For public register

Viterra Operations Ltd

Revised Auction System proposal

1 Introduction

This document sets out a summary of Viterra's revised Auction System proposal.

2 Treatment of Auction Premium

	Proposal	Reason for proposal
1	Rebates will be calculated by reference to a full season (i.e. October to September, except in the first year where it will apply from the first Slots auctioned until September 2013) Auction Premiums paid in respect of all Auctions for the relevant season will be included in the rebate pool (i.e. Viterra will continue to hold separate Auctions for the Harvest Shipping Period and Non-Harvest Shipping Period, but the proceeds of each of the Auctions will be included in the same rebate pool)	• This is intended to provide further comfort that a situation will not arise where demand exceeds supply in all Slots (which the ACCC has identified as potentially creating a situation where an Auction would not end). Viterra's historical data provides strong evidence (and its experience supports) that demand for Capacity will not exceed supply in all Slots available at any Port Terminal during a season • The timing of Auctions as set out in the February 2012 Auction System proposal will remain the same. The timing of Auctions, and the Slots to which they relate, is a separate issue from the payment of rebates and is strongly informed by operational considerations • Spreading the rebate across multiple Auctions (and Auction Periods) is also likely to create less certainty in relation to the likely amount of any Auction Rebates and therefore provide a greater incentive for "truthful bidding" (see Item 2(3) below). This is particularly the case in the earlier auctions
2	The rebate will only be payable in respect of tonnes that are (a) acquired at Auction; **and** (b) are actually shipped	• The requirement that the rebate is only payable in respect of tonnes actually shipped is intended to satisfy the criteria in the Access Undertaking that the Auction System features rules to create disincentives which apply equally to all clients on booking in excess of reasonably anticipated requirements. In practical terms, it means that if an exporter does not actually ship grain using a Slot

	Proposal	Reason for proposal
		acquired at Auction, it will reduce the extent of any entitlement it has in respect of the relevant Auction rebate pool • Paying the rebate only in respect of tonnes acquired at Auction (i.e. excluding any Capacity acquired through the FIFS system) is likely to reduce any incentive that may otherwise exist to use the FIFS system in preference to acquiring Capacity at Auction. This is a potential issue that has been identified by the ACCC in its Auction Objection Notice
3	The rebate pools will be distributed to exporters in accordance with the formula set out in Attachment 1 While the formula appears complex when expressed outside a spread sheet, its effect is relatively straightforward: it ensures that the rebate is paid (to a greater extent) to Clients that buy and execute Capacity using Slots that have the greatest proportion of Spare Capacity (relative to other Slots at the same Port Terminal), across all Rounds of each Auction for the relevant year	• One of the issues identified by the ACCC in relation to the February 2012 Auction proposal was that, in certain circumstances, the "nominal" Auction price may rise at a similar rate to the exporter's rebate entitlement (with the result that there is only a small increase, if any, in the "effective price" payable by exporters) • The formula set out in Attachment 1 (together with spreading the rebate across both Auction Periods) breaks any clear link between the Auction price paid by an exporter in respect of particular Slots and the expected rebate due if it were to ship grain using those Slots • Economic modelling performed by external economists suggests that, based on reasonable demand and capacity assumptions, this rebate mechanism will involve an Auction ending after 21 Rounds and allocating 94.7% of Capacity • In practice, exporters are also likely to respond to price increases for particular Slots by re-allocating their demand to lesser demanded Slots or withdrawing bids (with the result that the Auction will end earlier)
4	There will be a separate "rebate pool" in respect of each of Viterra's Port Terminals, except for Outer Harbor and Inner Harbour which are part of the same supply chain	• This change is intended to remove the potential for distortions in the supply chain and physical execution of grain that may otherwise occur if the Auction Premium were to produce significant financial incentives for exporters to transport grain over greater distances to alternate ports (or to less efficient port terminals) • These financial incentives would create a significant risk of distorting investment in both port and transport (rail) assets, and the inefficient use of supply chains and resources in transporting grain over greater distances than necessary. Increased (and inefficient) road transporting is also likely to create substantial adverse social impacts • This proposal is consistent with Confidential Submission B made to the

	Proposal	Reason for proposal
		Commission as part of its consultation process in relation to the Auction System

