 Estimate.

The above tables suggest that there could be a significant over-estimate of marketable reserves in the Booz estimate, which could act as a 'buffer' for possible conversion of resources in the future.

In addition, ARTC has indicated in its previous submission that, as was the case in 1999 and 2004, reserves associated with developments that are expected to commence operations over the next five years have been included, to address, as a reasonable balance, the presence and likelihood of realisation of short, medium and long term prospective developments. Included developments are shown in Table 3.

Table 3

Prospect	Assumed Commencement	Marketable Reserves Assumption (Mt)
Bickham	2012	49.7Mt
Dartbrook (project)	2009	43.5Mt
Narrabri	2009	300Mt
Mangoola	2010	115.7Mt
Moolarben	2010	233.8Mt
Mt. Pleasant	2012	349.9Mt
Hunter Valley South	2011	300Mt

As such, there is a substantial volume of coal that is not currently reported as marketable reserves for existing mines that has been included in the mine life assessment (preferred option).

ARTC believes that the NSWMC submission in relation to the remaining mine life review consists largely of a number of unsupported assertions that would seem to be inconsistent with substantial industry effort and commitment to resolve existing coal supply chain problems, and inconsistent with positions previously put forward by the NSWMC. Despite efforts by ARTC in its previous submissions to IPART, and at the hearing, to clarify the treatment of coal chain capacity in the Booz assessment, the NSWMC persists with its misconception that coal chain capacity in excess of 250Mtpa has been assumed. There is insufficient detail supporting the NSWMC assessment in relation to reserves and production, including what would appear to be broad modelling assumptions used by its consultant.

The assertions have been made at a time in the consultation process which makes any reasonable scrutiny by stakeholders impractical if at all possible. This is contrasted to the

information provided by ARTC that has been in the public domain for over half a year.

ARTC requests that IPART consider the NSWMC position finally presented in this submission in light of the timing, opportunity for scrutiny, and level of detail in which it has been provided.

If you have any queries in relation to the submission please contact me on 0882174314, [sormsby@artc.com.au](mailto:sormsby@artc.com.au) or Glenn Edwards 0882174292, [gedwards@artc.com.au](mailto:gedwards@artc.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to be 'S Ormsby', written over the printed name.

Simon Ormsby  
General Manager Commercial