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Submitted to QCA's online submissions portal

Response to stakeholder submissions on the FY2022 Annual Review of Reference Tariffs Proposal.

23 April 2021

Dear George,

Aurizon Network welcomes the opportunity to respond to submissions made to the Queensland Competition Authority (**QCA**) in response to the FY2022 Annual Review of Reference Tariffs (**FY22 ARRT**) lodged with the QCA on 26 February 2021.

Proposed FY22 Volume Forecasts

The Queensland Resources Council (**QRC**) was the only stakeholder to comment on Aurizon Network's proposed volume forecasts for FY2022. Aurizon Network confirms that the QRC's understanding of the proposed methodology is correct.

While Aurizon Network appreciates the QRC's suggestion of aligning the FY2022 volume forecasts to both actual net tonnes and actual gross tonne kilometres (**Gtk**) railed in FY2020, it notes that the QRC's suggested approach would fail to take changes in each system's contract composition[1] between FY2020 and FY2022 into account. As a consequence, Aurizon Network maintains that its proposed approach of allocating each system's net tonne forecast to individual mines in proportion to contract provides a reasonable and impartial basis upon which to determine the Gtk Forecast required for each coal system.

Aurizon Network also appreciates the QRC's suggested alternative approach, which would see FY2022 volume forecasts determined on the basis of an extrapolated full year forecast for FY2021 (based on year to date railings to 31 March 2021) and adjusted to reflect:

- major disruptions to throughput during FY2021;
- mine closures and new mines; and
- significant expansions or reductions in output advised by customers.[2]

[1] Changes in the contract composition in each system can arise from a variety of factors, for example, the expiration of access agreements, renewal of access agreements, execution of new access agreements or transfers.

[2] QRC (2021) Submission to QCA Re: Aurizon Network Annual Review of Reference Tariffs – FY22, pg.2.

For completeness, Aurizon Network has prepared a forecast using its interpretation of the methodology suggested by the QRC and notes that this would result in a reduction in forecast for all coal systems with the exception of GAPE. The impact on average access charges of this alternative forecast is expected to be particularly noticeable in the Goonyella and Moura systems, which would see volume forecasts decrease by 14% and 7% respectively.

Table 1 below provides a comparison of the net tonne volume forecasts proposed in the FY22 ARRT and under the QRC's suggested methodology.

Table 1 Comparison of proposed FY22 Volume Forecasts (Net Tonnes)

System	FY22 ARRT	FY22 - QRC Suggested Method	Variance (%)
Blackwater	62.6	61.6	(2%)
Goonyella	117.7	101.6	(14%)
Moura	13.6	12.6	(7%)
Newlands	14.1	13.8	(2%)
GAPE	18.8	20.2	8%
Total	**226.9**	**209.9**	**(7%)**

Aurizon Network is willing to provide individual mine information to parties if requested (subject to compliance with ringfencing obligations) and update the forecast as outlined within our previous submission.

Pricing Matters

The FY22 ARRT process has raised a significant number of complex issues and Aurizon Network appreciates the contribution of stakeholder submissions to further inform the analysis and resolution of those issues.

Importantly, irrespective of the circumstances in which the GAPE infrastructure enhancements were undertaken and whether Newlands users have obtained benefits in previous years from those enhancements, the FY22 ARRT seeks to determine whether the *current* price of access for Newlands System train services reflects the costs and benefits that they *currently* obtain from the use of those services.

The inclusion of asset replacement expenditure for assets comprising the Newlands System within individual tariffs remains a vexed question given the shared nature of the common corridor. As there is a reasonable degree of consistency in the matters raised across stakeholder submissions, this response does not explicitly address all points raised in individual submissions but applies a thematic approach to those matters within Appendix A of this submission.

In summary, following consideration of the matters raised in those submissions, Aurizon Network concludes that:

- The counterfactual assessment of what the Stand-Alone Costs would be in FY22 for a 20TAL Newlands System without the Goonyella to Abbot Point Expansion (**GAPE**) project upgrades is a hypothetical construct and not representative of the services being provided or capable of being provided by modern engineering equivalent for rollingstock.

- Aurizon Network's current approach to including Newlands Coal System asset replacement expenditure within the Newlands Reference Tariff is compliant with the correct and proper forward-looking application of the access undertaking pricing principles. Stakeholder submissions have not demonstrated that Aurizon Network has incorrectly calculated the Newlands stand alone cost.
- While there is uncertainty as to how the operational benefits from the GAPE project may have been addressed at the time of the GAPE Project, there is no evidence this included any indirect benefits or benefits from avoided renewals investment. Notwithstanding this, there are clear current productivity and competition benefits that are not reflected in the current Newlands cost base and therefore not reflected in Newlands access prices.
- The competitiveness of GAPE Users is not the same as the competitiveness of the GAPE service which is the proper matter relevant to determining efficient prices.
- The continued deferral of the GAPE project capital expenditure allocated to a Newlands to Abbot Point (**NAPE**) customer and the recovery of part or all of those amounts will be subject to a number of considerations, including but not limited to:
  - the need to ensure those amounts are not continuously deferred and contribute to Aurizon Network's asset stranding risks;
  - the extent to which those amounts should at least be reflected in access charges for new mines and also the existing mine which caused those costs to be incurred;
  - Aurizon Network's legitimate business interests in recovering the expected revenue under commercially negotiated access arrangements;
  - the approach adopted for the inclusion of asset replacement expenditure for the Newlands System in GAPE Reference Tariffs;
  - The forecast Newlands System volumes and impact on access prices; and
  - the principle that assets should be depreciated only once such that Aurizon Network only recovers its expected revenue from its investment.
- The submission from the new Access Holder in the Newlands System (Bravus) does not indicate that it intends to seek the QCA's approval for Private Incremental Costs (**Approved PIC**) and therefore for the purpose of the FY22 Reference Tariffs, the Approved PIC is expected to be zero. Notwithstanding this, Aurizon Network recognises that in the absence of an Expansion, existing Newlands users benefit from any positive contribution to common costs to the Newlands System by those new train services.

If the QCA does not accept the inclusion of the replacement of Newlands System assets in the Newlands Reference Tariff as being consistent with GAPE services paying a reference tariff which is at least greater than its incremental costs, Aurizon Network requests that the QCA:

- Accept the capital indicator as submitted in the FY22 ARRT and Aurizon Network will address any variation between the capital indicator and the approved capital expenditure (considering any required allocation of costs between Newlands and GAPE reference tariffs) as part of the FY22 Capital Expenditure Allowable Revenue Adjustment within the FY23 ARRT.
- If the QCA deems it appropriate, Aurizon Network would be amenable to a QCA position paper on the matters Aurizon Network is required to address and have regard to in determining:
  - the Newlands System asset replacement expenditure that is attributable to the utilisation of the Newlands System by GAPE services;
  - the asset replacement expenditure that has not been required in the Newlands System due to the upgrade and replacement of Newlands System assets carried out as part of the GAPE Project;

- the ongoing indirect benefits that Newlands System users continue to derive from the GAPE Project;
- when part or all of the Deferred NAPE Capex amounts should be included in the Newlands System Reference Tariffs and the services or class of services which should have those amounts included in their access charges; and
- Engineering assessment requirements which aims to determine the appropriate allocation approach for any forward-looking renewal capital spend.

Aurizon Network notes that resolution of these pricing matters will likely need to be implemented by way of a draft amending access undertaking. In this regard, Aurizon Network intends to constructively engage with all affected GAPE and Newlands access holders immediately following the QCA's approval of the FY22 ARRT and receipt of its preliminary views on Newlands asset replacement expenditure to resolve these matters.

Aurizon Network confirms that this submission is suitable for publication.

