DEUTSCHE BANK AUSTRALIA

Moderator: Justine Brant
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OPERATOR: This is conference #: 16558944.

Chris Vagg: Thanks to those of you on the line. It's Chris Vagg here from the Investor Relations team in Aurizon.

So in the room here we've got Alex Kummant, the EVP of Network; and Pam Bains who is the CFO of Network. We've also got Keith Neate who is the Aurizon Group CFO around for questions later.

You should have seen the slides, which we've loaded to the ASX about an hour ago and they're on our website for those of you who don't have them.

But over to you, Alex.

Alex Kummant: Thanks, Chris, and thank you for coming and hope to keep it relatively conversational. I'm not opposed to questions as we talk. It's probably easier if we hold questions overall until the end.

I thought I would -- again just overall frame, you know, what we are doing here. Clearly UT4 has been a long journey. It was lodged over three years ago. And in a sense, the question is we're putting UT4 behind us. What does that mean? Obviously, UT5 is suddenly upon us and there'll be questions about where we go there.

Pam will run through the detailed revenue implications and we'll chat a little bit on the overall policy implications in terms of where we are.

Our fundamental view is that it's time to move on, so we are in the process of accepting this decision. That means we are creating a compliant draft, which we will -- we lodged it as a normal process. After a final decision, we produce yet another final piece of work.

Clearly, we believe that there are still many policy issues that are flawed, and we believe that there are other elements, long-term, to pursue on the revenue front as well. However, the industry needs certainty. Everybody needs to get this behind us. We agree with that, and we intend to pursue individual policy issues in the future probably on an amendment basis. And we recognize there's a lot of reasons where we ended up here over the last three years.

One thing to remember for everyone, this was really the first whole undertaking post IPO so there was an inevitable really kind of deep engagement and, yes, conflict as we all know in many cases, but really it's time to move forward.

However, let me also give you some positive context here, and we don't normally talk about interim tonnages for the Central Queensland coal network, but we just finished a record May, and it is possible that we thought early in the year it was not. It is possible we will narrowly even exceed last year's record tonnage numbers.

So, part of the overall message here is this asset is performing well. The operation is performing well, and we're really creating productivities for all of our above rail partners as well as our end coal customers. And I think that's an important backdrop here as we do talk about some of the policy issues.

I do want to give you a sense without spending too much time talking about conflict per se, but I do want to give you a little bit of a sense of why did this take so long and where have some of the friction points been because it does inform where we need to go in the future. So again, we'll be delivering a complying Access Undertaking before the end of June. If that is not fully approved at that point, we're also concurrently working on a transitional structure, which is entirely consistent with that revenue treatment to make a very seamless transition. And we're working with the QCA on that.

And then there's always a number of things that go with this. There has been a standard user funding agreement that has still been in process. It needs to be linked up with UT4 condition-based assessment and various other pieces from system rules to confidential information register. So there's a lot of kind of housekeeping things that do happen.

Go forward concerns, and I'll come back to these after Pam really finishes a more wholesome financial view of the world.

Clearly on a go forward basis, everybody understands risk-free rates have dropped, so the obvious question is, you know, where is this all going?

The fundamental question really is does the QCA have a broad understanding of this business and its cash flow and financeability needs. And we believe we've got a fairly strong case to prosecute with data points we didn't necessarily have multiple years ago. I mean, obviously S&P and Moody's has come forward pretty briskly with a view that we are, in fact, not a utility as the QCA believes but a natural resource company, if you will. And it's those types of elements we really need to pursue along with what is the risk profile and how does that roll into the overall revenue picture that the QCA wrestles with.

I'll touch on a number of the overall key outcomes here of the final decision. Pam will go into detail clearly on the Maximum Allowable Revenue. The good news here is that it's OK. It overall supports our plan. We do think there's elements that we will continue pursuing. You may have heard about it on the margins for three years and you'll continue to hear about things like ballast undercutting and ballast cleaning where we still think the QCA has not done the right thing, so there are elements to this. There are overall pricing principles that we still intend to pursue. But at these levels and, in fact, that the QCA did live up to its word and not adjust the WACC here through the many years of negotiations has been a positive.

Pam will talk in detail about the true-up process. The baseline here is circa $73 million, and she will address possible ranges there and timing. We'll work through that and it's really a reconciliation with what an initial outside read of the QCA document would have a slightly different number, and Pam will step through that.

One of the significant issues clearly is the Wiggins Island treatment. We know there's volumes there that have not happened and that there's a revenue deferral treatment there from the QCA based on a CapEx deferral. And there are the obvious questions about where does that go.

We're not thrilled with that. There is a point where there could have been other choices made. On the other hand, we do understand that with current volumes it would have been difficult to socialize that. On the other hand, we would have preferred a date certain outcome, which was not there. And it is, however, the pen is in our hand would seek an amendment at the right time to say the tonnes now do support socialization. And Pam will discuss a little bit about how that would work and what CapEx piece can certainly be recovered.

And finally, Asset Stranding. Again, it is potentially an issue-provided discussion. It's not a secret that our Moura System certainly has some exposure with one miner predominantly with Dawson Mine. However, a couple of things to say there, one, it's less than 4 percent of the RAB value. So if there were to be a test case that would be a good place to have it.

Number two; the QCA has been more forward-leaning here and has, for the first time, at least articulated some overall principles, which, in fact, were not in UT3. UT3 simply said the QCA has a right to optimize, more silent on any mechanism or any principles.

What is important is that the QCA here or the first couple of bullet points has clearly stated this has to be done on a case by case basis and, in fact, Aurizon in the best place to put forward a view in those specific cases, what the best way is to mitigate that stranding risk.

So, we were certainly pleased to see that they did not hold sort of unilateral power view that, hey, we'll just do what we see fit, instead saying if there's an issue, you guys have to come forward with your best view then.

We certainly consider that positive movement, and also that overall socialization is the last resort. It was also not codified [in UT3] that optimization can be reversed in the case where there was a condition-based sort of issue. So, on balance, we think that's positive.

Would we have liked to see more specific mechanisms called out? This is also a space we have to be careful what you ask for. If you have very specific mechanisms, it is also possible for the customers (I'm not trying to ascribe any sort of unethical behavior), but customers can possibly then game the system a bit more and try to create situations that they see triggers in a very specific call out process.

So, it's not a bad incremental step particularly that we're in a different world. You know, we're four, five years ago to say, OK, it's a good first step. Principles are articulated. And if we get to that point, we will put into paper.

What I wanted to address here in the next couple of charts, here there's a little more detail on page 6 on both WIRP pricing and deferrals, again not much more than the previous chart. Pam will talk about that piece of it, and there'll be some (sporadic) charts as you've seen it showed, which customers have fallen out.

