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Submitted to QCA's online submissions portal

Response to Draft Decision on the FY22 Annual Review of Reference Tariffs

10 June 2021

Dear Charles,

Aurizon Network welcomes the opportunity to respond to the Queensland Competition Authority's (QCA) Draft Decision on the FY22 Annual Review of Reference Tariffs (FY22ARRT).

Treatment of Newlands System Asset Renewals expenditure

The draft decision acknowledges that, based on the information before the QCA, prices for services utilising the shared Newlands rail corridor should be consistent with the services being provided. Aurizon Network welcomes the QCA's recognition that the matter of allocating asset renewals expenditure (**repex**) on this shared rail corridor is a complex matter.

Aurizon Network's submission in response to stakeholder submissions demonstrated, at least with respect to the proposed Reference Tariffs for FY22, that the inclusion of repex in FY22 to the respective Newlands and GAPE Reference Tariffs is compliant with the pricing limits. However, Aurizon Network considers the interests of all relevant stakeholders of the shared rail corridor will be advanced by having an agreed and consistent framework for the allocation of repex in subsequent Reference Tariff review processes.

It is also highly desirable that the development of the framework for the recovery of repex from access charges is the outcome of collaborative engagement between all affected stakeholders. Notwithstanding, given the diversity of user interests and circumstances on this shared rail corridor there is a strong likelihood that a consensus will not be achievable given the broad range of matters needing to be considered and addressed by this framework.

In this regard, Aurizon Network welcomes the QCA's intention to '*develop a preliminary position paper to provide a framework for Aurizon Network and users to facilitate reaching an agreed approach to the allocation of renewal expenditure in the Newlands system*'.

While it is at the discretion of the QCA to address any matters it considers relevant to the allocation of repex in the Newlands system, within the preliminary position paper there are likely to be a range of issues Aurizon Network and the affected stakeholders consider:

- are not capable of reaching a consensus view and the QCA's position needs to be understood to promote agreement on other aspects; or
- are likely to be capable of reaching agreement subject to direction or guidance from the QCA on the matters the QCA would have regard in making a determination on that issue.

To support the QCA in the preparation of a preliminary position paper, Aurizon Network intends to engage the affected users with the view to determining the relevant matters which the parties consider need to inform subsequent engagements with the objective of reaching an agreement on an enduring framework for the allocation of repex on the shared Newlands rail corridor. Aurizon Network will seek to complete this engagement and provide to the QCA (by 30 June 2021) a summary of issues that the parties consider require the QCA's guidance to progress the development of an agreed framework.

In the interim, provided in the attachment, Aurizon Network has prepared an indicative summary of the matters Aurizon Network considers will be of interest to the affected stakeholders.

FY20 RAB Roll forward

Aurizon Network notes that the FY22ARRT submission included a preliminary estimate of the FY20 Regulatory Asset Base (**RAB**) roll-forward. On 8 April 2021, the QCA approved Aurizon Network's RAB roll-forward for FY20 approved capital expenditure.

Aurizon Network will supply the QCA with the detailed financial models to include this approval as part of this submission. Aurizon Network requests that these models are not published as they contain Ringfenced Information.

Should you have any questions in regard to this submission please contact Dean Gannaway at dean.gannaway@aurizon.com.au.

Kind regards,



Jon Windle
Manager Regulation

Attachment: Indicative summary of issues relevant to a REPEX allocation framework for the Newlands shared corridor

Attachment A.

Indicative summary of issues relevant to a repex allocation framework for the Newlands shared corridor

An enduring framework for allocating repex on the Newlands shared corridor needs to have regard to a number of inter-related matters and be robust enough to address foreseeable events such as:

- changes in the level and composition demand on the shared rail corridor;
- the recovery of deferred capital amounts;
- expansions to the common corridor; and
- the development of new coal mines with associated third-party rail transport infrastructure investment.