Should you have any queries in relation to this submission, please do not hesitate to contact Dean Gannaway on Dean.Gannaway@aurizon.com.au

Kind regards,

Jon Windle

Manager - Regulation

Aurizon Network

Appendix A

This appendix addresses the following key issues that Aurizon Network has identified within Stakeholder submissions to the FY22 ARRT. These include:

- the extent to which the Newlands RAB and cost base is consistent with a continuation of a 20TAL system if the GAPE project had not proceeded;
- whether an allocation of the Newlands system replacement capital expenditure to the GAPE system for inclusion in the GAPE reference tariff is necessary to ensure the GAPE tariff exceeds its incremental costs;
- have the benefits that Newlands users obtained from the GAPE infrastructure enhancements been fully reflected in arrangements agreed to at the time of the GAPE project;
- what is the basis upon which the QCA should seek to promote incentives for increased utilisation of the GAPE infrastructure enhancements through the allocation of Newlands system replacement capital expenditure;
- should the NAPE proportion of the GAPE infrastructure enhancements continue to be deferred, and if not, what matters would be relevant to their inclusion in Newlands reference tariffs; and
- having regard to the circumstances of the new coal carrying train service in the Newlands system and the characteristics of that system, what contribution to common costs should those services be required to make.

1. The Newlands Cost Base is not representative of the cost base which would have prevailed without the GAPE project

Aurizon Network's approach to determining the relevant floor and ceiling limits for the services utilising the shared Newlands rail corridor is consistent with the services being provided and the relevant costs of providing those services. As those costs are also the efficient costs included within the approved allowable revenues for both the Newlands and the GAPE Systems, those relevant stand alone and incremental costs are observable, quantifiable and measurable. It is therefore not correct to say, "*any determination of stand-alone costs are clearly hypothetical*"[3].

The overarching premise of stakeholder submissions is that in the absence of the GAPE Project, the Newlands coal system would have remained a 20TAL system. However, the current Newlands cost base is unlikely to be representative of the cost base that would have prevailed in the absence of the GAPE Project. In contrast to the approach adopted by Aurizon Network, this alternate cost base is not observable and has no relationship to the costs of providing the services which are currently being provided.

Aurizon Network does not support the view it has not sought to estimate these hypothetical costs on the basis that it is '*simply unwilling to perform the analysis because it will require some effort on [our] part*'.[4] There are significant information gaps and analytical limitations which preclude the estimation of this alternate cost base with any reasonable or appropriate degree of accuracy and reliability.

[3] Glencore (2021) Appendix 1 Reallocation of GAPE costs to Newlands System, p.2

[4] Ibid, p.2

The following matters are of particular significance and would need to be addressed in any such analysis:

- A substantial portion of the assets which originally comprised the Newlands shared corridor between Abbot Point and Collinsville prior to the GAPE Project no longer exist. This would necessarily require an assessment of what asset would need to be substituted in its place with a value and condition ascribed to it. This is not unexpected for this section as noted in the original CQCN valuation[5]:

  > *"The Pring to Collinsville section is believed to have been completed in February 1924 as part of a branch line off the North Coast Line from Merinda to Bowen Coalfield (Collinsville). The history of the line has not been investigated. Timber bridges were replaced with concrete bridges and culverts in 1982. At that time some of the track was upgraded to 53kg on timber sleepers whilst some short sections still remain with 41kg rail on timber sleepers."*

- A detailed summary of asset condition would be required for each class of asset to determine residual engineering life remaining;
- The increased maintenance costs and interventions that would have been required due to the increase in gross tonne kilometres / train services due to the less productive 20TAL services and the lower asset reliability and performance;
- A detailed engineering analysis of asset degradation rates based on services that have not operated;
- The train configurations that would have likely operated given the potential unavailability of 80t wagons; and
- The increased number of required train operations (associated with the lower train payload to achieve the same throughput) and the increased gross tonne kilometres (associated with the lower gross to net ratio).

The same data, technical and empirical challenges which hinder the development of econometric models to estimate the incremental costs of asset renewals against relevant activity drivers also present themselves in evaluating the asset replacement expenditure that would have been required in the absence of the GAPE projects.

These challenges are not unique to Aurizon Network. The ACCC is currently undertaking a re-valuation of the interstate rail network, primarily on the basis that the information requirements necessary to determine the value of the rolled forward regulatory asset base ten years after its last review cannot be reliably ascertained. As a consequence, the ACCC is redetermining the value of the regulatory asset base using a depreciated optimised replacement cost approach, which is only feasible because the valuation relates to a modern engineering equivalent and not on the basis of the prevailing condition or standard of the infrastructure in 2010[6].

On balance, stakeholder submissions reasonably conclude that *some* renewal of assets comprising the Newlands System has been brought forward to *some* extent by the utilisation of GAPE Services. Aurizon Network does not dispute that conclusion but recognises that a balance needs to be reached between:

- the extent to which the GAPE volumes have brought forward asset renewals; and

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[5] GHD (2000) Valuation of Queensland Rail's Below Rail Assets for the Coal Network, A report for the Queensland Competition Authority, November, p. 3

[6] ACCC (2019) Valuation approach for the Interstate network: Issues Paper, September. https://www.accc.gov.au/system/files/ACCC%20Issues%20Paper.pdf

- the extent to which Newlands users avoided costs due to the replacement or upgrading of Newlands system infrastructure as part of the GAPE infrastructure enhancements, which were subsequently paid for entirely by GAPE services.

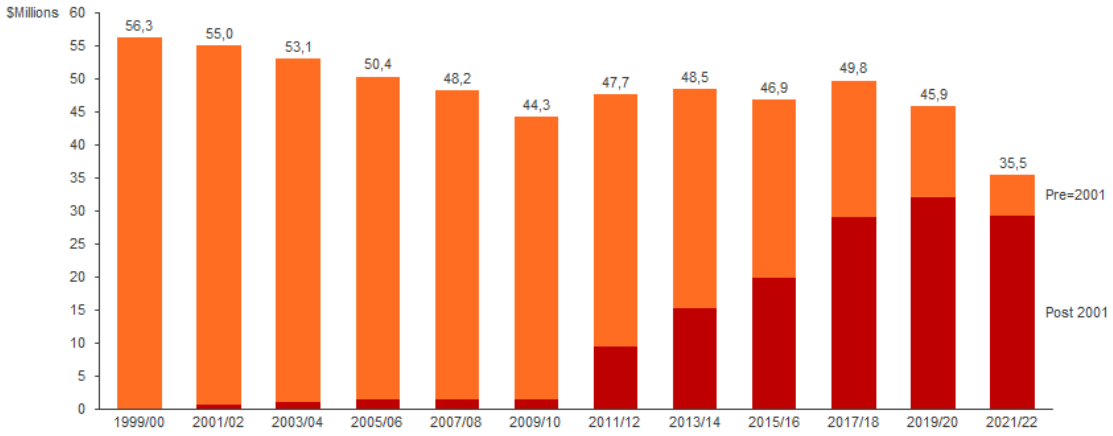
In support of this proposition Aurizon Network notes that the Newlands System track infrastructure installed prior to the GAPE project would be approaching the end of its technical life in FY23 and would have required progressive reinvestment over the last decade. This is apparent from both:

- the proportion of pre-and-post GAPE project track infrastructure comprising the Newlands Regulatory Asset Base (**Newlands RAB**); and
- the distribution of track asset age profiles within the Newlands System reported in the 2013 CQCN Asset Condition Report[7].

As noted in the FY22 ARRT, the value of the track infrastructure comprising the Newlands RAB prior to the GAPE project is approaching the end of its technical life and has little remaining value in the RAB. It is therefore not unexpected that the Newlands System would have required significant asset replacement expenditure as those assets approach the end of life.

This is apparent in the following graph which shows the value of composition of the Newlands RAB and the relative value of track infrastructure. This is consistent with a sustainable asset replacement profile for assets approaching end of life.

