Aurizon Network Pty Ltd

AURIZON®

30 April 2013

2013 Draft Access Undertaking

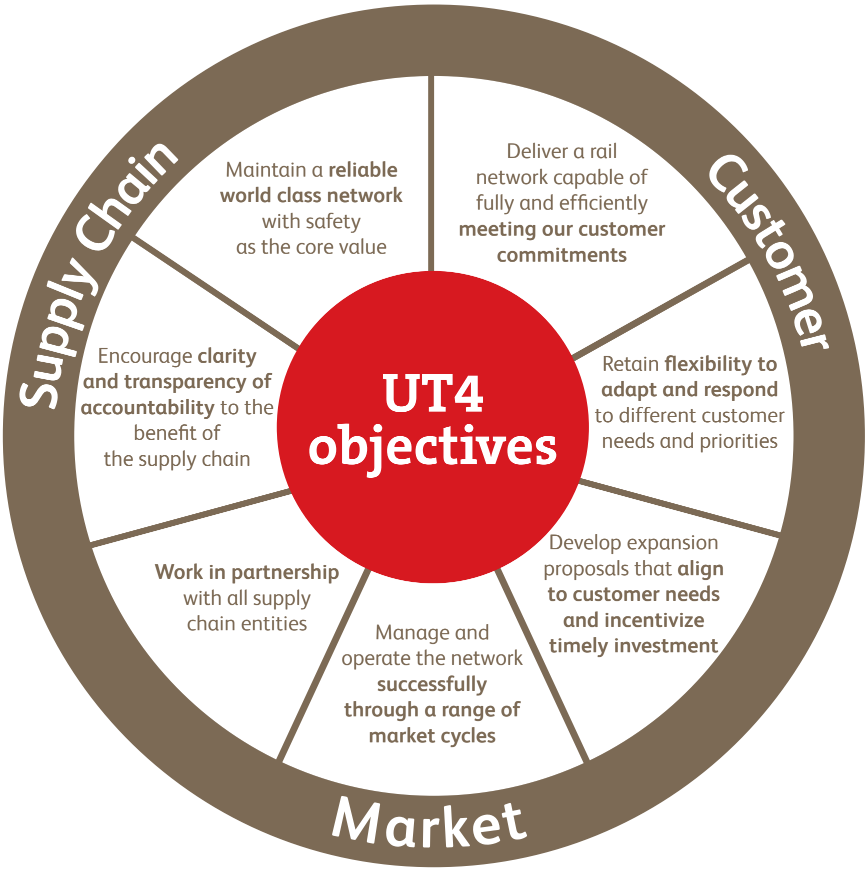
Volume 1: Overview and Summary

Introduction

Aurizon Network's 2013 Access Undertaking (UT4) sets out the terms upon which access to the Central Queensland Coal Network (CQCN) is made available to third parties.

In developing UT4, Aurizon Network has sought to better promote the long-term competitiveness of the Queensland Resources industry, ensure efficient and timely investment in the network, and provide a framework to work in partnership with supply chain participants.

While retaining many of the key elements of the 2010 Access Undertaking (UT3), Aurizon Network's regulatory proposal refines the existing framework to better facilitate customer responsiveness and streamline commercial negotiations for access. The result is a regulatory proposal that meets the statutory criteria, aims to support the interests of Aurizon Network's customers, and encourages the continued, sustainable development of the Queensland resources sector.



Consistent with past practice, Aurizon Network is voluntarily submitting UT4 for the Queensland Competition Authority's (QCA) approval. In doing so, Aurizon Network is emphasising its support for transparency and accountability in the operation of the CQCN. Aurizon Network will consult with customers throughout the process to ensure its proposals will best promote development of the Queensland coal industry. With this objective, Aurizon Network will be undertaking an ongoing program of engagement, including workshops and meetings with customers and the QCA, in order to finalise UT4.

Overview

The Access Undertaking is a critically important document for Aurizon Network, as it guides negotiations with its customers, sets out how it must provide services, and regulates the revenues it can earn from providing access. It is also of key significance to the Aurizon Group, as it partly determines the way in which the Aurizon Group can be structured, how it must operate, and how it creates value for its shareholders and its customers.

Aurizon Network's regulated revenue for UT4 will continue to reflect a benchmarked, efficient allowance for the operation of a reliable, world-class rail network that efficiently and fully meets Aurizon Network's commitments to its customers. The UT4 revenue proposal provides for a commercially reasonable return on capital, taking into account the prevailing conditions in global financial markets.

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The 2013 Undertaking	
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(a) Market context for UT4 has changed

Since Queensland Rail gave its first voluntary access undertaking in the late 1990s, the circumstances in which rail access is provided in Central Queensland have significantly changed:

- the Central Queensland Coal Network (CQCN) has been separated from the broader Queensland rail network and privatised;
- third party entry into haulage markets has occurred (including by coal producers themselves)
- Queensland coal production has doubled (and the network has been significantly expanded to accommodate this growth);
- coal producers themselves are now directly involved in the commercial negotiation of access rights and expansion projects; and
- the coal supply-chains in the CQCN have grown more integrated, with increased complexity driven by greater opportunity to use alternate ports, new technology, and increases in network density.

The impact of those developments is such that the level of regulatory prescription and complexity developed over successive undertaking periods no longer reflects the challenges of the Queensland coal industry. While Aurizon Network recognises in UT4 the importance of continued confidence in the stability of the regulatory arrangements, it also considers the regulatory framework must be responsive to the changed commercial structure and priorities of the industry in the context of a dynamic market environment.

