AURIZON

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
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Meteor Downs South Pricing Proposal Draft Amending Access Undertaking

6 August 2020

Dear Charles,

Please find enclosed Aurizon Network's Meteor Downs South Pricing Proposal Draft Amending Access Undertaking (**MDS Tariff DAAU**) submission to the Queensland Competition Authority (**QCA**).

The purpose of the MDS Tariff DAAU is to implement an Expansion Tariff for the new coal carrying train services which will operate from the Meteor Downs South mine project. An Expansion Tariff is required due to the completion of the Starlee Passing Loop project as an Endorsed Expansion. The Expansion is a requirement for granting Access Rights to the MDS mine.

Detailed financial models supporting this MDS Tariff DAAU will be provided directly to the QCA. Public and confidential versions of the explanatory documentation are also provided. Aurizon Network claims confidentiality over these models and the confidential version of the submission as they contain customer specific information and requests that the QCA does not publish this information.

Should you have any queries in relation to this submission, please do not hesitate to contact Jon Windle on jon.windle@aurizon.com.au.

Kind regards,

Peter Long
Head of Finance and Regulation
Aurizon Network

Meteor Downs South Pricing Draft Amending Access Undertaking

5 August 2020

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Meteor Downs South Pricing Draft Amending Access Undertaking

1. Executive Summary

The Starlee Passing Loop is being constructed to expand the Capacity of the Bauhinia Branchline to accommodate Access Rights being sought by the Meteor Downs South (**MDS**) mining project (**Starlee Expansion**). The Starlee Expansion is also the first Expansion to occur since the Expansion Pricing framework was introduced in the 2016 Access Undertaking (**UT4**).

The consultation processes to seek a consensus on a Pricing Proposal for the Starlee Expansion has provided an opportunity to review how various aspects of the 2017 Access Undertaking approved by the Queensland Competition Authority (**QCA**) on 19 February 2020 (**Access Undertaking**) operate at a practical level in the context of an actual Expansion. Aurizon Network has identified a number of opportunities to improve the Access Undertaking to implement a more efficient and timely review process for the development of Pricing Proposals.

Aurizon Network has sought to address these issues by integrating the following processes into a single Draft Amending Access Undertaking to the Access Undertaking (**DAAU**):

- Obtaining the QCA's approval of a Pricing Proposal as per Clause 6.4.4 of the Access Undertaking for the Starlee Expansion at Part 5 of this DAAU;
- Providing the QCA an Access Conditions Report and seeking the QCA's approval of agreed Access Conditions as per Clause 6.13.2 of the Access Undertaking in relation to the Starlee Expansion at Attachment C of this DAAU; and
- Submitting proposed amendments to the Access Undertaking to give effect to the Starlee Expansion Pricing Proposal at Attachment D this DAAU.

Broader amendments to improve the efficacy of the Expansion Pricing framework are beyond the scope of this DAAU. However, Aurizon Network will seek to consult and negotiate amendments to the Expansion Pricing framework with stakeholders over the term of UT5.

The Pricing Proposal, contained within this DAAU, seeks to appropriately balance the costs and risks of the Starlee Expansion with the benefits to both the Expanding User and Non-Expanding Users. Importantly, the expected net present value of those benefits to Non-Expanding Users is the same, regardless of whether the Expansion Costs and Volume Risks are socialised or where an Expansion Tariff (as proposed in this DAAU) applies.

The difference is in the timing of those benefits, which are partly deferred until recovery of Expansion Costs via the Expansion Tariff, in order to address the risks identified by some Non-Expanding Users during consultation on the draft Pricing Proposal that Aurizon Network released in February 2020.

This DAAU discusses:

- Consultation undertaken to obtain a consensus Pricing Proposal for the Starlee Expansion;
- The proposed allocation of costs arising from the Starlee Expansion between the Expansion Stakeholders;

- The proposed apportionment of Volume Risk arising from the Starlee Expansion; and
- How the Expansion Tariff has been determined, including the all relevant input assumptions and calculations.

To facilitate the development of the Starlee Expansion, Aurizon Network has entered into a Construction Funding Agreement with the Access Seeker. The terms of this agreement represent an Access Condition and are summarised within this DAAU and the Access Conditions Report at Attachment C. Key commercial terms of this bilateral agreement are confidential, and their disclosure does not promote the public interest. Therefore, this DAAU comprises both a public version where relevant commercial terms have been redacted for the purpose of consultation under clause 6.13.2(d) of the Access Undertaking and an unredacted confidential version for the QCA for consideration under clause 6.13.2(e).

All capitalised terms in this document are with reference to the defined terms in the Access Undertaking unless otherwise defined in this DAAU. All clause and section references in this document are to the Access Undertaking approved by the QCA on 28 May 2020 unless stated otherwise.

2. Meteor Downs South Project Information

The Meteor Downs South mine is an open-cut coal mine situated on Mining Lease (ML) 70452, approximately 25 km west of Rolleston in central Queensland. Operated as a joint venture between Sojitz Coal Mining Pty Ltd and Endocoal Limited, the mine is authorised to produce 2 million tonnes per annum of coal[1].

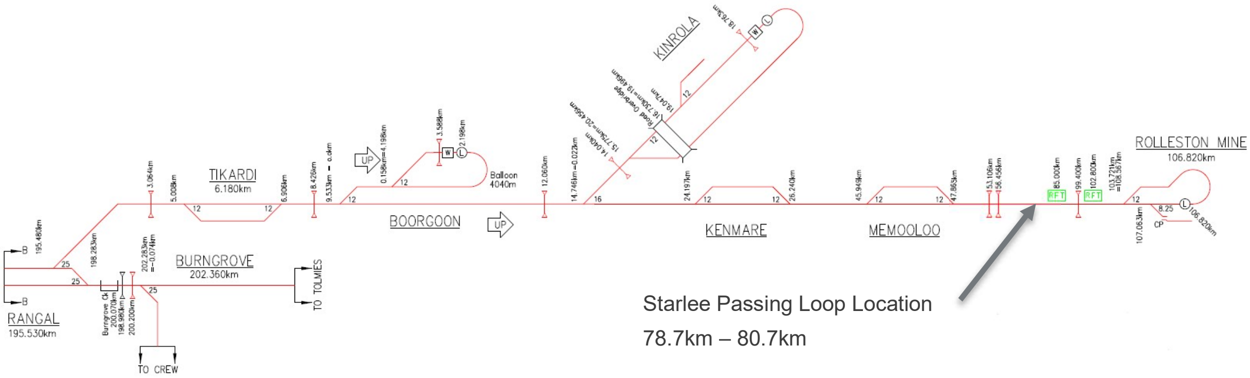
Sojitz Coal Mining, as the Access Seeker, has entered into an Access Agreement for a term of 10 years. This is consistent with the statements by the mine owner that:

> *The life of the operating phase is estimated at ten years which may be extended if an alternate use of the facility exists once mining at MDS is completed.*

Due to constraints to capacity in the southern part of the Bauhinia Branch on the single line section between Memooloo and Rolleston, Aurizon Network was unable to provide the requested Access Rights at the levels requested by the Access Seeker. This triggered the need for an Expansion of the Bauhinia Branchline to create sufficient Available Capacity to meet the needs of the Access Seeker. The Concept Study report on options for expanding the Bauhinia Branchline identified the following preferred solution[2]:

> *The study determined that Starlee passing loop is the preferred solution to provide the required increase in capacity. The passing loop is proposed to be constructed at 78.7km to 80.7km with an estimated cost of between $9m – $13m.*

Figure 1 Geographical Location of Starlee Passing Loop on Bauhinia Branchline



The installation of an additional passing loop creates sufficient Capacity on the branch line to meet the required additional volumes at a capital cost that was considered to be the most prudent and efficient option that would enable the additional capacity requirement to be achieved.

It was also assessed that there was less delivery risk associated with a passing loop than the alternative Remote-Controlled-Signalling (**RCS**) option due to less procurement lead time requirements, enabling the loop to be constructed in time for first railings from the Meteor Downs South private rail infrastructure.

In order to maintain interoperability for all Train Services operating on the Bauhinia Branchline, the Starlee Passing Loop will be electrified. The current cost estimate for completion of the Starlee Passing Loop is $8.6 million which is at the lower end of the estimated cost range from the Concept Study.

1 Sojitz Coal Mining (2019) Preliminary Documentation Report: Meteor Downs South Rail Loop Project, p. 20, Available at https://www.sojitzblue.com.au/mds-mine. Last accessed: 1 June 2020.

