

27 September 2013

Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Malcolm

Review Event Submission – Central Queensland Flood January 2013

Thank you for the opportunity to respond to Aurizon Network's (AN) Review Event Submission on the Central Queensland Flood in January 2013 and Sinclair Knight Merz's (SKM) final report and findings on the event.

BHP Billiton Mitsubishi Alliance (BMA) supports the QRC submission and recommends that you not approve AN's Review Event submission in its current form. At the same time, we do recognise that a Review Event (as defined in UT3, Schedule F) has occurred and in all probability the incremental costs exceeded \$1M. However, we have several concerns with AN's review event application for the flood, which are detailed below. Some, but not all, of these issues have been addressed in the SKM's findings and final report.

1. Failure of the Insurance Policy to Provide Coverage

AN states that it has an Industrial Special Risk Insurance Policy for certain declared assets in the Central Queensland Coal Network (CQCN), including a number of bridges and electrical feeder stations. The declared assets include the Neerkol Creek Bridge, west of Rockhampton, that sustained damage in the flood. However, AN state that their application to have damages to the bridge recovered through the policy were rejected by the insurer.

No details of AN's insurance policy were given in the review event application, other than it covered "Acts of God" flooding, and no reasons were provided on why their insurance claim for damage to Neerkol Creek Bridge was rejected. The Authority should investigate

- reasons for the insurer's rejection of the insurance claim;
- whether AN has taken all reasonable steps to pursue the claim; and
- whether or not a third party has some liability with respect to damage sustained by the bridge.

2. Direct Labour - Ordinary Claim

AN's application includes \$3.1M for direct labour costs, which is 18% of their total claim. AN state that the majority of labour services under the claim were provided by AN Maintenance and Specialised Track Service functions. Presumably these are the same resources that provide maintenance services under the UT3 maintenance allowance. BMA agrees with SKM's finding that direct labour cost of \$2,301,720 (which excludes \$788,500 of estimated labour costs that have not been expended) which is covered by the UT3 maintenance allowance be removed from AN's flood claim.

3. Overhead Cost Recovery Claim

AN's application includes \$1.5M for overhead costs, which represents 9% of their total claim. AN state that these costs include senior management, engineering expertise, administration support, project managers and others and that these resources were required to co-ordinate the flood recovery work. In a subsequent breakdown of overhead costs, AN provided the following detail of their overhead claim to SKM:

Description	Amount
Lime Slurry Injection	\$131,160
Labour	\$689,896
Materials	\$182,520
Minor Consumables	\$304,408
Plant Hire	\$4,326
Resurf	\$24,159
Surveying	\$15,215
Travel	\$56,404
Work Protection	\$271,875
Total	1,679,960

Following a review of major components of AN's overhead claim, SKM recommended that the Authority approve AN's overhead cost claim of \$1,504,659. BMA does not agree with this recommendation as we consider that not all of the costs in AN's overhead claim are incremental to its UT3 maintenance or operating expenditure allowances. For example, some of the labour, resurfacing, and work protection costs are provided for in the UT3 maintenance allowance. The only overhead costs that we consider relevant to this claim are overtime, specific plant hire, contracted services and other out of pocket costs such as travel specifically required for the flood recovery work. BMA recommends the Authority further investigate AN's overhead cost claim and approve only those costs which are truly incremental to the CQC and would not have been expended had the floods not occurred. It is imperative that the Authority consider the level of double counting which may be included in some of these overhead costs claim on the basis such costs are already identified in the approved UT3 maintenance and system wide and regional cost base.

4. North Coast Line Recovery Costs

AN's flood recovery application includes \$2.5M for recovery and repair of the North Coast Line between Gladstone and Rockhampton. There is some discussion in SKM's report regarding whether re-railing was in or out of AN's scope and discrepancies regarding new ballast quantities required for the work. Despite raising these issues, SKM nevertheless found that AN's overall claim for sites on the North Coast line were "reasonable". BMA recommends the Authority satisfy itself that the claim is in fact reasonable given the uncertainties raised in the SKM Report. BMA also notes, that coal trains share the North Coast line between Gladstone and Rockhampton with freight and passenger trains and requests that the Authority give consideration to an appropriate sharing of the North Coast Line flood recovery costs between coal customers and the other users of the network (including timetabled and freight traffic).

5. Estimated Costs for Incomplete Work

It is noted that AN's flood recovery application includes \$4.3M of estimated costs for incomplete work. BMA agrees with SKM's recommendation that these costs be omitted from AN's claim.

6. Escalation of Costs

AN's flood recovery costs that were incurred 2013/2013 were escalated by applying the WACC for 6 months and then CPI for a full year. AN advise this methodology was selected to make them "consistent" with other cost inputs used to derive the 2013/14 reference tariffs. BMA recommends that Authority review the appropriateness of this escalation methodology.

If you have any queries or require more information, please feel free to contact Ms Tanya Boyle on mobile 0459 812257 or myself.

Yours sincerely



Neil Buckley ✓
Rail Ports and Infrastructure Department
BHP Billiton Mitsubishi Alliance