Aurizon Network has therefore sought an appropriate balance in UT4 between regulatory stability, and the need to ensure the regulatory framework continues to maximise the benefits to the coal industry in the context of market change.

To this end, Aurizon Network believes the negotiation of access-related issues with its customers is the most effective way for it to accommodate the priorities of the Queensland coal industry in challenging market conditions. Aurizon Network also considers industry interests in areas such as quality of service, take or pay, or access to capacity, are all best resolved through mutual commercial agreement between itself and its customers. This position underscores UT4, which emphasises transparency, commercial flexibility, customer responsiveness, together with the regulatory certainty necessary for business confidence in the regime.

This position is consistent with the National Competition Principles, and the QCA Act itself, which recognise the importance of commercial negotiations. In particular, the 'negotiate-arbitrate' model of Queensland regulation gives preference to mutually-agreed commercial agreements for access.

(b) Commitment to delivering world-class, customer focussed performance

Over the course of UT3, Aurizon Network has continued its transformation to achieving world-class performance, through a focus on cost-containment and precision operations. UT4 reinforces that process, being supported by Aurizon Network's continued commitment to operating efficiency, industry growth and investment, customer engagement and safety.

Over UT3, Aurizon Network has continued to support its customers' commercial priorities across a range of issues. Of particular note:

- Aurizon Network has engaged with its customers in developing a framework for user-investment in the network, aiming to provide investment choices for funding infrastructure, and promoting growth;
- More than $1.95bn in capital investment has or will occur over UT4, reflecting the continued confidence of Aurizon Network in the potential for further growth, in the Queensland coal sector, and also its willingness to use its balance sheet to support growth;
- The recovery of the CQCN from flooding and other disruptions continues to be timely and cost-effective, maximising opportunity for returning to maximum railings;
- Aurizon Network has actively sought to consult with its customers on a range of regulatory issues, including the pricing of electric assets, the development of new forms of standard access agreement, and the introduction of agreed, industry system rules for each supply-chain;
- Aurizon Network has developed and begun to roll out a new approach to network planning and development, promoting greater transparency around the feasible options for the future expansion of the supply chain;
- Aurizon Network has continued its commitment to technological innovation, by investing in new scheduling, planning and modelling tools to support supply-chain efficiency, and meet its customers' needs;
- Significant improvements in the safe and efficient operation of the asset have been realised over UT3, together with an increased focus on infrastructure renewals to support cost effectiveness, safety and the high reliability demanded by the CQCN users; and,
- Aurizon Network has developed and supported systems and processes for the connection of private rail infrastructure to the CQCN, promoting downstream competition in investment, management and operation of non-regulated assets.

Key Elements

Aurizon Network is committing to an open engagement process with its key stakeholders. Aurizon Network intends to progress UT4 with the QCA and with its customers to achieve agreed outcomes to the greatest extent possible, and to ensure the process is constructive, timely and focussed on achieving the best outcome for all parties, and for Queensland. In saying this, Aurizon Network recognises agreement will not always be possible, and on those issues, it will constructively work with the QCA to support its decision-making process.

(a) The core elements of UT3 remain

A central role of the access undertaking is to facilitate commercial negotiations between Aurizon Network and its customers, consistent with the 'negotiate-arbitrate' model in the QCA Act. Where negotiations are unsuccessful, the access undertaking provides customers with a 'safety net', including standard agreements and dispute resolution.

While a number of elements of UT4 seek to align more closely with the 'negotiate-arbitrate' model, many of the key elements UT3 have been retained.

These provide continuity and confidence in the regulatory framework and include:

- a negotiation framework clearly setting out the steps in the negotiation process (which are largely unchanged from the 2010 Undertaking), including timeframes (Part 4);
- a clear process to be used to resolve disputes in the negotiation or granting of access (Part 11);
- Standard Access Agreements (SAA) continue to be appended to UT4 to provide a 'safe harbour' for Aurizon Network's customers (Schedules L to N);
- a workable and effective ringfencing regime consistent with Aurizon Network's key obligations under the legislation and allows parties to negotiate with confidence (Part 3);
- the legal support by the Aurizon Group of the ringfencing regime, which will continue to provide a voluntary deed of support to the regulator (Schedule D);
- retention of the key pricing principles, whilst clearly spelling out how they will be applied (Part 6);
- retention of the obligations and processes in relation to the development and publication of reference tariffs and the operation of a cap on Aurizon Network's revenue (Schedule F);
- obligations to facilitate the connection of private infrastructure to the CQCN (Part 9);
- retention of Aurizon Network's obligation to report financial and operational data (Part 10);
- obligations in relation to the reporting of breaches, complaints handling, and auditing of key Aurizon Network obligations (Part 10);
- clear and transparent principles for scheduling and managing network operations (Schedule H);
- while not specifically required under the legislation, obligations in relation to planning and supply chain coordination (Part 8); and
- a voluntary commitment to sell electricity to operators running electric trains (Part 2).

(b) Proposed refinements to UT3

Aurizon Network has drawn on its experience with UT3 to refine the framework to produce an undertaking that is more workable, flexible, and responsive to customer needs. Further, it has sought where appropriate, to recalibrate the access undertaking to better align with the statutory criteria, and to balance the needs of Aurizon Network with those of its customers.