On the asset stranding side, again, I just wanted to reemphasize, there really are two cases. One is a demand spiral where there really is falling demand, where a systems basically cost can no longer be borne by the customers that are left, and the other cases where an expert determines that there's been a failure to maintain, what certainly is not an issue here. But those are the two fundamental cases we're talking about.

(Off-Mic)

Male: Is that -- do you guys regard that as a low probability?

Alex Kummant: Yes, we regard that as low probability. And again there's no secrets here that the Moura System, which now is predominantly now fed by the Dawson Mine is really the only place where that's an issue today or could be.

Even there we would have a short-term, long-term situation because ultimately the Surat Basin would come up to that system, so our view is that that's still a very valuable asset. It also again represents less than 4 percent of the RAB value, so it would not be, you know, a crippling blow in any sense, but that's the only place this can come into play. It just have been more of a live question given the economic conditions and the condition of the mining community over the last couple of years.

In general, we don't have a problem elsewhere particularly because of the high quality of the customer base. And again, it seems discordant to bring this up when I just said we set a volume record. Of course, said volume record has been set on the strength of other systems where that would be.

(Off-Mic)

Alex Kummant: Well, that's -- that is certainly one of the levers we would pull before any sort of optimization. But where I think its positive is they have basically said it's up to you to come back to us to say what is most appropriate, so there would be multiple approaches. And feel free to jump in. One would be to socialize with the Blackwater system. Another one would be first to drive, you know, accelerated depreciation across some of these areas.

One of the things we would say and to jump forward to UT5 a little bit, you hate to say sort of "I told you so," but it's like "Hey, folks, you've never -- and they acknowledged in writing, they've never paid us for any volume risk. They never paid for any -- excuse me, they have never allowed a revenue structure that paid us, compensated us for this risk, so it is certainly will be a live discussion not just in the asset stranding structure, but in the future WACC structure and risk assessments.

But what they have done is at least forward-leaning and has moved the ball, if you will.

Pam Bains: And specifically to your question, there is no problem at the moment for them to deal with so they wouldn't have done any (reflection). You can spread it across them.

Alex Kummant: Yes, yes. Good try. Now obviously those customers wouldn't be happy about it, but that's the nature of socialization, too. You know, everybody is a little unhappy, but happens to you as an insurance policy …

(Off-Mic)

Alex Kummant: So, the next two pages here -- pages 7 and 8 -- and I'll jump around here a bit. I won't go line by line.

What I wanted to do is just give you a flavor -- first let me say that what we just went through really are the big issues. None of the issues on the following pages are in and of themselves, crippling or difficult or somehow damaging financially. So, I'm not here to tell you all this has X cost associated with it, but I do want to give you a flavor of where the last three years have gone.

One of our single biggest concerns and ongoing dialogue with the QCA is that, in our view, they have repeatedly stepped beyond where they need to go to basically regulate access. What are they trying to bring? They are trying to make sure that there's even handed access to all operators to the network. That is the fundamental agreement.

And what has happened? In this period of time, P.N. has done very nicely and BMA Rail has done very nicely where we believe they have gone way beyond what they've needed to do is reaching deep into our process where they haven't had to, and that has required a tremendous amount of time, and drafting, and haranguing back and forth where, in our view -- and this is going to sound I'm trying to still maintain a tone here that this show a positive trajectory of where we can go.

Some of it will sound a little personal towards the QCA who are good people who work hard, but the reality is they're simply not rail operating people and they have consistently gone and invented, and reached into rail operating procedures, and issues, and policies that, in our view, A, they've got no knowledge about; B, they've got no business being in. They had not even produced any data that suggested something needs to be fixed. That has been particularly vexing to us and continues to be.

And here are some examples. You know, we would say, for example, even on -- one of the pluses, by the way, was that the first point here that there are no involuntary or no mandatory funding commitments as of our UT3. Now, that's a little bit given you the sleeves off your vest given the current environment. It's nevertheless positive.

On the other hand, when you look at where they have gone in the expansion process, there are a myriad of processes that they have layered on. We spend a lot of time with the industry association with QRC, and they rejected a lot of those processes and developed their own processes. For example, they have a very complicated and unwieldy customer voting process now that is codified in this. That, in fact, allows customers that have no real skin in the game, if you will, to vote in certain processes so they can block things, they can stretch processes out a long period of time. And then the QCA does not even bind itself to the outcome of that voting. So there are a lot of individual processes in the expansion side that have been problematic.

(Off-Mic)

Alex Kummant: Well, that's a sort of thing where, down the road, if it really becomes an obstacle, again rather than lodge this coming year, you know, another 1,000 pages with this being one of the elements, which I think we got wrong, we will wait when it becomes more appropriate, particularly when industry conditions change and people start looking to spend capital, we will lodge an amendment to say, look, let's all get together again and have a look at this.

And let me not be disingenuous, we have subsequent -- we had conversations with the QCA where they have acknowledged it. There are a number of things that we've worked out with the QRC that perhaps they shouldn't have rejected. There were, I think, 13 agreed positions and overall policy positions over the last several years with the QRC, and the QCA rejected 10 of them, which we found, frankly, stepping right in the middle of the intent of the QCA Act is negotiate/arbitrate and they've stepped right into the middle of that in those cases where we came to them and said we have an industry agreement here. So that's one example.

Another general example on pricing is areas they have gone on expansions as well is they have drifted away from broader socialization principles to more specific expansion-based premiums -- and tariffs and premiums. And what happens there again is that you disadvantage expansion and, in fact, you move in the wrong direction socialization. We think that that's, you know, certainly not positive.

The whole notion of negotiate/arbitrate is important. Another clear callout they have made is they have completely forbidden any price differentiation even if the end customer has a different risk or cost group. And that again steps right into the middle of negotiate/arbitrate, saying why are we getting between us and the customer. So there are a number of issues there. And if you can -- when you really drive that down to a legal language, those types of things can go on for months, particularly when you have tripartite discussion just to try to give you a sense.

A couple of other areas, ring fencing. So, ring fencing has a lot to do with, you know, confidential information.

The fundamental issue here that again and again absent any evidence of a problem the QCA has gotten more and more and more prescriptive, so this is going to sound like a little bit of whining, but again I'm trying to give you a sense of the amount of detail that's driven down. We fundamentally propose a risk-based management of disclosure and data. It's not that hard to do. One of the things, for example, that happens is above rail providers are very conscious of particular (concepts) that they run.

Now, from the North American world I know, that can stay confidential for about 5 minutes because all you have to do is put a car next to a railroad right away and look at the train. So that's never been a big issue. Occasionally, there have been some snafus with an email or something gets CC'd to someone who shouldn't. We immediately report those things. The evidence is very small.

But what the QCA, for example, subsequently did is they have demanded auditable training records, auditable information movement, specific requirements of employee transfers, quarterly maintenance cost reporting and, in fact, requirements to train non-network employees and ring-fence it. I mean, it just goes on and on and on. It doesn't sound like much, but we multiply this across sort of 2,000 pages of engagement. Ultimately, that just cost everybody money.

