GLENCORE

2 November 2022

Mr George Passmore
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4001
by email: george.passmore@qca.org.au
via Submission process at: www.qca.org.au

Dear George,

Aurizon Network – GAPE and Newlands pricing DAAU

We refer to the Queensland Competition Authority's ("QCA's") Stakeholder Notice published 21 September 2022 regarding Aurizon Networks GAPE and Newlands pricing DAAU. Glencore has been a participant in the consultation process with Aurizon Network and others over the past 12 months. The aim of this consultation was to resolve outstanding issues regarding the allocation of costs between the GAPE and Newlands systems. Whilst disappointed that it had taken many years, numerous customer submissions, the rejection of an MRSB for Newlands and a direction by the QCA for this consultation to occur in a meaningful sense, Glencore are pleased at the progress made and whilst have some exceptions, are generally supportive of the DAAU.

In addition to addressing the inequitable share of renewals (including the unintended consequence of the change in accounting policy for re-rail and ballast) that Newlands customers have been funding over the years, the participants were able to address the long-standing NAPE deferral issue and its impact upon GAPE customers. Whilst Glencore were not a party to negotiations at the time, it is understood that there was a general understanding that NAPE / GAPE Deeds were negotiated on essentially the same terms and that GAPE customers were unaware of the risk of deferral of NAPE Deeds commencing in a manner that was inconsistent with GAPE Deed provisions. The resulting potential for Aurizon Network to over-recover NAPE capital is evident in that GAPE customers were funding the NAPE costs (via non-regulatory mechanisms) whilst Aurizon Network retained asset values in a "non-pricing RAB" and accrued interest on these amounts to preserve the option of double recovering both costs and interest from the NAPE customer in future.

The consultation process was beneficial for customers in that it went some way to addressing the existing substantial information asymmetry, although it is noted that customers are only privy to information that was offered by Aurizon Network, whilst many customer questions were answered, Aurizon were unable to respond to others due to confidentiality. Without complete knowledge and transparency, particularly around the workings of each interrelated GAPE and NAPE Deed (and associated variations) as well as the specific models for calculating tariffs, customers are still heavily reliant upon the QCA to fully analyse the arrangements and ensure that no further inequities or future windfall gains to Aurizon Network arise. Given Aurizon Network are the only party with complete information, the interaction between regulated and un-regulated revenue processes are open to manipulation and could go undetected, but for the oversight of the QCA. To this end, Glencore encourage the QCA to obtain all GAPE / NAPE Deeds (and associated variations).

Our response to each of the DAAU's key items are discussed below:

- **Determination and allocation of Asset Renewals and Replacements in Newlands shared corridor to the extent that it is variable with usage**

  Glencore support the recommendation put forward in the DAAU regarding the allocation of renewals based on Gtk Forecast (subject to the following numbered points). Again, we are disappointed that this has been ongoing for many years and are concerned that the interaction between regulated GAPE tariffs and GAPE Deeds may have incentivised Aurizon Network to allocate renewals and replacements solely to the Newlands system in the past, resulting in Newlands customers having paid a disproportionate share of incremental costs in prior periods. Glencore welcome the engineering-based approach in determining usage related replacement and renewal costs and the intended allocation methods based upon forecast Gtk by system.

  Glencore believe the following points require addressing to ensure that the outcomes of this DAAU are consistent with the intention, and that further transparency is achieved:

  1. Whilst the proposed new Schedule F, Clause 4.1(b)(vii)(G) provides for the allocation to be based on revised Gtk Forecasts (defined term) this defined term will now reflect the 96.5% of contracted capacity for Newlands. We acknowledge that this defined term has been amended in order that contracted tonnes are the basis for setting reference tariffs (discussed below), However, its use in relation to the allocation of asset renewals and replacements is inconsistent with the intent as described in the submission for the initial allocation between systems based on true forecast and as such, further drafting is recommended to ensure that the allocation is based upon the actual forecast as intended.
  2. It is not clear how the Newlands Shared Rail Corridor Replacement Assets are to be treated in the RAB roll-forward, that is, whether they form part of the Newlands RAB, or a separate RAB component. In either case, the value of these assets should be separately identifiable in the RAB Roll-Forward reports. This should be clarified in the DAAU, and the DAAU should provide that the value of the Newlands Shared Rail Corridor Replacement Assets should be separately identified in the RAB Roll-Forward reports.
  3. Further, given past confusion regarding amounts included in RAB but excluded for pricing purposes, to provide complete transparency, it would be desirable for the DAAU to require that any component of any System RAB not used for the calculation of Reference Tariffs for that system be separately identified in the RAB Roll-Forward reports, including a breakdown of movements each year.