One of the ways Aurizon Network has sought to achieve this balance is by streamlining and simplifying the provisions in the 2013 Undertaking where possible. The following table lists the more significant changes.

Summary of key modifications in UT4

Part of the 2013 Undertaking	Proposed Changes	Impact and benefits
Ringfencing (Part 3)	• Stronger and clearer obligations in relation to functional, management and employee separation. • A more workable and reasonable approach to the management of confidential information, that ensures access seeker information is tightly controlled to those requiring that information. • Duplicative or unclear provisions replaced with unambiguous commitments and clearly understood obligations. • A broadening of the scope of complaints handling.	Results in a more robust yet workable regime, which will give third parties greater confidence in their negotiations with Aurizon Network.
Capacity allocation (Part 7)	• Replacement of the queuing framework with a more practical and flexible approach to allocating capacity, recognising the primary way capacity will be allocated in future is via expansions.	Aligns the capacity allocation process to the dynamic commercial environment underpinning expansions, including maximising efficient investment in, and use of, the network infrastructure.
Funding of expansions (Part 8)	• Removal of the voluntary arrangement in UT3 for Aurizon Network to fund extensions under $300 million. • Incorporation of a framework to facilitate user funding of network extensions where Aurizon Network determines not to do so (the Standard User Funding Agreement).	Ensures sustainable funding from financial markets. Promotes choice in funding efficient and timely expansions in the network.

Part of the 2013 Undertaking	Proposed Changes	Impact and benefits
Extension process (Part 8)	• The provision of a clear framework for the development and progression of network extensions, including the conduct and funding of studies. • Standard studies funding agreements have also been developed and will be annexed to the 2013 Undertaking. • Robust and transparent decision-making criteria, together with appropriate dispute resolution provisions, have been included	Maximises efficient and timely network investment, driven by customer needs and priorities.
Capacity planning (Part 8)	• Replacement of the CRIMP with the Network Development Plan and extension process.	Enhances visibility across the supply chain and greater involvement in planning of future network developments for customers.
Customer endorsement of capital expenditure (Part 8)	• Improvements to the customer voting process to make it more workable and responsive to the circumstances of particular projects by providing detailed, project-specific information, including in relation to tariffs. • Expansion of the matters to be considered under the customer voting process to include the standard of works and the allocation of costs. • The provision of specific and targeted working papers to inform participants in the voting process.	Provides customers with more opportunity to provide timely and effective input into the project assessment and approval process. Provides Aurizon Network and the QCA with greater confidence an investment is prudent and supported by customers.
All	• Streamline the access undertaking to focus on provisions governing negotiations between Aurizon Network and access seekers, with provisions relating to users of the network that have already entered into a contract (access holders) being appropriately addressed in the Standard Access Agreements, rather than the undertaking.	Aligns access undertaking to its key purpose and ensures matters that have been subject to commercial agreement are addressed under the relevant contract. This also encourages open and effective commercial negotiations (rather than prescribed regulatory outcomes) in the first instance.

Proposed Reference Tariffs

Aurizon Network has submitted for the QCA's approval its proposed Maximum Allowable Revenue (MAR) and Reference Tariffs for the UT4 regulatory period. The MAR is the total revenue Aurizon Network is able to earn each year by providing regulated access to the CQCN. The approved MAR is translated into Reference Tariffs based on approved volume forecasts.

Aurizon Network's revenue proposal reflects the efficient costs of developing, maintaining and operating a highly reliable world class rail network with safety as its core value. These costs, where possible, have been benchmarked, and are otherwise controlled through the Aurizon Group's well established corporate governance practices.

Aurizon Network's revenue proposal for UT4 is consistent with the pricing principles in the QCA Act, most notably section 168A(a), under which it can charge a price for access that at least provides a return on investment commensurate with the regulatory and commercial risks involved. This principle is required for Aurizon Network to deliver commercially adequate returns to its shareholders and continue to attract private capital to fund future investments in the CQCN, at a time of continued financial market instability and capital rationing.

(a) The context underlying Aurizon Network's revenue proposal

Market and customer developments during the 2010 Undertaking

Aurizon Network's revenue and rate of return proposal has been developed in the context of the wider market for Queensland coal. In particular:

- *A positive (yet inherently uncertain) long - term demand outlook:* Taking a long - term view on volumes (consistent with Aurizon Network's investment horizon) is inherently uncertain in a dynamic global market. Aurizon Network is nevertheless confident in the long-term competitiveness of the Queensland coal industry, and in the potential for future growth.
- *Significant expansions in supply chain capacity:* Consistent with the growth outlook, there is significant expansion activity occurring across the CQCN, being driven by a number of major port expansions and developments. Systems have also become increasingly integrated with the construction of major links such as the Goonyella-Abbot Point Expansion (GAPE).
- *Continued increases in planning and operational complexity:* The CQCN is comprised of multiple coal supply chains and systems, some of which are linked. This has direct implications for the scope and complexity of Aurizon Network's responsibilities in delivering an efficient and reliable rail network, ranging from planning future capacity requirements through to the management of day of operations.
- *Ongoing cost pressures.* The significant growth in coal demand that emerged in the UT2 period (2005-2009) has had a direct impact on costs, including construction costs, labour and raw materials. It is well documented all resource sector participants, including Aurizon Network's customers, have been experiencing similar cost pressures. There are also costs not driven by demand growth, for example compliance with environmental and safety requirements.
- *Challenging financial market conditions.* Aurizon Network is facing a WACC reset (the outcome of which will be locked in for the next four years) at a time where future financial market conditions remain highly uncertain. This circumstance necessitates a need to prudently manage the issues associated with the influence of abnormal financial market conditions on the estimation of the cost of capital, and to avoid a mechanistic approach to addressing this critical issue.