5	Viterra will amend the Port Loading Protocols so it is clear that if Viterra cannot for any reason provide the Port Terminal Services in respect of Capacity acquired at Auction (e.g. force majeure events at port), any Auction Premium paid by an exporter for the relevant Slot(s) will be excluded from the Auction Premium Rebate calculation (i.e. which determines the amount payable to **all** exporters) and will be refunded from the gross rebate pool to the individual exporter. Similarly, this Capacity, and demand for this Capacity, will be excluded from the Auction Premium Rebate calculation
	
	If Viterra requests an exporter to move a Booking for operational reasons (and the exporter agrees), the exporter will retain its entitlement to the Auction Premium Rebate arising in connection with the original Slot (assuming it actually ships through the new Slot)
		• This change is intended to clarify the treatment of the Auction Premium in the event that the Capacity acquired at Auction cannot, for any reason, be supplied
		
		• The change is also intended to preserve the existing operational flexibility for Viterra to reach agreement with a client to move a Booking in circumstances where there is an operational benefit. This essential flexibility might otherwise be undermined by the operation of rules relating to calculation of the Auction Premium Rebate for other exporters
		
		  ◦ If, for operational reasons, an exporter moves from a highly demanded Slot to a lesser demanded Slot, it would not receive an increased entitlement to the rebate payable
		
		  ◦ If an exporter was amenable to moving, for operational reasons, from a lesser demanded Slot to a higher demanded Slot (based on the calculations set out in Attachment 1), the rebate calculation would not operate as a disincentive

3 Limits on withdrawing bids

	Proposal	Reason for proposal
1	The Auction Rules will specify that Bidders will only be able to reduce their aggregate amount of their Bids for Capacity (across all Port Terminals) by 50,000 tonnes per round	• Given the strong feedback from industry that limits of any type were not desired and that market forces would prevail, Viterra did not include prescriptive limits in its February 2012 Auction System proposal. However, Viterra now considers that this proposal (in combination with the other measures set out in this document) will have the following positive impacts: ◦ more Capacity will be allocated at Auction – Bidders will not be able to withdraw large amounts of tonnage with the result that Slots move from

	Proposal	Reason for proposal
		significant over-demand to significant under-demand. This had been identified as one of the factors contributing to the "over-shoot" issue in Western Australia[1]; • there will be an increased incentive for exporters to bid "truthfully" during the initial rounds of an Auction (with the first round setting the upper limit of an exporter's aggregate bids) – If an exporter initially bids for a very large amount of Capacity, there is a risk that it will not be able to withdraw tonnes and will be required to acquire them at Auction; and • the 50,000 tonne withdrawal limit in each round will reduce the volatility that might otherwise occur with large changes in demand on a round-by-round basis

4 The FIFS system

	Proposal	Reason for proposal
1	Viterra will amend the Port Loading Protocols to specify that each Client will have only one log-on to Viterra's online booking system (i.e. one user at any one time)	Viterra considers that, under its February 2012 proposal, exporters would have limited certainty of obtaining bookings through the FIFS system if they do not acquire Capacity at Auction. However, Viterra's proposal involves documenting those arrangements (and the further measures set out in the "Proposal" column) more clearly in the Port Loading Protocols This will not prevent some exporters from "taking their chances" in acquiring Capacity through the FIFS system (or deciding that they do not value a Slot at the price available through the Auction). However, in response to the issues raised in the Auction Objection Notice, it ensures (particularly when combined with Item 3 above) that, if an exporter genuinely wishes to acquire highly-demanded Capacity, the only certainty it can obtain is by acquiring that Capacity at Auction

[1] Viterra notes that there will frequently be some Capacity that is not allocated at Auction. This is simply because, although exporters bid in tonnes, they are in practice bidding for enough Capacity to load entire vessels. Accordingly, the profile of tonnes withdrawn in a particular round will be inherently "lumpy". It will rarely move to a position of perfect balance between supply and demand.