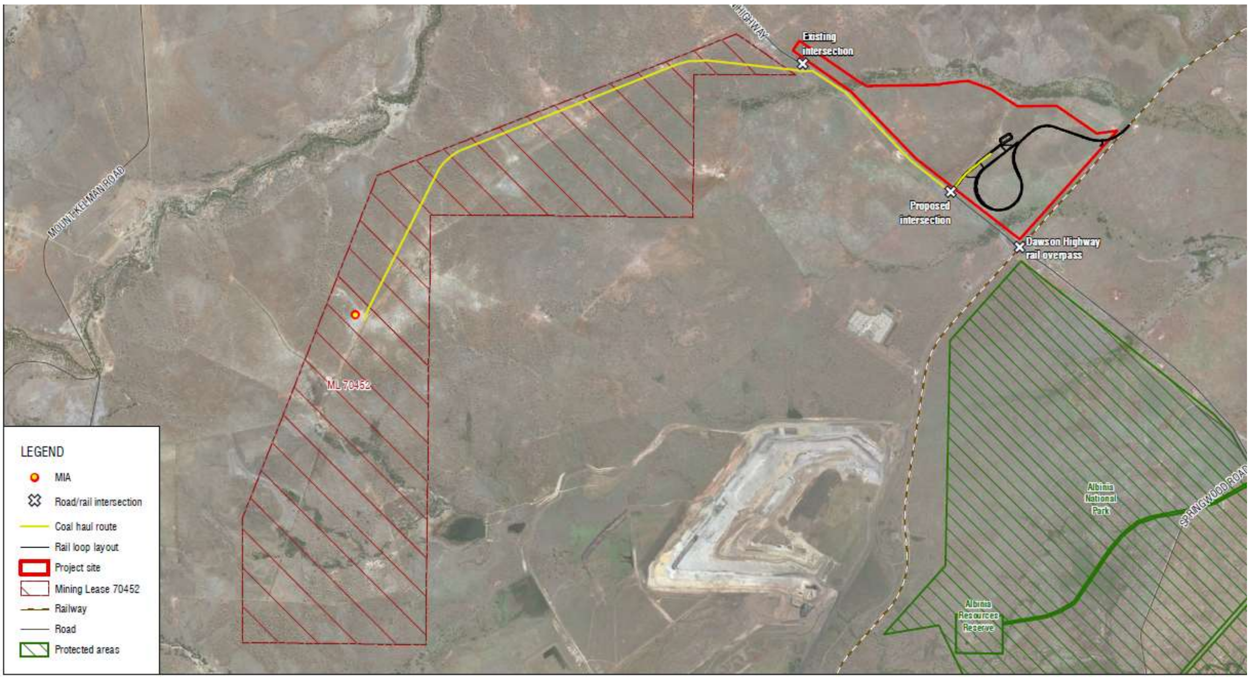
2 Aurizon Network (2019) Network Development Plan, p.8

The MDS Mining Project also requires the construction of a private rail loop to the existing Bauhinia Branchline in the Blackwater coal system as shown in Figure 2. The rail loop will connect at approximately 95.212km on the Bauhinia Branchline and is designed for coal train locomotives with around 100 wagons and a nominal length of 1.7 km to be accommodated within the loop to ensure through rail traffic is not impeded. Trains will have a nominal capacity of 8,350t and approximately four (4) trains per week will be loaded at the facility. Based on an approximate loading rate of 1,600t/hr, loading will take in the order of five hours.

The private rail loop will not be electrified and therefore only diesel-powered locomotives will be able to provide Train Services capable of utilising the MDS private rail loop.

Product coal will be loaded to the trains using three-wheel front-end loaders. The loading facilities will include a weighbridge installed within the private rail loop to reconcile the quantity of coal loaded to each wagon. Consistent with industry best practice, a coal veneering (chemical sealing) unit will be included at the loading facilities and loaded wagons will be veneered prior to entering the Aurizon Network managed rail infrastructure.

Figure 2. MDS Project Overview



In summary the MDS Project involves:

- The construction of the Starlee Passing Loop (**Expansion Costs**);
- The construction of a privately-owned rail loop (**Private Infrastructure**); and
- The associated Aurizon Network owned and user-funded Connecting Infrastructure.

3. Expansion Pricing Requirements

As the Access Rights being sought for a new coal carrying train service requires an Expansion, the Access Charges for that Access Seeker must be determined in accordance with Section 6.4 of the Access Undertaking.

The Expansion Pricing Principles in subsection 6.4.1 requires that an Expansion will be either:

- A ***Consensus Expansion*** where all Expansion Stakeholders consider a draft Pricing Proposal to represent an acceptable distribution of the Expansion Costs and apportionment of Volume Risk;
- A ***Customised Expansion*** requiring a bespoke pricing solution where the Expansion involves Substitutable Train Service Entitlements (**TSEs**); or
- An ***Endorsed Expansion*** determined by applying clause 6.4.5.

As the Access Seeker is developing a new mining project and does not hold existing Access Rights for that mine, there are no Substitutable TSEs and a Customised Expansion does not apply. This approach is intended to address circumstances where the Access Holder is subject to Expansion and Non-Expansion volumes and it is not feasible to apply multiple Reference Tariffs to the same service.

3.1 Expansion is not subject to Aurizon Network's funding commitment

The Access Undertaking includes a commitment from Aurizon Network to expend the Committed Expansion Funding Amount on Expansions with effect from 1 July 2019. As the Starlee Expansion commenced construction following this date the Starlee Expansion may be subject to the Committed Expansion Funding Amount subject to certain conditions contained within the Access Undertaking.

A requirement of the funding commitment is that any amounts expended on an Expansion are to be subject to socialisation of that expenditure with the Expanding User and Non-Expanding Users (i.e. an Expansion Tariff is not applicable).

A condition of the funding commitment, as specified in clause 8.2.1(b)(ii)(D) of the Access Undertaking, is that:

> *The Committed Expansion Funding Amount will only be used to fund a proposed Expansion which, once completed, will increase the Capacity of a Coal System for the benefit of more than one Access Seeker, Customer or Access Holder and not solely for the benefit of the Access Seeker whose application for access resulted in the need for the proposed Expansion*.

As the Expansion Costs of the Starless Expansion relate to the provision of additional Capacity for the benefit of a single Expanding User then the condition for the funding commitment is not satisfied.

Due to the lumpy incremental nature of Expansions, the Expansion creates additional Capacity in excess of that required by the Access Seeker. This Available Capacity may benefit a future Access Seeker and therefore it could be argued that the Expansion could benefit more than one Access Seeker. However, without another Access Seeker currently seeking that additional Available Capacity resulting from the Starlee Expansion this is merely speculative.

3.2 Consultation on draft Pricing Proposal to Socialise the Expansion Costs and Volume Risks of the Expansion

On 19 February 2020, Aurizon Network released a draft Pricing Proposal to Expansion Stakeholders (including the Customers of the relevant Access Holders where the Access Holder is a Rail Operator) seeking a consensus on fully socialising the Expansion Costs and Volume Risks associated with the Starlee Expansion. The draft Pricing Proposal is provided at **Attachment A** to this DAAU.

The full socialisation draft Pricing Proposal was determined on the basis of the following assumptions:

- capital expenditure estimates for the Starlee Expansion of $8.6 million;
- incremental contracted volume of 1.5 million tonnes per annum for a term of 10 years; and
- an economic life for regulatory depreciation of 10 years.

Applying these assumptions, Aurizon Network proposed to fully socialise the Starlee Expansion with Expansion Stakeholders for the following reasons:

- the Expansion Costs equated to ~$2.53 per ntk'000 which is materially less than the minimum contribution to common cost requirement of ~$4.75 per ntk'000;
- the forecast volumes from the MDS mine would need to reduce to 0.8 million tonnes per annum for the Expansion Costs to equate to the minimum contribution to common costs and therefore the probability of cross-subsidy is low;
- on the basis of the estimates for the value of Private Infrastructure Costs the Access Seeker would make a positive contribution to common costs of ~$10.26 per ntk'000 which is approximately 4 times the Expansion Costs;
- the positive contribution to common costs would yield a benefit to Non-Expanding Users of approximately $0.25 per ntk'000 and the full exposure to volume risk from the mine utilising no contracted TSEs would be approximately $0.06 per ntk'000. This is effectively a benefit cost ratio of 4;
- the Expansion Pricing principles were intended to address large system expansions with multiple users rather low value capex for a single access seeker on a branch line; and
- the requirement to develop an Expansion Tariff imposes additional regulatory and administrative burden for little benefit in terms of promoting the objects of the access regime.

In summary, Aurizon Network undertook the following engagement activities:

- requested the QCA indicate, if it chose to do so, how it would participate in any consultation process with Expansion Stakeholders;
- published a draft Pricing Proposal to Expansion Stakeholders on 19 February 2020;
- individual engagement meetings with Expansion Stakeholders was offered and undertaken where requested;
- provision of additional information and further engagement in response to reasonable requests from Expansion Stakeholders; and

- on 13 March 2020, granting an extension to the period of time for responding to the draft Pricing Proposal to 27 March 2020.