Figure 1 Newlands System Track Infrastructure RAB Values

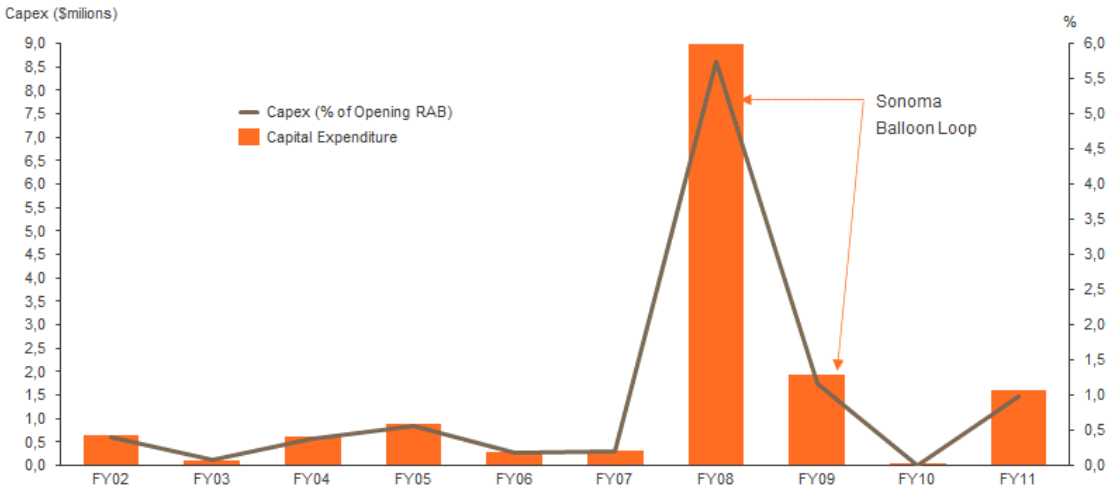


This is not unexpected given the limited asset replacement expenditure that was also incurred on the Newlands System prior to the GAPE Project.

The low level of asset replacement between 2001 and 2011, as illustrated in Figure 2, infers that the significant proportion of the assets comprising the Newlands track infrastructure between Abbott Point and Collinsville constitutes the GAPE infrastructure enhancements.

[7] Evans and Peck (2013) CQCN Condition Based Assessment: Initial Assessment, August, pp. 77-78

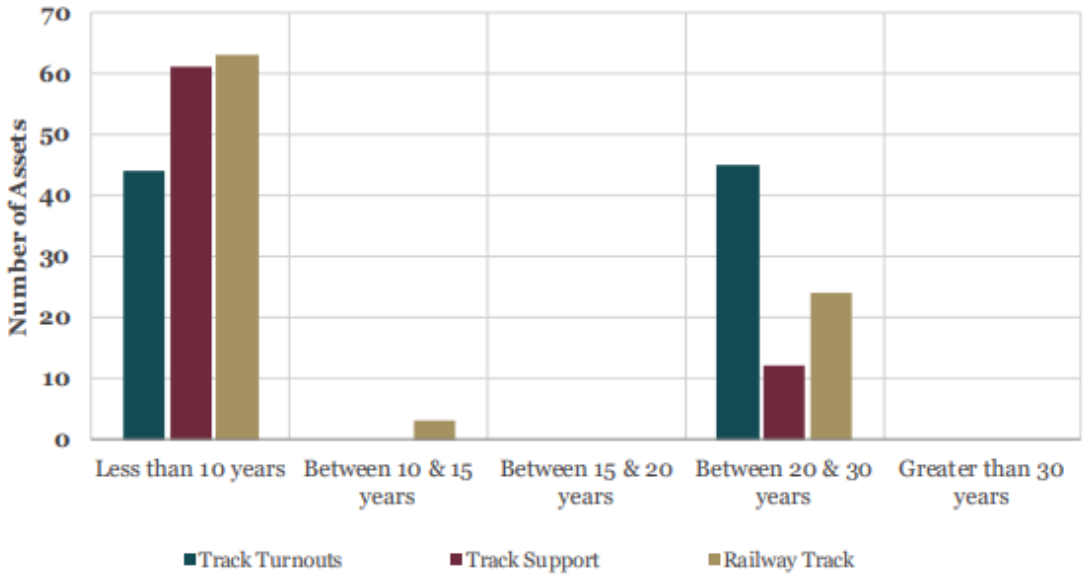
Figure 2 Newlands System Capex (2001-2011)



This low level of asset replacement expenditure of Newlands System assets prior to 2012 provides an indication of Newlands System asset ages prior to commencement of GAPE services.

As illustrated in Figure 3 below, this limited replacement expenditure is then apparent in the age profile for track infrastructure in the Newlands Coal System as at 2013 where a clear distinction can be made between the assets comprising the Newlands system pre-GAPE (assets between 20-30 years of age) and the GAPE infrastructure enhancements (assets less than 10 years).

Figure 3 Age Profile of Track Infrastructure in Newlands/GAPE as of 2013



Source: Evans and Peck (2013) CQCN Condition Based Assessment: Initial Assessment, August, p.78

Figures 1 to 3 help to demonstrate that the Newlands works that were delivered as part of the GAPE Project included the renewal or enhancement of Newlands System rail infrastructure that would've otherwise been required to be replaced to deliver the Newlands Train Services, and be funded by Newlands users, i.e. Newlands users have avoided renewal costs which in the absence of GAPE services would've reasonably been required. The full cost of these

works form part of the GAPE access charge and in light of this, it would be incorrect for Newlands users to suggest that they have received no benefit from these investments.

Glencore has raised concerns that Aurizon Network has identified through a comprehensive review of the geographical location of prior works that an estimated $0.5m of capital expenditure included in the Newland RAB can be associated with infrastructure enhancements undertaken as part of the GAPE project and included in the GAPE project costs. The primary cause of this misidentification is associated with the works being undertaken as a program of works across multiple locations or that it does not replace a complete asset within the RAB but rather a part of an asset. Aurizon Network recognises that these amounts will need to be transferred to the GAPE RAB from the Newlands RAB but reiterates that its current geographical approach to allocating capital expenditure prevents this from reoccurring. Notwithstanding this, the fact only $0.5m has been incurred on replacing parts of infrastructure which comprise the GAPE Infrastructure Enhancements relative to the replacement of Newlands system assets is commensurate with the age of the assets which comprised the Newlands RAB and the Newlands Users having avoided the renewal cost of assets which were replaced or upgraded as part of the GAPE project.

Aurizon Network does not accept stakeholder inferences that the residual presence of 20TAL standard infrastructure is an intended outcome of the scope of the infrastructure enhancements in the GAPE project being reduced to lower the project costs for the purpose of transfer costs to Newlands users through asset replacement expenditure.

As QCoal was both an expanding and non-expanding user, QCoal will have understood and evaluated the impact of the project scope. In addition, the QCA and its independent expert consultants thoroughly reviewed the GAPE project and determined that the project was prudent in scope, standard and costs.

Prior to the GAPE project, the limiting factor to 26.5TAL operations in the Newlands system was the strength of the bridges at Sheep Station Creek and Euri Creek, both of which were designed to M160 standard.

The asset replacement expenditure and track strengthening undertaken in GAPE infrastructure enhancements on the pre-existing Newlands system, targeted investments to raise the standard of the rail infrastructure to enable to the increase of capacity from 19 mtpa to the 50 mtpa with the operation of 26.5TAL services to meet the indicated customer demand in aggregate. The renewal scope was confirmed via a Capital Value Maximisation process undertaken in the Prefeasibility Stage with the assistance of McKinsey Consulting and was transparent to User Groups. Post completion, the scope of works undertaken for the GAPE project, including the renewal of assets was evaluated as prudent in scope, standard and cost by the QCA.

Aurizon Network confirms that the age and condition of the Newlands System assets renewed as part of the GAPE project were at or near the end of their design and operational life and were exhibiting high rates of asset degradation attributed to the operation of the existing 20TAL operations since the early 1980’s. As such, these assets would have been subject to asset renewal or replacement in the short to medium term in the absence of the GAPE project.

The assets that were not replaced as part of the GAPE project were chosen on the basis of their remaining life and condition and it would not have been a prudent approach to prematurely renew these assets. These assets were assessed against Civil Engineering Standards and are being managed through to their expected life which has been reduced due to accelerated degradation from the increase in axle loading. In some instances, assets such as structures, are operating above their Design Standard. Aurizon Network has adopted a prudent, approach to managing these assets, including risk assessments, asset strengthening,

or the implementation of derogations or restrictions, to appropriately manage the risks. This approach ensures that these assets are managed in a fit for purpose way to support the operation of the 26.5TAL traffic. Similarly, the remaining sections of the Newlands System that are limited to 20TAL rail operations are fit for purpose and are restricted to use by unloaded train services. These assets have not been upgraded to a 26.5TAL standard as there is no current operational or capacity requirement for those sections and therefore it would not be prudent to renew those assets to 26.5TAL at this time.

The Newlands System has now been operating in excess of 40 years with assets approaching the end of their life with respect to tonnage and age. Asset Condition is continually monitored, and maintenance and renewal plans scoped, prioritised and executed to ensure efficient operational capacity of the Newlands System.

