

# **SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY**

CONSULTANT REPORT: AURIZON NETWORK'S 2014-15 CAPITAL  
EXPENDITURE CLAIM

**24 FEBRUARY 2016**

Thank you for this opportunity to make a concise submission in relation to the Aurizon Network 2014/2015 capital expenditure claim and the reviewing consultant's report.

Anglo American has reviewed the findings made by the consultants reviewing the claim on behalf of the QCA and finds it difficult to understand how there are no shortcomings identified in prudency of scope, standard or cost in a total of 84 projects worth in excess of \$0.5B.

Given Anglo American does not have access to Aurizon Network's information it can only assume that either insufficient material has been made available to the consultants for a thorough review or that the review has not been an effective process in some way, contrary to Industry's expectations.

With specific regard to the reviewing consultant's report:-

1. Anglo American notes that there are findings made by the consultants in relation to issues identified in section 5.4.2 of the report. However, these do not appear to have any implications for the existing capital expenditure claim and are merely stated as recommendations for the future –

*“Subsequently, the Review Team concludes that Aurizon Network should review the merit of and, where possible, move away from Alliancing arrangements for signalling given:*

*- the significant change in rail services market conditions over the last few financial years;  
and*

*- the significant reduction in the number of expansion projects that Aurizon is planning to develop.”*

2. The report does not show any cost benchmarking of different elements of projects against other similar organisations, e.g. ARTC. Without this information, there is no assurance that the costs are prudent or reasonable.
3. There is little discussion regarding prudency of a project's scope being tested by consideration of alternative scopes or alternate project delivery. This contemplation is usually undertaken at the project stage gate process and it is expected that this would be part of the auditable process.
4. The report tends to contradict itself. For example, the claim for \$162.4M for the Blackwater duplications at page 3 (M2) of Appendix 3 details that there was no written Project Plan for these works provided to the consultant for review. However, the main body of the report at page 38 states that a Project Plan was provided.
5. There is insufficient information provided within the report and appendices released for comment to provide any meaningful feedback from Stakeholders on possible errors, omissions or suggestions.

In relation to Aurizon Network's claim, Anglo American believes it is inappropriate that:-

1. The split of Austrak's costs for concrete sleeper supply is unclear between Queensland Rail and Aurizon (refer page 31). This would infer that the costs attributed to the 84 Aurizon projects are not auditable and therefore difficult to justify.
2. Alliances have been used (with limited pricing proposal requests) without subjecting projects to the competitive tension of either an open tender or wider RFP process. This has most likely led to higher and inefficient pricing for project elements than would otherwise have been achieved, even though pressure to reduce pricing has been made evident to Aurizon since 2011 by industry.

3. Some project costs do not leave stakeholders feeling reassured that these are efficient or reasonable costs. For example, the project delivery cost of ~\$19M for the Rocklands to Stanwell project seems excessive in relation to the balance of the project elements and costs (refer page 38).

In light of these comments, Anglo American suggests that the insertion of the following information would provide Stakeholders with greater confidence in the validity of the report:-

- Benchmarking analysis of project elements with other network/track providers;
- Greater challenges to the prudence of cost, standard and scope;
- Recommendations for reductions in actual costs by project for the 2014/2015 Capital Expenditure Claim taking into account the findings at section 5.4.2 and any other issues found as a result of revising the report.