On 20 April 2020, Aurizon Network wrote to the QCA informing the regulator that it had not obtained support for the draft Pricing Proposal from six Access Holders/Customers which comprise approximately 41% of the contracted Train Services within the Blackwater Coal System. This comprises three Access Holders/Customers, representing approximately 34% of the contracted Train Services, that have expressly stated they do not support socialisation of the Starlee Expansion.

The following key issues were raised during the consultation process:

- as the benefits of the positive contribution to common cost accrue primarily to the use of the Blackwater mainline, the Expansion Costs should be included in the Blackwater System cost base and not the cost base for the Bauhinia Branchline;
- the medium to long term volume risks of the mine may not support a mine life of 10 years given the level of marketable reserves; and
- applying a shorter-term economic life reduces the contribution to common costs and therefore increases shorter term annual volume risk.

On balance, most Expansion Stakeholders recognised that acceptance of some mine volume risks was appropriate where this is proportional to the system benefit. However, one Access Holder/Customer considers that it is preferable to apply an Expansion Tariff and obtain those benefits after the mine volume risk has been mitigated (for example, accelerated depreciation of the Expansion Costs).

3.3 The Expansion is required to be treated as an Endorsed Expansion

Having regard to the issues identified during the consultation process Aurizon Network also requested that:

> *given one major Expansion Stakeholder's preference to forego benefits from a reduction in the Blackwater Reference Tariff to avoid assuming additional system volume risk there is little likelihood or prospect of obtaining a Consensus pricing proposal which appropriately distributes and apportions the Expansion Costs and Volume Risks. Therefore, Aurizon Network requests that the QCA not request a further period of time to seek a Consensus and that the Expansion be treated as an Endorsed Expansion.*

The QCA did not require a further period of time to seek a Consensus. Under the requirements of clause 6.4.2(c) of the Access Undertaking, as a Consensus has not been reached, the Starlee Expansion must be treated as an Endorsed Expansion and an Expansion Tariff is to be calculated as required by section 6.4.5.

4. Requirements for a Draft Amending Access Undertaking

Section 6.4.4 of the Access Undertaking requires that Aurizon Network must submit a Pricing Proposal to the QCA in the form of an application for a ruling under Division 7A of Part 5 of the Queensland Competition Authority Act (**Act**), unless the QCA requests otherwise. Furthermore, Section 6.4.7 requires that any indicative Reference Tariff approved by the QCA under Section 6.4.4 will be formalised through the preparation and submission of a DAAU.

In order to expedite the establishment of the Expansion Tariff to commence from 1 July 2020 Aurizon Network is submitting the Pricing Proposal in the form of a DAAU so that the approval of the Pricing Proposal and the Expansion Tariff occurs concurrently.

This document also contains all elements of a Pricing Proposal required to be fulfilled under clause 6.4.4(a).

Aurizon Network notes that there are no requirements or guidelines informing the matters for which the QCA will request that a pricing proposal not be submitted in the form of an application under Division 7A of Part 5 of the Act. Nevertheless, Aurizon Network has not sought to apply for a Division 7A ruling on the basis that:

- under the terms of the Pricing Proposal in Part 5 of this document the Expansion Tariff will cease to apply within the current term of the Access Undertaking and therefore the QCA would not be required to have regard to a ruling in approving a draft access undertaking under section 138 of the Act; and

- the Pricing Proposal would be a matter that would be relevant to the QCA's consideration and approval of any DAAU during the term of the Expansion Tariff.

In addition, due to the Expansion Tariff equating to the System Reference Tariff and low value of the Expansion Costs, the regulatory risk to either the Access Seeker or Non-Expanding Users from a change in the pricing framework within the current regulatory term is immaterial. That is, the extent of that regulatory risk does not support the application of a ruling to this Pricing Proposal.

Aurizon Network also notes that Explanatory Notes for the *Queensland Competition Authority Amendment Bill 2008* state the following objective for rulings[3]:

> *Rulings will provide greater certainty prior to regulated infrastructure investment being made and could facilitate the financing of increased 'spare capacity' (i.e. investments over that required to meet existing demand).*

In this regard, a ruling will not mitigate risk to investment in regulated infrastructure as the investment is committed and will be constructed prior to obtaining a ruling.

Aurizon Network is also submitting the Pricing Proposal in the form of a DAAU as it is necessary to address the following issues:

- the Annual review of Reference Tariffs for FY21 included MDS forecast volumes in the Blackwater Coal System Gtk Forecast;

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[3] Queensland Competition Authority Amendment Bill 2008: Explanatory Notes, p. 5, https://www.legislation.qld.gov.au/view/pdf/bill.first.exp/bill-2008-1411 , Last accessed: 10 July 2020

- the provisions relating to the additional of a positive contribution to common costs to the Expansion Costs produces a perverse outcome which materially disadvantages the Access Seeker;
- the are no provisions relating to when an Expansion Tariff will cease to apply; and
- the benchmarking of the Expansion Tariff to the System Reference Tariff modifies the System Reference Tariff through the positive contribution to common costs.

4.1 MDS Volume Forecasts in Annual Tariff Reset

Aurizon Network's Annual review of Reference Tariffs was submitted to the QCA on 28 February 2020 and prior to completion of consultation on the draft Pricing Proposal. The FY21 Annual Review of Reference Tariffs included forecast volumes for the MDS Mine within the Blackwater System Gtk Forecast. The MDS volumes were included in the annual system forecast on the expectation that a consensus would be obtained for socialisation given the relatively immaterial Expansion Costs and Volume Risks. It should be noted, however, that neither the system Allowable Revenues, nor the Capital Indicator for the Blackwater System included provision for the Expansion Costs.

Where the draft Pricing Proposal had obtained a consensus outcome, this matter would have been addressed through the inclusion of the Expansion Costs in the FY20 capital expenditure claim and recovered through the annual capex reconciliation process.

As a consequence, the System Gtk Forecast will overstate the take or pay trigger threshold where the Gtk from the MDS mine is not also included within the actual gtk for that system. This arises due to the construction of the System Test within the Standard Access Agreement which states:

> *This item 4.1 of Schedule 4 only applies to a Train Service which has a Reference Tariff Type which is a 'System Reference Tariff' (as defined in the Access Undertaking).*

While a System Reference Tariff is defined as the tariffs set out in clauses 7, 8, 9, 10 and 11 of Schedule F, a Reference Tariff is defined as being a System Reference Tariff or an Expansion Tariff. This suggests that a distinction should be made in respect of the gtk forecast and actuals for a System Reference Tariff from the gtk forecast and actuals for an Expansion Tariff. However, it will also be necessary to add the Expansion Tariff as an additional tariff to clause 7 of schedule F which establishes some ambiguity.

This ambiguity should be resolved by the requirements in section 6.4.6 that the Expansion Tariff has its own Gtk forecast which is then consistent with a requirement that the System gtk forecast includes the gtk for System Reference Tariffs which are not an Expansion Tariff.

Therefore, this DAAU will need to:

- reduce the FY21 Gtk Forecast for the Blackwater system in Clause 7.3 to remove that part of the Gtk Forecast which relates to the MDS mine; and
- include clarification in Clause 7 of Schedule F that the Expansion Tariff is not a System Reference Tariff for the purpose of calculating Take or Pay.

4.2 Unintended outcomes of Expansion Tariff Requirements.

As the Expansion Costs will produce an Expansion Tariff which is less than the System Reference Tariff, clause 6.4.5(f) requires that a positive contribution to common costs be included in the Expansion Tariff in order to increase the Expansion Tariff and reduce the System Reference Tariff so that these Reference Tariffs are equivalent.

This equivalence is required to be assessed on a $ per ntk basis. However, where the Expansion involves a single mine with a haulage distance materially greater than the average system haul, this equivalence would require the Expansion Tariff to materially exceed the System Reference Tariff when expressed in an AT_1 to AT_4 Reference Tariff structure. In simpler terms, the total cost of access under the Expansion Tariff would have exceeded the total cost of access under the System Reference Tariff and a system premium would need to be added to the Expansion Tariff AT_3 component to make the tariffs equivalent on a $ per ntk basis.

This problem arises because the Reference Tariff structures include a distance taper through AT_4 which is not considered when comparing only the $ per ntk equivalence. As the System Reference Tariff when expressed on a $ per ntk basis represents the volume weighted average haul distances any mine which is closer or further than this average on a volume adjusted basis would obtain an Expansion Tariff at a discount or premium to the System Reference Tariff respectively.