	Proposal	Reason for proposal
2	Viterra will amend the Port Loading Protocols to specify that, for 5 Business Days after the re-opening of the shipping stem post-Auction, a Client will not be able to make a Booking within 30 minutes of its previous Booking	See above. Booking applications received through Viterra's online booking system are date and time stamped. Accordingly, there will be a clear audit trail. If Slots are still under-subscribed at the expiration of the 5 Business Days, they cannot, on any measure, be viewed as highly demanded Slots Viterra considers that 30 minutes is a sufficient period to remove any certainty in relation to the FIFS system. It takes only 5 or so minutes to make a booking, and the shipping stem could potentially look very different from the beginning to the end of any half-hour period
3	Viterra will amend the Port Loading Protocols to make it clear that the maximum amount of any single Booking will be 60,000 tonnes	See above. This will prevent exporters from seeking large amounts of Capacity through a single Booking. 60,000 tonnes is typically the maximum size of any shipment from Viterra's larger port terminals
4	Viterra will amend the Port Loading Protocols to specify that, during the 5 Business Day period after the re-opening of the shipping stem post-Auction, Clients will only be able to book Capacity on a FIFS basis if the full amount of Capacity (as reflected in their booking application) is available. If the full amount of Capacity is not available, the booking application will be rejected, and Viterra will not enter into any negotiations in respect of that booking application. For example, if a Client applies to book 55,000 tonnes, but at the time its application is considered (in accordance with the FIFS rules), Viterra can only supply 50,000 tonnes of Capacity, the booking application will be rejected in its entirety (and the tonnes could be allocated to a subsequent booking application for 50,000 tonnes)	Currently, Viterra's process involves negotiation with Clients (in order of booking) if it cannot accept the relevant booking in full. However, under the new proposal, Viterra will not negotiate will Clients on bookings during the 5 Business Days immediately following an Auction. The "booking decision" will be binary: Viterra will accept the booking if there is sufficient Capacity, and will reject the booking in full if there is not This is intended to operate as a further disincentive for exporters to rely on the FIFS system in the period immediately following an Auction, as an exporter's booking could be rejected in favour of a subsequent smaller booking if the relevant Capacity is not available. The relevant Capacity may, therefore, not be available by the time the initial exporter seeks to make a smaller booking 30 minutes later At the end of the 5 Business Day period, Viterra's usual approach to FIFS bookings will re-commence (i.e. Viterra will negotiate with Clients (in order of booking) if it cannot accept the relevant booking in full)

5 Movement, transfer and surrendering bookings

	Proposal	Reason for proposal
1	Consistent with the February 2012 Auction System proposal, Bookings (whether acquired at Auction or through the FIFS system) will be fully transferable. There will be no limits on the number of transfers Any entitlement to participate in the distribution of the relevant rebate pool (see Item 2(3) above) will be transferred to the Transferee	No change to the February 2012 Auction proposal
2	The process for early surrender of Bookings will remain unchanged (other than as set out in Item 6(1) below)	No change to the February 2012 Auction proposal
3	If a Client requests Viterra to move a Booking from one Port Terminal to another Port Terminal, it will lose any entitlement to an Auction Premium Rebate in respect of the initial Slot However, if Viterra requests an exporter to move a Booking for operational reasons (and the exporter agrees), the exporter will retain its entitlement to the Auction Premium Rebate arising in connection with the original Slot (assuming it actually ships through the new Slot)	This is a consequence of the Auction Premium Rebate being calculated on a port-by-port basis. Exporters should not be able to "optimise" their entitlements to rebates by moving Bookings from high demand periods (acquired at Auction) to lower demand periods (which are likely to have higher rebate entitlements). This would effectively reduce the price paid at Auction for the high demand Slots The change also seeks to preserve the necessary operational flexibility to move Bookings with the consent of the relevant exporter (see Item 2(5) above)
4	If a Client moves a Booking between Slots at the same Port Terminal, it will retain its entitlement to participate in the rebate attaching to the original Booking (i.e. not the new Booking) if it actually ships through the new Slot.	This proposal facilitates flexibility for exporters to move between Slots at the same Port Terminal, but without any net gain or loss in rebate entitlement

6 Further amendments

	Proposal	Reason for proposal
1	Viterra will amend the Port Loading Protocols so it is clear that, if an exporter returns unwanted Capacity to the shipping stem and Viterra decides to not re-offer that Capacity to the market, Viterra will nonetheless pay the conditional (partial) refund of Booking Fee / Auction Fee calculated in accordance with the Port Loading Protocols	This amendment addresses the issue identified in the ACCC's Auction Objection Notice
2	Viterra will amend the Port Loading Protocols to limit the type and nature of the information provided by Tradeslot to Viterra to include only information that is necessary for Viterra to carry out its obligations under the Access Undertaking	This amendment addresses the issue identified in the ACCC's Auction Objection Notice
3	Viterra will amend the Port Loading Protocols to clarify that written grievances must be lodged by 5.00pm on the first business day following the end of bidding	This amendment addresses the issue identified in the ACCC's Auction Objection Notice