The real kicker is there's simply no evidence that this is a problem.

Male: Why the -- I think it's a sort of adversarial thing.

Alex Kummant: Well, give him a call and ask him.

(Off-Mic)

Alex Kummant: Well, I think we've worked the relationship very hard. I'm not offended by that -- by that statement at all. I think the relationship has been complicated. One of the issues as well is -- I mean, they have an H.R. challenge. They've turned over many, many people in this period of time.

I think part of it goes to being a first undertaking post IPO, part of it goes to some of the historical analysts as the company is being spun out with both other above rail providers, and the mining industry. So there's still, you know, there is still an emotional content to some of this.

I would say that our relation -- go ahead, Keith.

(Off-Mic)

Keith Neate: So I have no -- there must be …

(Off-Mic)

Alex Kummant: Yes.

Keith Neate: I think the earlier point issue …

(Off-Mic)

Keith Neate: But this is the regulator that -- so this is the regulator that …

(Off-Mic)

Keith Neate: … time horizon. I mean, some of the other issues that they're trying to get involved with got scheduling of trains. They have nobody, the rail operator experience in their business and they're trying themselves how to run a railway. That's not their job. Their job is to regulate, as Alex said earlier, access to the system.

Alex Kummant: What about -- yes.

Keith Neate: It's not an easy one to get answer because the last thing we want to do is push back hard and end up in an even more adversarial relationship.

Alex Kummant: So I don't -- I don't want to go on and on. I was going to chat a little bit, in fact, about train control and scheduling is another example. We offered up -- I don't know -- three different formats and timings of reporting train schedules to them. They insisted on a fourth structure with a specific format and have never even suggested what they're going to do with it for example.

So, I won't carry on here on this, but it is only to say there are multiple reasons for the kind of long time that we've been going through this and that this will have to continue to evolve, I think, back to a somewhat saner structure where again the proof is in the pudding. We have four running years of record volume. I'll come back to this in the end. If you look at all the performance metrics, we're doing extremely well.

If, in fact, there were multiple pieces of evidence that showed all kinds of data security problems, if our planning and scheduling were a mess -- by the way, we're spending something $35 million, $40 million of G.E. and advanced technology in that space and other rail providers, in fact, including North Americans, are interested in what we're doing.

But we think that there's a lot of space here on go-forward not just to move back to the original intent of the QCA Act, but then also get faster and more efficient. They don't need to be worried about this stuff. Again, in the meantime, P.N. and BMA Rail have done very well on QCA and have set records themselves. So, just to make the point where we've been and it does to some degree inform where we have to go.

Pam Bains: Right, to Alex's point, so there has been a change in obviously …

(Off-Mic)

Pam Bains: … the environment has changed during that …

(Off-Mic)

Pam Bains: And we've also got a customer base that has (provided) with an environment therein. And as the (GOC), our (culture) is a lot different ...

(Off-Mic)

Pam Bains: ... wanted to change on our next (process) that might have been an issue under the (GOC) requirement.

(Off-Mic)

Keith Neate: So what are the changes that …

(Off-Mic)

Alex Kummant: Yes, I mean, I'll come back to that at the end. We have -- and I would frame it this way, quite honestly. I've been in the seat here coming up on three years and our entire approach has been to turn the other cheek. We have engaged, engaged, engaged with the QCA.

It has helped a bit, but our view is we need a much broader stakeholder engagement including government, including key customers that there simply need to be a much broader view. Look, the customers don't want to go to this again. And again, I would be very careful to judge customer relationships on the basis of what perhaps you read in public consultation and public submittal documents. Those documents are often read by regulatory specialists who, in fact, who's (remised) is to, you know, stick it to the railroad and have very little to do with the operating relationships.

We would say that our operating relationships today from Network are vastly improved than three to five years ago, and at an operating level, we've come a long, long way. So we think in order to move this forward, we need a very broad engagement with government, with industry, with multiple levels of government, with the QCA board itself.

The board is turned over. There's a new chairman. I have not met the two new board members. There is much talk about will this necessarily get us where we need to go. I can't promise that, but it does have to change -- it does have to change.

Why don't I hand it over to Pam and we'll come back to that question actually because that is the question -- where do we go from here?

Pam Bains: Thanks, Alex.

I'm just going to walk through and -- I guess, the financial impacts of the UT4 decision. So, I'll click you onto this slide.

So on the first slide, this summarizes the maximum allowable revenue as determined by the regulator, for the UT4 period. So those of you who are not familiar with the building blocks, we have some additional detail in the appendices (that I don't intend) to go through on a line by line basis.

So the final decision for total MAR and the full-year period FY2014 through FY2017 is $4.055 billion. If you take this as a pure MAR position, this does not include things like revenue caps, true-ups and also flood recoveries. I'll talk about that a little bit later on.

Adjusting for capital carryover, which is $129 million, that with the allowable revenue to $3.925 billion. And you may recall, at the end of last year, the QCA issued its consolidated draft decision, which was $3.927 billion, so not materially different between the two decisions.

The capital carryover adjustment effectively adjusts for the difference between projected capital in the UT3 period and the actual approved capital. There's obviously a difference once it gets approved. The adjustment for that difference gets corrected in a subsequent regulatory period. So the UT3 adjustment takes (life) on UT4.

Why was that number so big? Well, in the UT3 capital indicator, once we submitted UT3, we had quite a significant number of growth projects at that time such as the Goonyella Abbot Point expansion, the Blackwater feeder stations, GIC expansion. We estimated those going into UT3 and delivered a number of those projects under budget and therefore, the actual capital spending was lower than anticipated, hence, the adjustments happens in UT4.

How does that compare, I guess, to where we are today on the UT4? Our actual capital spend is very close to projected capital spending cap in UT4, so the adjustment in the next regulatory period would be an immaterial at this stage. And also a lot of the growth projects have now been finalised. We are looking at sustaining CapEx moving forward in the range of $250 million to $300 million, so we are tracking very close to our projections.

So, I guess, the table here as you will have seen, it's been pulled straight out of the QCA published document.

Similarly, on the next slide, you have the volumes. So, volume again has been lifted out of a regulator's decision. FY2014 and 2015 represent actual volumes railed across Central Queensland Coal Network by all operators, so these are not the same volumes you hear us talk about at the half-year and the full-year Aurizon Holdings. This is Aurizon Network volume.

FY2016 and, of course, 2017 represent regulatory forecast. They do not represent Aurizon Network forecast.

For FY2016, you can see that the regulatory forecast is 217 million tonnes. Based on our experience year-to-date from some of the published numbers you've seen, also the fact that we hit the 200 million mark a day earlier than we did in the previous year. We do expect some systems to over-rail and, therefore, over-recover on some revenue for this year. Again, if that does happen, as per the normal process, we will adjust the revenue for the over recovery in FY2018 through the revenue cap process.

