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Dear Tania

Response to the Indec Consulting Report – Review of Northern Bowen Basin Draft System Rules

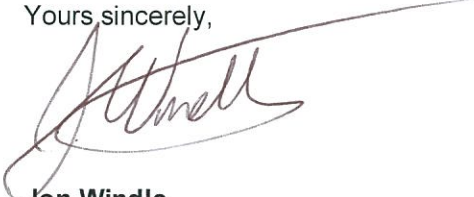
Aurizon Network provides this submission to supplement the publication of the Queensland Competition Authority's (QCA) consultant's review of the Northern Bowen Basin Draft System Rules (NBB System Rules).

Aurizon Network appreciates the QCA's invitation to complete a pre-publication review of the Indec report and allow the opportunity to provide a response.

Aurizon Networks response to the Indec report aims to bring to the attention of stakeholders, that further analysis of the relevant cost and benefits associated with the recommendations is required prior to a QCA Decision. Aurizon Networks objective is to have a workable set of System Rules that promote efficient and transparent supply chain management practices.

Aurizon Network looks forward to working with the QCA in further developing the draft NBB System Rules through to a timely approval

Yours sincerely,



Jon Windle
Manager – Regulatory Policy & Compliance
Aurizon Network Pty Ltd



AURIZON™

Aurizon Network – 2010 Access Undertaking

Response to Queensland Competition Authority's Review of Northern Bowen Basin Draft System Rules



Executive Summary

Aurizon Network provides this submission to supplement the publication of the Queensland Competition Authority's (QCA) consultant's review of the Northern Bowen Basin Draft System Rules (NBB System Rules).

Aurizon Network appreciates the QCA's invitation to complete a pre-publication review of the Indec report and allow the opportunity to provide a response in parallel to the publication of that report.

The 2010 Access Undertaking (2010AU) outlines that Aurizon Network 'may make rules (i.e. System Rules)¹. System Rules are a subsidiary document to the 2010AU and provide supporting operational procedural information to accompany the obligations within Schedule G. The purpose of the System Rules is to 'specify in greater detail the way in which it will plan, schedule and control the operation of Train Services on a single or combination of Individual Coal System'².

On the 16th of August 2013, Aurizon Network submitted its NBB System Rules covering both the Goonyella and Newlands coal systems. The primary objective of the NBB System Rules are to provide certainty in respect of access entitlements for access holders through transparent process relating to the planning, scheduling and decision making processes.

On 20th September 2013, the QCA appointed Indec to provide technical advice to assist the QCA in applying the assessment criteria for NBB System Rules. To complete this assessment, Indec Terms of Reference outlined the required tasks to form the basis for its advice. A summary of the major items from the Terms of Reference is outlined below:

- Assess whether the NBB System Rules are consistent with the 2010AU;
- Assess, having regard to stakeholder submission on the NBB System Rules and to the QCA's Capricornia Draft Decision, whether the rules are sufficiently transparent for access holders, auditors and the Authority;
- Assess whether the rules are consistent with the relevant terms in the Standard Access Agreements;
- Assess whether the NBB System Rules are workable for all stakeholders;
- Advise the authority on amendments to the draft NBB System Rules;
- Advise the authority on potential amendments to the 2013 Draft Access Undertaking network management principles, schedule H;
- Complete a qualitative assessment to determine if the rules:
 - affect the commercial and operation positions of users;
 - Reduce or increase the capacity for either train services destined for ports or maintenance and construction activities; and
 - Address impacts from cross system traffic.
- Quantitative assessment of the rules on various users, groups of users and ports.

¹ 2010 Access Undertaking, Schedule G, Appendix 1 (a)

² 2010 Access Undertaking, Schedule G, Appendix 1 (a)

Aurizon Network's Response to the Report and Findings

The purpose of this submission is to provide stakeholders with an insight into the positions that Aurizon Network has on the recommendations contained within the Indec Report.

Indec's final report dated June 2014 (the Indec report), contains 31 recommendations. Following a detailed review of the recommendations within Part 3 of the Indec report, it would appear that the recommendations of the report have been based upon the feedback provided by stakeholders in both their written responses and stakeholder meetings facilitated by Indec.

