

SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY

**RESPONSE TO THE AURIZON NETWORK
SUBMISSION FOR THE 2017 FLOOD
REVIEW EVENT**

10 NOVEMBER 2017

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1. SUMMARY

Anglo American Metallurgical Coal Pty Ltd (**Anglo American**) welcomes the opportunity to make a submission to the Queensland Competition Authority (**QCA**) in response to the lodgement by Aurizon Network (**AN**) of its claim for costs incurred in relation to the 2017 CQCN Flood Review Event.

In summary, Anglo American believes that:

- The onus is on AN to supply sufficient and transparent evidence to enable a thorough review by the QCA in order to support the calculation of the Review Event costs claimed as being efficient and prudent particularly given the allowance AN receives as part of the revenue cap regulatory regime.
- The documentation lodged by AN is completely inadequate in that regard and does not provide any reliable information to enable a robust process.
- Until sufficient and transparent evidence is provided by AN to both the QCA and CQCN access holders, it is submitted that the claim cannot be properly considered by the QCA and must therefore be disallowed.
- The QCA, at the appropriate time upon being provided with sufficient evidence, should engage suitably qualified engineering and auditing advisors to assist with assessment of the claim.
- Anglo American suggests both AN and the QCA consider a different approach to future events including appointing experts earlier in the process.

2. EVIDENCE OF CLAIMED WORKS

There is insufficient information, granularity or transparency contained within AN's Flood Review Event Submission for Anglo American, other CQCN customers or the QCA to determine whether the costs said to have been incurred were appropriate, prudent and efficient.

For any Review Event and particularly for a claim of this magnitude it is Anglo American's expectation that the AN Submission would contain:

- An overview of the entire costs of recovery (both capital and opex) including how they have been treated;

- Clear identification and explanation of the works required and undertaken in each coal system;
- A build up of the incremental costs related to the recovery works, detailed by individual coal system and their various elements, including the allocation between capital items and incremental maintenance compared to what has been claimed and otherwise allowed as part of the Annual Revenue Reconciliation;
- Any existing formal AN documentation which details the cost management treatment of splitting infrastructure works between capital and opex;
- Detailed explanation as to how the costs or any part thereof, eg labour, mobilization, etc incurred do not relate to existing and future revenue allowances such as accelerated maintenance or capital renewals.

In relation to the additional information actually submitted by AN, the RSM review is an internal AN process and cannot be relied upon to confirm the correct accumulation, allocation and prudence of expenditure. The review also provides no additional information in relation to the AN claim, other than errors having occurred in some calculations and allocations as a result of sample extracts having been taken from AN material. Anglo American does not accept that RSM, having been engaged by AN, is independent and therefore able to provide a reliably thorough and objective review. For example, it is not known what information RSM were provided by AN.

From the AN documentation submitted to date, the lack of substantive information means the claim cannot support either the basis or quantum of the Review Event sought to be approved by the QCA.

3. GENERAL METHODOLOGY

Anglo American's other concerns with the Review Event claim are:

- The communications were inadequate during the event despite AN's submission. The ASX was given better and more timely information during the flood event and immediate recovery process than CQC users and stakeholders;
- The process is based upon passing through costs incurred, yet there is no inclusion of a representative for and on behalf of CQC users, who ultimately pay, or the QCA being involved in the recovery process;
- Review Event claims don't show in sufficient detail the capex and opex of the cost of recovery and the cost management allocation process between the two categories is vague;

- Review Event claims are lodged with no information or granularity in the build up of costs or the split between coal systems;
- These types of Review Events in the CQCN, do not seem to include any insurance held by AN responding or being taken into account for some asset damage, whilst other assets are not insured or it is above the insured threshold.
- The use of WACC as an escalator being applied to the claim effectively rewards AN for incurring Review Event costs, when other escalation methods for opex are more appropriate in that they do not calculate a return on a non-capital item.

4. CONCLUSION

Anglo American is of the view that AN needs to submit to the QCA and CQCN customers evidence to support the claim with sufficient detail to enable a robust review, to allow the QCA to discharge its duties under the QCA Act and, in the absence of that evidence, the claim should not be allowed.

When evidence is made available, the QCA should appoint its own independent engineering and auditing experts to review the basis upon which AN relies to support and justify the scope and prudence of the claim.