

8 April 2014

Ms Tania Homan  
Director, Rail  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Ms Homan

On 29 January 2014, the QCA published two reports prepared by its consultants, Sinclair Knight Merz (SKM) and RSM Bird Cameron (RSMBC), on the maintenance, overhead, operating and asset renewal costs proposed by Aurizon Network (**AN**) in its 2013 Draft Access Undertaking (**DAU**).

BHP Billiton Mitsubishi Alliance (**BMA**) and BHP Billiton Mitsui Coal (**BMC**) welcomed the opportunity to review SKM and RSMBC's papers to better understand some of the issues around the significant cost increases being proposed by AN in its 2013 DAU.

Whilst we fully endorse the Queensland Resources Council's (**QRC's**) submissions on the two consultant reports, we would also like to register our disappointment in both of the consultant reports on the basis that:

- Neither consultant undertook a sufficient efficiency review of AN's proposed maintenance, operating and asset renewal costs contained in the 2013 DAU. Both consultants' continually reference a criteria of "reasonableness" without specifying what % efficiency parameters would define a cost as falling within a reasonable category as opposed to an unreasonable category.
- SKM's maintenance report contained a number of factual errors on which its conclusions were based.
- SKM concluded that AN's claim for ballast cleaning costs was only reasonable in the context of the poor condition of the network due to the failure to maintain the network in previous regulatory periods, yet the report lacks clear recommendations regarding how this issue should be dealt with. BMA and BMC consider that the RAB should be reduced to reflect the condition of the network, and that costs incurred to restore the assets should then be capitalised.
- Both consultants applied inappropriate benchmarking analysis on which conclusions were based.
- Neither consultant adequately responded to the regulatory modelling, operating and maintenance cost issues we raised in our October 2013 submission.
- RSMBC has not provided sufficient justification for the introduction of maintenance equipment asset pricing using a GRV approach in UT4.

- RSMBC has failed to detail how a GRV asset pricing approach should be applied and the steps the Authority will need take to determine if AN's application of the GRV asset pricing approach is acceptable.
- Neither consultant adequately reviewed the maintenance and operating cost treatment of AN in UT1, UT2 and UT3 compared to AN's treatment of those costs in the 2013 DAU. Given AN has fundamentally changed its internal accounting processes, some items which were maintenance costs in UT3 are now identified as operating costs in the 2013 DAU (and vice versa). As a result, we believe some costs have been moved around with the result that they may cause confusion in any potential efficiency review undertaken by the Authority.

Given the significant number of failings in both consultant reports we believe that neither report can be relied on by the Authority as a basis for any Draft Decision on the 2013 DAU. We recommend the Authority commission new engineering consultants to undertake full efficiency reviews of AN's proposed operating and maintenance costs before forming any conclusions on the acceptability of AN's 2013 DAU. We would also appreciate if you could ensure that all of the issues raised by us in our previous 2013 DAU submission (October 2013) are addressed by the new consultants.

If you have any queries or require more information, please contact Alistair Baben Der Erde on telephone 33292507 or mobile 0406 770 113.

Yours sincerely



Geoff Streeton  
Head of Business Development  
BHP Billiton Mitsubishi Alliance



Jacqui McGill  
Asset President  
BHP Billiton Mitsui Coal