Any further investment in upgrading Newlands system infrastructure to a higher standard will therefore be to the benefit of all users of the shared rail corridor.

Aurizon Network also notes that railway infrastructure managers operating lower standard rail infrastructure may upgrade assets to a higher infrastructure standard as assets are replaced or renewed where there are efficiency benefits in doing so or where it forms part of an asset management strategy to transition the relevant parts of the network to the higher standard. For example, scale efficiencies in the procurement of the modern engineering equivalent may have a marginal impact on cost of upgrading compared to like for like replacement.

QCoal notes that the Sonoma load-out was not upgraded as part of the GAPE Infrastructure Enhancements[8]. Aurizon Network notes that the agreed design standard for the Sonoma balloon loop was subject to an access facilitation deed with the agreed design standard being:

> *With the exception of the section of track from the Train Loadout to the junction with the Collinsville to Newlands mainline, and 200m of the bad order siding, Track is to Standard 50-6, on new formation using pandrol fastened concrete sleepers suitable for 28 tonne axle loads (tal) and 250mm minimum depth of ballast, plus the supply and installation of three turnouts[9].*

This is consistent with the expectation that the Newlands System would eventually upgrade to support 26.5TAL services.

Therefore, in the absence of the GAPE Project it is not unreasonable to expect that asset replacement expenditure within the Newlands System would have been constructed to support 26.5TAL services consistent with the modern engineering equivalent.

Finally, Bravus suggests within its submission[10] that the Newlands RAB already includes an allocation of the Newlands System Infrastructure Enhancements as Aurizon Network originally sought to include a proportion of the project costs in the Newlands Reference Tariffs as an indicative representation of the asset renewals expenditure that would have been required to be delivered in FY2012 in the absence of the GAPE project. However, the FY2012 capital expenditure was not accepted by the QCA for inclusion within the Newlands RAB as they were

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[8] QCoal (2021) Aurizon Network annual review of reference tariffs FY2022-allocation of Newland Shared Rail Corridor Renewals expenditure between Newland and GAPE Services, Submission to the Queensland Competition Authority, April 9, p. 3.

[9] QR Network Access (2007) Project Plan for Sonoma Rail Loop, Project No. A.01584, p. 41

[10] Bravus (2021) Aurizon's treatment of Newlands/GAPE Cost allocation of Renewals in the Annual Review of Reference Tariffs – FY22, Submission to the Queensland Competition Authority, April, p.1

deemed incremental expansion costs to the GAPE users. As such there are currently no GAPE project costs reflected in the Newlands Reference Tariffs.

2. The recovery of Newlands Asset Replacement expenditure is a pricing issue and not a cost allocation issue.

Aurizon Network's FY22 ARRT stated that the infrastructure enhancements associated with the GAPE Expansion were incremental to the GAPE/NAPE demand. In the absence of the GAPE project, additional system capacity would not have been required. For clarity, the FY22 ARRT does not seek to reallocate those costs to pre-GAPE Newlands volumes.

Where the asset replacement expenditure involves assets within the Newlands RAB then the replacement expenditure should also be included in the Newlands RAB. Therefore, the recovery of that the expenditure from user access pricing is a pricing decision and not one of cost allocation.

Aurizon Network agrees with the QRC submission that there are many potential combinations of prices within the pricing limits that could be feasibly implemented[11]. However, the example provided to support this proposition by the QRC is not a proposal advanced by Aurizon Network in the FY22 ARRT and there is limited information or evidence provided to support a conclusion that Aurizon Network's proposal, as outlined in the FY22 ARRT, results in an allocation which reduces the demand for the declared service.

The pricing limits and associated definitions within the access undertaking are consistent with widely accepted economic understanding in respect of the application of cross-subsidy tests. In this regard, pricing limits are a forward-looking concept and deal with costs that are necessarily required or could be avoided to continue to provide the respective services. The correct evaluation of incremental costs is not a backward-looking concept, consistent with the principle of sunk costs. For example, the ACCC paper on the tests for cross-subsidy notes[12]:

> *The incremental cost of a service is defined as the additional cost incurred in producing that service (in addition to the other services the firm produces). Another way of considering incremental cost is to ask what costs would be avoided,* ***in the long run****, if the service were no longer offered.*
>
> *If the revenue from each service is at least as great as the incremental cost of that service, no cross-subsidy exists.*

In this regard, while Newlands Users may not have required the capacity created in the Newlands System upon completion of the GAPE project in FY2012, this is not relevant to determining those costs which could not be avoided in FY2022 (or beyond) in continuing to provide those services. Furthermore, it is no longer feasible to provide the 20TAL services that operated prior to the GAPE Project and users would need to procure captive narrow gauge rollingstock constructed to a capability below modern engineering equivalents.

By definition incremental costs are those costs that 'would be avoided' and not those costs 'that would have been avoided'. As such where the assets used to provide multiple services are efficiently scaled to provide those services then it is a necessary condition of the cross-

[11] QRC (2021) Aurizon Network Annual Review of Reference Tariffs – FY22, Submission to the Queensland Competition Authority, April 9, p. 3

[12] ACCC (2014) Tests for assessing cross-subsidy in Australia, June, p. 5. https://www.accc.gov.au/publications/tests-for-assessing-cross-subsidy-in-australia

subsidy tests initially developed by Faulhaber[13] that the incremental costs for one service must be the total costs of providing both services less the stand-alone costs of providing the other service.

This is consistent with the approach Aurizon Network has adopted in evaluating the pricing limits for Newlands and GAPE services. Those costs which are incremental to GAPE services for the purpose of the pricing limits are therefore comprised of:

> *The total costs of shared corridor between Newlands Junction and Abbot Point less those costs reasonably required for the continued operation of Newlands 26.5TAL services.*

Aurizon Network recognises that a stand-alone capacity assessment of Newlands demand may conclude that some passing loops that existed prior to the GAPE project may no longer be necessary given the reduction in Newlands train path requirements resulting from improved operational productivity from the higher 26.5TAL payload trains (i.e. they would be optimised from the stand alone costs). However, as the value of pre-GAPE track infrastructure is substantially written down in the Newlands RAB, the exclusion of one or more passing loops would not materially impact the stand-alone cost estimated by Aurizon Network given those costs also excluded any project overheads or interest during construction on direct costs.

Aurizon Network notes stakeholder submissions do not provide information which demonstrates that Aurizon Network has incorrectly estimated the stand-alone costs of a 26.5TAL Newlands System.

The proposed allocation methodology applied to the replacement of assets comprising the Newlands System is also not intended to continue indefinitely as implied by the QRC[14]. The reasonableness and efficiency of this approach remains dependent on the continued compliance with the pricing limits and that the GAPE Price exceeds the incremental costs. Similarly, the approach should not result in material annual increases in the Newlands allowable revenues.

References in the FY22 ARRT to the allocation of costs within a socialised system where a group of users are subject to a system premium are intended to provide a comparison to the outcomes that would likely prevail if the GAPE project costs had been included within the Newlands Reference Tariffs and subject to a system premium. It should be noted that where a system premium is in effect, renewal costs associated with the use of the shared corridor are allocated to the system which in turn would progressively promote tariff equivalence.

While the QCA accepted the establishment of GAPE as a separate reference tariff and coal system under the 2010 Access Undertaking (UT3), it must be noted that UT3 did not include an expansion pricing framework. The establishment of the GAPE reference tariff is not inconsistent with the current expansion framework if it was included within the 2010 Access Undertaking at that time. In this regard, the expansion pricing framework would have required:

- The establishment of an allowable revenue separate from the shared corridor;
- The use of forecasts for access holders which entered into access agreements for that allowable revenue; and

[13] Faulhaber, G. (1975) Cross-subsidization: Pricing in Public Enterprises, American Economic Review, vol. 65, Issue 5, pp. 966-77.

[14] QRC states, “Aurizon Network’s proposed approach will, over time, result in a significantly larger RAB and higher tariffs for the Newlands system”

- The calculation of take or pay obligations independently of utilisation of the shared corridor.