Cost benefit analysis is required

As the recommendations are substantiated by feedback, it appears that an appropriate cost/benefit analysis has not been completed and included into Indec's recommendations. Subsequently, Indec has produced non-specific recommendations by using terminology within Part 3 of the report, to the effect of:

'...that consideration should be given to ' or '...that further deliberation be given to...'

The Indec report confirmed that there was no requests for any detail on any additional administrative costs as 'it believed that any incremental costs would not be material as the information systems and reporting processes are already in place³'. However review of the Indec report by the Aurizon Network's Central Queensland Coal Network (CQCN) function, highlighted a number of implementation and ongoing resourcing costs that will not be immaterial.

In principle Aurizon Network supports the recommendations relating to improvement in transparency of processes coupled with data output and subsequent reporting, however when these are assessed against operational constraints it becomes apparent that to implement and manage these new processes, there is a cost benefit trade-off to make.

As there are financial implications associated with the implementation of the recommendations, these costs will need to be recovered through the relevant operating allowance. Stakeholders, through the 2013 Draft Access Undertaking (2103DAU) have highlighted that Aurizon Network's operating allowances should be reviewed and subsequently reduced. The approval of any of the Indec recommendations should be viewed in light of those Stakeholder's cost concerns.

Definition of Affected Party

Aurizon Network suggests that all recommendations from the Indec report that reference 'affected party' have the wording replaced with 'Access Holder'. This change will allow for the provision of the information as outlined within the NBB System Rules to those stakeholders who have a commercial arrangement with Aurizon Network.

Consistency between UT3 and UT4

The NBB System Rules are based upon the requirements of the 2010AU. Although no material recommendations were identified, it is important to note that since submitting the 2013DAU, Aurizon Network has engaged with stakeholders on its contents and subsequently made amendments to the 2013 DAU drafting to reflect agreed points. Schedule H (the new Schedule G) is included. The revised drafting of the 2013DAU will, in some parts, not be consistent with the 2010AU.

³ Pg 31 Indec Review of Northern Bowen Basin Draft System Rules

Indec's review of Northern Bowen Basin Draft System Rules

In June 2014, Indec provided its final report to the QCA which was subsequently provided to Aurizon Network for review and commentary prior to publication.

Indec identified the following key areas:

- **Equitable outcomes** – non-discriminatory treatment across access holders, access seekers and their customers;
- **Transparency** – provide greater detail and information on the way Aurizon Network will manage train scheduling, train control, and network capacity; and
- **Promote efficient coal chain operations** – provide operations and efficiency benefits which consider the extra administrative costs Aurizon Network may incur in being more transparent about its train-scheduling and control decisions.

The following is Aurizon Network's response to address the key areas identified by Indec.

1 Master Train Plan

The requirements for the Master Train Plan (MTP) are contained within Schedule G of the 2010AU. The purpose of the MTP is to detail the existing capacity required for the provision of Train Service Entitlement and periods of time allocated for the purposes of providing planned possessions. The MTP should be in a form that indicates both time and distance (location) for Train Services and other activities on the Rail Infrastructure. In developing the MTP, Aurizon Network will take the following into consideration:

- Timetable Traffic;
- Known Possessions; and
- Applicable Cyclical Traffic

The MTP can be modified in line with the consultation and approval obligations contained within Schedule G.

1.1 Indec's position and Aurizon Networks response

(a) The MTP is to be developed in the form of a series of train graphs for a 12 month period on a rolling monthly basis⁴;

The development of one train diagram in the form of a distance/time graph, requires a number of Full Time Equivalent (FTE) resources to complete. The development of a train diagram for one system alone requires up to 5 individual diagrams. The recommendation requiring the development of a series of train diagrams for a rolling 12 month period would require either a large number of FTE's to be diverted from other supply chain management tasks or additional FTE not already employed.

⁴ Indec recommendation 3.5.3

The MTP in the form of a series of Train Diagrams, would also require additional Information Technology (IT) system capabilities and IT system space. Due to the size of each file, the pro-active reporting of the information through normal communication mediums (such as email) will be cause IT capacity issues.

The approved Capricornia System Rules only required Aurizon Network to provide a MTP on a rolling one month period, this is inconsistent with Indec recommendation for the NBB System Rules.