The volume, moving to the true-ups and I'm sure you're all interested in. As you will appreciate, over the last few years, we have been operating on transitional tariffs, whilst we've been working through the UT4 process. The true-up is the difference between the final revenue as determined by the final decision and the transitional tariffs for the system allowable revenue.

We are actually still in the process of agreeing the quantum and the timing of the true-up and with industry and, obviously, the QCA. And you will probably see there's a submission made to the regulator yesterday actually, I believe, which will be coming out soon, which will actually highlight a backup position for the UT4 position. If we don't get UT4 finalized by the yearend, it will determine revenues for this year. And I'll come back to that in a moment.

So the wash-up will either be in FY2016 and FY2017 as per the final decision or all in FY2016 primarily because of the tight timeframe to yearend.

In this analysis here we've actually assumed the recovery in FY2017 purely for simplicity, so you can see how it flows through.

The table at the top of the page again has been extracted from the QCA's decision. You're probably familiar with this. I'm going to focus on the FY2014 and FY2016 system allowable revenue difference, the 66 million and the 69 million. Total 135 million.

So the QCA calculate that true-up to be 135 million, however, there are a couple of adjustments that need to be made to that number. You can broadly categorize them in the two areas. Firstly, we need to adjust for some items that need to reflect the correct outcome -- the 14 million, just under the 135 million, and the 6 million towards the bottom of the page reflect changes that need to be made, which the regulator is aware of.

Then we have a second category, a couple of items that are still subject to consultation with the QCA, so probably not much I can say about that at this stage. It's in the range of zero to 16 million. So that takes us to a subtotal of 105 million to 121 million in the form of true-up, but you do need to deduct from that number the revenue cap, the adjustment from FY2015.

You may recall in FY2015 we over-recovered revenue due to strong railings, total 26 million and the 6 million, 32 million was the additional revenue including capitalized interest. We need to deduct from that true-up, leaving us with a range of 73 million to 89 million.

Again, as I work through the P&L on the next slide, we'll assume 73 million again for simplicity at this stage. OK?

Moving on to provide a reconciliation between the maximum allowable revenue and the reported access revenue for the Stat accounts for Aurizon network for FY2014 and FY2015. And then for FY2016 and 2017 just emphasize these are estimates only, and the actual numbers may vary depending on actual volume compared to regulatory volumes as you already know the usual adjustments.

So starting from the top, access revenue, we have access revenue there, which excludes GAPE -- excludes GAPE regulatory revenue, and then add that back to the bottom, which you'll see later.

The types of adjustments that have hit FY2014 and 2015, firstly you will recall in FY2014 again we railed very strong volumes in that year and we over-recovered by $70 million. Unlike the normal process whereby it goes into the revenue cap and repay it two years later, we agreed with our customers to repay that $70 million in the same year, so you can see $70 million coming off that year.

The next, $12 million and $6 million in FY2015 and FY2016 represents recovery of the flood cost that we incurred. This was a 2013 flood on the Blackwater and Moura Systems, which we agreed with industry to repay over an 18-month period through tariffs.

Then we have WIRP moving, which is an adjustment the QCA made for Cockatoo tonnes and also the ramp-up of volumes for WIRP pushing some of the WIRP revenue out from FY2016 to FY2017 and some of it into the next regulatory period. And I'll talk about WIRP a little bit later on.

The next adjustment is the usual revenue cap adjustment. So, in FY2014 that would represent the revenue cap from FY2012 for two-year delay. Also note that this number excludes GAPE and includes capitalized interest just in case you try to tie this back to supporting schedules in the back.

And then finally, we have the UT4 true-up, which is the $105 million I mentioned, less the $32 million revenue cap which gives you the net $73 million, and we've assumed that in FY2017 for the rest of the presentation

That is just your MAR. It gives you the adjusted MAR with both timing differences. And then to that, we add the non-regulatory access revenue, which I'll break down on the next slide in a moment, and we add the GAPE regulatory and non-regulatory revenue, which then takes you to for F.Y. 2014 and F.Y. 2015 the reported numbers in statutory accounts, again F.Y. 2016, 2017 estimates only.

Right. So what's non-regulated access revenue? So these items do not form part of the maximum allowable revenue. And I'll just walk you through what these items relate to.

Firstly, electric traction costs, also referred to as E.C. tariff. Provision of electricity is not part of the declared service. Therefore, it doesn't form part of the maximum allowable revenue, unlike the poles and wires are the infrastructure costs, which is part of the maximum allowable revenue.

EC's pass-through is a pure pass-through. We charge E.C. on (eGTKs), Electric Gross Tonne kilometres. And there is a small timing difference. So normally, prior to UT4 we would collect any differences through the revenue cap process. Post UT4 this will now move to a one-year lag.

Again, you will see that opposite in the P&L, as we can see, the cost F.Y. 2016 to 2017 increases. This is as a result of general electricity price increase in the market.

Rebates, so rebates are paid to customers for private infrastructure. So certain customers have balloon loops or need connections at the loud out. For certain customers, these have been funded by themselves. The infrastructure is in the regulated asset base so they pay return on and return of the capital through the access charges, and then we rebate the return on the return off capital to them. Again, the two (match) should broadly net off with some timing differences.

QCA levy, this is the regulated cost. Again, it's a pure pass-through charged on net tons. Again, there's generally a time lag a year, but broadly net of in the year. And then we have non-coal access revenue for passenger and freight services on the network. We don't get recovery for the cost of the service, and this is a revenue for the service.

I'll skip to the next page. Essentially, this is what I've walked through the bridge effectively on movement, not absolute figures for each of the relevant years.

Moving onto WIRP, we can dial for our projects. As you will appreciate, the WIRP segments are heavily integrated into the existing main line infrastructure. WIRP is -- unlike GAPE, WIRP is not a separate system. So going forward, it will not be possible to track WIRP revenue easily or won't be able to track it separately because it will be socialized with the Blackwater and Moura Systems and hence, the numbers are shown as indicative really at this stage.

WIRP is a multi-user system, 94 percent of it has been multi-user without any 6 percent being single-user, and 70 percent of the infrastructure is used by existing users on the system.

Hence, all customers with the exception of two, pay the existing system tariffs, only two customers pay the system premium, which is the Rolleston Mine and the Baralaba Mine.

I'm sure you're aware that the QCA has applied a revenue deferral for work during the UT4 period. The deferral is (NPV) neutral. Of the total CapEx spend of $900 million includes the capitalized interest, our estimate -- our estimates are that $640 million has been included pricing purposes, which broadly splits as $200 million Blackwater and $60 million in the Moura System.

Aurizon Network, will seek approval from the QCA for recovery of the additional CapEx and the deferral aligns with the customers not railing. So if you look to the table on the bottom, you can see the four customer that are currently not railing, two are in V.R. and two who are not railing.