The test in clause 6.4.5(f) of the Access Undertaking remains appropriate for larger multi-user expansion projects but will not produce full tariff equivalence between an Expansion Tariff and a System Reference Tariff. Aurizon Network does not consider it equitable, or efficient, that the Access Seeker is subject to an Expansion Tariff which exceeds the System Reference Tariff when expressed on an AT_1 to AT_4 basis.

This DAAU therefore establishes an Expansion Tariff which equates to the relevant System Reference Tariff (on a cost of access basis) and departs from the requirements of clause 6.4.5(f) for reasons of equity and efficiency. In summary, the relevant tariff inputs for AT_1 to AT_4 are the same for both the System Reference Tariff and the Expansion Tariff.

4.3 Termination or Expiry of an Expansion Tariff

Once an Expansion Tariff has been established in accordance with clause 6.4.6 of the Access Undertaking there are no provisions relating to the cessation or termination of the Expansion Tariff. For example, where the Expansion Costs have been full depreciated then the Expansion Tariff would comprise only a positive contribution to common costs. In this circumstance, there would be no further requirement for an Expansion Tariff to continue and the Access Seeker should be subject to the relevant System Reference Tariff.

This DAAU also includes provisions which terminate the Expansion Tariff in the first Year in which the opening value of the assets within the Regulatory Asset Base which comprise the Expansion Costs is $Nil.

4.4 Application of Private Infrastructure Costs Discount to determine Access Charges

Clause 6.4.1(b) of the Access Undertaking requires that Access Charges determined under section 6.4 are also subject to section 6.3 in respect of Private Infrastructure.   Therefore, while the Expansion Tariff is calculated to equate to the relevant System Reference Tariff the access charge will be established by deducting the annual maximum revenue (calculated in the same manner as for the relevant Reference Tariff) derived from the Approved Private Incremental Costs (**PIC**).

Subclause 6.3.2(e)(ii) requires that the Approved PIC = 0 until the QCA approves the Private Incremental Costs under clause 6.3.2. As the:

- relevant reference tariff is the Expansion Tariff and the Access Seeker is the only party directly affected by the Approved PIC amount; and

- the value of the PIC amounts is relatively minor (as a % of the Expansion Tariff),

Aurizon Network proposes to depart from the requirements of clause 6.3.2 of the Access Undertaking and apply the PIC discount on the basis of a notional estimate of the PIC amounts. Following approval of the PIC Amounts by the QCA the value of the Approved PIC will be adjusted to account for any difference between the notional PIC amounts and the Approved PIC amounts.

Aurizon Network also proposes to include the value of the Connecting Infrastructure, owned by Aurizon Network and funded by the Access Seeker, in the value of Private Incremental Costs as being costs associated with providing access to the relevant Private Infrastructure.

The Access Seeker is in the same economic position whether the value of the Connecting Infrastructure is:

- Funded by Aurizon Network and included in the Expansion Tariff as an Incremental Cost; or

- Funded by the Assess Seeker and applied as a discount to the Expansion Tariff to calculate the Access Charge.

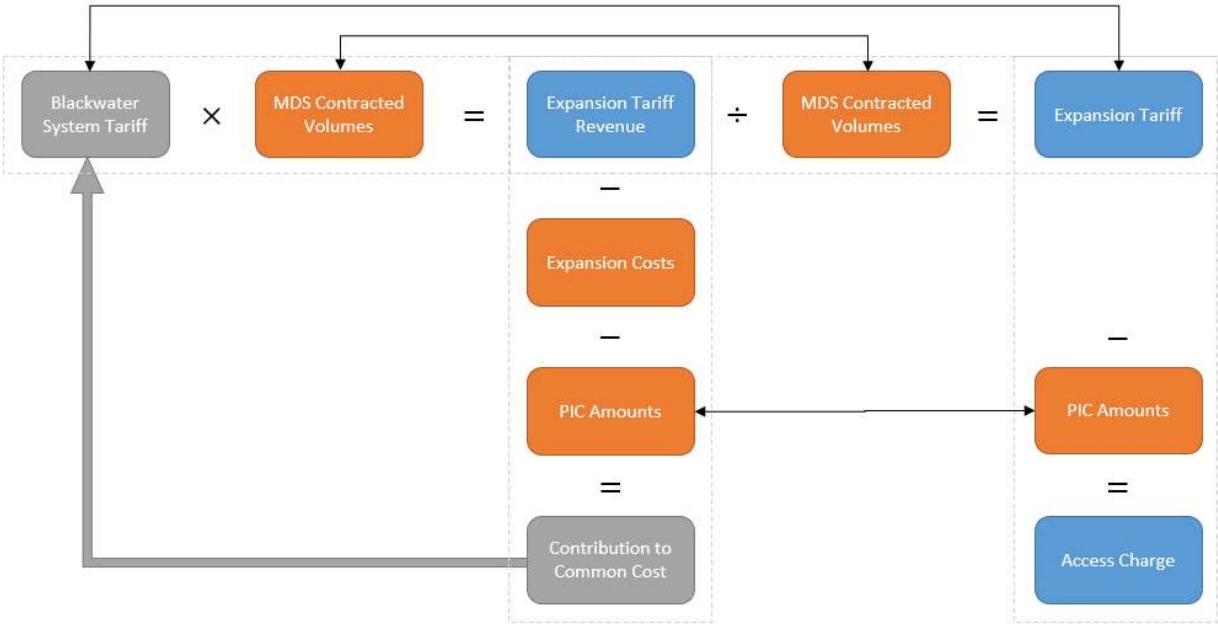
The exclusion of the Connecting Infrastructure funded by the Access Seeker also avoids the administrative and regulatory burden of rebating the value of the Connecting Infrastructure if it was included within the Access Charge.

This DAAU also includes minor changes to the definition of Private Incremental Costs to allow for the inclusion of Connecting Infrastructure funded by the Private Infrastructure Owner.

4.5 Benchmarking the Expansion Tariff to the System Reference Tariff

The requirement to add a positive contribution to common costs to increase the Expansion Tariff and reduce the System Tariff introduces a circularity in the tariff setting process as shown in Figure 3 below.

Figure 3. Benchmarking the Expansion Tariff to the System Reference Tariff under clause 6.4.5(f)



As the contribution to common costs changes then so too does the Blackwater System Reference Tariff. Therefore, the development of the Expansion Tariff also requires the resetting of the Blackwater System Reference Tariff from the commencement date of the tariff.

5. Expansion Tariff Proposal

This section summarises the objectives, inputs and assessment of the proposed Expansion Tariff against the expansion pricing principles in clause 6.4.1 of the Access Undertaking and consideration of the proposal against the requirements of s.138(2) of the Act.

The following table summarises the expected revenue per service from equating the AT_2 to AT_4 components of the Expansion Tariff with the System Reference Tariffs for FY21 approved by the QCA on 1 June 2020.

Table 1. Revenue per Train Service from System Reference Tariff (excl. AT_1)

Expansion Tariff	Price	Units	Revenue per Service
AT_2	$2373.51	2 (rtp)	$4,747
AT_3	$6.86	3,382 (000 ntk)	$23,201
AT_4	$2.45	8,347 (nt)	$20,450
Total			**$48,398**
Cost per nt	**$5.80**		

On the basis of contracted annual train paths equivalent to transporting [redacted] million tonnes per annum the revenue per service (excl. AT_1 and any capacity multiplier) aggregates to approximately $[redacted] million per annum.

As the contracted train paths are not also associated with an expansion of the port, Aurizon Network considers that the Access Rights are utilising existing Mainline Paths. Therefore, for the purpose of the Pricing Proposal, Aurizon Network will treat the AT_2 tariff component as an incremental cost of utilising Existing Capacity. This is consistent with AT_1 and AT_2 being reflective of cost causation while AT_3 and AT_4 are allocative tariff components. The expected annual revenue from the AT_3 and AT_4 tariff components is approximately $[redacted] million per annum.

The incremental cost components of the Expansion Tariff therefore comprise:

- AT_1 – incremental maintenance charge;
- AT_2 – incremental path charge;
- Expansion Costs; and
- Connecting Infrastructure.

Assuming an economic life for the Expansion Costs (excluding connecting infrastructure), of 10 years this equates to an annual incremental revenue requirement in FY21 of approximately $1.5 million. Similarly, applying a 10-year economic life to the private rail infrastructure (**PIC**) and connecting infrastructure (**CI**) yields additional annual revenue requirements of approximately $[redacted] million and $[redacted] million respectively. These amounts are summarised in the following table:

Table 2. Indicative Revenue Composition from Expansion/System Tariff[4]

Revenue Category	Amount $Millions
AT_{2-4} Tariffs	[redacted]
Less AT_2 Tariff	[redacted]
AT_{3-4} Tariffs	[redacted]
Less Expansion Costs	1.5
Less PIC	[redacted]
Less CI	[redacted]
Surplus Revenue	**5.0**

The surplus revenue effectively represents the contribution to common costs that must be added to the Incremental Costs (including Expansion Costs) to equate the Expansion Tariff to the System Tariff.

