

Rio Tinto
123 Albert Street
Brisbane, Australia, 4000
T +61 (0)7 3625 3000

14 June 2019

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority

Dear Mr Millstead

Rio Tinto response to Aurizon Network Reference Tariff Variation DAAU

I refer to the above DAAU (**Tariff Variation DAAU**) lodged by Aurizon Network (**AN**) on 7 May 2019 and to your notice of investigation issued on 10 May 2019.

Rio Tinto is grateful for this opportunity to respond to the QCA review of the Tariff Variation DAAU.

Rio Tinto's primary interest in the Tariff Variation DAAU is centred on its implications for the GAPE System, given that Rio Tinto retains take or pay capacity under an access agreement in respect of that system.

Rio Tinto generally recognises and supports the timely rebating of customers in circumstances where transitional tariffs differ from final UT5 Allowable Revenues (due to a number of factors, including approval of certain Review Events). However, it is important that in doing so the approach to calculating and applying any rebate is undertaken by AN in a manner that is transparent, accountable and which ensures that no inequity arises between access seekers based on differences in the years in which they operated services.

In this case, it appears that AN may intend to 'roll up' the rebates associated with FY18 along with revenue associated with services in FY19 and apply the rebates against the regulated take or pay amounts due in respect of FY19. AN states in its supporting submission that, "*Aurizon Network does not propose to retrospectively adjust the Reference Tariffs billed in FY2018, as doing so would require the recalculation of Access Charges, Take or Pay and Revenue Adjustment Amounts*" (page 6).

On this approach, it appears at least possible that a producer which had a different level of actual railings in each year (and therefore was exposed to a different take or pay obligations in either FY18 or FY19) could be impacted quite differently and unfairly – in effect, because their actual railings were higher in FY19, a producer's rebate may not be sufficient to compensate them for take or pay overpayments made in FY18, when railings were lower, or vice versa.

Given this risk, Rio Tinto submits that having regard to the legitimate interests of all access holders under section 138(2), it is appropriate to ensure that:

- all producers will be fully compensated for any over-recovery associated with that producer's take or pay amounts – in either FY18 or FY19;
- even if any amount is sought to be offset against FY19 amounts, the value of revenue that is being rebated should be accounted for in respect of each producer in a manner that transparently and separately identifies the portion attributable to their individual revenue/paths in each of FY18 and FY19 (at present, this is only done on an aggregate basis at Table 2).

Rio Tinto notes that providing this transparency at an individual producer level does not prejudice or affect AN and is consistent with standard commercial and regulatory practice.

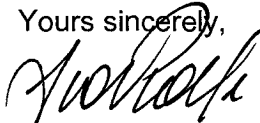
Rio Tinto also notes that, evidently, any rebates approved by the QCA under the Tariff Variation DAAU applies only to regulated amounts (e.g. regulated take or pay) and not to any unregulated amounts payable (or paid) under commercial arrangements such as the GAPE Deeds.

Finally, Rio Tinto notes that any forecasts for the GAPE System should not include any of its contracted volumes. It is not clear whether the GAPE System forecasts for FY19-21 included in the AN submission (18.85mtpa) includes this tonnage. It appears likely that some part of that tonnage may have been included. Rio Tinto requests that the QCA test this forecast with AN and, if that is the case, Rio Tinto requests that any forecast be adjusted to remove those volumes. Rio Tinto would be pleased to provide more information to the QCA in respect of its likely use of current contracted capacity over the UT period, if necessary, and on a confidential basis.

We look forward to continuing to engage with the QCA on these and related issues, including in responding to the UT5 DAAU, which Rio Tinto will do separately.

Rio Tinto acknowledges that this is a public submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Scott Rolfe", written in a cursive style.

Scott Rolfe