7 June 2012

Attachment 1

Part A: Rebate Calculation

For a full Season there are:

- Clients, c = 1 to K;
- Port Terminals, p = 1 to 5;[2]
- 14-16 day Slots at each Port Terminal), t = 1 to 24; **[*Note – there may need to be a transitional arrangement if the period from the first Auction Slots to 30 September is less than 24 Slots. However, the same basic formula will apply*]**
- Auctions, a = 1 to 3; and
- Auction Rounds, r = 1 to N in each Auction, where N is the Round at which an individual Auction ends.

Slots in respect of the Harvest Shipping Period, which covers all Port Terminals[3] from t = 1 to 8, are sold in the first Auction. Slots in respect of the Non-Harvest Shipping Period, which covers all Port Terminals from t = 9 to 24, are sold in both the second and third Auctions (so long as they are still available in the third Auction).

The Auction Premium Rebate

At the end of the Season, the Auction Premium Rebate payable to each Client, c = 1 to K, $Client\ Rebate_c$, in respect of that Season equals:

$$\sum_{a=1}^{1}\sum_{p=1}^{5}\sum_{t=1}^{8} Rebate\ per\ Tonne_{p,t} \times Capacity\ bought\ at\ auction\ and\ then\ executed_{c,a,p,t}$$

$$+ \sum_{a=2}^{3}\sum_{p=1}^{5}\sum_{t=9}^{24} Rebate\ per\ Tonne_{p,t} \times Capacity\ bought\ at\ auction\ and\ then\ executed_{c,a,p,t}$$

[2] Inner Harbour and Outer Harbor are treated as one Port Terminal for the purposes of calculating the rebate per tonne. The other Ports Terminals are Port Giles, Port Lincoln, Thevenard and Wallaroo.

[3] Outer Harbor and Inner Harbour will be separately auctioned. However, they will be treated as one Port Terminal for the purposes of calculating the rebate per tonne.

The Rebate per tonne for a Slot equals ***the Rebate Pool across all Slots for that Port Terminal*** multiplied by the ***Rebate Factor for that Slot and Port Terminal*** divided by ***the Weighted Volume of Capacity bought at Auction (and then shipped) for all Slots at that Port Terminal***. That is, the **Rebate per Tonne for a particular Slot at a Port Terminal**, $Rebate\ per\ Tonne_{p,t}$, equals:

$$Rebate\ Pool_p \times Rebate\ Factor_{p,t} \div Weighted\ Volume_p$$

Clients receive the Rebate per Tonne so long as they actually ship through the Slots they acquired at Auction.

If a Client moves a Booking to another Port Terminal, it loses its Rebate per Tonne entitlement (see section 5.3 of the revised Auction System proposal). However, if Viterra requests a Client to move a Booking for operational reasons, and the Client accepts and actually ships through the new Slot, it still earns a Rebate per Tonne determined by its original Booking (see sections 2.5 and 5.3 of the revised Auction System proposal). If a Client moves a Booking to another Slot at the same Port Terminal, it retains its Rebate per Tonne entitlement (see section 5.4 of the revised Auction System proposal).

The components of the Rebate per Tonne formula, $Rebate\ pool_p$, $Rebate\ Factor_{p,t}$, and $Weighted\ Volume_p$, are defined below.

Part B: Rebate Pool Calculation

The rebate pool for a particular Port Terminal, $Rebate\ Pool_p$, equals:

$$Auction\ Premiums_p + Interest_p - Auction\ Costs_p - Booking\ Adjustments_p$$

(a) The ***Auction Premiums across all Slots for a Port Terminal, $Auction\ Premiums_p$,*** equal:

$$\sum_{c=1}^{K}\sum_{a=1}^{1}\sum_{t=1}^{8} Auction\ Premium_{a,p,t} \times Capacity\ bought\ at\ auction_{c,a,p,t} + \sum_{c=1}^{K}\sum_{a=2}^{3}\sum_{t=9}^{24} Auction\ Premium_{a,p,t} \times Capacity\ bought\ at\ auction_{c,a,p,t}$$

Note that the Auction Premium only includes the amount paid at Auction over and above the "Auction Fee" (currently $5 per tonne). The Auction Fee does not form part of the rebate pool. The Port Loading Protocols define "Auction Premium" as excluding the Auction Fee. The rebate pool depends on tonnes of Capacity that Clients buy across the Auctions, rather than on what they actually ship.