5.1 Key pricing objectives

A key concern raised by stakeholders in response to the draft Pricing Proposal was potential for Non-Expanding Users to bear short and medium-term volume risk. In relation to the MDS Mine, this can be summarised as:

- in the short term this risk is based on the mine railing less than the forecast volumes and potentially not recovering at least the value of the expansion costs from access revenue; and
- in the longer term the risk that the mine ceases operation prior to the recovery of the expansion cost and those costs are borne by parties who may not benefit from using the Bauhinia Branchline.

In rejecting socialisation, individual Expansion Stakeholders have effectively argued that they do not wish to bear those costs and risks. A fundamental principle of the draft Pricing Proposal was that the costs and risks to Non-Expanding Users should be proportional to the benefits they obtain. In this regard, the benefits equate to the contribution to common costs that the MDS service would make to the Blackwater System.

In accordance with clause 6.4.6(a) of the Access Undertaking the Expansion Tariff must have:

- a separate allowable revenue;
- its own Gtk Forecast based on 100% of the contracted volumes for that tariff;
- take or pay will not be subject to capping as required by clause 3.3(n).

[4] These figures have been estimated using the current approved System Reference Tariffs for FY21 and do not include the impact from changes to the System Reference Tariff from the application of the Expansion Tariff.

The requirement to equate the Expansion Tariff with the System Reference Tariff and the requirements of 6.4.6(a) mean that applying an economic life of 10 years to the expansion costs would require MDS to bear system volume risk (through the resultant changes in the System Reference Tariff) while assuming full liability of its own volume risks. This represents a disproportionate allocation of costs and volume risks between MDS and the Non-Expanding Users of the system without full socialisation.

The objectives of the Expansion Tariff pricing proposal (**Pricing Objectives**) are to:

- better align the annual revenue requirement of the Expansion Costs and Incremental Costs to the annual revenue from the Expansion Tariff such that the contribution to common costs is minimised; and
- reduce the term for which an Expansion Tariff will be applicable to the extent practically achievable.

These objectives are achieved by applying an accelerated depreciation approach to the Expansion Costs. Customer support for the Pricing Objectives is provided at Attachment B.

5.2 Expansion Tariff Modelling Assumptions

Aurizon Network has determined the economic life that should apply to the Expansion Costs in order to meet the above Pricing Objectives by progressively reducing the economic life until the point where there is a negative contribution to common costs and adding 1 year. This equates to an applied depreciation period of 2 years.

Table 3 shows that, applying the same assumptions from Table 2 with an economic life of 2 years for the Expansion Costs and 10 years for the PIC and CI best satisfies the Pricing Objectives in that it:

- minimises the contribution to common costs (in the short term where Incremental Expansion Costs have a residual economic value);
- allows for the application of the PIC and CI discount to the access charge;
- includes a positive contribution to common costs above AT_2 path charge; and
- applies an Expansion Tariff for a two-year period.

Table 3. Indicative Revenue Composition for an Economic Life of 2 Years

Revenue Category	Amount $Millions
$AT_{2\text{-}4}$ Tariffs	[redacted]
Less AT_2 Tariff	[redacted]
$AT_{3\text{-}4}$ Tariffs	[redacted]
Less Expansion Costs	5.6
Less PIC	[redacted]
Less CI	[redacted]
Surplus Revenue	**0.9**

The Expansion Tariff would commence on 1 July 2020 and expire on 30 June 2022. On expiry of the Expansion Tariff MDS would be subject to the socialised System Reference Tariff and the same terms and conditions of access as an Access Seeker which sought new or additional Access Rights that did not require an Expansion. Non-Expanding Users would then obtain the full benefit of the access charges being predominantly a contribution to common costs.

As the Private Infrastructure will not be electrified the MDS mine volumes will not contribute to the costs of supplying and maintaining the overhead power system. In order to avoid raising the system average price for the AT5 component from extending the overhead power system to the Starlee Passing Loop, Aurizon Network proposes to include the project costs of electrifying the Starlee Passing Loop within the Expansion Costs for inclusion in the Expansion Tariff. This is consistent with the approach adopted for electrification of Goonyella System Expansion works undertaken as part of the GAPE project where those costs were included in the AT_{2-4} cost base for the GAPE users rather than being included in the Goonyella AT5 tariff as the costs were not associated with additional electric volumes.

Table 4 summarises the key input and assumptions applied in the calculating the Expansion Tariff and reducing the System Reference Tariff.

Table 4 summarises the key input and assumptions in determining the Expansion Tariff.

Expansion Tariff Input	Value
Contracted Services	
Volumes	[redacted] mtpa
Term	10 years
Payload	8,347 net tonnes
Expansion Costs	
Capital Indicator	$8.6 million
Applied Economic Life	2 years
Private Incremental Costs	
Notional PI & CI Estimate	$[redacted] million
Applied Economic Life	10 years

5.3 Expansion Tariff Outcomes

As noted in section 4, the Expansion Tariff is required to align to the System Reference Tariff. Table 5 summarises the net impact on changes to the System Reference Tariff associated with:

- removal of the MDS volumes from the System Gtk Forecast; and
- the positive contribution to common costs included in the Expansion Tariff.

Table 5 Revised System Reference Tariff and the Expansion Tariff.

Tariff	AT1	AT2	AT3	AT4
FY21 Approved System Reference Tariff	0.97	2,373.51	6.86	2.45
Adjusted System Reference Tariff (less MDS Volumes)	0.97	2,373.51	7.02	2.50
Revised System Reference Tariff	0.97	2,373.51	6.96	2.48
System Benefit	-	-	**0.06**	**0.02**
Expansion Tariff (ET)	0.97	2,373.51	6.96	2.48
Access Charge (ET – PIC)	0.97	2,373.51	4.70	2.45

The increase in AT3 and AT4 from the removal of the MDS mine forecast volumes from the System Gtk Forecast effectively removes the net benefit of socialising the Expansion Costs that was included in the FY21 Annual review of Reference Tariffs.

The subsequent decrease in AT3 and AT4 represents the net benefit to Non-Expanding Users from the positive contribution to common costs included within the Expansion Tariff.

5.4 Consistency with the Expansion Pricing Principles

A Pricing Proposal submitted to the QCA must include information explaining the manner in which the Pricing Proposal is consistent with the requirements of the Expansion Pricing Principles (clause 6.4.1(d)) These matters are addressed in Table 5 below.

Table 5. Alignment of the Expansion Tariff to the Expansion Pricing Principles

Principle	Comments
Expanding Users should generally pay an Access Charge that reflects at least the full incremental costs of providing additional Capacity.	As the System Tariff is greater than the Expansion Tariff prior to the addition of any positive contribution to common cost then the Access Charge exceeds the incremental costs of providing the additional Capacity. As the Expansion Tariff includes both the incremental maintenance and capacity components of the System Tariff (AT_1 & AT_2) the Expanding User makes a contribution proportional to its use of the existing coal system.
Non-Expanding Users should not experience a material increase in Reference Tariffs due to an Expansion triggered by Expanding Users.	The Expansion Tariff does not include a cost transfer to Non-Expanding Users and therefore the System Reference Tariff does not increase from the inclusion of the Expansion Costs in System Allowable Revenue.
If Expanding Users face a higher cost than Non-Expanding Users, a zero contribution to common costs from	The Expansion Tariff is expected to include a contribution to common costs.

Expanding Users is generally acceptable.	It is acceptable that an Expanding User not be required to make a contribution to common costs if Non-Expanding users assume no incremental cost or volume risk from the Expansion Tariff.
An allocation of the Expansion Costs to Non-Expanding Users may be appropriate where an Expansion has clear benefits to those non-Expanding Users.	As the addition of the Starlee Passing Loop increases capacity above the contractual requirements of the Expanding User there are benefits which may accrue to other users of the Bauhinia branchline including: • the ability to contract for additional or new access rights without the requirement for further expansion and therefore avoiding an Expansion Tariff; or • the ability to utilise existing contacted Access Rights in a manner which allows for an increased number of services within a planning period (i.e. surge or peak capacity). However, these benefits are likely to be attributable only to users of the Bauhinia branchline and the extent to which those users could or will utilise the Available Capacity can only be observed following construction of Expansion.

5.5 Consistency with Section 138(2) of the QCA Act

A Pricing Proposal submitted to the QCA must include information explaining the manner in which the Pricing Proposal is consistent with the factors set out in section 138(2) of the Act. These matters are addressed in Tables 6.

