



Aurizon Network Pty Ltd  
ACN 132 181 116

QLD COMPETITION AUTHORITY

05 MAY 2017

DATE RECEIVED

Professor Roy Green  
Queensland Competition Authority  
Level 27  
145 Ann Street  
BRISBANE QLD 4000

28 April 2017

Dear Roy

**Aurizon Network Pty Ltd (Aurizon Network) – QCA response to request for Public Workshop**

I refer to your letter of 13 April 2017 declining Aurizon Network's request for a workshop during which Aurizon Network's economic expert and other stakeholders wishing to participate could make oral submissions to the QCA Board on key points relating to the issue of the weighted average cost of capital (**WACC**).

I am disappointed in the QCA's refusal to provide an opportunity for Aurizon Network and other stakeholders to address the QCA board directly on WACC, given the central importance of this topic for stakeholders and the differences of views held. This is particularly so in light of the QCA's commitment to effective consultation, accountability and confidence in its decision-making, as highlighted in the July 2016 Statement of Regulatory Intent. Given the importance the Statement of Regulatory Intent places on collaboration and more effective ways of engaging with stakeholders and consulting on specific issues, Aurizon Network had expected richer engagement with the QCA on WACC.

Allowing Aurizon Network's expert the opportunity to orally address the QCA Board and management on its WACC submissions, and providing the QCA with the opportunity to address questions directly to Aurizon Network's expert, is important to enable the QCA to provide, as well as to be seen to be providing, a balanced and transparent regulatory process.

It is not correct, as stated in your letter, that Aurizon Network has had multiple opportunities to present the detail of its WACC proposal, nor has it made a number of submissions and presentations in support of its WACC proposal. Beyond its original written submission on 30 November 2017, the only engagement that Aurizon Network has had with the QCA on WACC has been at a very high level to emphasise the importance of Aurizon achieving an appropriate return for risk, and has not addressed individual WACC parameters in detail. It has consisted of:

- Aurizon Network Chair to QCA Chair meeting in December 2016;
- Aurizon Network staff to QCA staff meeting in December 2016, to inform QCA staff of the contents of the Chair to Chair discussion; and
- Aurizon CEO to QCA Chair meeting in March 2017, which dealt with WACC at a very high level, together with a range of other matters.

As you may be aware, Aurizon Network is concerned that the QCA's current approach to WACC as set out in its recent access undertaking decisions is out of step with current regulatory practice. Moreover, there have been substantial market changes since the QCA's last public workshop in relation to WACC in 2013 which considered market parameters and yet, the QCA in recent decisions has continued to adopt those views.

The table below shows that the current QCA approach is an outlier in many of the parameter decisions.

| Regulator                      | Market Risk Premium<br>Siegel Approach | Risk-free Rate<br>Term Matching | Distribution Rate<br>FAB Data |
|--------------------------------|--|---------------------------------|-------------------------------|
| QCA                            | ✓                                      | ✓                               | x                             |
| NZCC                           | ✓                                      | ✓                               | n/a                           |
| AER                            | x                                      | x                               | ✓                             |
| ACCC                           | x                                      | x                               | ✓                             |
| IPART                          | x                                      | x                               | ✓                             |
| ERA*                           | x                                      | x                               | ✓                             |
| ESCSA                          | x                                      | x                               | ✓                             |
| ESC                            | x                                      | x                               | ✓                             |
| UK Regulators<br>(e.g., Ofgem) | x                                      | x                               | n/a                           |
| US Regulators<br>(e.g., STB)   | x                                      | x                               | n/a                           |

\*The ERA does not apply term matching for railways

In Aurizon Network's view, the cost or procedural implications referred to in your letter are substantially outweighed by the benefits that could be derived from genuine engagement on key WACC issues:

- the potential costs of a workshop are immaterial relative to the costs of an inadequate WACC determination and subsequent under-investment in the CQCN. Preparation costs should not be material, given that consultants are already engaged. In terms of venue cost, Aurizon Network would be happy to host;
- it is not clear from your letter what procedural issues are of concern, but Aurizon Network is happy to work with the QCA to agree a format to address these issues.

In conclusion, I respectfully ask that you reconsider your decision. I am happy to discuss this further with you, as I am committed to reaching a solution which gives Aurizon Network comfort that its arguments and evidence are being appropriately heard and considered, and which affords the QCA the best opportunity to make the most appropriate, robust and evidence based regulatory decision in all the circumstances.

Yours Faithfully

Michael Fraser  
Chairman – Aurizon Network