And then I was just going to touch on the RAB CapEx and depreciation profile.

So the regulated asset base on your left, you can see it has increased from $3 billion to $5.6 billion since IPO, 87 percent increase. We have invested $2.6 billion in the infrastructure, two of those being the $1.1 billion Goonyella Abbot Point Expansion of 33 million tons and $900 million in the Wiggins Island Rail Project or increase of 27 million tons.

The WIRP deferral referred is approximately 4 percent to 5 percent of the regulated asset base.

Moving to the middle chart that's CapEx, so going forward as there are no planned growth projects, we should see CapEx dropped to about $250 million to $300 million per annum, again essentially replacing life-expired assets funded through operating cash flows.

And then finally on the right-hand side, you can see the depreciation. The increasing depreciation will reflect the Wiggins Island Rail Project Commissioning. Again, it is fully depreciated from an accounting perspective even though it's not in the RAB fully. Capital renewals and also the capitalization of our renewals we did in the first half. The projections obviously may vary subject to timing of capital expenditure, but just to give a broad idea.

(Off-Mic)

Pam Bains: Sorry, the question was that these are QCA CapEx forecast. So we do line up the next -- the regulatory forecast with the internal forecast on CapEx.

(Off-Mic)

Pam Bains: Oh, it's fully -- I guess, whatever we spend is what we got, so it gets trued up in the next regulatory period so we don't keep any difference as such. Again, if you think about a $5.6 billion asset base long-term assets, a lot of this is routine year-on-year. So, for example, we have 1,000 plus culverts every year, we replace maybe a 10, 15 so its life expired assets.

Alex Kummant: And a lot of these classes were not at all kind of the exploded cost category over the last six to eight years that really hasn't been in the space.

(Off-Mic)

Pam Bains: … question is around operating cost and the opportunity to outperform in those areas. The two largest buckets of costs are obviously the OpEx and maintenance.

If we obviously understand within the undertaking period, yes, it doesn't get trued up in that respect. So, there is the opportunity one year left of the undertaking period and then it gets reset, I guess …

Alex Kummant: Reset, yes.

Pam Bains: … reset in the following undertaking period.

Alex Kummant: With that being said, the QCA itself generally creates step-outs in its numbers assuming, quote-unquote, "efficient costs." So there's, you know, very little room for us to move, which raises a whole other question that Keith and I talk about a lot, you know, where is the incentive so -- especially if you're just looking at little four-year tranches so.

Pam Bains: That's a good example. So if we take the overhead cost recovery that we have in Network, we also that it is provided from the group. If you go to the (GOC) time when we were in the government ownership, we underrecovered quite significantly on that cost. We moved that allowance to an appropriate level, but the regulator won't necessarily give us what our actually cost is. It will be an efficient cost. So again, there are X factors assumed in that cost that you will bring your cost down accordingly.

(Off-Mic)

Pam Bains: So all the costs is factored into the revenue as well, yes

(Off-Mic)

Pam Bains: Yes, so the maintenance and operating expenditures factored into the tariffs that are built.

(Off-Mic)

Pam Bains: The CapEx for which year?

(Off-Mic)

Pam Bains: So the question was around the CapEx shown on slide 17 and the regulatory CapEx. There is timing differences. So, when CapEx goes into your regulated asset base, it doesn't necessarily tie into the cash CapEx. This is more cash CapEx. This is more from our P&L perspective, but we do track actual against the indicator and we are running in line.

(Off-Mic)

Pam Bains: So the question is around ramp up of the WIRP tons. And it is difficult for us to project at this stage in terms of customer's railing. It is in the customer's interest to rate -- rail hard as possible because again as the volumes ramp up, the price reduces.

Certainly, in five tons they get 14 million tons to customers that are paying a system premium will no longer be paying a premium. It will be a socialized price. And again, broadly between 16 million to 17 million tons, that allows us to recover the 200 million or so that's being deferred and still allow the system to be socialized. So again, the quicker they move to higher tons the better it is for the customers.

It is difficult at this stage to project. And certainly you can probably say the two that are in (VR) will not be railing.

(Off-Mic)

Male: On the RAB profile, as we (break those down), at what point do they draw the line on say …

(Off-Mic)

Pam Bains: I'm not sure I understand the question.

Male: Sorry, I mean, it is neither …

(Off-Mic)

Pam Bains: Yes.

Male: Are we spending the original …

(Off-Mic)

Pam Bains: Yes.

(Off-Mic)

Pam Bains: Yes.

(Off-Mic)

Pam Bains: Yes.

Male: Is 50 percent …

(Off-Mic)

Pam Bains: Yes, I understand your question. So, given that we're not railing 27 million tons potentially, could you still socialize on the lower tons? The answer is yes. If you take the current customers that are railing and that's about 18 million tons for contracted capacity, is the rail near 16 million to 17 million that allows you to socialize.

The only challenge will be in the Moura system where there's only one customer who is the VR., which is about $60 million of that $260 million.

(Off-Mic)

Pam Bains: Allows you to socialize the $200 million.

(Off-Mic)

Pam Bains: It could, correct. It allows us to go back. The regulators left the ball in our court to go back to for the case forward to stop the deferral.

(Off-Mic)

Pam Bains: We -- they -- this a three-way negotiations that has been going on for the last couple of years. So, the customers that we're engaging were very familiar with the final outcome so it's -- they are very familiar with the tariffs. And one of the things we're working with them at the moment is closing out this year, which is why I talked about the true-up potentially moving into 2017 working with them because it's a lot in this year given we are month (off) yearend, hence, pushing it into next year. So, yes, they are very much aware.

(Off-Mic)

Pam Bains: Yes.

(Off-Mic)

Pam Bains: And the 2017 will be adjusted in tariffs, so just bear in mind when it is adjusted in tariffs just as we have the volume movement, the same will apply for 2017.

(Off-Mic)

Pam Bains: Correct, yes. The tariffs will be adjusted to collect. And if the volumes line up with the forecast points, you'll collect it. All of these are going higher, same as we do with the revenues.

(Off-Mic)

Pam Bains: Yes, correct.

Alex Kummant: I'll tell you what. Why don't I wrap up and then we can ponder that a bit more? I'm happy to come back and deal with the questions across several scope of the -- a quick (press out here).

I just wanted to touch again for context about some of the performance over the last years because again it puts in the perspective. When you talk about go-forward, getting back to your question about, you know, where you're going on UT5, we just wanted to make sure that we articulated here. It is --

it's moderately probable that we will -- we will just sneak by last year's record tonnage numbers, so you're talking about a system that would have four continuous years of records, very strong productivity numbers.

The 91 percent performance to plan, just to give you a sense of that, is real money. That's great for everyone. I mean, we're really driving productivity into the entire system.