It is important to note, that the MTP is a theoretical diagram only. The MTP becomes less accurate the longer into the future it is as it becomes harder to confirm both the cyclic traffic and the uncertain demand from the supply chain. Aurizon Network has always advised that an MTP should only show that it can deliver its contract tonnages.

To demonstrate the required information, Aurizon Network proposes a table format that contains the information that would enable it to be called an MTP. Aurizon Network is currently reviewing its operational ability to provide this table.

(b) The MTP includes cross system interactions⁵;

The approved Capricornia System Rules do not require this information to be included within the MTP. This is considered more relevant to be included within the Intermediate Train Plan (ITP).

(c) The MTP demonstrates theoretical capacity versus practical capacity⁶;

The requirements of the 2010AU outline that ‘the MTP will detail the existing capacity required for the provision of Train Service Entitlement⁷’. Aurizon Network has determine this to mean that it is to demonstrate that it is capable of delivering the contract capacity. Indec’s review, did not provide any detailed analysis to determine what the practical capacity of the individual coal systems within the NBB are.

(d) The MTP demonstrates practical capacity versus allocated capacity⁸;

The recommendations relating to practical capacity versus allocated capacity are aligned to the response in 1.1(c).

(e) The MTP is supplied to all Affected Parties⁹

Aurizon Network supports the proposal to supply the MTP in a table type format to all relevant stakeholders as outline in response 1.1(a).

Aurizon Network supports making publically available the number of system paths which would validate that the capacity of the system was sufficient. However, the provision of such information can only occur if it is compliant with the obligations of Part 3 of the 2010AU and would not have a negative commercial impact for the Aurizon group.

⁵ Indec recommendation 3.5.3

⁶ Indec recommendation 3.2.12

⁷ 201 Access Undertaking, Schedule G, Clause 2(a)

⁸ Indec recommendation 3.2.12

⁹ Indec recommendation 3.5.3

(f) Network is to consult with Affected Parties when the annual forecast of an ‘individual segment’ changes by more than 10%¹⁰;

Further information on the benefits to stakeholders is required before Aurizon Network could provide a detailed response to this recommendation. The System Rules obligations outlined within the 2010AU do not expressly state that the System Rules must contain information relating to annual forecasts. In addition, a tolerance percentage creates an onerous task to continuously measure and administer.

The consultation process and sharing of relevant information would have to be in compliance with Part 3 of the 2010AU. A successful consultation process may prove difficult due to the Part 3 obligations.

(g) Any changes in system capacity greater than +/- 5% will trigger and automatic review of the MTP¹¹

Aurizon Network believes that this process should be consistent across all System Rules and therefore should be a matter dealt with by the 2010AU. Aurizon Network agrees that a review of the MTP if contained as an obligation within the 2010AU, should be completed for system capacity increases.

2 System Rules review & modification process

The obligations to review and modify the System Rules are outlined within Appendix 1 of Schedule G of the 2010AU. The obligations require Aurizon Network to consult and subsequently notify:

- Access Holder and Access Seekers who will be affected by any amendments;
- Infrastructure providers who form part of the supply chain;
- Infrastructure service providers;
- Railway operators; and
- The QCA.

2.1 Indec’s Position and Aurizon Networks response¹²:

(a) A review of System Rules can be instigated by an Affected Party¹³;

Aurizon Network has identified the following issues with Indec recommendation:

- Potential administration and unrecoverable cost implications on Aurizon Network created through unlimited review requests; and
- A potential for inherent misalignment of commercial positions between ‘affected parties’.

Aurizon Network, like many participants within the coal supply chain is operating in a cost constrained environment. The potential for unlimited reviews of the NBB System Rules will require either additional resources to be diverted away from their normal operational activities or the addition of FTE’s.

¹⁰ Indec recommendation 3.5.3

¹¹ Indec recommendation 3.4.7

¹² All Indec Positions are sourced from 3.4.7

¹³ Indec recommendation 3.4.7

To strengthen this recommendation, Aurizon Network suggests that robust procedures are developed to avoid unproductive use of Aurizon Networks resources which could be diverted to irrelevant reviews. Aurizon Network suggests that the specifics of any review requested by an 'Access Holder' is collated into an annual review process. An annual review could be overseen by the QCA to ensure that Aurizon Network appropriately considers all requests from Access Holders from throughout the year. Aurizon Network has committed, through the revised 2013DAU drafting, to a process that allows parties to proposed changes to System Rules.