Table 6 Consideration of the Factors in Section 138(2) of the QCA Act.

Factors	Comments
The objects of the access regime	The application of accelerated depreciation to the Expansion Costs represents an Access Condition that efficiently allocates incremental volume risk between the Expanding User, Non-Expansion Users and Aurizon Network as the access provider. This allocation of risk supports the viability of the MDS mine over the full contract term through the expedited reversion to a pooled and diversified system volume risk framework provided by the socialised System Reference Tariff. The expedited cessation of the Expansion Tariff promotes efficient utilisation of the Blackwater System by facilitating the Expansion Users ability to transfer Access Rights to a Non-Expanding User in circumstances where the Access Holder is unable to produce or sell at the fully contracted levels over the term of the Access Agreement (there is no provision in the Access Undertaking supporting the transfer of Access Rights subject to an Expansion Tariff). Without the application of accelerated depreciation to the Expansion Costs the materiality of the reduction in the System Reference Tariff associated with the increased contribution to common costs has no discernible impact on the demand for access by Access Seekers or Access Holders. Therefore, the Pricing Proposal does not adversely impact the efficient utilisation of the Blackwater System.

	The inclusion of the complimentary investment in electrification of the Starlee Passing Loop within the Expansion Tariff avoids the allocation of those costs to other Non-Expansion Users who do not utilise electric services by ensuring the costs are recovered within the reduced term of the Expansion Tariff. Similarly, it avoids increasing the cost base for electric traction services without a commensurate or proportional increase in electric traction volumes. Therefore, the Expansion Tariff and accelerated depreciation promotes the efficient utilisation of the overhead power system.
The legitimate interests of Aurizon Network	The application of accelerated depreciation to the Expansion Costs represents the prudent and efficient management of volume and cost risks associated with the incremental investment. It was evident during the consultation period on the Draft Pricing Proposal that some Non-Expanding Users considered the short and long-term volume risks of the MDS project to exceed the benefits associated with the contribution to common costs. Aurizon Network notes that the regulatory risk of asset optimisation to an access provider is at least proportional[5] to and likely exceeds the risk allocation to an individual Non-Expanding User where those risks are mitigated through a pooled risk approach from socialised pricing. Aurizon Network will incur an additional regulatory and administrative burden in managing an Expansion Tariff for a low-cost expansion and volume profile. The expedited recovery of the Expansion Costs will result in an early termination of the Expansion Tariff and the removal of this regulatory burden.
The interests of the Expanding User	The term of the Expansion Tariff, the associated accelerated depreciation of the Expansion Costs and the Access Conditions are supported by the Expansion User. The reduction in the contribution to common costs with the accelerated depreciation of the Expansion Costs reduces the impact of volume forecast errors on the Expanding User. The primary source of variance in the System Reference Tariff is the annual volume forecast. The larger the contribution to common costs in the Expansion Tariff then the greater the impact on the Expanding User whose Expansion Tariff is required to align to the System Reference Tariff. For example, if the System Reference Tariff volume forecast was subject to 3% underestimation then the Expansion Tariff would also be 3% greater with an increase in the contribution to common costs applied to the Expansion User's contracted volumes. The reduction in the contribution in common costs also reduces the prospect of unfairly differentiating between the Expansion User and: • Non-Expanding Users;

5 Optimisation would need to meet the requirements of clause 1.2(b) of Schedule E to the Access Undertaking. A consideration to the application of these provisions would be the extent to which the assets were no longer contributing to the provision of the declared service and therefore there effect on their removal for pricing purposes under s.138(2) of the QCA Act.

- Non-Expanding Users who obtain additional Access Rights from transfers; and

- subsequent Access Seekers who obtain Access Rights without an Expansion[6].

The potential for unfair differentiation arises from the fact that the Expansion User's access cost per contacted tonne is based on the System Reference Tariff which in turn is based on the forecast demand of Non-Expanding Users. For example, assuming the System GTK Forecast is based on 80% of contracted volumes, this inflates the System Reference Tariff relative to the System Reference Tariff which would apply if the forecast volume is closer to contracted Train Service Entitlements levels. In this circumstance, the expected cost of access on a $ per contracted tonne on average for Non-Expanding Users is independent of the volume forecast. However, from the perspective of the Expanding User the effective cost of access per contracted tonne is inflated. As the proportion of the Access Charge comprising a positive contribution to common cost increases then so does the extent of differentiation. This differentiation can be mitigated by either:

- reducing the extent of the contribution to common costs through the application of accelerated depreciation to the Expansion Costs; or

- requiring that the Expansion Tariff not exceed the System Reference Tariff that would apply if the System Reference Tariff was established on the basis of Forecast System GTK = Contracted GTK.

As the latter is beyond the scope of this Pricing Proposal and would require substantial revision to the Expansion Pricing framework, Aurizon Network considers the accelerated depreciation of the Expansion Costs as the preferred approach.

The Expanding User is not disadvantaged through the inclusion of the Connecting Infrastructure within PIC relative to inclusion in the Expansion Costs with the cost of access being equivalent in both approaches.

- When the CI is included in the PIC then the access charge includes a discount inclusive of the revenue attributable to the CI; and

- When included in the Expansion Costs the Expansion Customer would receive a rebate applicable to the revenue attributable to the CI.

From the perspective of the Expanding User regarding the CI, the relevant PIC Discount = Rebate Payment, where the CI is funded by that Expansion User.

[6] The process of socialising the Expansion Tariff under clause 6.4.5(e) applies only to the aggregation of costs with a new Expansion with the Expansion Costs in an existing Expansion Tariff.

	The proposed Access Conditions apply only for the term of the Expansion Tariff. Therefore, the application of accelerated depreciation to the Expansion Costs reduces the period in which the Expanding User will be required to satisfy those Access Conditions.
The pricing principles in section 168A	The inclusion of the AT_2 train path charge in the Expansion Tariff as an incremental cost provides an appropriate incentive for the efficient utilisation of Capacity. Aurizon Network notes that it has previously sought to increase the AT_2 train path charge to improve the strength of that incentive and that the current AT_2 rates may not be representative of the 'value' of a train path[7]. However, these measures were not supported by Non-Expanding Users and the level of the current AT_2 rates is beyond the scope of this Pricing Proposal which has been prepared consistent with the current pricing frameworks and embedded tariff levels. The inclusion of the complimentary investment in electrification of the Starlee Passing Loop within Expansion Costs is consistent with the principle of impactor pays and ensures the prices for electric traction services do not include costs which were not associated with an increase in demand for electric traction services. The application of accelerated depreciation to the Expansion Costs is consistent with the requirement that the price of access reflects the efficient costs of providing access to the service.

7 The 2013 Draft Access Undertaking sought to increase the Blackwater AT_2 path charge by 2.5x to reflect the incremental cost of the expanding pathing on the network through the Wiggins Island Rail Project.

6. Other consequential issues

The development of the Expansion Tariff gives rise to number of other issues which are addressed in this section of the submission, including:

- the approval under clause 6.13.2(e) of Access Conditions agreed between Aurizon Network and the Access Seeker where the Expansion is treated as an Endorsed Expansion;
- the interaction of the Expansion Tariff with the Blackwater System revenue cap arrangements; and
- the inclusion of Aurizon Network owned, and Access Seeker funded, Connecting Infrastructure within Private Incremental Costs.

6.1 Access Conditions

Aurizon Network and the Access Seeker have entered a construction funding agreement for the Starlee Expansion where specified Access Conditions would be required if a consensus was not obtained to fully socialise the Expansion Costs in the Blackwater System Reference Tariff.

In addition, the proposed accelerated depreciation represents an Access Condition that mitigates the financial risk of the MDS mine ceasing operation prior to the full recovery of the capital investment in the Starlee Expansion. However, the accelerated depreciation impacts the duration of the Access Conditions and is being applied to address issues regarding equity and efficiency as summarised in section 5.5. Therefore, accelerated depreciation is not an Access Condition agreed between Aurizon Network and the Access Seeker but is a matter relevant to how those Access Conditions are applied. As such accelerated depreciation forms part of the Pricing Proposal and is not an Access Condition requiring approval under clause 6.13.2 of the Access Undertaking.

The funding agreement entered into between Aurizon Network and the Access Seeker requires that where the Expansion is to be treated as an Endorsed Expansion the following Access Conditions will apply:

- the payment of a project fee, in addition to the Access Charge, calculated with reference to the value of the project costs (asset value) used to determine the Expansion Costs in the Expansion Tariff;
- the project fee will be payable until the earlier of the termination date of the agreement and the date on which the asset value is fully depreciated;
- the payment of an optimisation fee where the QCA does not accept the full amount of the project costs into the Regulatory Asset Base or removes part or all that value from the Regulatory Asset Base after it has been included; and
- provision of security for [redacted]% of the estimated project costs.