The rail cancellation numbers here, the below rail cancellation numbers are really a big deal in terms of helping everybody perform better. And the system closure, we're actually using less hours for maintenance and doing more. I mean, if you consider that in the UT4 period, you know, round numbers, we're up on average 30 percent tonnage over the UT3 period. And yet we are managing to maintain the system of the higher demand on low closure hours. That's a -- that's again our productivity victory, and we're moving the single line closures to do it.

So I couldn't walk away from here without having at least flash a chart like this up here because I think it's important for go-forward context.

So, UT5, obviously a big question, everyone knows risk-free rates have dropped. Everybody knows you plug it into a vanilla WACC number and you go OK. So, where is this going to go?

What we would say is, yes, that is -- that's a fundamental engagement issue. We do owe the QCA now an initial draft in September. We think that's a -- that's a -- how shall I say, a little -- a little strong for them to demand that, but so be it. They say that they are highly motivated to have a July 2017 product. We think that we played with a straight bad here for the last years and they, in fact, had a lot to do with the delays over the last two years. But that's another issue.

We will -- we will submit an undertaking. We also -- we will not shy away from policy issues, but again it will not be 2,000 pages on every policy issue out there. A lot of these workability issues that I talked about, we will kind of let sit until they become a problem and then -- and then deal with on a -- on an amendment basis.

All that being said, the fundamental question here on the go-forward engagement is here you have a system and we have every expectation, frankly, that continue the record tonnage.

We do see green shoots. We are having some conversations with people about some small infrastructure moves in order to position for the coming years. Some of the big producers are -- continue to be interested in driving tons. It is all about does the QCA have a balanced (field) new to this business. You know, they're very high-level so we wake up and we find ourselves in this ultra low interest rate environment.

And, look, I'm not here to make grand statements on monetary policy in order to debate, you know, equity betas with anybody. And I'm sure some of you guys can run circles around me on that front. I'm just a simple rail operating guy. But all that being said, so the government drives a low interest rate environment to stimulate investment.

However, in our model, that creates the opposite effect, so it drives down risk-free rate, which pushes the WACC down and then makes our investors say, you know, what's the return here? So all we're asking the QCA is do you understand these perverse incentives and do you understand there's a fundamental cash flow adequacy issue here. There's a real cost of debt you need to factor in, not a theoretical one.

We need to rethink real hard if you're only going to look at a four-year term on risk-free rate. We need to think real hard about, gee, why do S&P and Moody's think we're a natural resource company and you think we're a water utility? You know, very different frameworks.

And finally, I do want to read you a quote. One of our biggest concerns -- and look, this simply goes to how these folks have been trained and brought up, but it is do they have an understanding of the asymmetry in the risk if they get these revenue numbers wrong. They're definitely afraid of giving us a penny more that somehow they think as an efficient cost that, Keith, at your end gets a slightly higher bonus than they should.

And yet, if they get it wrong, and the fact is in our view that they -- that we never get enough, we never get enough for ballast. We have -- that's a whole another topic. I mentioned we have an arbitrary capping on our ballast cleaning even though again no one in any cubicle or the QCA knows anything about ballast than we got people who spend a lifetime in it. But do they understand the asymmetry that if they get it wrong the entire supply chain suffers? And that's real. You know, slowly you see the restrictions climb.

I have lived in systems. I ran Amtrak. I've lived in systems with huge deferred maintenance liabilities, and that's a big problem to dig out of, you never want to get there. Believe me.

We think one of the things they fundamentally have wrong and we term it sort of the -- be at least more debate, but let me just review Section 168(a) of the QCA Act, which provides that the prices of access to services should, quote, generate expected revenue for the service that is at least enough to meet the efficient cost of providing access to the service and include a return on investment commensurate with the regulatory and commercial risks involved.

In our view, the QCA has misapplied this, and I would -- and directly quote out of -- one of their documents, they actually use a phrase at least but no more beneficial costs. So we fundamentally think not only is there a broad engagement on the current vanilla WACC world (Cap M), but there's also a specific application of the QCA Act in the pricing principles. And it is on that basis we need to engage.

Can we tell you where we end up? No, we can't, but we do think we have a robust case and, in fact, probably a stronger case than in the last cycle on the fact that we need to get from a vanilla WACC mentality.

The last chart is with just the visuals saying it's not just the conversation what you say, it really is a conversation with everybody. And there is a backdrop here, which isn't meant in a threatening kind of way.

I'll leave you with a final thought as well. There is actually no merits review. The regulator, in a sense, has absolute authority in this space. There is judicial review ability. However, it is purely on process. So all it ask is has the priesthood followed its rules of process, have they consulted, and have they turned around in a time line, and have they clapped their hands and turn around twice and burned the right incense?

The answer is yes. Voila, it could be a completely flawed decision, but there's nothing you can do. We do think ultimately, and this is not something that happens overnight clearly, but there has to be a Queensland debate about merits or genuine merits review.

There is obvious -- a federal process on recertification that happens multiple years out, but the QCA needs to be held account more than just once every 10 years. And we want to do those things thoughtfully obviously. I don't mean that in an ascertaining way, but I find it amazing that one really has no redress on decisions that one believes really are deep flawed uneven economically.

And that is something we really talk to about everybody. In the end, what unifies everybody? It's volume. We all want volume. We want volume above rail operators want volume, puts more volume, minus (more volume). And we believe we've been delivering that. We just want to make sure we don't have a framework to offset that.

(Off-Mic)

Alex Kummant: I think that -- I think …

(Off-Mic)

Male: … that really that …

Alex Kummant: I think they have been under fierce pressure. And I think the miners have been hurting and they -- and they have done some things. And we are not as sympathetic as a business as much we do, but we would remind everyone, we are not a bank.

Our balance sheet is infinitesimal compared to the collective balance sheet of our customer base. I mean, they are some of the largest companies in the world, and if you look at their balance sheets compared to us, we've been repeatedly asked of the finance. And then remember, when they were getting 30 percent IRRs, we were still getting 7 percent.

So, yes, it's a complicated environment and the QCA is under serious pressure, there's no doubt, there's no doubt. But that's why it's a regulated business, that's why we have a maximum allowable revenue, that's why we get 7 percent, 8 percent return in this business.

Male: Sounds good.

Chris Vagg: Operator, if there's any questions on the phone, can you put them through please?

Operator: Sure. For the participants over the phone, if you wish to ask a question, please press star-1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Once again, if you wish to ask a question, please press star-1 on your telephone and wait for your name to be announced.

Your first question comes from the line of (Nathan Lead) from (Morgans). Please ask your question.

(Nathan Lead): Thank you. Alex, just a couple of questions as far as on like cost of debt in the gearing side. You know, obviously, you had that recent bond issue which was well above I supposed where people were expecting the cost of debt to come in.