Changes in the institutional structure of Aurizon Network

One of the more significant changes since UT3 is the separation from Queensland Rail and subsequent public listing of the Aurizon Group. This change has a number of implications for the revenue outcomes being sought in UT4 including:

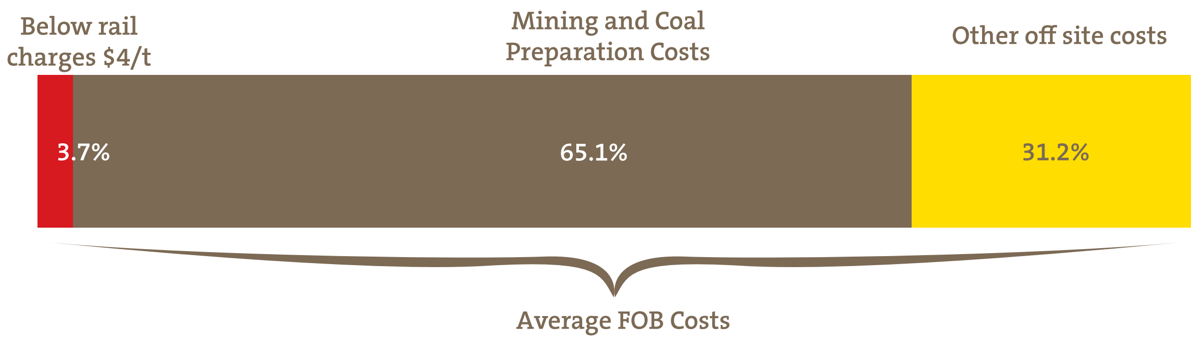
- First, it means Aurizon Network is now relying on private capital to fund capital expenditure and, in so doing, must be able to demonstrate the extent to which each project will create shareholder value in order to ensure the continued supply of scarce capital for new investment in the CQCN.
- Second, it means the business is now accountable to its shareholders and to the market. This dynamic imposes a new layer of discipline on management, not only in terms of the scrutiny applied to investment decisions, but also performance against budget forecasts and the achievement of efficiency improvements.

Recognition of cost pressures on its customers

Aurizon Network recognises the current market conditions have resulted in the Queensland coal industry closely scrutinising its cost structures. Aurizon Network, consistent with the rest of the Aurizon Group, is undertaking a transformation program aimed at reducing costs and improving productivity. Moreover, Aurizon Network has an ongoing obligation to prove its costs are efficient and to continue to seek to improve its operation of the rail network.

While recognising these cost pressures, it is also important to note below-rail infrastructure charges continue to be a modest component in the overall costs of coal extraction and export. This is highlighted in the following figure and table below.

Average costs of Queensland coal mine operations



Note: 'Other off-site costs' include above rail, port and overheads. Below rail cost is sourced from Aurizon FY12 data, while all other costs are Wood Mackenzie CY12. Source: Wood Mackenzie Cost & Margin Tool, February 2013, Aurizon Network Financial reports, Aurizon analysis.

Additionally, the infrastructure is critical to the coal industry's ability to deliver output to its customers in a timely and cost-effective way.

Below Rail Charges					
	FY13	FY14	FY15	FY16	FY17
Average Revenue (per Net Tonne)					
Forecast tonnes	$ 3.50	$ 4.13	$ 4.06	$ 4.18	$ 4.14
Contract tonnes	$ 2.99	$ 2.95	$ 2.99	$ 3.12	$ 3.29
Average Revenue (cents per Net Tonne Kilometre)					
Forecasts tonnes	1.41 c	1.69 c	1.65 c	1.69 c	1.66 c
Contract tonnes*	1.29 c	1.22 c	1.22 c	1.25 c	1.32 c

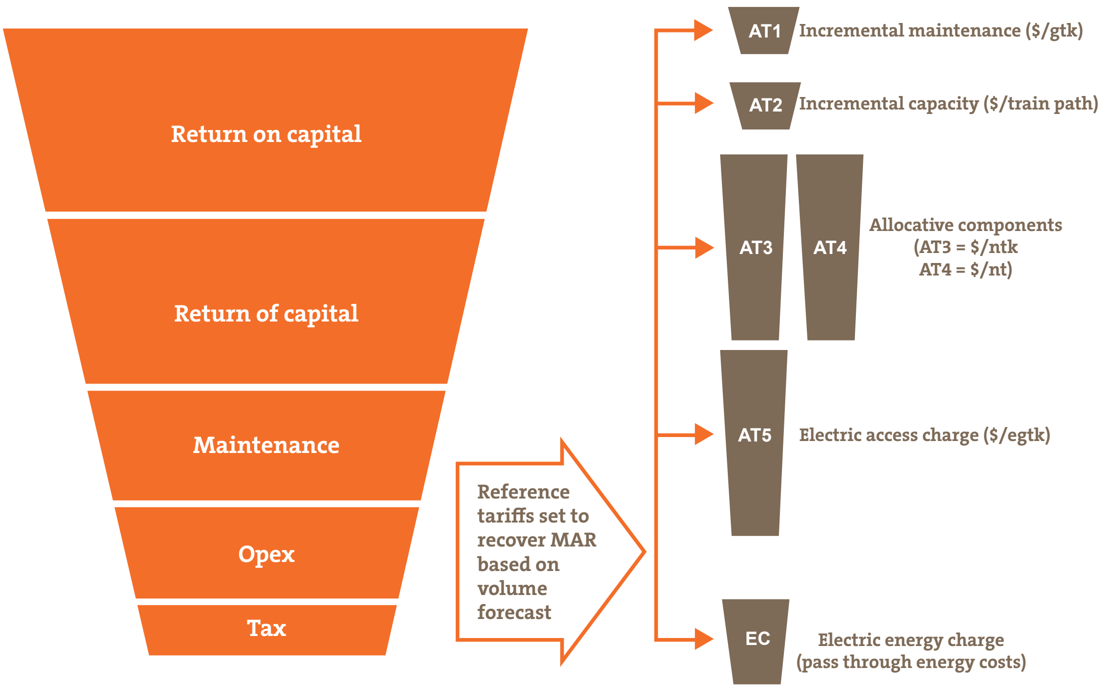
Note: Revenue is non-electric revenue for Blackwater, Goonyella, Newlands and Moura. Real dollars (FY2014/14)