The inter-related matters include:

- the allocation of repex to relevant user Reference Tariffs;
- the allocation and recovery of the deferred NAPE Capital Expenditure (**Capex**) from relevant Newlands Reference Tariffs; and
- the minimum contribution to common costs relevant to the determination of those Reference Tariffs.

Repex Allocations

Aurizon Network acknowledges that any allocation framework will need to be consistent with the incremental and stand-alone pricing limits in Part 6 of the Access Undertaking. In this regard, it is expected that the floor limits for the GAPE Reference Tariff is likely to represent the binding constraint on Aurizon Network's current approach to the allocation of repex. This *will* necessarily require agreement among stakeholders as to:

- the basis for determining the incremental costs of providing GAPE Train Services in respect of assets currently comprising the regulated asset base (and therefore what assets are reasonably required for Newlands Train Services on a stand-alone basis);
- how should the incremental costs in respect of subsequent investments in the shared rail corridor be determined for the assessment of the floor price limits for GAPE Train Services on an ongoing basis;
- whether a distinction be made between repex which is clearly attributable to degradation from asset utilisation (such as rail renewal) and capital expenditure which involves replacement of legacy Newlands system assets including improvements (such as structures);
- whether incremental repex, which has historically been treated as maintenance expenditure (eg. ballast) and is strongly attributable to degradation from asset utilisation, should be included in the reference tariff for GAPE Train Services as a maintenance expense;

- where incremental repex is attributable to asset utilisation, what are the relevant engineering relationships that should determine what proportion of replacement expenditure is a function of asset utilisation relative to other sources of asset degradation; and
- how repex allocations to relevant access charges should change over time to reflect the change in utilisation and be representative of physical asset degradation or economic consumption.

In addition to considering the extent to which repex should be included in the Newlands Reference Tariff, it *may* also be necessary to determine:

- what represents an efficient and reasonable price path towards stand-alone costs and therefore the extent to which repex can continue to be predominantly recovered from Newlands Train Services;
- the extent to which the costs associated with the inclusion of repex that can be attributable as being incremental to GAPE Train Services on the basis of being brought forward by those services, exceeds the benefits to Newlands Train Services. This includes, but is not limited to:
 - the avoided asset replacement expenditure associated with the GAPE Infrastructure Enhancements; and
 - the relevant productivity and competition benefits.
- where it is necessary to determine the above benefits, what is the relevant information and analytical framework for the determination of those amounts; and
- the relevant counterfactual pricing scenarios that would be relevant to determining benchmark prices and the reasonableness of repex allocations (such as exclusion of post GAPE volumes).

Deferred NAPE Capex Recovery

In respect of the deferred NAPE Capex some, or all, of these amounts will be recovered from Newlands Train Services. Therefore, it *will be* necessary to determine:

- what are the relevant triggers or thresholds necessary for the inclusion of the deferred NAPE Capex in reference tariffs for Newlands Train Services;
- what is the basis for recovery of this amount in respect to the various users of the Newlands Train Services, including:
 - the Drake Mine;
 - the Carmichael Rail Network (**CRN**);
 - pre-GAPE Project Newlands Mines; and
 - post-GAPE Project Mines (excluding Drake and CRN).
- what matters are relevant to the amounts of the deferred NAPE Capex, including but not limited to:

- Aurizon Network's legitimate business interests in earning the relevant expected return on its invested capital; and
- The extent to which those amounts may have been recovered under relevant access agreements or access arrangements.

Contribution to common costs

Aurizon Network and stakeholder submissions have acknowledged that the minimum contribution to common costs in the Newlands system is limited by the low AT2 Reference Tariff. It is also likely that the minimum contribution to common costs is insufficient to recover incremental repex costs.

The determination of the appropriate minimum contribution to common costs will be relevant to:

- the access charges for Newlands Train Services which may also be required to recover the deferred NAPE Capex; and
- the access charges for Newlands Train Services which may be subject to an approved PIC Amount.

Therefore, it will be necessary to determine what matters would be relevant to the determination of an efficient AT2 Reference Tariff that has regard to the costs of providing capacity and sustaining that capacity through repex.