(b) An automatic review of the System Rules will be triggered prior to the connection of any adjoining infrastructure.

Aurizon Network supports this recommendation, however a clearer definition on types of 'adjoining infrastructure' which could potentially trigger a review, would be required. Aurizon Network prefers that any definition specifically excludes any private infrastructure such as private spurs and balloon loops.

3 Reporting

Aurizon Network is continuously working with Access Holders and Infrastructure providers within the CQCN to increase its levels of transparency. The 2010AU and current access agreements provide reporting obligations on Aurizon Network. Any additional reporting via the System Rules which is applicable to all coal systems, should be contained within the 2010AU to ensure that there is consistency.

3.1 Indec's Position and Aurizon Networks response

(a) An annual MTP report supplied to Affected Parties detailing the cause of change to the MTP and the impact of change on the next 12 months¹⁴;

The implementation of this recommendation would result in amending existing processes to the capture and store the relevant information. A high level review by operational staff indicated that this would result in an increased commitment of time to comply with a new process.

The MTP can change for various agreed reasons with the supply chain. Further clarification on this recommendation is required to confirm the timing changes (ie. initial development though to day of operations) and the length of time required to store the change records post the running of train services. The documentation and storing of these records would be manually intensive task.

This reporting is more appropriately positioned within the 2010AU where it can be incorporated into the existing reporting regime. This would also provide for clear definitions on the 'change'.

(b) A six monthly report given to Affected Parties detailing the Maintenance / Planned possessions in the Critical Asset Alignment Calendar (CAAC) vs actual Network possessions¹⁵;

Schedule 5 of the Access Agreement can contain agreed Key Performance Indicator (KPI) reporting. Aurizon Network currently produces KPI reports on monthly basis to specific Access Holders which contain metrics similar to those within the recommendation.

¹⁴ Indec recommendation 3.5.3

¹⁵ Indec recommendation 3.4.7

The approved Capricornia System Rules required the provision of a 4 week pathing availability plan to Access Holders. The Indec recommendation should be updated to be consistent with those approved System Rules and with the obligation being considered for placement with the Access Undertaking.

(c) The TSE planned vs actual report (consolidated, per day) to be made publically available by Network in a timely manner¹⁶

Aurizon Network currently provides a weekly Train Service Entitlement (TSE) report to Access Holders under the requirements of the Capricornia System Rules. The information contained in these weekly reports are confidential to those Access Holders preventing it from being made publically available. Aurizon Network is willing to work with Access Holders to make this information publically available whilst remaining in compliance with the Part 3 of the 2010AU.

4 Procedural

An important element in the process of establishing transparent and workable System Rules is the consultation with stakeholders as part of their development. The development of the submitted NBB System Rules involved consultation with both supply chain stakeholders and industry bodies. The requirement to consult is outlined with Part 7.1 of the 2010AU.

4.1 Indec's Position and Aurizon Networks response

(a) A clearly defined process used in developing the Critical Assets Alignment Calendar (CAAC), including the keeping of all written records detailing changes made during the 3 week lockdown period¹⁷

This recommendation would require additional resources as outlined within previous response within this submission. This recommendation should also be reviewed to assess consistency with the approved Capricornia System Rules

(b) End users with an End user Access Agreement are able to switch operators in the Daily Train Plan (DTP) without additional TSE consumption¹⁸;

This is a requirement within the End User Access Agreement. Any 'newly' appointed operator would be required to use the same scheduled path as the previously 'appointed' operator with no adverse effects on any other Access Holder.

Currently Access Holders who are end users, rely on their operator to communicate any changes in the 'live run'. If this recommendation is approved, additional processes for the Network Controllers would have to be developed to inform the end users. A further cost/benefit analysis is required to further develop and assess the appropriateness of this recommendation whilst being conscious of the contractual obligations in place.

