

GLENCORE

Mr Charles Millsted
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann St
Brisbane QLD 4001

29 March 2018

Dear Mr Millsted

Submission to the Queensland Competition Authority Redacted for publication

Glencore is pleased to make this submission to the Queensland Competition Authority (QCA) in relation to the consultant's report (**GHD Report**) assessing Aurizon Networks Baseline Capacity Assessment Report (**BCAR**), which was published by the QCA on 1 March 2018.

Glencore thanks the QCA for engaging GHD to undertake the review of the BCAR as submitted in March 2017. As noted in our UT5 Draft Decision submission, Glencore has serious concerns about the reliability of the BCAR, and believe that Aurizon may have over-contracted capacity, particularly in the Blackwater system. Aurizon Network have informed Glencore on more than one occasion that it would be compelled to grant access to access seekers if the BCAR indicated that the capacity was available, despite claiming that the model is "theoretical only". Glencore considers this behaviour negligent at best. It is for this reason that Glencore insists the capacity modelling be conducted by independent experts, rather than simply reviewed as was the case in the GHD review, where limited access to the model was granted and the provision of information was at times incomplete and not provided in a timely manner.

The conclusion of the GHD report was that the Aurizon Network modelling supporting the BCAR was reasonable. This conclusion is at odds with the statement also made by GHD in their report that "We find that Aurizon Network's dynamic modelling approach does not adequately model the CQCN" due to a number of factors, the impact of which were unable to be quantified. These factors were:

1. Dynamic modelling is undertaken in discrete one-month periods
2. Aurizon Network's dynamic modelling approach commences each new modelled run with a seven-day warm-up period prior to recording system data for modelled runs.
3. Aurizon Network's dynamic modelling approach at critical supply chain interfaces is modelled without considering real life performance parameters.
4. Aurizon Network's static modelling assumptions are considered conservative and contribute to a comparatively low Existing Capacity determination when compared against industry.

It is Glencore's opinion that the GHD review failed to properly assess the method and assumptions of the BCA and as such is an insufficient basis upon which to conclude that the BCA is reasonable or that it should be accepted.

Base assumptions do not appear to have been validated against actual performance to determine reasonableness, or else have been done on a system wide level and as such cannot be relied upon for determining actual capacity at specified points of the network. Instead, GHD have compared base assumptions on Maintenance & Renewals and Losses to other Australian rail networks and via this comparison declared the assumptions as “conservative”. Glencore expect that key assumptions should have been tested against actual performance for each system independently. Such assumptions would include:

- Availability (main line and individual branches to ensure each customer is able to utilise their contracted TSE’s)
- Network Losses (cancellations and delays)
- Average Dwell at key locations (eg at Bluff)
- Cycle times / BRTT (over time and over a number of different hauls to ensure that all fit within the BRTT, not just on average)
- SRT’s (noting that the capacity assessment is using contract SRT’s whilst Network are currently undergoing a trial with longer SRT’s)
- Non-coal traffic (GHD notes that non-coal traffic has a material impact upon the availability of coal paths in the Blackwater system – however does not seek to test the assumption ruling it out of scope and noting that it is low risk given that Available Capacity “comfortably exceeds” committed TSE’s.)
- Operational losses
- Speed Restrictions (noting that GHD did compare to actual data but only for the period up to March 2015)

Glencore acknowledge the difficulty in obtaining such information from Aurizon Network, particularly where they are not compelled to do so by an Undertaking. Glencore have requested such data from Aurizon Network for the UT4 period, however, as at the date of this submission, the data has not been provided, with Aurizon Network citing a lack of resources to action the request. Glencore considers that Aurizon Network are either unable or unwilling to provide the information, with both circumstances equally unappealing as a customer of Aurizon Network. Glencore request the QCA to ensure this information is published and compared against the BCA model assumptions to aid transparency and allow stakeholders to make an informed assessment of the model’s reasonableness.

In the static model, Absolute Capacity appears to have been based on an incorrect number of loaded paths. For example, Table 5 in the BCAR quotes annual TSE’s of 70,080 for Blackwater (based on 96 empty + 96 loaded paths x 365 days), however there are only 72 loaded paths offered per day from Bluff to Callemondah, thus reducing this to 61,320 TSE’s of which only 26,280 are loaded. The number of loaded paths is a critical determinant of capacity. Glencore is unsure as to why Aurizon Network would claim capacity in the BCA that is not offered to customers. These assumptions should also be examined for the Goonyella, Newlands and Moura systems. Glencore has recalculated Table 5 in the BCAR assuming that Committed Capacity is fixed and that the Aurizon Network assumptions for Maintenance & Renewals and Losses remain appropriate. The results show a capacity deficit for the Blackwater system (see below).

		Absolute Capacity	Maintenance & Renewals	Losses	Existing Capacity	Committed Capacity (Coal)	Committed Capacity (Non-Coal)	Available Capacity
TSE's	Empty	35,040	5,256	8,935	20,849	9,621	9,151	2,077
	Loaded	26,280	3,942	6,701	15,637	9,621	9,151	- 3,135
	Total	61,320	9,198	15,637	36,485	19,242	18,301	- 1,058
Mtpa	@8,211t	216	32	55	128	79	75	- 26

Whilst the above workings may not be 100% accurate, they appear to be more consistent with the experience of Glencore and others with regard to being able to access contracted paths in Blackwater.

On 30 January 2018, Aurizon Network announced changes to its maintenance practices which it estimated as impacting throughput of the CQCN by some 20mtpa. This impact has not been reflected in the BCAR. Glencore can only surmise that the BCAR as published in March 2017 is now defunct and will require re-assessment.

Yours sincerely,

Submitted Electronically

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Confidential Annexure – Not for publication

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