GLENCORE

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Mr Matthew Schroder
General Manager
Infrastructure & Transport - Assets and Pricing Branch
Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001
Email: transport@accc.gov.au

Dear Mr Schroder

Re ARTC Compliance with the financial model in the HVAU 2013

Glencore is writing in response to the ACCC's invitation for input (dated 26 November 2014) to the above review. In general, following the revelations that ARTC was conducting a "revenue reallocation" process which was not disclosed in the annual compliance reports lodged by them, Glencore is extremely concerned that the ARTC has published reports that deliberately omitted details that would enable stakeholders to detect ARTC's "reallocation". This serves to highlight the need for more detail to be supplied in the future. .

The set out of the report does not aid the reader in understanding the calculations with constant switching between constrained/unconstrained references and the need for switching to Appendices. The report is extremely difficult to interpret and this makes it harder for stakeholders to detect any non compliance by the ARTC. The report would be simpler to interpret if data was presented consistently by separate Zones, with a separate section for each rather than having constant switching between constrained and unconstrained sections throughout. Since the calculations are slightly different for the constrained and unconstrained zones this will highlight these differences.

2013 Compliance

Specific comments on the 2013 report are as follows;

- There is little detail supplied on Operating Expenditure and yet there is a requirement for such expenditure to be assessed on an Efficient basis. There is a need for further detail with a comparison to forecast to be supplied (again by Zone). Non Segment Specific costs should be detailed with their allocation to Segments/Zones detailed. Similarly there is no transparency on Corporate Overheads. Whilst we appreciate ARTC has supplied the ACCC with some detail on these items Glencore does not understand why there cannot be more disclosure to the Access Holders of this detail. Also more transparency is required on how these indirect costs are allocated to Segments/Zones.
- Net Capex remains a difficult number to verify. Whilst ARTC has been quite reasonable in its openness at the RCG meetings (including monthly reports), there is no way to reconcile RCG sanctioned spending to the Net Capex additions in the calculations. There needs to be a transparent reconciliation of project approvals, spending on approved projects, additions to the RAB and the closing 'work in progress'. The monthly reports on project progress supplied by the ARTC to the RCG members should be revamped to ensure there is an easy reconciliation from project spending to the yearly 'Net Capex' number.

- There is generally no reconciliation of the year's actual revenue collected (and Ntk/Gtk's) to that estimated in the setting of the year's rates. Such a reconciliation may have helped to uncover ARTC's revenue reallocation process. It would be useful in Table 7 to also show a column detailing the forecast assumptions that were used in setting the 2013 rate as a comparison.
- Table 7 Ceiling test shows the 'Total ROA' as being '120.17'. It would be useful to show the exact calculation of this number from the data that has been supplied elsewhere in the document.
- Appendix D shows the movements in the RAB for the year. This table shows the Disposals for the year as reducing the RAB for the year by the Net Loss on Disposal. Clause 4.4 of the HVAU defines 'Net Capex' as being reduced by the written down value of any disposals. The RAB therefore seems to be overvalued by the disposal proceeds. This also raises the question of where these proceeds have been included in the year's calculations. The 2012 calculations also appear incorrect in this treatment. Has the ARTC claimed a return on disposed assets and also benefited by the proceeds?
- Unders and Overs accounting should be disclosed by Zone.
- In Appendix B, Segment 956, Project 229 is shown as not constrained. This segment appears to be on the mainline in Zone 1, why is it shown as 'No' under Constrained? This project is in the total as unconstrained also. We question if this has been treated correctly in the calculations.
- The interchanging reference between segments 401 to 402 and 963, 964 & 965 is confusing.

Revenue Reallocation by ARTC

We refer the ACCC to Glencore's submissions on the earlier Revenue Reallocation review which clearly set out Glencore's opposition to this practice.

Glencore is surprised by the comments made by the ACCC in its Position Paper (page 28) that "...ARTC needs to quantify the incremental cost of Pricing Zone 3 Access Holders using the Segments in Pricing Zone 1." Nothing in the HVAU dictates this need. Clause 4.3(a) defines the Ceiling Limit in relation to Segments of Zone 1 and 2 used by any Access Holder as not to exceed the Economic Cost of those Segments. There is no discrimination or basis for differential costing for different users of these Zones. All users of Zones 1 and 2 Segments are to be treated equally on a "stand alone basis". Even if there was a need to carry out the incremental cost exercise, any attempt would be difficult if not impossible as it would mean allocating already existing infrastructure to each Access Holder and likewise with every incremental project.

It is Glencore's strong view that the 2012 and 2013 ceiling limit calculations must be redone with this reallocation of Zone 1 revenue to Zone 3 removed. This process was not in accordance with the HVAU and as such Glencore is seeking the ACCC to intervene and ensure the ARTC reissues the 2012 annual compliance assessment/unders and overs account and also reworks the 2013 assessment to remove the cross subsidisation.

Summary:

Glencore is very concerned at the disclosure of the ARTC 'revenue reallocation' process and is disappointed that the level of detail in the annual compliance report was such that Access Holders were not aware of this process. The annual reporting needs to provide much more transparency and detail if Access Holders' confidence in the compliance process is to be restored. In summary, it is Glencore's view that the report is confusing in its layout and does not provide enough detail to allow a full assessment of its correctness.

ARTC has not complied with the HVAU in 2012 and 2013. The revenue reallocation needs to be reversed and the Unders and Overs Accounts revised and reissued accordingly.