*Contract tonnes do not include GAPE system tonnes

In addition to being consistent with the requirements of the legislation, compensation for its efficient costs (including an appropriate return on capital) will ensure Aurizon Network can continue to deliver a safe and reliable rail network. This directly contributes to the ability of the Queensland export coal industry to meet its customers' needs, in an intensely competitive global market environment. It is also necessary for Aurizon to be able to continue to attract private capital for investment in the rail network, recognising the range of options available to investors in the broader infrastructure asset class (and beyond), both in Australia and overseas.

(b) The FY2014 to FY2017 Tariffs

Aurizon Network's regulated revenues are derived using a traditional regulatory 'building blocks' approach, where capital and operating costs are aggregated into a maximum allowable revenue (MAR). This revenue is then used to derive tariffs using a QCA approved volume forecast.



The building blocks approach has been used to calculate Aurizon Network's proposed MAR for the CQCN as follows:

- $892 million for non-electric assets starting in FY2013/14, increasing to $1.121 billion by FY2016/17; and
- $165 million for electric assets starting in FY2013/14, increasing to $201 million by FY2016/17.

The volume forecasts underpinning this proposal are based on actual expected railings, also reflecting additions to capacity from expansions. The forecast for FY2013/14 is 199.6 million tonnes, increasing through to 252.1 million tonnes in FY2016/17.

Given those volume forecasts, Aurizon Network's tariffs for FY14-FY17 are set out below.

Aurizon Network's 2014-2017 Tariffs (Average price per tonne; AT1 - AT4)					
Blackwater	4.58	5.71	5.91	6.56	6.76
GAPE	10.88	6.80	5.69	5.50	5.30
Goonyella	2.89	3.46	3.30	3.26	3.26
Moura	3.64	4.01	4.39	4.63	4.37
Newlands	2.32	2.87	3.20	3.18	3.08
Average	**4.02**	**4.57**	**4.50**	**4.63**	**4.55**

(Average price per tonne; AT5)					
Blackwater	2.66	1.54	1.63	1.72	1.77
Goonyella	1.15	0.79	0.76	0.77	0.78
Average	**1.55**	**1.16**	**1.20**	**1.25**	**1.27**

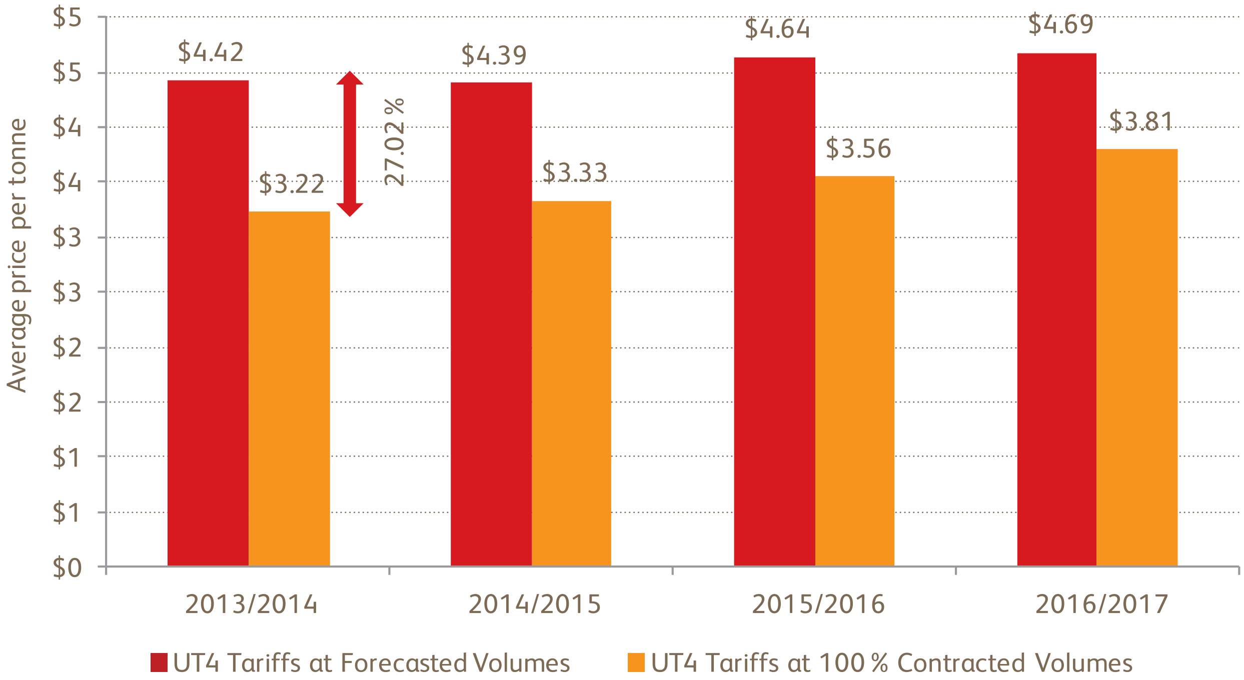
Maximising the utilisation of the CQCN would substantially decrease tariffs