(b) The interest for a rebate pool for a Port Terminal, $Interest_p$, is the interest accruing to the separate account in which that Port Terminal's Auction Premiums are held between the time that Clients' Auction Premium payments are received into the rebate pool and the time that Clients' rebates are paid from the rebate pool.

(c) The total Auction costs are spread across each of the five Port Terminals on a *pro rata* basis (based on tonnes executed through each Port Terminal, including both tonnes bought through Auction and tonnes bought through the FIFS system). That is, the Auction costs allocated to a Port Terminal, $Auction\ Costs_p$, equal:

$$\text{Total accrued auction costs} \times \frac{\sum_{c=1}^{K} \sum_{t=1}^{24} \text{Capacity executed}_{c,p,t}}{\sum_{c=1}^{K} \sum_{p=1}^{5} \sum_{t=1}^{24} \text{Capacity executed}_{c,p,t}}$$

"Total accrued auction costs" is the aggregate of all costs incurred by Viterra in connection with the introduction and operation of the Auction System that Viterra has not indicated will be recovered through other charges to Clients.

(d) The Booking Adjustments for a Port Terminal, $Booking\ Adjustments_p$, equal the sum of refunded Auction Premiums for Bookings at that Port Terminal (see sections 2.5 and 5.3 of the revised Auction System proposal).

Part C: Rebate Factor Calculation

The ***Rebate Factor for a particular Slot at a Port Terminal*** depends on whether it is in the Harvest Shipping Period or Non-Harvest Shipping Period. The Rebate Factor is defined with reference to the variable "Spare Capacity". "Spare Capacity" for a Slot in a Round is zero if there is excess demand (i.e. total bids across all Clients for that Slot in the Round exceed that Slot's Capacity). Otherwise, it is the Slot's Capacity minus the total bids across all Clients for that Slot in that Round.

For the Harvest Shipping Period, t = 1 to 8, $Rebate\ Factor_{p,t}$, for a Slot at a Port Terminal equals:

$$\frac{\sum_{a=1}^{A} \sum_{r=1}^{N} Spare\ Capacity_{a,r,p,t}}{\sum_{a=1}^{A} \sum_{r=1}^{N} Capacity_{a,r,p,t}}$$

For the Non-Harvest Shipping Period, t = 9 to 24, $Rebate\ Factor_{p,t}$, for a Slot at a Port Terminal equals:

$$\frac{\sum_{a=2}^{3}\sum_{r=1}^{N} Spare\ Capacity_{a,r,p,t}}{\sum_{a=2}^{3}\sum_{r=1}^{N} Capacity_{a,r,p,t}}$$

Part D: Weighted Volume Calculation

The ***Weighted Volume of Capacity bought at Auction (and then shipped)*** **for** ***all Slots at a Port Terminal,*** $Weighted\ Capacity_p$ is:

$$\sum_{c=1}^{K}\sum_{a=1}^{1}\sum_{t=1}^{8} Rebate\ Factor_{p,t} \times Capacity\ bought\ and\ then\ executed_{c,a,p,t} + \sum_{c=1}^{K}\sum_{a=2}^{3}\sum_{t=9}^{24} Rebate\ Factor_{p,t} \times Capacity\ bought\ and\ then\ executed_{c,a,p,t}$$

The Weighted Volume depends on the Capacity that Clients buy and then actually execute or ship. If a Client moves its Booking from one Port Terminal to another Port Terminal, its Capacity is not executed (section 5.3 of the revised Auction System proposal). However, if Viterra requests a Client to move its Booking to another Slot (at the same or another Port Terminal) for operational reasons and the Client accepts and actually ships through that new Slot, its Capacity is executed (see sections 2.5 and 5.3 of the revised Auction System proposal). If a Client moves a Booking to another Slot at the same Port Terminal and actually ships through the new Slot, the Capacity is executed (see section 5.4 of the revised Auction System proposal).