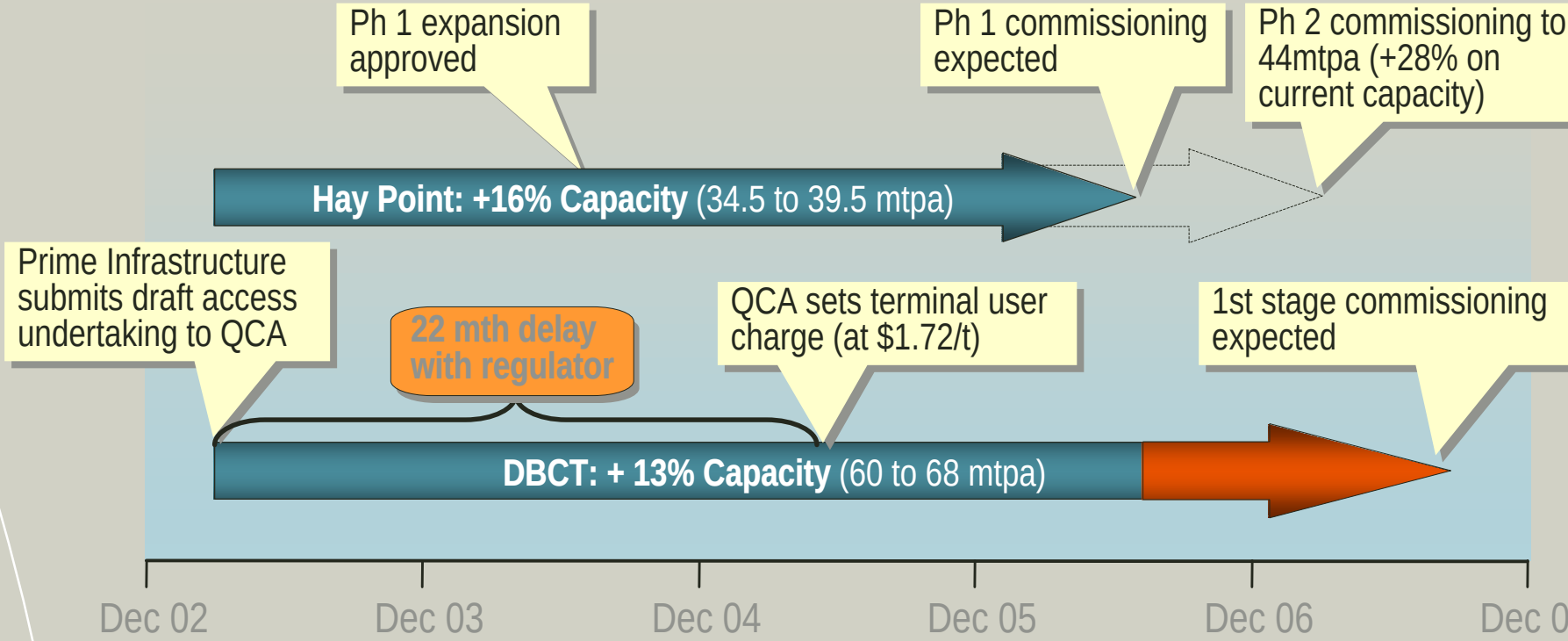
Case study on effects of regulation: Hay Point v DBCT Efficient expansion v Delay



Effects of Delay at DBCT:

- Demurrage 2005: **A$550m***
- Foregone sales (1 year): **A$1bn**

*** A$550 demurrage cost estimate was calculated prior to the introduction of the Queue Management System.**

BHPB's view of the effects of third party access

Effects

Revenue	• Decreased Australian iron ore sales - delayed expansion • Decreased Australian iron ore sales - inefficient operations - missed or fewer train slots (each train = $2m revenue) • Decreased Australian iron ore sales - decreased operational flexibility • New entrant unlikely to increase total sales of WA iron ore
Capex	• Small capital saving through avoided infrastructure investment • Increased capex at mine or port to offset increased rail bottleneck
Opex	• Delayed cost reduction through new technology (e.g. driverless trains) • Increased stockpiling at mine and port • Increased coordination /administration expense • No change to productive costs (the iron ore market is highly competitive) • Possible increase of productive costs (no facilities-based competition)
Taxation	• Decreased royalties and taxation (lost sales vs new sales) (Note: ~ WA iron ore royalties: $763m, FY05/06 Budget[2])
Social	• Decreased incentives for investment (regulatory uncertainty) • Subsidy: "Protection of the inefficient supplier…at the public's expense"[1] • Decreased supply reliability for customers • Increased safety risk • Employment (example specific)
Environmental	• Delayed increase in infrastructure footprint

Source: 1) Rio Tinto Iron Ore Submission to the NCC, 6 May 2005, Annexure B: Statement of Professor William Baumol;