A major driver of the current tariffs is the under-utilisation of the network relative to contract. As noted above, for FY2013/14, Aurizon Network forecasts the CQCN will rail 199.6 million tonnes, and it is on this basis tariffs have been generated. However, were the network to rail at contract in the first year of UT4 (268.0 million tonnes), tariffs for the financial year would be, on average, 27 % lower, as shown in the graphic below.

Forecast vs Contracted Volumes for the UT4 period				
	FY14	FY15	FY16	FY17
Forecast volumes (mtpa)	199.6	222.2	236.5	252.1
Contracted volumes (mtpa)*	268	290.4	308.9	310.7
% below contract	**-(25.5%)**	**-(23.5%)**	**-(23.4%)**	**-(18.9%)**

*Excludes non export volumes

Potential for tariff reductions over the 2013 Undertaking if volumes improve



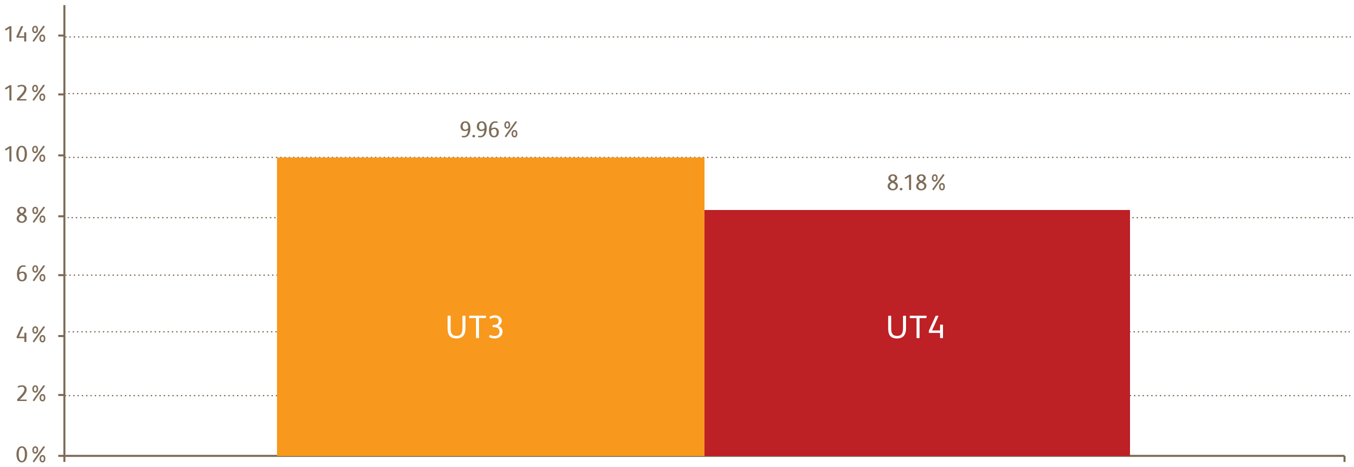
Note: Proposed revenue equals UT4 AT2-4 and AT5 System Allowable Revenue (nominal dollars).

(c) Major tariff drivers

The WACC has reduced by 180 basis points

Aurizon Network has proposed a reduction in its (WACC) to 8.18 % from the approved UT3 WACC of 9.96 %. Aurizon Network believes this will provide it with a fair commercial return, having regard to the current financial market conditions and resultant increased equity risks. Aurizon Network also believes a lower outcome would be inconsistent with the QCA Act's pricing principles and the requirement regulated prices "generate expected revenue that is at least enough to meet the efficient costs of providing access to the service and include a return on investment commensurate with the regulatory and commercial risks involved". Aurizon Network believes the proposed WACC reduction is a balanced outcome that will help ensure sustainable investment outcomes across the business cycle.

