

Queensland Competition Authority

File Ref: 631790

26 September 2013

Mr Michael Carter
Chief Executive Officer
Aurizon Network Pty Ltd
GPO Box 456
BRISBANE QLD 4001

Dear Mr ~~Carter~~ *Mike*

Final Approval: June 2013 GAPE DAAU

The Queensland Competition Authority (QCA) today issued a decision to approve the June 2013 GAPE DAAU, pursuant to section 142(2) of the *Queensland Competition Authority Act 1997* (QCA Act).

Context

The QCA's consideration of the proposed GAPE arrangements follows a lengthy consultative and assessment process, which commenced when Aurizon Network submitted its first draft amending access undertaking (DAAU) in September 2012 (September 2012 GAPE DAAU).

Since then, Aurizon Network submitted two replacement DAAUs (April 2013 and June 2013). These replacement DAAUs sought to expedite the approval of the GAPE arrangements by addressing or removing, from one of the earlier DAAUs, contentious issues identified by either stakeholders or the QCA.

As a result, the June 2013 DAAU contained reference tariffs based on a revised (lower) set of maintenance costs and the amendments to the 2010 undertaking were limited to those necessary to give effect to the GAPE train service, including the GAPE reference tariff, revenue cap and volume forecasts. Aurizon Network did not include, in the June 2013 DAAU, a number of the more contentious matters, including recovery equity raising costs and the pricing arrangements for future users of the GAPE infrastructure.

The QCA made a draft decision to approve the June 2013 GAPE DAAU in July 2013. In doing so, the QCA considered that:

- (a) the amendments provided a suitable set of *interim arrangements* while necessarily consigning a set of longer term issues (e.g. future pricing arrangements and equity raising costs) to the 2013 draft access undertaking (UT4) assessment process;
- (b) the reference tariff was appropriate and based on:
 - (i) reasonable costs, including forecast capital expenditure, operating and maintenance costs;
 - (ii) a methodology consistent with that used to calculate the tariffs in the 2010 undertaking; and
- (c) the amendments to the 2010 undertaking were reasonable and required to give effect to the GAPE train services.

Stakeholder consultation

Over the course of its consideration of the GAPE proposals, the QCA received 21 submissions from 10 stakeholders.

Most recently, the QCA received one submission from Asciano in response to its draft decision. Asciano remained concerned that the important matters removed from the June 2013 GAPE DAAU (e.g. future pricing and cost allocation approaches) have not yet been addressed. Asciano conceded that there was a benefit from them being considered in the broader context of UT4, but it was keen to ensure that any decision made as part of this process would not constrain future decisions on GAPE pricing.

All submissions received in relation to the GAPE proposals have been published on the QCA's website.

Final Approval

The QCA has considered Aurizon Network's proposal in accordance with the requirements for approving DAAUs set out in section 143 of the QCA Act. In considering its decision, the QCA had regard to the approval criteria set out in the QCA Act, the relevant provisions of the 2010 undertaking, the information provided by Aurizon Network and stakeholders' submissions.

The QCA accepted that the matters dealt with by the June 2013 GAPE DAAU are necessary to give effect to a reference tariff for coal train services that use the GAPE infrastructure. The QCA set out in its draft decision reasons why it proposed to approve the June 2013 GAPE DAAU. The QCA has not received any new information to convince it to move from its draft decision. As such, the QCA has decided to approve the June 2013 GAPE DAAU for the reasons and conclusions set out in the draft decision. This includes the arrangements for:

- (a) a new coal system for the GAPE infrastructure;
- (b) in 2011-12 and 2012-13:
 - (i) a reference tariff of around \$9.48/net tonne (nt) and \$9.63/nt respectively;
 - (ii) a revenue cap of \$17.5 million and \$91.7 million respectively;
 - (iii) volume forecasts of 2 million tonnes per annum (mtpa) and 10.5 (mtpa) respectively; and
- (c) in 2013-14, a transitional reference tariff of around \$6.80/nt.

The QCA does not disagree with the matters raised by Asciano and remains of the view that the GAPE reference tariff and future pricing arrangements for GAPE (in particular cost allocation issues) are important issues – not only for GAPE and future GAPE users, but also more generally in relation to the pricing of future extensions and expansions to the existing rail network. These matters will need to be considered as part of the QCA's assessment of UT4 – and will benefit from being considered broadly, in the context of the entire suite of arrangements proposed.

Way forward

This final approval provides Aurizon Network with written notice of the QCA's decision to approve the June 2013 GAPE DAAU. The approved reference tariff will be backdated to apply from 1 January 2012 – which corresponds to the date that contracted train service entitlements commenced.

In accordance with the existing arrangements in the 2010 undertaking, the QCA requests Aurizon Network to:

- (a) publish a new version of schedule F of the 2010 undertaking, which includes the GAPE reference tariff; and
- (b) advise relevant access holders (and seekers) of this outcome.

Yours sincerely



Malcolm Roberts
Chairman