



Ms Ann Jones
Acting Director Business Performance
Queensland Competition Authority
Level 27, 145 Ann St
Brisbane Q, 4000

April 2023 GAPE and Newlands Pricing DAAU

15 June 2023

Dear Ann,

Aurizon Network submitted the April 2023 GAPE and Newlands Pricing Draft Amending Access Undertaking (**April 2023 DAAU**) to the Queensland Competition Authority (**QCA**) on 6 April 2023. On 8 June 2023, the QCA published stakeholder submissions received on the April 2023 DAAU.

The QCA has received submissions primarily from Newlands Access Holders addressing issues specific to the Newlands Reference Tariffs and has not expressly requested a response from Aurizon Network in respect of the submissions received. Notwithstanding this, Aurizon Network considers the QCA's review of the April 2023 DAAU would benefit from a further submission from Aurizon Network on key principles relevant to how the QCA has regard to various matters included in the stakeholder submissions. Due to the reasons above and the short time since publication, Aurizon Network believes that the QCA should have consideration towards this submission under s168B of the QCA Act 1997.

This submission does not respond to specific comments or representations made in stakeholder submissions and the exclusion of any reference to those comments or representations should not be read as endorsement, support or agreement on their merit or factual accuracy.

All capitalised terms which are not otherwise defined in this document have the meaning given to them in Aurizon Network's 2017 Access Undertaking.

Variation from the September 2022 GAPE and Newlands Pricing DAAU

Aurizon Network acknowledges the April 2023 DAAU includes variations from the withdrawn September 2022 GAPE and Newlands Pricing DAAU (**September 2022 DAAU**). A key variation includes the amounts relating to the Newlands System Infrastructure Enhancements (**NSIE**) that Aurizon Network proposes to include in a Newlands Reference Tariff.

The September 2022 DAAU represented a non-binding package of amendments submitted by Aurizon Network following months of customer engagement. The non-acceptance by

stakeholders of one or more elements of that package represented non-acceptance of that complete package of amendments.

In preparing the April 2023 DAAU, Aurizon Network had regard to additional matters, including the QCA's Preliminary Considerations on the September 2022 DAAU and application of specific commercial terms of the GAPE Deeds and the NAPE Deed. Consequently, as Aurizon Network withdrew the voluntary September 2022 DAAU, it was reasonable for Aurizon Network to amend the April 2023 DAAU in a way Aurizon Network considered was consistent with the statutory criteria.

Contract Volume Pricing and Relinquishment Fees

The April 2023 DAAU proposal retained the approach of using an Aurizon Network Cause adjusted contract volume for the purpose of the System Forecast. While the April 2023 DAAU did not include a NAPE System Premium, which was a contributing factor for using contracted volumes, it retained the contract volume approach on the expectation and understanding some Newlands Access Holders wished to retain the complimentary waiver of relinquishment fees in response to the increased financial risks.

Aurizon Network notes these matters largely involve distributional impacts between Newlands Access Holders. Consequently, Aurizon Network is agnostic as to the use of contract volumes or forecast demand as the basis for setting the Newlands Reference Tariff. Aurizon Network will therefore accept a decision by the QCA which either:

- › approves the contract volume pricing arrangements as submitted in the April 2023 DAAU; or
- › rejects the contract volume pricing arrangements and the complimentary relinquishment fee waiver (i.e. retains the current use of forecast demand for setting the System Forecast consistent with the remainder of the Central Queensland Coal Network).

Newlands System Infrastructure Enhancements

Aurizon Network also seeks to clarify two aspects of the NSIE amounts:

- › New or Additional Access Rights

Irrespective of the origin or point of connection to Rail Infrastructure, all Access Seekers seeking new or additional Access Rights following the completion of the GAPE project which will use the shared rail corridor are obtaining access to the declared service utilising Rail Infrastructure enhanced by the GAPE project.

To the extent Committed Capacity on that enhanced Rail Infrastructure ceases to be Committed Capacity by virtue of expiry of existing Access Rights or through, relinquishment or resumption, then that capacity is neither preserved for GAPE or Newlands reference services. It is simply – Available Capacity on the common use Newlands shared corridor.

- › 'Depreciation¹' of the GAPE Project infrastructure enhancements

¹ Depreciation is the means by which investors recover the cost of their original investment.

Notwithstanding the QCA's Preliminary Considerations that outlined it would be appropriate for Aurizon Network to recover an amount equivalent to the full value of the deferred NSIE, the April 2023 DAAU does not seek to do so.

