

20 January 2014

Mr Paul Bilyk
Director
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Aurizon Network 2013 Draft Access Undertaking – Return on Capital Response

Dear Paul,

I am pleased to respond to the Queensland Competition Authority's (the Authority) Weighted Average Cost of Capital expert reports (reports). These reports were developed in response to Aurizon Network's 2013 Draft Access Undertaking (2013 DAU) and will help inform the Authority's determination of the 2013 DAU.

Following the WACC forum, the Authority requested stakeholders to provide submissions to the QCA on the general methodological issues that have arisen as part of the QCA's cost of capital methodology review, and any other specific issues relevant to Aurizon Network's proposed UT4 assessment.

The reports published by the Authority for stakeholder consideration included the:

- *Response to Submissions on the Risk Free Rate (RFR) and the MRP* (Dr Martin Lally, 2013);
- *A Cost of Debt Methodology for Businesses Regulated by the Queensland Competition Authority* (PwC, 2013);
- *The Estimated Utilisation Rate for Imputation Credits* (Dr Martin Lally, 2013);
- *Aurizon Network: Review of Benchmark Credit Rating and Cost of Debt* (Incenta Economic Consulting, 2013);
- *Review of Regulatory Capital Structure and Asset/Equity Beta for Aurizon Network* (Incenta Economic Consulting, 2013).

In addition, we have commented upon stakeholder submissions, particularly focusing on the submission from the Queensland Resources Council including:

- *QRC's WACC submission* (Queensland Resources Council, 2013);
- *Aurizon Access Undertaking: Risk Allocation Analysis* (Castalia, 2013); and

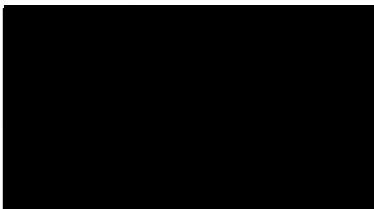
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- *Report to the Queensland Resources Council: Review of Aurizon Network's draft access undertaking* (McKenzie and Partington, 2013).

Aurizon Network values stakeholder feedback and welcomes the opportunity to discuss the concepts raised within this paper, with our both customers and the Authority in further detail.

Further, I confirm that this response and attached files contain no commercial-in-confidence material and is able to be published publically by the QCA.

Should you wish to discuss the contents of this submission further, please do not hesitate to contact myself or Lana Stockman, Vice President – Network Regulation.

Yours sincerely



Dr Luke Kirke
Manager – Regulatory Pricing and Econometric Modelling
Aurizon Network

Attachments:

1. *Return On Capital Response – Summary Paper* (Aurizon Network);
2. *An appropriate regulatory estimate of market risk premium* (SFG Consulting);
3. *An appropriate regulatory estimate of gamma* (SFG Consulting);
4. *Systematic risk of Aurizon Network: Response to reports and submissions to the Queensland Competition Authority* (SFG Consulting); and
5. *A Comparator Analysis of Aurizon Network's Commercial and Regulatory Risks* (Aurizon Network).