It is evident that as the agreed Access Conditions are determined by the value of the project costs included in the RAB that the duration of the Access Conditions is dependent on the economic life applied to the Expansion Costs in the Expansion Tariff.

In the circumstance where the QCA does not approve the proposed Access Conditions then the Access Seeker will be required to pay to Aurizon Network the project costs including the relevant tax gross-up amount.

The Access Conditions Report is provided at Attachment C.

6.2 Alignment with Revenue Cap Arrangements

Aurizon Network does not propose to duplicate the existing revenue cap arrangements to apply to the Expansion Tariff for the following reasons:

- the requirements of clause 6.4.6 refer to having a separate Allowable Revenue that can be used to calculate the Expansion Tariff. This does not extend to requiring a separate Allowable Revenue for the purpose of establishing an independent revenue cap process;
- Total Actual Revenue in clause 4.3(d) of Schedule F is in relation to the relevant Reference Tariff (which comprises System Reference Tariffs and Expansion Tariffs);
- The amount of the Allowable Revenue attributable to the Expansion Costs is immaterial and represents < 2% of the Blackwater System Allowable Revenue;
- The amounts collected from Access Charges and Take-or-Pay will recover the Allowable Revenue for that Expansion Tariff due to the absence of any take or pay capping. The absence of a take or pay cap with reference to the Allowable Revenue or Gtk Forecast could also result in access revenue exceeding the Allowable Revenue for that Expansion Tariff;
- Any shortfall in Allowable Revenue for that Expansion Tariff will be due to Take or Pay not able to be collected due to Network Cause. The amount of revenue collected through the incremental AT_2 charge represents ~10% of the revenue able to be collected from AT_2 to AT_4 for that Expansion Tariff;
- Non-Expansion Users are not expected to be required to contribute to the Expansion Costs given the positive contribution to common costs and the historical levels of Network Cause; and
- Under-recovery due to Network Cause is expected to be relatively consistent for all Blackwater users and the Expansion Tariff, and therefore the contribution to common costs will vary proportionally across all tariffs with Revenue Cap Adjustment Amounts.

These principles may not apply to a more significant Expansion where there was little or no contribution to common cost. Minor amendments have been made to clause 7.3 of Schedule F to clarify that the Allowable Revenue for AT_2 to AT_4 comprises both the Allowable Revenue for the System Reference Tariffs and th Expansion Tariff.

6.3 Inclusion of Connecting Infrastructure in Private Infrastructure Costs

Section 4.4 discussed the inclusion in Private Incremental Costs '*those costs of providing access to the relevant Private Infrastructure*' associated with Connecting Infrastructure owned by Aurizon Network but funded by the Private Infrastructure Owner.

In this circumstance, the Connecting Infrastructure would not be included in the value of the Regulatory Asset Base and therefore would not be included in Access Charges. The owner of the Private Infrastructure would obtain the benefit of funding the Connecting Infrastructure through the inclusion of the revenue attributable to that Connecting Infrastructure being included in the Private Incremental Costs.

Minor amendments have been made to the definition of Private Incremental Costs to include Connecting Infrastructure which is owned by Aurizon Network but funded by the Private Infrastructure Owner.

Attachment A. Draft Consensus Pricing Proposal Discussion Paper

Attachment B. Customer Letter of Support for Key Expansion Pricing Objectives

Meteor Downs South Joint Venture
Managed by Sojitz MDS Mining Pty Ltd
A Sojitz Group Company

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George Passmore
Director of Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4000

Endorsed Expansion Pricing DAAU – Sojitz MDS Mining Pty Ltd

26 June 2020

Dear George

I am writing to confirm Sojitz MDS Mining Pty Ltd's (**Sojitz's**) support for the key terms of the Draft Amending Access Undertaking that Aurizon Network Pty Ltd (**Aurizon Network**) has submitted to the Queensland Competition Authority (**QCA**) regarding the Endorsed Expansion Pricing Proposal for Meteor Downs South (**DAAU**).

Aurizon Network has consulted with Sojitz in relation to the DAAU and, as the only Expanding User for this Expansion to be subject to the Expansion Tariff, Sojitz is supportive of the key terms of the DAAU. In particular, Sojitz supports the proposals that:

- An accelerated depreciation approach to the Expansion Costs is applied to achieve the objectives of minimising:
  - the contribution to common costs while an Expansion Tariff applies; and
  - the term for which MDS is subject to differential terms of access to Non-Expansion Stakeholders;
- A discount be applied to the Expansion Tariff from the commencement date of that tariff on the basis of a notional estimate of Private Infrastructure Costs (inclusive of Connecting Infrastructure funded by MDS and owned by Aurizon Network) with a true up mechanism to apply to future discounts following the QCA's approval of that expenditure being prudent and efficient.

We therefore seek the QCA's approval of the DAAU in order to proceed with the pricing as proposed.

Kind regards

Yosuke Konno
Director
Sojitz MDS Mining Pty Ltd

Attachment C. Access Conditions Report

Construction Funding Agreement – Bauhinia Branch line Expansion

Between

Aurizon Network Pty Ltd (**Aurizon Network**); and

Sojitz MDS Mining Pty Ltd (**Sojitz**)

*This report is provided to the Queensland Competition Authority (**QCA**) in accordance with clause 6.13.2 of Aurizon Network's 2019 Access Undertaking (**UT5**). It provides details on the:*

- *Access Conditions that Aurizon Network is seeking from Sojitz;*
- *quantification of the additional cost and risk Aurizon Network is exposed to (**Additional Cost and Risk**), which it is seeking to mitigate through the Access Conditions; and*
- *reasoning for seeking such Access Conditions.*

Agreement Description

Commercial-in-confidence

Proposed Access Conditions

Access Conditions		Commercial-in-confidence
Additional Cost & Risk		Commercial-in-confidence.
Why Additional Risk cannot be mitigated through:	Standard Access Agreement & Reference Tariffs	Commercial-in-confidence.
	Insurance or other financial instruments	Commercial-in-confidence
Is Access Condition seeking amended Access Charge? (*clause 6.13(2)(a)(iv)*)		No
Is Access Condition seeking other monetary Consideration?		Commercial-in-confidence

(clause 6.13(2)(a)(iv))	

Other factors

Not contrary to public interest *(clause 6.13.2(e)(i))*	The Access Condition facilitate the development of the MDS coal mine by promoting efficiency investment in rail transport infrastructure. The Access Conditions do not impact stakeholders who are not parties to the agreement. Existing Access Holders benefit through the increased system throughput and a reduction the System Reference Tariff through a positive contribution to common cost over the life of the Access Agreement. Expanding the size of the customer base through the development of new mines improves the competitive environment in the rail haulage market. The Access Conditions were negotiated independently of negotiations for, and after a rail haulage contact was executed. Therefore, the Access Conditions are not contrary to the public interest, including promoting competition in an upstream or downstream market.
No disadvantage *(clause 6.13.2(e)(ii))*	The Access Conditions are applied only to the Access Seeker and therefore do not disadvantage other Access Holders or Access Seekers. The Access Seeker retained the option prior to the negotiation of the Access Conditions to user fund the Expansion Costs. In addition, the Access Conditions were negotiated prior to the consultation on a Consensus Pricing Proposal to socialise the Expansion Costs and Volume risks and Aurizon Network engaged Expansion Stakeholders in good faith to facilitate a Consensus. The Project Fee is not a material impost and as shown in the table above represents less than 2% of the expected access cost from AT_2 – AT_4.
Provided Access Seeker with report *(clause 6.13.2(e)(iii))*	Yes. The Access Seeker was provided the option to fund the Expansion Costs as an alternate means of mitigating the Additional Risks.
Not contravene UT5 or Queensland Competition Authority Act *(clause 6.13.2(e)(iv))*	Aurizon Network confirms that the proposed Access Conditions would not contravene a provision of UT5 or the *Queensland Competition Authority Act 1997* (Qld).

Attachment D. 2019 Aurizon Network Access Undertaking – Mark-up

Amendments to Clause 6.4.6

6.4.6 Reference Tariffs

(a) Every Expansion Tariff must have a separate:

(i) relevant Allowable Revenue (adjusted to recognise all revenue that Aurizon Network receives from all sources that enables it recover the costs of the Expansion); and

(ii) Gtk Forecast based on 100% contracted volumes, that can be used to calculate that Expansion Tariff under **Schedule F**. For clarity, an Expansion Tariff will be calculated based on contracted volumes and, when a Take or Pay applies to the Expansion, it will be calculated in accordance with **clause 3.3(n)** of **Schedule F**.