And also it looks to me like the implied gearing that rating agencies are after within the business is a lot less than the 55 percent. So are they two items that you think you've got a good chance dividing with the QCA and winning on in terms of higher cost of debt number and the low gearing?

Alex Kummant: Absolutely. Look, I'll ask Keith and Pam to jump here as well. We've said from day one here that a real cost of debt has to be rolled in here. And gearing is a big debate. The regular -- regulator clearly wants us to gear up while the rating agencies want us to gear down. So that is yet another factor here.

I don't know, Keith or Pam, I'm -- I really can't say a whole lot more than you're right.

Keith Neate: I think that's the answer. We've got a real cost of debt down there, (Nathan). I mean it's how the market sees our business and the risks facing our business. So there's never a clear indicator on what the cost of debt is, that was it.

And in terms of the rating agencies, I would say we'll continue to talk to them as well, but the assessment from Moody's certainly indicates the gearing level that is mid to late 40s which you have to say for an asset that the cost of the (CQCM) is an extremely conservative one.

Pam Bains: The QCA sets the gearing level at 55 percent, so that's something that they may review as part of the next process, in particular, the cash flows do not support the triple B-plus rating that's assumed in their work.

(Nathan Lead): Yes, thanks.

Alex Kummant: All right.

Male: So what was the only swap process that they're seeing?

Keith Neate: Five ninety five.

Male: Do we hedge them to base?

Keith Neate: We hedge it to the …

(Crosstalk)

Keith Neate: We hedge it to the full four years to …

(Crosstalk)

Chris Vagg: Other questions?

(Crosstalk)

Operator: Yes. Your next question comes from the line of Mr. Paul Butler from Credit Suisse. Please ask your question.

Paul Butler: Hi. Just a couple of questions if I may. On these issues where you think the QCA is overreached in terms of prescriptive, you know, changes to your processes, what are the cost implications of those for you?

Alex Kummant: We have -- we have at times added up and created some cost numbers. Every individual one is not necessarily crashing but there is a death of 1,000 cuts. We would -- we would say at this point we're managing it, but as we get into it, we will see more.

I mean I'll give you another example, a piece they drew back. They levied a requirement that every train that was late by a certain amount, the customer would require a phone call. I think we estimated that that would be 800 phone calls a week or something and we estimated a cost on that.

So the costs are not de minimis but in the end, relative to this process not crashing, I would just argue it creates a slowness and an inefficiency. And in that particular case, for example, they don't even understand how we operate and that much of the information is transmitted online, and in fact, we had phone hookups every four hours.

And if a customer is severely disadvantaged or had a problem, we'd immediately call them on an ad hoc basis anyway. So you're -- I don't have a specific number for you, but it -- I would say that it's a real issue.

Pam Bains: I think the bottom-line is it would be an additional cost for us, but we could pass through the cost so the pressure goes back to industry which is probably not appropriate.

Keith Neate: The hidden cost that Alex refers to is the lost of agility, the lost of flexibility. And it wasn't 800 a week, it was 800 phone calls a day.

Alex Kummant: Oh, was it, OK.

Keith Neate: It was in the …

(Crosstalk)

Paul Butler: Hang on, hang on. So you're telling me you have 800 trains a day which are late?

Pam Bains: No. I think the request was if they were 3 minutes late.

Alex Kummant: And it's not per train, start to finish, it's per sector.

Paul Butler: Sorry. I've got a fire alarm here.

(Crosstalk)

Paul Butler: … ask you questions later?

Alex Kummant: OK.

Chris Vagg: Paul, if you're still around, buddy.

Alex Kummant: Any other questions?

Operator: Yes. Your next question is from Mr. Ian Myles from Macquarie. Please ask your question.

Ian Myles: Good afternoon, guys. A couple of different questions here. Look, you sort of make the comment about your reg cost not being approved or the reg guys saying cost lower than where you think. Can you sort of quantify how much actual in '14 and '15 that you had cost above the approved regulatory outcome?

Pam Bains: I don't have that number on me. In certainly one week, we can get back to you. But I would say, in the '14 -- say, '15 period, not material. The issue is '16, '17, in particular, in the ballast space, in the maintenance space whereby there's a cap that have been added to the ballast undercutting rate, which essentially I guess our options now is to reduce the scope to ensure we stay within that cost allowance.

Ian Myles: So you will actually reduce your ballast undercutting to match the cost outcome?

Alex Kummant: Yes.

Pam Bains: It's the conversation we will have with the regulator if we don't get …

Ian Myles: OK. Just from a broader system level, how much system running below full utilization rate? Because whilst I appreciate you've done great job on improving efficiency, you've also done a lot of investment, expanding, and getting rid of bottlenecks without necessarily massive step-ups like you might have originally anticipated in volumes. I'm just wondering where the system collectively sort of sit on that utilization.

Alex Kummant: Well, certainly, we're doing pretty well in availability. We -- the problem is, as you get into debates on what actual capacity is, so I mean I think we can coach you where we are, you know, versus contracted -- versus contracted tons, which is -- which is effectively the 300 million tons versus 225. So that probably is a reasonable number to articulate if any.

Ian Myles: OK. So when you take that view, it is 75 million spare tons in the system. Why is expansionary CapEx really even a large part of the equation or the discussion with the miners because it isn't about actually utilizing the existing equipment better?

Alex Kummant: It isn't, it isn't.

Pam Bains: I think the point was -- to those policy points at the time we were discussing this early -- in the early periods, it's time to get the changes in place that set us up for the future. There is no expansion CapEx at this point in time. So it's getting the right principles in place for future expansion.

Alex Kummant: But also recall though that capacity is a funny thing. It depends on where it is. And you also know, when demand comes back, it can come back shockingly quickly and these will be very, very light discussions.

And all of a sudden, we'll be tripping all over ourselves with all of these regulatory hurdles and bureaucratic things we have to do. That can happen very quickly. It can be -- it can simply be access track, it can be -- it can be very small expansions that nevertheless are very material to a particular service in a particular place. So all of these issues are still important and real.

Ian Myles: Look, on the -- a couple more questions, on the maintenance CapEx side, do you actually see your ability to possibly actually under spend on maintenance CapEx and actually achieve the same outcomes? Because it seems like there's no -- given you make your comment, you're not forced to spend the money anymore. You can actually (aid) your system, you can be probably shrewd and maybe put some more risk management.

(Crosstalk)

Alex Kummant: Let me -- let me answer that, and here, I sound like a crusty railroad guy, but I've lived this enough and every railroad guy ask this question even by its own board. And the answer is, you start doing that and it's a really slippery slope.

And then the moment you do that, somebody -- somebody wants -- you do 5 percent and they'll say, "Well, what about another 5 percent?" Then you wake up and you've got speed restrictions across the whole network. You have to stay disciplined in how you maintain assets like this. This is all I'll say. It's a very dangerous path.