In the context of determining GAPE pricing, all of the above requirements are met. Notwithstanding that a factor in the establishment of the GAPE coal system was to increase transparency for End Users and promote alignment with the commercially negotiated access arrangements, this outcome is not incompatible or inconsistent with the mandatory outcomes that would be implemented for a similar expansion under the UT5 Access Undertaking.

Aurizon Network also notes that its proposed approach to the inclusion of replacement capex within system reference tariffs for shared corridor is inconsistent with how WIRP has been treated in the Blackwater system.

For example, renewals capital expenditure in the Blackwater System is not currently allocated between WIRP and other Blackwater users. For the purpose of the 'system test' (i.e. the pricing test to determine whether WIRP users are required to pay a system premium), Blackwater System replacement capex is treated as a cost of the Blackwater System even though WIRP users utilise the shared corridor.

As the WIRP project costs are subject to continual review against the system test based on forecast WIRP volumes, then the allocation of renewals costs between WIRP and other Blackwater users would likely be required to ensure a consistent treatment of such expenditure. This may require the application of a system premium for the use of the WICET if there is a reduction in the terminal utilisation.

Where the QCA does not accept Aurizon Network's proposed approach to the inclusion of part of the asset replacement of Newlands system assets to the Newlands Reference Tariffs, or it becomes necessary to determine whether the GAPE Reference Tariff is less than its incremental costs, then it will be necessary to attribute asset replacement expenditure on the basis of the relevant causative driver. In this regard, a simple tonnage or usage-based allocator will not represent an appropriate attribution where the drivers of the renewals expenditure are varied and would need to be subject to further detailed engineering analysis.

It should be noted that there are different approaches that could be applied to identify the proportion of renewal expenditure deemed variable with tonnage. Each approach would need to have regard to a multitude of factors that contribute to the requirement for that renewal. Examples include age, environmental conditions, soil quality, obsolescence which was confirmed by Worley Parsons:

> *There is no doubt that track maintenance is not totally dependent on usage; maintenance of railway formation and drainage is almost entirely dependent on topography, soil types, rainfall and other weather factors such as wind and temperature. Relaying, re-railing and rail profiling are almost totally tonnage dependent but re-sleepering is mostly time dependent at low-medium densities (e.g. 5Mgta), especially where timber sleepers are installed, but sleeper life is increasingly affected by traffic as tonnage increases. Resurfacing and ballast undercutting are responses to a mix of tonnage and time-dependent effects*[15].

In addition, it will be necessary to adjust those allocations over time to reflect the change in relative utilisation of the shared rail corridor between GAPE and Newlands services. The

[15] Worley Parsons (2008) Marginal Cost Variabilities: Contemporary and Accepted Theorems, Supporting Document prepared for UT3.

information, data and analysis necessary to establish appropriate allocators specific to the conditions relevant to the Newlands System is a complex and lengthy process. This is evident by the fact that the ACCC's process took approximately 2 years to complete and was simplified by Zone 3 users operating an axle load below the infrastructure standard in Zone 1 and that of Zone 1 and Zone 2 services.

3. Newlands Users have substantially benefited from the 26.5TAL upgrades

Stakeholder submissions include reference to the expansion pricing principles regarding the allocation of expansion costs to existing users where they obtain clear benefits. However, these principles were also not in place at the time of the GAPE negotiations.

Notwithstanding this, as the project involved a multilateral negotiation with expanding users it was not feasible to require non-expanding users to make any contribution towards the Newlands System infrastructure enhancements. In simplest terms, the infrastructure enhancements would have been unlikely to proceed at that time if the commercial negotiations were widened to include both expanding and non-expanding users and to require funding contributions in proportion to the relevant benefits.

In summary, the absence of identified benefits to existing users from the infrastructure enhancements at the time of negotiating the GAPE Deed does not demonstrate that those benefits are non-existent or immaterial. Rather it is representative of the commercial practicality for the GAPE project to proceed, it was necessary to negotiate with and obtain contractual commitments from the expansion users.

QCoal submits that Aurizon Network did not consult with non-expanding users and there was '*no evidence that Aurizon [Network] provided or even attempted to provide information to non-expanding users, including quantification of costs and benefits*'[16]. Aurizon Network considers that any such consultation with QCoal with respect to the cost and benefits between expanding and non-expanding users as needless given the QCoal was both a non-expanding user (Sonoma) and an expanding user through both NAPE and GAPE Deeds. In this regard, any costs and benefits would have been considered as part of QCoal's overall involvement in the GAPE Project.

In addition, QCoal notes that non-expanding users were not required to consent to the change from 20TAL to 26.5TAL operations and an increase in the below rail transit time, they simply had no choice. This statement is contradictory to a requirement for compensation for the expected increase in congestion. If such consent was not required, then the requirement to compensate users for the expected increased congestion would also not have been necessary.

In respect of the compensation payments, these payments were associated with:

- additional operational costs and delays associated with an expected increase in congestion in the Newlands System from an increase in the below rail transit time to 160%; and
- the reduction in the number of contracted train paths.

Aurizon Network is unable to verify statements by Glencore as to whether those payments were calculated on the basis of costs or net impacts. The compensation payments were a negotiated outcome associated with avoiding a more capital-intensive scope for the GAPE

[16] QCoal, p.3

project if existing users were to retain their pre-GAPE operations. The amount of those payments was not determined by Aurizon Network and therefore whether those payments were calculated on the basis of cost as specified in the project scope, or net impacts would require relevant information to be provided by Glencore as the party who determined those amounts. In addition, some of those costs are unrelated to the payload benefit as they improved train loading times which is not a benefit Aurizon Network had regard in the FY22 ARRT.

Assuming those amounts were calculated on the basis of net impacts, the term over which those net impacts were assessed will not have extended beyond the term of the relevant access or rail haulage agreement. As such the extent of any benefits needs only to have regard to whether existing Newlands users are currently benefitting from a 26.5TAL service. Conversely, this can be considered from the perspective of the costs existing Newlands users would incur if they were now deprived of the benefits of a 26.5TAL service (and therefore by definition what is the deprival value relevant to stand-alone costs). In other words, the premise is that without any benefits from the 26.5TAL services pre-GAPE users would willingly agree to revert to the operation of 20TAL services with previously contracted BRTT limits.

In this regard, stakeholder submissions did not provide sufficient information or evidence to demonstrate that they have not obtained the material indirect benefits from increased competition associated with both the interconnection and 26.5TAL service. For example, QCoal states[17]:

> *'As Aurizon's 2013 GAPE DAAU stated operational efficiency resulting from 'payload productivity' would benefit above rail operators. One would expect if Newlands Users were to benefit from the improved operational efficiency of above rail operators, this would be reflected in their above rail charges, however this was not the case'*

This statement is not compatible with the fundamental premise of the role and purpose of the access regime which is to promote competition in the above rail market where the benefits of competition are reflected in rail haulage prices. Aurizon Network recognises that any operational efficiencies over the life of the haulage agreement might be retained by the rail operator. However, under workable competition these efficiencies would be competed away. It remains open to both Glencore and QCoal to provide information to the QCA on a confidential basis that compares their current haulage rates with the real value of those rates that prevailed prior to the GAPE project to demonstrate they obtained no indirect benefits from the GAPE project.

The benefits to existing Newlands users of being provided the 26.5TAL service become more substantial as time passes. Prior to the GAPE project the Newlands System operated at 20TAL using 80 tonne wagons. These wagons were constructed in 1982 and 1983 and were effectively cascaded to the Newlands System as the last remaining operating system at 20TAL. Some of these wagons were also deployed to operate Minerva services until 2014.

As such, these assets would have reached their end of their useful lives and have been disposed of. In order to continue the operation of 20TAL services beyond the expiry of haulage contracts in place at the time of the GAPE project, it would have been necessary for Newlands users to commit to underwrite significant investment in a replacement fleet of 80t wagons that would be effectively quarantined to the Newlands system with full exposure to asset utilisation risk in haulage pricing. Alternatively, the life of those wagons could have been further extended beyond 40 years with substantial capital investment. Even if this alternate

[17] QCoal, p.3

scenario was feasible, it would be commercially rational for the owner of these legacy assets to price the use of those legacy assets at their full replacement cost, or at the next best competitive alternative, such as underloading 106t wagons. The following table shows the productivity differential between an 80t wagon consist and an underloaded 106t wagon consist.