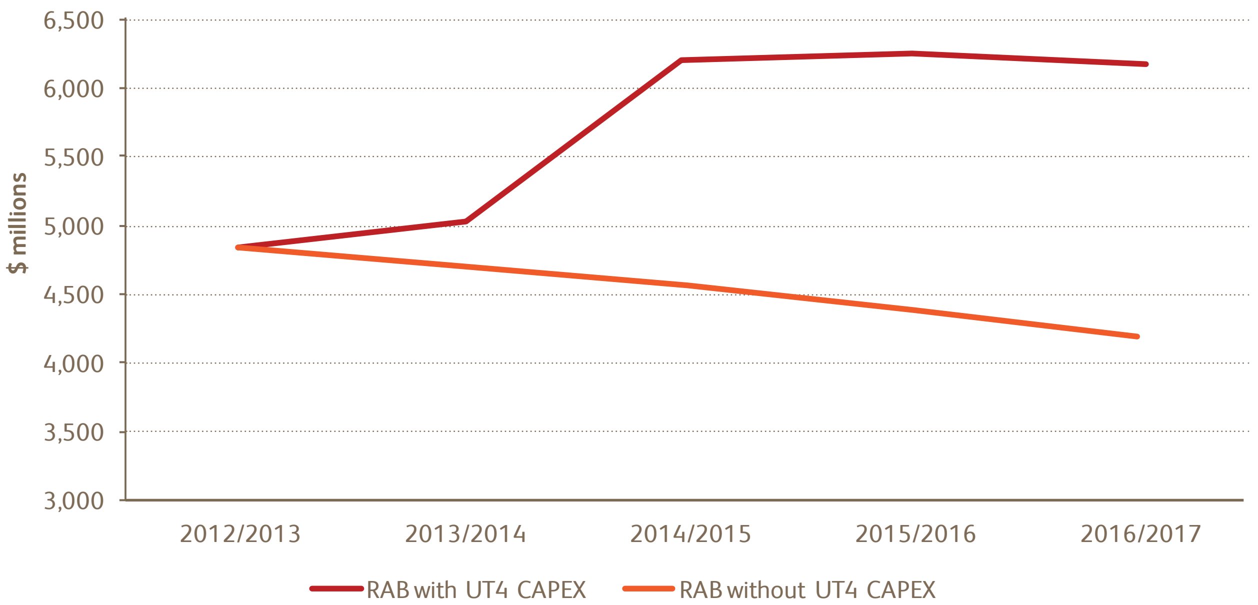
Post tax nominal (vanilla) WACC comparisons: UT3 approved and UT4 proposed



Substantial investment in infrastructure has increased the capital base

A significant driver of the increase in regulated revenues is the projected growth in Aurizon Network's regulated asset base over UT4 resulting from increased investment. Consistent with other infrastructure suppliers in the CQCN over the last four years, Aurizon Network has responded to customers and the sustained demand for Queensland coal by investing in increased supply chain capacity. This investment has been underwritten by an increase in contracted tonnes, which have grown from 184.7 mtpa at the commencement of UT3 to a forecast 310 mtpa at the conclusion of UT4. This capital investment is equally reflected in an increase in the size of the regulated asset base, which will grow from $4.9bn to $6.8bn over the term of UT4 (as shown below).

Components of the total CQCR MAR for UT4



Aurizon Network recognises the capital cost of these expansions will first fall due at a time of sustained cost pressure for Queensland coal producers, and initially, the associated assets will be underutilised relative to customer predictions of growth tonnes when the capital was committed. For all members of the supply chain, managing long-term infrastructure investments through market cycles is an ongoing challenge.

However, infrastructure capital charges, whether for port or rail, are not by their nature responsive to short-term fluctuations in the demand for, or price of, export coal. In order to obtain capital funding (particularly at the regulated WACC), investment in major, sunk assets must necessarily be underwritten by long-term financial commitments from supply chain participants through take-or-pay contracts. These funding arrangements mean the cashflows associated with infrastructure projects must be maintained when the price of coal drops; equally they are commensurately maintained when the price of coal rises. Such charges therefore form a major fixed cost component in obtaining infrastructure services.

Proposed increase in capital expenditure for asset renewal

Consistent with Aurizon Network's commitment to world-class operations, supply chain efficiency and safety, an increase in renewals capital expenditure has been proposed. A large number of CQCN assets are reaching the end of their physical lives. Aurizon Network has therefore proposed a major capital renewal program for UT4, in the order of $512m.

This program has been developed consistently with Aurizon Network's Asset Management Plan, and has been benchmarked against leading rail infrastructure operators. It is considered essential to the continued provision of a highly reliable, world class rail network able to fully, efficiently, and safely meet Aurizon Network's customers' current and future commitments.

Sound and efficient approach to regulatory depreciation

Aurizon Network has proposed to alter the approach to economic depreciation to simplify the current arrangements and provide additional assurances investments in the regulated asset base will be recovered over time. It is proposed to adopt an approach consistent with the approach in the Hunter Valley Coal Chain, and apply an economic depreciation of 25 years to all assets (new and existing), consistent with an analysis of weighted average mine life in the CQCN. The effect of this proposal is to decrease capital charges associated with UT3 assets (which are currently depreciated in accordance with a 20-year horizon), but increase it for UT1 and UT2 assets which are currently depreciated according to their remaining physical or economic lives (where the economic life was capped at 50 years). The overall impact on tariffs is minimal.

Aurizon Network considers its revised approach to economic depreciation will maximise the certainty investments in the regulated asset base will be recovered. This approach is consistent with the regulated return, which does not compensate an investor in the regulated asset for asymmetric risk.

Maintaining the infrastructure to deliver a safe and reliable world class rail network

Aurizon Network has proposed a modest increase in its maintenance expenditure, having regard to the following key considerations:

- a significant increase in the quantity of assets and tonnage over the UT3 period;
- operating within an environment that requires Aurizon Network to balance often conflicting long and short term customer requirements whilst ensuring the ongoing safety and long-term viability of rail infrastructure;
- matching an efficient and effective maintenance task to the Asset Management Plan; and
- the continual drive towards Aurizon Network's core value of safety, recognising there is a bottom line cost of maintaining the network safely, in accordance with rail infrastructure legislative requirements, and aligned to the key customer requirement for reliable operations.