Now, we work every day to get back better. I mean if you look at our chart on the improvement and how we've managed shuts and how we're managing -- you know, we are managing capital much more effectively. We're managing contractors differently. We work in continuous improvement in the space every single day .

But to say, "Oh, you've got a plan, why don't you back off now?" You have to reflect though that we're railing record tons again, and we have railed record tons for four straight years.

Ian Myles: Yes.

(Crosstalk)

Alex Kummant: … tonnage drops 30 percent.

Pam Bains: And I think we (are) incentivized below our (operator) given the impact on the above rail business for not having access or having (pulled) from the network.

Ian Myles: Yes. No, it's a fair point. And we'll -- I'd like to ask a follow-up question. You talked about this concept of socialization in two parts that firstly, you prefer socialization of your risk that's over a higher return because if you remove the concept of asset stranding, the basic question why you get a higher return.

And I guess the second thing is one of the regulatory statements about Wiggins Island when you read the wording, it's very much about explicit charging for using a Wiggins Island, balloon loops and the equivalent. Yes, it doesn't appear in the actual pricing mechanisms themselves.

And is that just a disconnect in UT4 which we might see coming here in UT5 that went explicit pricing or there's some other reason why it doesn't come explicit?

Pam Bains: I think just starting with your second -- well, actually, your first question on socialization risk return, I guess there are different ways of dealing with it. You either get an additional component in your return to deal with that risk and you obviously manage it or you wait for an issue to happen and you get rewarded after the event.

And then I think physically when you're talking about asset stranding, again, if you're looking to increase your return for that risk, how do you put a value on that which is a question.

Alex Kummant: Look, I would -- let me answer that part of it. Just conceptually, I would say you have to pick a starting point and then say, there has to be an intelligent balance. I don't think you can have it the whole way either way.

What we want is a solution. We simply think that we have not then either protect it or compensate it for risk. And so, I would just suggest that it is a balance of tools including accelerated depreciation and other elements to move the overall -- the consolidated return number, if you will. I don't -- I don't -- I don't think it's necessarily those two (further on).

Ian Myles: OK. And then on the Wiggins Island side?

Pam Bains: And I think I understood your question, but a lot of the discussion around the allocation of CapEx was really around how the pricing mechanisms would work, but in reality, it is the -- it is a socialized price now. And as long as the volumes increase, the price continue to socialize and we don't spend a lot of time in how that CapEx is allocated anymore. And let me know if I haven't specifically answered your question.

Ian Myles: Well, I'm just a bit confused because the -- Keith just spent a lot of time talking about actually the explicit CapEx spend on the balloon loops and why (inaudible) the uses like (Rolleston) will need to pay for that explicitly.

Pam Bains: Yes.

Ian Myles: Yes, when you look at the Blackwater pricing mechanism, there is no IT6 or Blackwater -- or I mean Wiggins Island-specific overlay which they sort of intimated into the charges. That's sort of the …

Pam Bains: Yes.

Ian Myles: How does that work?

Pam Bains: I think it was only really used as a way of deciding whether there was an incremental price or a socialized price in determining the capital and who was using the capital, which is partly the reason why it's part of UT4 prices.

We're trying to get more clarity on the pricing principles upfront so that users know when they're investing what type of price they're likely to pay rather than after the event.

Ian Myles: Yes. OK, thanks.

Operator: We have another question from the line of Mr. Paul Butler from Credit Suisse. Please ask your question.

Alex Kummant: Hi, Paul, are you OK?

Paul Butler: Yes. I'm still here. They put the fire out.

Alex Kummant: OK.

Paul Butler: Hey. Just back onto work, is it correct, you've said that if the volumes get to sort of 16, 17 million tons then you could look at socializing an additional 200 million on top of the 640 million?

Pam Bains: Correct, correct. That would allow us to still socialize …

(Crosstalk)

Paul Butler: And how long would you have to be at that level four? I mean so you were at that -- customers are railing at that level for say two months in a row.

Pam Bains: Yes.

Paul Butler: Would that just by including that, if it then subsequently drop off?

Pam Bains: They're the specifics we need to go back to the regulator with because they haven't been specific in their response but that's something we're going to work hard on.

Keith Neate: And it would be sort of like an all or none level or would it be a sliding stretch?

Pam Bains: And as long as the pricing works -- or, yes -- so that's something we will work with them over the next -- over the coming months.

Paul Butler: OK. And then just on the asset stranding issue, have -- do you ensure the risks of asset stranding or have you looked at the cost of insuring the risk of asset stranding?

Pam Bains: We don't insure the -- all assets on the network. Again, that's because it's a huge network that not many insurers are willing to insure. But again, I think to Alex's point earlier in the QCA ask and the QCA specifically have previously said we're not compensated for this risk. This is something we will pursue with them.

Paul Butler: Right. But you've not -- you've not looked at, you know, what that cost would be. I mean …

Pam Bains: It would be a significant cost and, you know, it's an option on the table but I …

Keith Neate: It's insurable. It would be very significant, Paul, but I think the point here is the principle is we don't receive a return taking that risk, so why would we be taking that insurance to cover it.

Paul Butler: Because you're wearing the risk.

Pam Bains: But if …

Keith Neate: But we're not rewarded.

Pam Bains: We're not rewarded for the risk.

(Crosstalk)

Paul Butler: Yes, I know you're not rewarded for it but you're still exposed to it.

Keith Neate: No, no. Under the QCA, actually not.

Alex Kummant: No, it's still up to us to go back. If -- again, if -- let's just say if something happens to the Moura, it still is up to us to go back to the QCA and propose a mechanism to, in fact, cover that loss.

Paul Butler: OK. And you've given the example that it could be just to merge the Moura and Blackwater systems and socialize across the both of them.

Alex Kummant: That's correct.

Pam Bains: That's just one of a number of options that could be, you know, I guess recommended. And this is in a situation we've never been in before. And again, it's not something that is common in a lot of regulated entities (at least), so it's probably new ground for the regulator too.

So I think that's just one-off. You could either look to reward upfront, which again, you would have to decide what the value of that risk is or you look to reward or I guess deal with the issue after an event. So we would put that in with a number of other options.

Paul Butler: Yes. OK, thanks very much.

Operator: Once again, if you wish to ask a question, please press star-1 on your telephone and wait for your name to be announced.

Chris Vagg: Well, if there's no more question on the line, anymore questions in the room?

Operator: Sir, we don't have any more questions from the line. Please continue, sir.

Chris Vagg: Yes. We might -- we might wrap it up so then. So thanks, everyone, for dialing in and thanks for those of you in the room. If you have any follow-up questions, please let me know. Thank you.

Alex Kummant: Thanks, all.

Pam Bains: Thank you.

Male: Thank you.

Alex Kummant: Thanks for coming.

(Off-Mic)

Operator: Thank you. Ladies and gentlemen, this conclude our conference for today.

END