Table 2 Comparison of 20TAL and 26.5TAL consist options

	20TAL (80t wagons)	20TAL (106t wagons)	26.5TAL (106t wagons)
# of locomotives	4	4	3
loco weight	116	116	126
# of wagons	82	82	82
Tare wagon weight	15.5	20.5	20.5
Loaded wagon weight	78	78	104
Gross tonnes per consist	6,860	6,860	8,906
Tare weight of consist	1,391	1,801	1,810
Net Payload of consist	**5,469**	**5,059**	**7,096**
Gross to net ratio	**1.254**	**1.356**	**1.255**

The value of this productivity loss in terms of lost throughput or sales to the producers is 410t of coal per consist at a price of $119AUD per tonne for thermal coal. This results in lost revenue of $48,000 per consist. Alternatively, the shadow price of this productivity loss would be equivalent to additional above rail resources required to operate 8% more services for a given level of demand. Similarly, the foregone productivity of operating 106t wagons on a 20TAL constraint compared to a 26.5TAL capability is approximately 40%.

Aurizon Network therefore affirms its view that Newlands Users are currently obtaining productivity benefits from the GAPE Infrastructure Enhancements through the avoidance of costs they would otherwise incur in lower productive and less competitive 20TAL services. Newlands users would have been required to sustain this lower service standard through:

- Replacement costs of rail transport infrastructure that would have been incurred in the absence of the GAPE infrastructure enhancements; and
- Significant investment in rollingstock that is not reflective of modern engineering equivalents.

The extent to which Newlands Users have realised benefits also differs from those which may have been considered during the scoping of the GAPE Project. Of particular relevance to the realised benefits this includes:

- the reported below rail transit times for the Newlands System are substantially below the 160% threshold level and therefore the expected level of congestion has not been realised as shown in the graph below; and
- strong asset reliability as represented by the Mean NTK'000 to Failure results.

Figure 4 Newlands Historical BRRT Performance

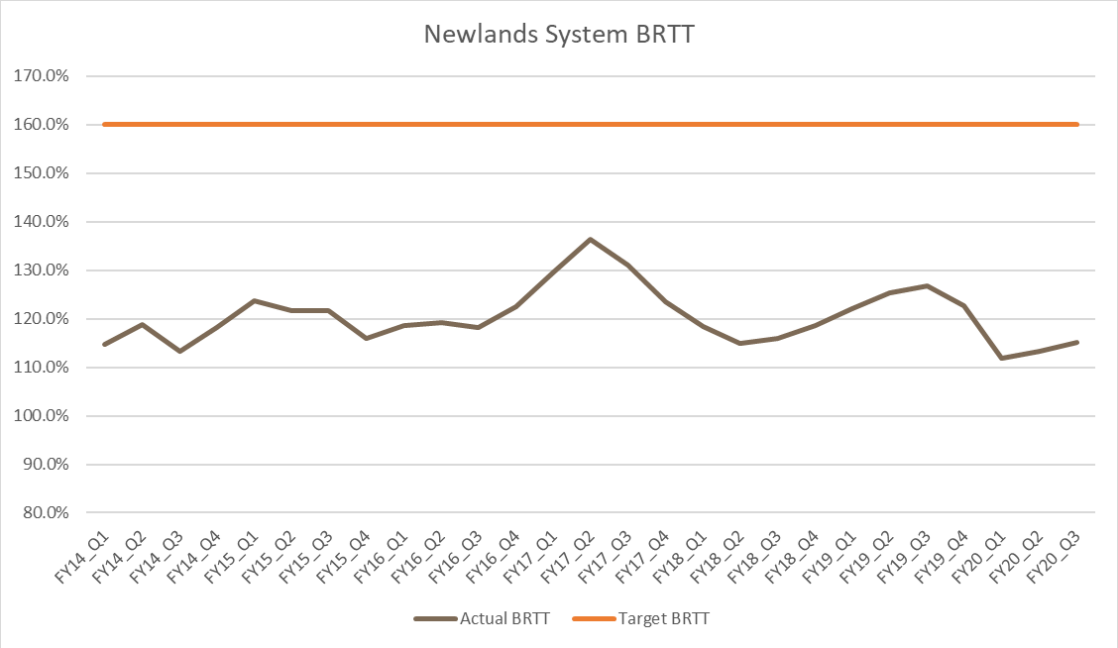
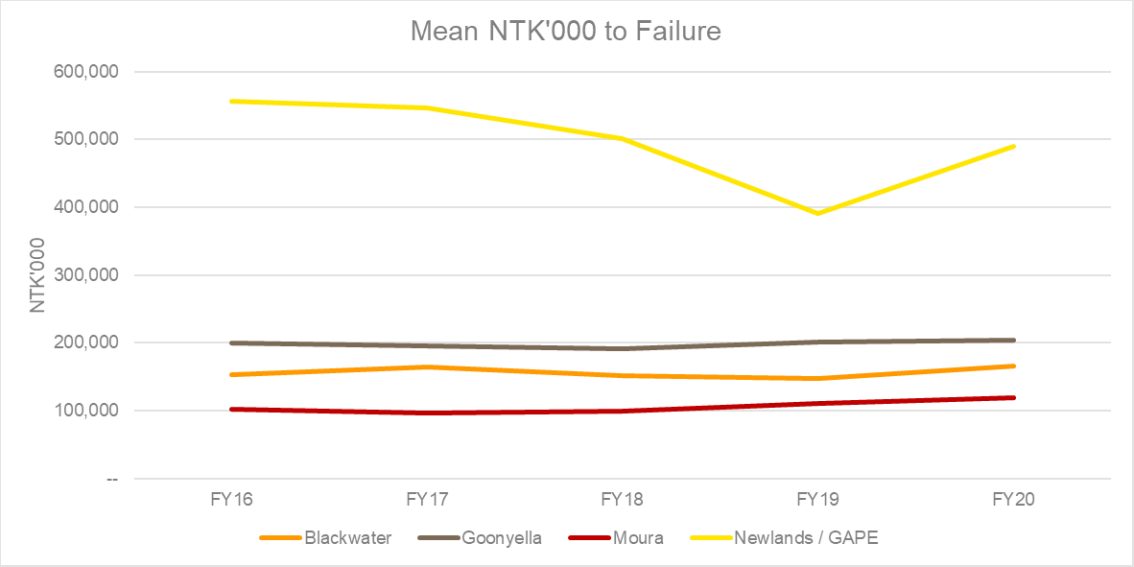


Figure 5 Newlands Mean NTK'000 to Failure



The results illustrated by Figure 4 and Figure 5 indicate that the Newlands System is a well-performing, reliable system, which in turn results in tangible operational benefits for end users operating across the Newlands rail corridor. A reliable coal system helps to maximise throughput by reducing day of operations interruption and cancellations due to below rail causes.

Stakeholder submissions have also sought to draw similarities with the WIRP project and what, if any, benefits existing Blackwater users obtained from the WIRP project. This is not a particularly useful or instructive comparison as the WIRP project did not replace substantial parts of the Blackwater system or significantly improve the payload of existing user services. In the case of the GAPE infrastructure enhancements to the Newlands system there are clear benefits to existing users. The inherent difficultly is the methodology and inputs that need to be applied in quantifying those benefits.

4. The long-term competitiveness of the GAPE Service promotes efficient utilisation of the whole declared facility

Aurizon Network notes that there are several inconsistencies and misunderstandings within stakeholder submissions in respect of promoting increased utilisation of the GAPE services. These include:

- The QRC submission refers to the competitiveness of GAPE mines[18]. This conflates the competitiveness of the mines with the competitiveness of the GAPE Services which, as noted in Aurizon Network's submissions to the QCA on the declaration review, is substitutable for other services within the CQCN, for example the Goonyella to DBCT service.

- Bravus suggests that '*ultimately it is the level of MCR that has provided a disincentive for GAPE volumes/reduced unit costs and it is likely to have contributed to some stranded GAPE capacity[19]'*. This statement does not consider or recognise that competitiveness of the GAPE services has no relationship to the GAPE Deeds. The marginal access seeker and the access seekers at the expiry of the GAPE Deeds are only subject to the regulated tariff. It therefore seems contradictory for Bravus to suggest further increasing the GAPE Reference Tariff by also requiring GAPE users to contribute the legacy Newlands system costs.