- **Reclassification of rerailing and ballast undercutting allocations to GAPE as a maintenance activity**

  Glencore are supportive of rerailing and ballast undercutting having a component included in GAPE tariffs however we do not support this reclassification to maintenance expense as it is inconsistent with other systems, accounting policy and creates intertemporal impacts which the original change in accounting treatment sought to overcome. These costs should remain capital in nature. It is disappointing that Aurizon has not taken action to correct the unintended impact upon Newlands users until now. [redacted]

- **Inclusion of approx. $46.9M from deferred NSIE amounts into the Newlands RAB and setting the System Gtk Forecast for pricing purposes based on contracted volumes less an allowance for Aurizon Network Cause**

  Glencore support the inclusion of the NSIE amounts in the Newland RAB, conditional upon using the contracted volumes as the basis for determining tariffs, and only on the basis that an opportunity to voluntarily relinquish contracted capacity on a fee free basis is available prior to any such change.

  The use of contract volumes for pricing is necessary to avoid issues which may arise given the existence of multiple access agreements for the same haul on different pricing terms, and to provide Newlands customers with confidence that the party who holds the capacity associated with the expansion costs of $46.9M is unable to avoid contributing to the return on and of this capital. Given the substantial change in take or pay risk profile in the Newlands system, customers must be provided an opportunity to review their contracted volumes to ensure it aligns with their capacity requirements via fee free relinquishments. Whilst some opportunities for transfers to other customers may exist, due to the existing capacity deficit, not all capacity held in the Newlands system is capable of being transferred, with the only option to reduce this capacity being relinquishments.

  Glencore, however, do not support the inclusion of an allowance for Aurizon Network Cause, as Glencore believe that the risk of financial impact due to Aurizon Network Cause is decreased if Aurizon's expectation that actual volumes are less than contract are realised. The risk of "Aurizon Network Cause" events occurring are unchanged, and the effective unit rate of each of these events is decreased by virtue of lower tariffs (ie larger denominator of contracted capacity decreases tariffs, and therefore decreases the cost of each contracted service).

  Aurizon Network also state that they expect to receive "lower cashflow over the relevant year where actual volumes are less than contract volumes", it is expected that the difference between actual and contract volumes will be minimised as a result of the change to contracted capacity, incentivising customers to either relinquish or transfer surplus capacity to minimise take or pay exposure. Aurizon Network also fail to acknowledge the possibility that actual railings may exceed contract in certain circumstances. It is for these reasons that Glencore do not believe any adjustment to contracted volumes are necessary in the calculation of reference tariffs.

- **Inclusion of an additional amount of approx. $13.8M from the deferred NSIE amounts in the Newlands RAB roll-forward into a dedicated System Premium applicable to the NAPE Access Agreement with a corresponding reduction in the GAPE Pricing RAB**

  Glencore supports the inclusion of the additional amount as a system premium on the basis that Newlands customers should not be required to contribute more than the depreciated value of the of the project cost allocations. NAPE customers were responsible for the deferral of the capital and received the benefit of the security of capacity during the deferral period at no cost. It is appropriate that a NAPE premium be imposed for this reason. Correspondingly, GAPE customers should be compensated for the period whereby they were funding the deferred NSIE amounts via the operation of the GAPE Deed to the maximum extent.

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- **Reduction in the value of the GAPE Pricing RAB by approximately $13M to exclude amounts attributable to the capitalisation of the Byerwen (GAPE) NSIE allocations**

  Glencore support this reduction. Glencore expect that any interest that may have been inadvertently added to the capital values under the GAPE Deed (if any) also be removed and ask that Aurizon Network produce evidence of this.

Throughout the consultation process Glencore and other customers have been heavily reliant upon representations made by Aurizon Network with regard to financial modelling of the above changes. As noted by Aurizon Network, this process highlighted the inability of customers to perform their own modelling due to the lack of information around asset values and revenue calculations. Aurizon have indicated a willingness to work with customers around sharing this information more broadly, which Glencore would encourage. Despite the shortcomings of the process, Glencore do appreciate the improved transparency and willingness to engage shown by Aurizon Network under this process.

[redacted]

We thank you for your consideration and for the opportunity to comment on this DAAU.

Yours Sincerely

Megan Chapman
Glencore