(b) If two (2) or more Expansion Tariffs continue to exist for any Coal System, Aurizon Network must undertake a review in consultation with the QCA at least once every twelve (12) Months, whether Socialisation of any of those Expansion Tariffs should occur.

(c) An Expansion Tariff will cease at the time specified in the Pricing Proposal approved by the QCA at **clause 6.4.4(f)** or where the value of the Expansion Costs in the Regulatory Asset Base is equal to 0.

~~(c)~~(d) The indicative Reference Tariff identified in the Pricing Proposal under **clauses 6.4.4** to **6.4.6** should be proposed to apply instead of the System Reference Tariff for the Coal System.

Amendments to Clause 6.3.2(a)

6.3.2 QCA approval of Private Incremental Costs

(a) Without limitation and following consultation with Aurizon Network, the QCA may approve the prudent and efficient value of Private Incremental Costs associated with Private Infrastructure, on request from an Access Seeker or Aurizon Network ("**Approved PIC**"), to the extent that the QCA is satisfied that this expenditure is for the prudent and efficient value of the assets that are used to provide the relevant Train Services over Private Infrastructure.

Private Incremental Costs	For the purposes of **clause 6.3**, those costs of providing access to the relevant Private Infrastructure (including Connecting Infrastructure owned by Aurizon Network but funded by a Private Infrastructure Owner), including capital (renewal and expansions) costs, that would not be incurred (including the cost of bringing expenditure forward in time) if the particular Train Service or combination of Train Services (as appropriate) did not operate, where those costs:

(a) are assessed as Private Efficient Costs and based on the assets reasonably required for the provision of access to the relevant Private Infrastructure;

(b) have been reviewed and endorsed by the QCA;

(c) have not been included in Allowable Revenue; and

~~(c)~~(d) have been submitted to Aurizon Network by the owner or operator of the relevant Private Infrastructure for the purpose of calculating the relevant tariffs.

Amendments to Schedule F Clause 7.1(d) to 7.3

7.1 Additional Reference Train Service criteria

(d) **(Loading Facilities)** uses the following Nominated Loading Facilities and does not exceed the following Loading Times:

Nominated Loading Facilities[8]	Loading Time (hours) per return trip
Yarrabee (Boonal)	3.8
Jellinbah (Boonal)	4.6
Boorgoon	3.8
Curragh	3.3
Ensham	3.2
Gregory	3.0
Kestrel (Gordonstone)	3.3
Kinrola	3.15
Koorilgah	5.0
Minerva	2.3
Meteor Downs	5.0^
Rolleston	4.3
Yongala	3.2

^ Loading time will be determined following 3 months of continual operation

7.2 Reference Tariffs Inputs

(a) Subject to **clause 7.2(c)**, the Reference Tariff inputs are:

Reference Tariff input	2017/18^ ($)	2018/19^ ($)	2019/20^ ($)	2020/21 ($)	2021/22 ($)	2022/23 ($)
AT_1	0.92	0.93	0.95	0.97	0.99	1.01

8 Diagrams showing the location of the Nominated Loading Facilities for a nominated Reference Train Service are included in the Preliminary Information for the relevant Coal System.

Reference Tariff input	2017/18^ ($)	2018/19^ ($)	2019/20^ ($)	2020/21 ($)	2021/22 ($)	2022/23 ($)
AT_2	2,161.22	2,264.88	2,318.56	2,373.51	2,429.76	2,487.34
AT_3	6.81*	6.62*	7.34*	6.96*	6.73*	6.36*
AT_4	2.41	2.22	2.62	2.48	2.38	2.26
AT_5	3.09	2.58	2.97	2.85	2.76	2.78
EC	1.01	0.79	0.86	0.82	0.90	0.92
QCA Levy	0.03961	0.00907	0.00998	0.01004	0.00979	0.00993
IE Fee	N/A	N/A	N/A	0.01812		

* This amount must be adjusted by subtracting the System Discount under **clause 7.2(b)** where the System Discount, applies to the relevant Train Service.

^ 2017/18, 2018/19 and 2019/20 Reference Tariffs include the impact of 2015/16, 2016/17 and 2017/18 Revenue Adjustment Amounts respectively. 2019/20 Reference Tariffs also include the impact of the 2018/19 Revenue Adjustment Amounts.

(b) The System Discounts for Train Services to or from Nominated Loading Facilities or Nominated Unloading Facilities are:

Nominated Unloading Facilities	System Discount ($/ntk)					
	2017/18 ^	2018/19 ^	2019/20 ^	2020/21	2021/22	2022/23
Stanwell Power Station	2.28	2.27	2.46	2.40	2.32	2.20

^ 2017/18, 2018/19 and 2019/20 Reference Tariffs include the impact of 2015/16, 2016/17 and 2017/18 Revenue Adjustment Amounts respectively. 2019/20 Reference Tariffs also include the impact of the 2018/19 Revenue Adjustment Amounts.

(c) The Reference Tariff inputs referred to below in relation to a Nominated Loading Facility replace the equivalent Reference Tariff inputs in **clause 7.2(a)** for any Train Service using that Nominated Loading Facility:

Nominated Loading Facility	Reference Tariff input	2017/18 ($)^	2018/19 ($)^	2019/20 ($)^	2020/21 ($)	2021/22 ($)	2022/23 ($)
Rolleston*	AT_3	6.81	7.58	7.34	6.96	6.73	6.36
Minerva	AT_3	6.81	10.77	7.34	6.96	6.73	6.36
Meteor Downs South	AT_3						5.16
	AT_4						1.76

* Includes non–WIRP and WIRP Rolleston.

^ 2017/18, 2018/19 and 2019/20 Reference Tariffs include the impact of 2015/16, 2016/17 and 2017/18 Revenue Adjustment Amounts respectively. 2019/20 Reference Tariffs also include the impact of the 2018/19 Revenue Adjustment Amounts.

(d) The Reference Tariff inputs referred to below is an Expansion Tariff applicable to the Meteor Downs Nominated Unloading Facility and replace the equivalent Reference Tariff inputs in **clause 7.2(a)**:

Reference Tariff input	2020/21^ ($)	2021/22^ ($)
AT_1	0.97	0.99
AT_2	2,373.51	2,429.76
AT_3	4.70	4.45
AT_4	2.45	2.35

^The Expansion Tariff applies for the period of 1 July 2020 to 30 June 2022.

~~(d)~~(e) For clarity, where a Train Service operating in the Blackwater System is a Cross System Train Service, the Reference Tariff inputs set out above relating to that Train Service are subject to **clause 2.3**:

~~(e)~~(f) The Nominal Train Payload for:

(i) a Train Service (other than a Cross System Train Service or a Train Service referred to in **clause 7.2(e)(iii)**) to which the Reference Tariff in this **clause 7** applies, is a nominal nt of 8,369 tonnes;

(ii) a Cross System Train Service where the Destination System is the Blackwater System, is a nominal nt of 8,369 tonnes; or

(iii) a Train Service (other than a Cross System Train Service) that has Minerva as a Nominated Loading Facility, is a nominal nt of 5,831 tonnes.

7.3 Gtk Forecast and Allowable Revenues

(a) The Gtk Forecasts for the System Reference Tariffs and the Expansion Tariffs are:

Year	Gtk Forecast (,000 gtk)[1]	Expansion Tariff Gtk Forecast
2017/18	38,721,726	
2018/19	35,943,120	
2019/20	37,419,135	
2020/21	37,125,662	1,063,308
2021/22	38,876,324	1,063,308
2022/23	40,440,684	

(1) For clarity the Gtk Forecast applies only to System Reference Tariffs and the Expansion Tariff is not a System Reference Tariff for the purpose of calculating Take or Pay amounts.

(b) The Allowable Revenue for the System Reference Tariffs and the Expansion Tariffs are:

Year	Allowable Revenue – AT_{2-4} ($000)	Allowable Revenue – AT_5 ($000)
2017/18[1]	356,451	91,215

Year	Allowable Revenue – $AT_{2\text{-}4}$ ($000)	Allowable Revenue – AT_5 ($000)
2018/19[1]	333,069	72,915
2019/20[1]	374,844	80,567
2020/21	363,837[2]	76,551
2021/22	370,918[2]	78,750
2022/23	359,037	80,250

(1) 2017/18, 2018/19 and 2019/20 Reference Tariffs include the impact of 2015/16, 2016/17 and 2017/18 Revenue Adjustment Amounts respectively. 2019/20 Allowable Revenues also include the impact of the 2018/19 Revenue Adjustment Amounts.

(2) For clarity the Allowable Revenue is inclusive of the Allowable Revenue for both the System Reference Tariffs and the Expansion Tariff.