- The QRC also notes that it does not believe that Aurizon Network has undertaken the necessary analysis to conclude that GAPE mines would be less competitive[20]:

  > *While it is true that the difference in the access charges, taken alone, does reduce the competitiveness of GAPE mines relative to mines in other systems, it does not necessarily follow that these mines are less competitive. Aurizon Network would need to undertake an analysis of each of the mines, taking into account factors such as mining costs, coal qualities and customer relationships.*

  This view is then inconsistent those expressed by QCoal that[21]:

  > *As a rail network owner (not a User(miner)) Aurizon is not in a position to state what incentivises users to maintain of increase their utilisation of the Newlands System (or any other system), although pricing is one such factor in that incentive, where there are alternatives.*

  Notwithstanding this contradiction of whether a rail network owner should or should not be required to evaluate the correct incentive price to improve the efficient utilisation, operation of and investment in its facilities, Aurizon Network notes that the QCA concluded as part of the DBCT declaration review process that the current GAPE reference tariff was not consistent with that incentive price. In addition, it should not be necessary for Aurizon Network to determine that incentive price as the QCA has access to the information provided during the declaration review process to evaluate whether the projected GAPE reference tariff in 2027 will be consistent with that price.

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[18] QRC, p. 6
[19] Bravus, pp. 3-4
[20] QRC, p. 6
[21] QCoal, p. 8

- Both QCoal and Glencore note that port unloading preferences will also be '*primarily driven by the location and the overall economics of users' mines'*.[22] In this regard, given the geographical location of QCoal's mining assets and their utilisation of GAPE Infrastructure Enhancements irrespective of their choice of ports for unloading it is expected that under a socialised pricing framework QCoal would benefit from continued and increased utilisation of the Newlands and GAPE Systems following the expiry of the GAPE Deeds.

  The GAPE Project was underwritten by the commercial contracts entered into between Aurizon Network and the foundation customers. Irrespective of the terms of these contracts, the GAPE Services are declared services provided by Aurizon Network under the *Queensland Competition Authority Act 1997*. As such the QCA has and continues to approve regulated prices for the utilisation of the GAPE System and will continue to do so at expiry of the GAPE/NAPE Deeds. In this regard, the QCA would be required to consider the impact of pricing GAPE Services above their incremental costs having regard to the effect of excluding existing assets for pricing purposes in later price determinations[23]. This necessarily requires the QCA to consider the impact of its decision on future prices in terms of the efficient investment and utilisation of the CQCN as a whole and the legitimate interests of Aurizon Network's investment in the CQCN.

- The QRC has also commented, '*Aurizon Network has not obtained expert advice to determine the level of tariff distortion which customers can bear before there is an impact on allocative or productive efficiency*'. Aurizon Network considers the procurement of such a report to be unnecessary given the level of information asymmetry regarding the mines' economic viability and to the extent a progressive transition to a cost reflective tariff over an extended period of time would have an impact on those mines' production decisions. It is those parties who are best placed to provide such evidence to the QCA.

5. It will be necessary to address the deferred NAPE Capex as part of any subsequent price review of Newlands and GAPE Reference Tariffs

This section of Aurizon Network's response submission deals directly with comments made by stakeholders regarding Aurizon Networks incentives in respect of the deferred NAPE Capex and the impact of the inclusion of renewals under the GAPE Deeds.

Rio Tinto's submission to the QCA claims[24]:

- *Aurizon Network has permitted a delaying of the commencement of paths by NAPE users; it has strong incentives to continue the roll forward of NAPE amounts; and*
- *this raises a substantial risk of recovering the same costs twice.*

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[22] QCoal, p. 9 and Glencore, p. 3.

[23] The inclusion of this requirement within the matters the QCA must have regard under s.138(2) was explicitly intended to address the problem of ex-post hold-up at the end of foundation contracts and remove disincentives for infrastructure owners to investment in significant brownfield and greenfield expansions.

[24] Rio Tinto (2021) Aurizon Network — Annual review of Reference Tariffs (2022 Tariff Review): Goonyella Abbott Point Expansion (GAPE) and Newlands tariff issues, Submission to the Queensland Competition Authority, April 9, p. 4.

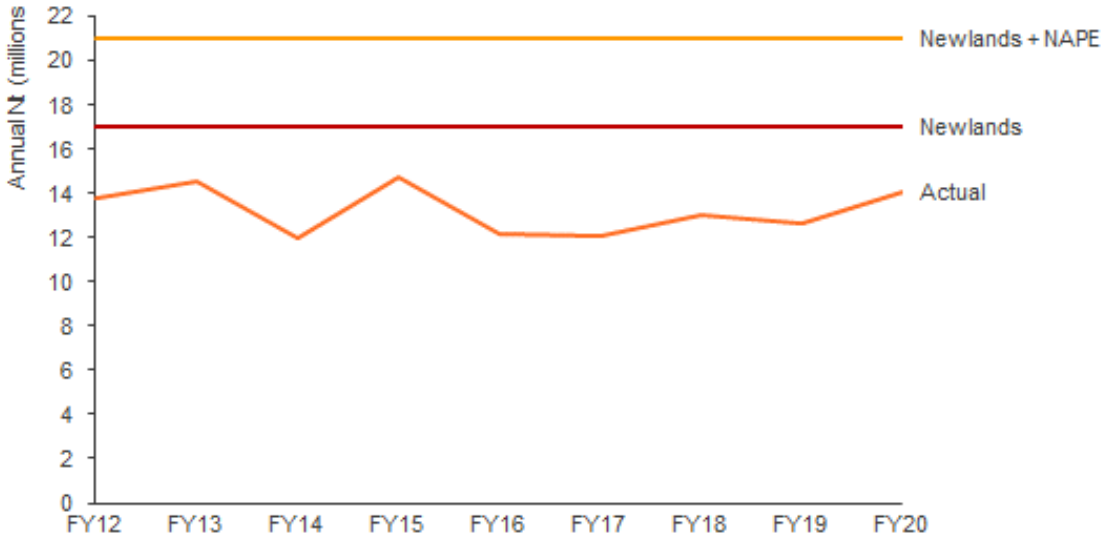
In relation to the first point raised in respect of commencement of paths by NAPE users, Aurizon Network disagrees with the assertion that is has permitted delaying the commencement paths by NAPE users under the NAPE Deed. In this regard the QCA UT5 Final Decision on capital deferrals affirmed capital deferrals are a prudent mechanism to address 'circumstances where Aurizon Network is unable to recover costs from relevant customer(s)'.

Stakeholder submissions have also strongly posited that as the Newlands volumes are less than the pre-GAPE contract levels of 17 mtpa and the capacity of 19 mtpa that Newlands Users have not required the infrastructure enhancements represented by the deferred NAPE Capex. Therefore, the level of demand within the Newlands System and a clear intent from the QCA that it would not be appropriate for Aurizon Network to recover those costs from pre-GAPE Access Holders has also prevented the inclusion of the deferred NAPE capex in Newlands Reference Tariffs. Nevertheless, Aurizon Network agrees with the QCA's observation in the UT5 Final Decision that it is not appropriate to continually defer capital recovery:

> *While the volume ramp-up remains lower than initial expectations, the QCA considers it is not appropriate to continue to defer revenues as this compounds Aurizon Network's asset stranding risks beyond those envisaged in the WIRP access conditions report.*

While Newlands System volumes have not reached the pre-GAPE contract levels of 17 mtpa, Aurizon Network projects that the ramp-up in volumes from a new coal carrying train service will result in that threshold possibly being exceeded as early FY23.

Figure 6 Newlands System Committed Capacity and Annual Throughput



Aurizon Network considers it is now appropriate to consider the recovery mechanism for the deferred NAPE capex where there are new or additional Post GAPE access rights which are obtaining the benefits of those investments.

Bravus states that[25]:

> *It agrees there are indirect benefits for its operations from the H82 fleet but would question this relevance at the current levels of Newlands throughput. Forecast Newlands volumes do not exceed the historic Newlands capacity of 19Mt.*

This statement implies that as the system volume is less than the pre-GAPE contract levels, then Bravus should be subject to the same legacy or grandfathered arrangements as pre-GAPE access rights. Aurizon Network does not support this proposition as it was never open to Bravus to operate 20TAL services and it is highly unlikely that it contemplated designing its own railway to operate 20TAL services.

