

29 March 2018

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4000

Dear Mr Millsteed

Baseline capacity assessment

Thank you for the opportunity to comment on GHD's review of Aurizon Network's baseline capacity assessment report.

As you know, the Queensland Resources Council (QRC) is a not-for-profit peak industry association representing the commercial developers of Queensland's minerals and energy resources. QRC works to secure an environment conducive to the long-term sustainability of minerals and energy sectors in Queensland.

Section 7A.4.1(a) of the access undertaking requires Aurizon Network to undertake a "Capacity Analysis" to determine the "Baseline Capacity" and make those findings available in a "Baseline Capacity Assessment Report".

The QCA is required to assess the outcomes of the baseline capacity assessment, including the assumptions used by Aurizon Network. The QCA may engage an expert to review the Baseline Capacity Assessment.

A "Capacity Analysis" is defined in clause 12.1 of the access undertaking. Among other things it requires a "simulation modelling assessment of Available Capacity of the Rail Infrastructure". Clause 7A.4.1(a)(iv)(A)(1) requires that a Baseline Capacity Assessment Report must set out Aurizon Network's assumptions relied on for:

"operational, maintenance, construction and planning assumptions in each Coal System".

It is now well publicised that on 30 January 2018 Aurizon Network announced that it had substantially changed its maintenance practices with the effect that there would be an initial loss of 20 mtpa of capacity, with additional losses of capacity likely. Copies of correspondence from Aurizon Network are attached to this letter. In this correspondence, Aurizon Network have indicated that they regard the new maintenance practices as permanent.

Since the change in maintenance practices, customers in the Blackwater system have suffered a loss of contracted train paths (whether through train paths not being scheduled, train paths being cancelled or train paths not being utilised). While the availability appears to change month-to-month, the experience in March was that train path availability for some customers is as low as 40% against contract.

In addition, the process of train path planning has substantially changed, with far less transparency around the root cause when train paths are lost. As a result, both above rail operators have advised that they now have limited confidence about future train path plans. That indicates that planning for Aurizon Network's new maintenance practices is difficult.

Given the recent fundamental and permanent change in maintenance practices and its impact on train path availability, QRC's view is that the Assessment has been conducted on an outdated baseline capacity. In particular, the assessment does not comply with clause 7A.4.1(a)(iv)(A)(1). In the QRC's view, GHD should be asked to reassess the report in the light of the updated and more restrictive maintenance regime.

Putting to one side the fact that the Baseline Capacity Assessment relies on inaccurate assumptions, the QRC has difficulty accepting the findings from GHD's review and the Baseline Capacity Assessment Report. In particular, the finding that there is sufficient capacity to meet contract capacity.

QRC's concerns are illustrated by the issues in the Blackwater system. Recently the Blackwater system underwent a major expansion to accommodate the additional capacity required for the Wiggins Island coal terminal (the WIRP project). Usage of the Wiggins Island coal terminal is significantly lower than its contracted capacity (which is the same additional capacity that is the subject of the WIRP project). It is also the case that usage of the RG Tanna coal terminal is materially lower than its contracted capacity and name plate capacity. In circumstances in which usage of the coal terminals are significantly lower than planned, there ought to be surplus rail capacity. The reality that manifests is the opposite. Capacity on the Blackwater system is frequently inadequate to meet contracted demand.

The QRC respectfully requests that the QCA request GHD to reconsider its findings in light of the most recent information from Aurizon Network. The Baseline Capacity Assessment information made available to QRC is not sufficient to interrogate this information. However, QRC members have struggled to reconcile their frustrating operational experiences with the modelled findings in the Baseline Capacity Assessment Report and GHD's review of that report.

At Aurizon Network's industry forum in March, Aurizon Network described the Baseline Capacity Assessment as an output from a model that doesn't say anything about what is a useable train path. QRC has previously submitted the industry's view the clear purpose of the Baseline Capacity Assessment is to provide a realistic representation of capacity. It is clear to QRC that that is not Aurizon Network's view or intent. It is also clear that GHD's assessment does not have sufficient regard to the way in which the whole coal chain works. In the QRC's view the scope of the GHD's assessment should be broadened as a way of making the baseline capacity more meaningful for Aurizon

Network's customers. QRC also recommends that future access undertakings should also make the intent of this process much clearer.