Recovery of operating costs

Aurizon Network has proposed an operating expenditure allowance, reflecting the efficient stand alone costs of operating a below rail coal network in a dynamic and complex operating environment. The total allowance includes, amongst other things, the costs of operating the network (such as train control, safeworking and asset management), as well as an allowance for corporate costs (such as IT, safety, and finance). Aurizon Network has implemented a robust approach to estimating these corporate costs for UT4, including by commissioning independent benchmarking from Ernst & Young. This benchmarking analysis concluded overall, Aurizon Network's UT4 allowance for corporate overheads places it within the range expected for a stand alone business of a similar size and in a similar industry.

Structure & Conclusion

(a) Structure of the UT4 materials

Aurizon Network has documented and explained UT4 in order to facilitate a constructive, engaged and analytically rigorous process with the QCA and with its customers. These materials are set out in three volumes, as follows.

UT4 Submissions		
Volume 1	Overview & Summary	
Volume 2	The 2013 Undertaking Regulatory Framework	This volume of the submission materials explains the market, institutional and regulatory context for the development of the 2013 Undertaking. It explains the 2013 Undertaking in detail, and provides the economic, commercial and statutory basis for the proposed refinements to the 2010 Undertaking.
Volume 3	Maximum Allowable Revenue & Tariffs	Details the proposed MAR and Tariffs for the FY2014-17 period, explains Aurizon Network's efficient costs (and their drivers), the need to derive a return of, and on, capital, and a calculation of tariffs.
Volume 4	Maintenance	Describes the proposed maintenance costs and scope for the FY2014-17 period, including an explanation of cost drivers, cost-control practices, benchmarks, and a detailed explanation of Aurizon Network's Strategic Asset Management Plan.

While retaining the key substantive elements of the UT3, UT4 has been restructured to streamline the document. As the document now incorporates a large number of standard agreements, it has also been necessary to divide the undertaking into three volumes, set out below, to ensure the document length remains manageable.

Structure of UT4	
Volume 1 – The Access Undertaking	
Part 1	Preamble
Part 2	Intent and Scope
Part 3	Ringfencing
Part 4	Negotiation Framework
Part 5	Pricing Principles
Part 6	Capacity Allocation & Management
Part 7	Expansions
Part 8	Connecting Private Infrastructure

Structure of UT4	
Part 9	Reporting
Part 10	Dispute Resolution and Decision Making
Schedule A	Preliminary, Additional and Capacity Information
Schedule B	Summary of Information Requirements as Part of an Access Application
Schedule C	Operating Plan Requirements
Schedule D	Ultimate Holding Company Deed
Schedule E	Regulatory Asset Base
Schedule F	Reference Tariffs
Schedule G	Pricing for the Blackwater Electric System
Schedule H	Network Management Principles
Volume 2 – SUFA	
	Standard User Funding Agreements (SUFA)
Volume 3 – Standard Agreements	
	Standard Operator Access Agreement
	Standard Access Holder Agreement
	Standard End User Access Agreement (Alternate Form)
	Standard Train Operator Agreement (Alternate Form)
	Standard Feasibility Funding Agreement
	Standard Pre-feasibility Funding Agreement
	Standard Rail Connection Agreement

(b) Approach to UT3 dependencies

UT4 is being proposed while a number of significant issues are still being resolved under the 2010 Undertaking. Of most note:

- Aurizon Network is currently consulting with its customers in relation to the process for planning, developing and funding expansions to the CQCN, with an early draft of the process provided to a representative customer group in March;
- The process for finalising the Standard User Funding Agreements (SUFA) is well underway, with Aurizon Network constructively working with the QCA and with its customers to resolve a small number of outstanding issues;
- Aurizon Network recently lodged a new DAAU for the sustainable pricing of electric traction in the Blackwater system; and,
- The QCA is expected to issue its final decision on the Standard Access Agreement (Alternate Form) immediately prior to submission of UT4.

It is recognised a process of consultation in relation to these issues is still underway with customers. Aurizon Network is committed to ensuring UT4 will, prior to its approval, incorporate the outcome of that consultation. However, it has been necessary to incorporate these issues into the UT4 legal documents as at a given point in time (which may not reflect Aurizon Network's most recent consultation with its customers). It will therefore be necessary to amend UT4, particularly in relation to the expansion process, once these consultations with customers are concluded.

(c) Conclusion and Customer Engagement

UT4 is designed to promote customer-focussed outcomes and efficient investment in infrastructure by ensuring access-related issues are, in the first instance, flexibly resolved by the mutual agreement of Aurizon Network and its customers. Further, Aurizon Network has sought to streamline the framework to facilitate customer responsiveness, and enhance the environment for private investment in Queensland's rail infrastructure at a time of continued financial market uncertainty and instability.

To further its intention of engaging constructively with its customers, Aurizon Network will be undertaking an ongoing program of engagement, including workshops and meetings with customers and the QCA to finalise UT4. To this end, Aurizon Network will seek agreement on as many issues as possible in response to customer feedback. On a number of major issues, particularly the expansion process, Aurizon Network is already actively engaging with its customers, and expects the UT4 proposal to require ongoing refinement to reflect that process as it develops.

Aurizon Network is committed to working with the QCA and with customers towards a goal of final approval by 30 June 2014.

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