¹⁶ Indec recommendation 3.5.6

¹⁷ Indec recommendation 3.4.7

¹⁸ Indec recommendation 3.3.6

(c) Changes to an access holders paths during the 3 weeks maintenance lockdown period due to a change in a Network possession are to be classified as Aurizon Network cause¹⁹

This recommendation has operational complexities associated with individual scenarios relating to either Access Holder changes or Aurizon Network changes. Aurizon Network in its operations, aims to efficiently plan its maintenance activities whilst maximising the throughput of the supply chain. This aim, may involve Aurizon Network taking advantage of periods where there are windows of opportunity to complete spot maintenance activities. If this proposal is progressed it may create a perverse incentive that restricts opportunity maintenance and introduces inefficient use of the CQCN.

Due to its complexities, Aurizon Network will work with the QCA and Stakeholders to further progress this recommendation to mitigate against any perverse incentives.

(d) Train control decisions relating to delays arising from out-of-course running and cancellations is vetted by Control Centre Senior Management²⁰;

Aurizon Network already has a delegations of authority framework that allows for decision making to be made by those who are appropriately qualified and experienced within the organisation. It would create timing and practicality issues if these decisions were required to be made by only senior management within the CQCN function.

(e) Outcomes of delay and cancellation attribution are made available to Affected Parties²¹;

Outcomes from delays and cancellations are already available to Access Holders. Aurizon Network would continue this process.

(f) The NBB System Rules should be amended to increase the review period of delay and cancellation cause to two train cycles²².

Aurizon Network agrees with this recommendation, however the timeframe should be aligned to the Capricornia System Rules, which is 48 hours.

5 Other themes

In reviewing the final report, Aurizon Network identified other items that are not appropriate to put into one of the four categories above. Aurizon Network would like to take this opportunity to highlight these and provide additional commentary.

5.1 Indec's Position and Aurizon Network's Response

(a) Business Execution Rules are to be independently verified to comply with the Network Management Principles of the 2010 Access Undertaking, then subsequently incorporated in the NBB System Rules²³;

The Business Execution Rules (BERs) are a commercial-in-confidence document created by Aurizon Network for its benefit only. They are developed with consideration to the obligations of the 2010AU and supporting System Rules. They outline internal process, standards, strategy and other day-to-day operational activities of Aurizon Network. As

¹⁹ Indec recommendation 3.2.12

²⁰ Indec recommendation 3.5.6

²¹ Indec recommendation 3.5.6

²² Indec recommendation 3.1.8

²³ Indec recommendation 3.2.12

they are developed with consideration to the System Rules, the operational practices of Aurizon Network would in itself be a verification of their compliance. In the event any Access Holders had concerns with the operational practices of Aurizon Network, there are complaint and dispute mechanism within both Access Agreements and the 2010AU that they can access.

Aurizon Network is currently consulting on the CQCN business processes, aiming to provide transparency on the operational improvements being undertaking by Aurizon Network. The content which is consulted upon will be sourced from a range of operational elements, including the BER's.

(b) Producers, Operators and Ports are to agree 'Port Shipping Demand Business Rules' which are then to be incorporated in the NBB System Rules²⁴;

The Undertaking does not facilitate the binding of third parties to the Access Undertaking and consequentially the System Rules.

(c) Independent 3rd parties should be considered to arbitrate disputes arising from delays and cancellations²⁵;

The increased levels of transparency provided by any approved System Rules should provide confidence to affected parties that decisions are fair and equitable. If Access Holders believe that this is not the case, then there are complaint and dispute mechanisms within the access agreements and 2010AU that incorporate the use of independent 3rd parties. Systems rules should not contain an additional dispute resolution process.

6 Conclusion

Aurizon Network agrees in principle with the majority of the recommendations contained within the Indec report. To successfully move forward on the NBB system rules, Aurizon network suggests the following actions:

- A review of a small number of recommendations against the requirements of the 2010 Access Undertaking is required to confirm if they are in fact an obligation upon Aurizon Network.
- Prior to any form of decision being made, a further detailed cost/benefit analysis needs to be completed to understand the full impacts of the recommendations.

Aurizon Network looks forward to working with the QCA to progress these System Rules.

²⁴ Indec recommendation 3.2.12

²⁵ Indec recommendation 3.1.8