QRC confirms this submission may be made public and published on your website. Thank you for your consideration of our submission. Please contact Andrew Barger on 3316 2502 or andrewb@qrc.org.au for further information on this matter.

Yours sincerely



Ian Macfarlane
Chief Executive

Attachment One: Three emails from Aurizon Network

1. 30 January 2018
2. 12 February 2018
3. 9 March 2018

Email one

From: Riches, Michael
Sent: Tuesday, January 30, 2018 12:47 PM
To: Riches, Michael
Subject: Draft Decision on the UT5 Access Undertaking

To all customers, rail and port operators and CQCN supply chain stakeholders

As you are aware, the Queensland Competition Authority (QCA) issued its Draft Decision on the UT5 Access Undertaking on 15 December 2017. Since that time, Aurizon Network has conducted a detailed assessment of the QCA's Draft Decision, which has confirmed our initial view that it contains fundamental errors which will have significant adverse impacts on the operational efficiency and capability of the Central Queensland Coal Network.

Aurizon Network will be capturing our concerns in our submission to the QCA's Draft Decision, which is required to be submitted by 12 March 2018.

In summary, the QCA's Draft Decision prescribes that Aurizon Network uses certain maintenance and operating practices, and does not incentivise future investment in the Central Queensland Coal Network (CQCN). The net result of the QCA's Draft Decision, if implemented, would be degradation of supply chain performance. Clearly, this would deliver an adverse outcome for coal customers, rail and port operators, and collectively for the State's coal industry.

We have worked hard in recent years to deliver superior safety and operational performance on the CQCN, which, in the first quarter of FY2018, carried record tonnages of 58,833,167mt facilitated by a flexible approach to maintenance activities. We understand how critical performance is to our customers, as well as the global competitiveness of Queensland's coal exports. We have no desire to see a reduction in availability or supply chain performance. However, Aurizon Network is left with few options given the nature of the QCA's Draft Decision and the retrospectivity of the QCA decision-making process.

When the QCA's Final Decision on the UT5 Access Undertaking is released (expected in CY2018), it will apply retrospectively from 1 July 2017 (when the UT5 regulatory period commenced). Aurizon Network cannot wait for the Final Decision before implementing some of the changes stipulated in the QCA's Draft Decision that could have serious commercial impacts on our business.

As a result, we will progressively introduce changes to align our operating practices and business decisions with the requirements of the QCA's Draft Decision. Initially, Aurizon Network will be implementing a change to the planning and execution of planned maintenance and capital works and I will keep you informed of other changes as they are introduced.

By way of example, you will be aware that Aurizon Network currently plans and carries out maintenance activities (e.g. mechanised maintenance such as ballast undercutting and resurfacing) and capital works with a focus on varying its work times and scope during the planning stage, and on the day of operations, to flexibly meet customers' requirements. This flexibility maximises the throughput of coal services for our customers, however the QCA's Draft Decision has identified this as an inefficient maintenance practice. As

such, Aurizon Network needs to change its practices so as to prioritise adherence to the initially formulated plan for planned maintenance and capital works, in the manner advocated by the QCA and its consultants.

We will engage with industry over coming weeks on specific issues in the QCA's Draft Decision where there may be potential for agreement with customers. To the extent you feel there is an area where a collaborative submission could be made, we would welcome your input. We will continue to substantiate our position and document the errors in the QCA's Draft Decision.

We remain committed to delivering value to all our customers and providing a service that best meets your requirements. To continue to operate efficiently, these objectives will need to be balanced with the allowances that have been provided by the QCA and the practices that are reflected in the QCA's Draft Decision as being required to be adopted by us.

Despite these challenges, be assured that our first priority is, and will always be, safety.

If you wish to discuss any of these matters, please contact me.