QCoal also quotes the QCA's Pricing Principles as an indicator of fairness[26]:

> *"the 'user pays' or 'impactor pays' principle is consistent with the proposition that is fair for any given user of a service ….. that **causes costs** to be incurred, to pay for costs directly associated with **their use or action**".*

Emphasis is placed on the references to "causes" and "action" as these are relevant to the consideration of the deferred NAPE capex and its application to the Drake mine.

The Drake mine was commissioned 2014[27], [redacted]

[redacted]

However, the relevant nominated unloading point for the Drake mine is the Sonoma load out. The following table shows the publicly available composition of the Sonoma load out from the various mines within the QCoal portfolio.

Table 3 Annual Combined Thermal and Metallurgical Coal Output of the Sonoma load-out

Mine	2015-16	2016-17	2017-18	2018-19	2019-20
Drake	1,934,413	3,605,129	4,099,301	3,315,926	2,712,451
Jax	0	0	0	557,694	1,520,132
Sonoma	2,391,185	1,227,241	506,249	883,145	677,743
Total	**4,325,598**	**4,832,370**	**4,605,550**	**4,756,765**	**4,910,326**

Source: Queensland Government Open Data Portal[28]

In a practical sense, it could be argued that the pre-GAPE access holders are likely paying an access charge materially less than what they would have paid without the GAPE project if those mines were priced to recover a 20TAL cost base using 20TAL services without the additional volumes associated with those new or additional access rights for which the deferred NAPE capex would be recovered. For example, the following table provides an

[25] Bravus, p. 7

[26] QCoal, p. 8

[27] https://www.qcoal.com.au/our-projects/drake-mine/

[28] Production of saleable coal by individual mines. Accessed at: https://www.data.qld.gov.au/dataset/coal-industry-review-statistical-tables/resource/1b7fb643-c880-42bf-940b-fc3c582d239d?truncate=30&inner_span=True

indicative estimate of the average $/nt cost to those users under the FY22 ARRT with and without the Drake and Bravus volumes.

Table 4 Impact on Newlands Access Charges without New and Additional Volumes

The QRC submission, in response to the position that it is inequitable and inefficient for new or additional demand to maintain access at an access price which is not reflective of the cost of service delivery, states[29]:

> *To the extent that this comment is accepted, it applied only to new (post-GAPE) Newlands customers, yet Aurizon Network has not proposed any differentiation between pre and post GAPE Newlands customers*[30].

Whether differentially pricing access to an identical service using the same infrastructure should be permissible is ultimately a matter which requires consideration by the QCA. Aurizon Network welcomes the QCA's views on the extent to which price differentiating a new user which did not cause the GAPE project costs to be incurred with an existing user who did not require those costs to be incurred would be a permissible form of price differentiation. This is ultimately a threshold issue relevant to any subsequent stakeholder engagements on reviewing the cost allocations where the deferred Newlands capex is included in Newlands reference tariffs.

Rio Tinto's submission requests that in relation to the deferred NAPE Capex '*the QCA should consider the extent to which GAPE Users have already been required to cover the cost of the NAPE infrastructure*'[31]. The inference being that users would be required to pay for the same costs twice.

To be clear, Aurizon Network has not stated that it will seek to recover the full amount comprising the deferred NAPE capex. In addition, the prospective over-recovery of those costs can only arise where those costs are included within access prices.

The QCA has to date considered the GAPE and Newlands Reference Tariffs independently of the GAPE Deed. To the extent that the commercial arrangements in the GAPE Deeds are relevant to the QCA's consideration of the inclusion of the deferred NAPE capex in Newlands reference tariffs then it will also be necessary to consider other aspects of those arrangements, including any prospective under-recoveries associated with the inclusion of other costs into the GAPE Reference Tariffs.

Aurizon Network's objectives with respect to the deferred NAPE capex is not to 'double dip' but to ensure that the return on its invested capital is commensurate with the outcomes it expected when it entered into those commercial arrangements.

Stakeholder submissions have also noted that under the terms of those commercial arrangements Aurizon Network is not incentivised to include Newlands System asset replacement expenditure in the GAPE RAB if it is not able to earn a return on that expenditure.

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[29] QRC, p. 6

[30] Wood Mackenzie recognises Drake as a separate customer from Sonoma and Jax due to the different ownership structures. https://www.woodmac.com/reports/coal-drake-coal-mine-47810030

[31] Rio Tinto, p. 4

To understand why this might occur it is informative to consider at the time the GAPE Deed was negotiated key asset replacement activities such as rail renewal and ballast cleaning/undercutting were treated as maintenance expenses. Subsequent changes in the regulatory framework have resulted in those activities now being capitalised.

For example, with respect to the $25m Newlands Capital Indicator for FY22:

- $1.5m relates to rerailing activities; and
- $3.2m relates to ballast cleaning/undercutting.

Given the prospective asset stranding risks associated with the utilisation of the GAPE system at expiry of the GAPE Deeds, then it may be prudent and efficient to reclassify any allocation of the incremental costs to the GAPE Reference Tariffs as maintenance activities.

Aurizon Network would welcome further engagement with the QCA on the matters raised in this section and is willing to provide a copy of the GAPE Deed to the QCA in accordance with a request made under the access undertaking to support that engagement.

6. The issues identified in response to a prospective PIC discount for a new coal carrying train service will be evaluated and addressed within that price review.

Aurizon Network welcomes the contributions provided in stakeholder submissions in response to the matters that should be relevant to determining the contribution to common costs that would be relevant to a new coal carrying train services.

Aurizon Network acknowledges that the information provided in table 23 of the FY22 ARRT was incomplete as it did not show what the Newlands System Reference Tariffs would be without the volumes from the new coal carrying train service. The following table shows the average $ per net tonne to Newlands users (excluding the new coal carrying train service) under the following scenarios:

- Newlands Reference Tariff with all volumes and the new service paying the Newlands Reference Tariff;
- Newlands Reference Tariff with all volume and the new service paying the minimum contribution to common costs (min CCC); and
- Newlands Reference Tariff without the new coal carrying train service.

Table 5 Comparison of Newlands Access Charge Impacts with New Coal Carrying Train Service

Average $ per NT	FY22 ARRT with Bravus Volumes	FY22 ARRT without Bravus Volumes
Newlands	2.72	3.93

The table above shows that in the absence of an Expansion the existing Newlands users substantially benefit from a positive contribution to common costs made by the new coal carrying train service and obtain a substantial price reduction.

Importantly, this provides further supporting evidence that pre-GAPE Newlands Users have substantially benefited from the GAPE infrastructure enhancements which upgraded the system to 26.5TAL. These benefits arise from foregone economies of scale that are obtained from the additional volumes from the new coal carrying train service. In the absence of the improvements and capacity provide by the GAPE project, it is unlikely that the connection to

the Galilee basin would have been developed or it would have been subject to a greenfield bypass of the 20TAL Newlands System.

As Newlands has operated below its pre-GAPE capacity levels, it is not obvious that there is an opportunity cost to Newlands users from these new coal carrying train services.

Aurizon Network agrees with the stakeholder views that the application of a PIC discount was not envisaged with respect to:

- the connection of a privately owned, non-contestable, multi-user railway; and
- the expected growth in the volumes utilising that railway as a proportion of system volumes.

However, an efficient level of contribution to common costs to the Newlands system will also need to have regard to:

- the extent to which the new coal carrying train services are required to contribute to the recovery of the deferred NAPE capex; and
- the economies of scale of the privately owned extension of Newlands to a new coal basin and the ramp-up profile of those operations.

Aurizon Network notes that the operator of these new coal carrying train services has not indicated that it intends to seek the QCA's approval of any relevant PIC amounts should they be relevant to those services. As such, for the purpose of the FY22 ARRT and in accordance with clause 6.3.2(e)(ii) of the access undertaking, the Approved PIC is deemed to be zero. Should this circumstance change and an application is made to the QCA, given the significant financial impact to either Aurizon Network or Newlands system users from approving a PIC amount after the FY22 ARRT amounts have been approved Aurizon Network requests that the QCA defer its approval of those amounts to the FY23 ARRT.