Michael Riches
Group Executive Network



Michael Riches
Group Executive Network

GPO Box 456
Level 4 - 192 Ann Street, , Brisbane, Qld 4000
aurizon.com.au



Safety is our core value

Email two

From: Riches, Michael
Sent: Monday, February 12, 2018 8:00 AM
To: Riches, Michael
Subject: Update on UT5

To all customers, rail and port operators and CQCN supply chain stakeholders

In my email of 30 January 2018, I advised that Aurizon Network will progressively introduce changes to align our operating practices and business decisions with the requirements of the Queensland Competition Authority's (QCA) UT5 Draft Decision (Draft Decision). I also noted that the net result of implementation of the QCA's Draft Decision would be a degradation of supply chain performance. As part of the process of aligning our practices and decisions we have been evaluating the impact that these changes may have on the supply chain.

As referenced in today's half year results release by Andrew Harding, Aurizon's Managing Director and Chief Executive Officer, we estimate the net impact of initial changes to begin aligning Aurizon Networks operating practices and business decisions could be a reduction of system throughput of approximately 20 million tonnes annually.

Aurizon Network will continue assessing its operating practices and business decisions and will advise customers and stakeholders of changes as we progress our evaluation of the impact of the Draft Decision. However we expect further changes to our operating practices will occur and that there will be further significant impact to throughput.

Our first priority is, and will always be, safety.

If you have any questions about this or any other matter please contact me.

Kind regards
Michael Riches



Michael Riches
Group Executive Network

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Safety is our core value

Email three

From: Riches, Michael

Sent: Friday, March 9, 2018 11:20 AM

To: Riches, Michael

Subject: Update on UT5 - Modification of operating practices and business decisions

To all customers, rail and port operators and CQC supply chain stakeholders

Consistent with Aurizon Network's previous communications, Aurizon Network has continued to assess the impact of aligning its operating practices and business decisions with the QCA's Draft Decision on UT5, having regard to the retrospective nature of any Final Decision. Set out below is a further update on this process.

In conducting these assessments, Aurizon Network has been mindful of its contractual and regulatory obligations to current and prospective customers. At all times, Aurizon Network has, and will continue to, discharge all such obligations, while also ensuring compliance with applicable statutory and safety obligations.

Firstly, Aurizon Network has identified the need to modify maintenance practices relating to rail defects to reduce our risk on long-term track reliability and productivity as well as to reduce costs to align with the allowances proposed by the QCA.

Aurizon Network will continue to assess the required rectification work for rail defects on a case by case basis having regard to all relevant factors, including the risks to the reliability and productivity of the network, our safety obligations, the cost of rectification and the impact on customers. Generally our practice now will be focussed on permanent rather than temporary rectification work, subject to individual circumstances, to ensure that, to the greatest extent possible, our activities do not result in higher than efficient asset maintenance and renewal costs or a degradation on the reliability or availability of our assets.

Secondly, Aurizon Network currently has an asset management framework that assesses the risk to the long-term reliability and productivity of our assets. Where the rail infrastructure is in a degraded state, we utilise our asset management framework to assess the rectification process to be applied. In some circumstances, rail infrastructure may continue to be operated with controls that keep the infrastructure within standard, albeit with operational degradation.

There are a number of sections of the network where certain infrastructure has continued to be operated for an extended period under an authority pursuant to the asset management framework, known as a Temporary Approved Non Compliance (or TANC). Currently there are 13 TANCs in place across the CQC.

Aurizon Network has reassessed all existing TANCs in place to determine whether the mitigating controls remain appropriate in the context of the risk to long-term track reliability and productivity.

Wherever possible, Aurizon Network will be undertaking the necessary rectification work for current or future TANCs with a focus on limiting impact on customers through planning works to coincide with other maintenance or renewal work. While this may not always be possible, all work in relation to TANCs (other than if an emergency) will be scheduled through the normal planning process.

Aurizon Network will continue to consider whether further changes to its maintenance practices are necessary in order to reflect the Draft Decision on UT5 with an efficient cost and safety first approach, all while having regard to the impact on customers. We will advise customers and stakeholders of any further changes.

Our first priority is, and will always be, safety.

If you have any questions about this or any other matter please contact me.

Kind regards
Michael Riches



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Group Executive Network

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