While the April 2023 DAAU does not seek to include the full value of the deferred NSIE through a Reference Tariff, Aurizon Network notes it would not have the effect of recovering the invested capital to Aurizon Network twice if it had included the full value of the deferred NSIE.

Aurizon Network notes that to recover the GAPE Project infrastructure enhancements more than once, then one or more of the following conditions would need to exist:

1. The assets in the Regulatory Asset Base (**RAB**) would need to be depreciated more than once;

This condition is not satisfied and forms the basis of the QCA's Preliminary Considerations. Aurizon Network also notes this is the only condition of relevance to the non-NAPE/GAPE Access Rights.

2. The assets in the GAPE commercial model would need to be depreciated more than once; and/or

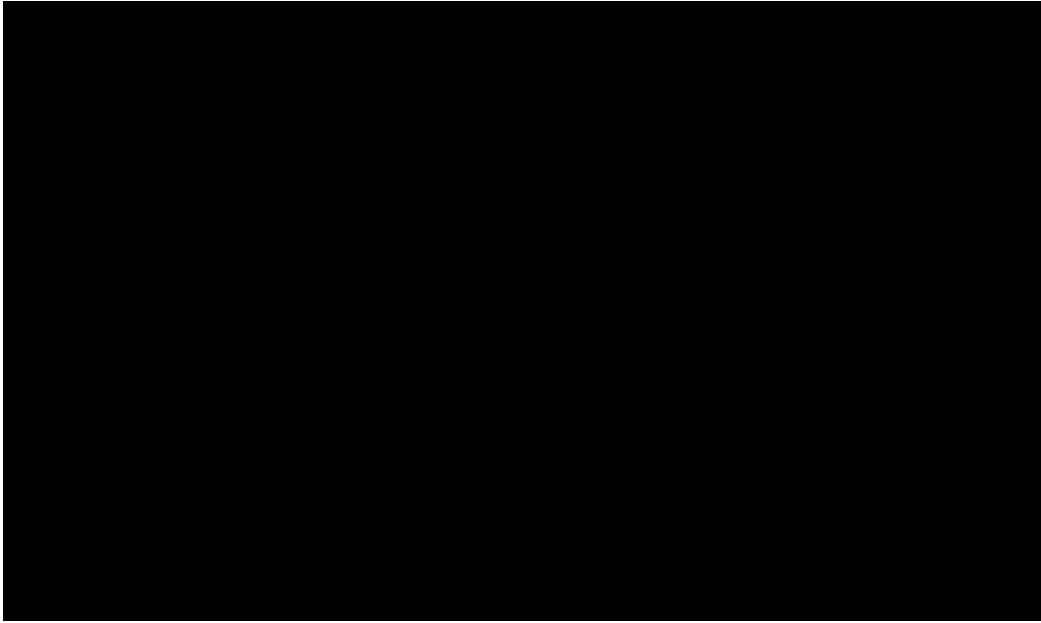
This condition is not satisfied as the GAPE/NAPE commercial arrangements only depreciate the infrastructure enhancements once through a [REDACTED].

3. The residual value of the GAPE Project infrastructure enhancements in the RAB at the expiry of the GAPE Deeds would need to exceed the residual value of the infrastructure enhancements in the GAPE commercial model.

Where this condition is not satisfied, this would have the effect of Aurizon Network recovering the value of the GAPE Project infrastructure enhancements in the RAB above the value of the infrastructure enhancements in the GAPE commercial model during two periods. Once over the term of the GAPE Deeds, and again through regulated revenues after expiry of the GAPE Deed (where the value of the RAB is fully recovered).

The following figure shows the projected value of the GAPE Project infrastructure enhancements incurred up to FY23 in the RAB and the GAPE commercial model as at the expiry of the GAPE Deeds².

² [REDACTED]



It is clear from the above that none of the conditions associated with a return of GAPE Project infrastructure enhancements more than once is satisfied [REDACTED]

[REDACTED] The discontinuance of the NSIE deferrals and the voluntary reduction in the capitalised interest in the April 2023 DAAU also ensures this condition remains satisfied.

As elements of this submission refer to terms in the commercially negotiated access arrangements, Aurizon Network requests that the QCA not publish that confidential information as disclosure may harm Aurizon Network's commercial interests. A version of this submission (excluding this confidential information) can be provided to the QCA for publication should the QCA wish to do so.

Should you have any questions or require further information, please do not hesitate to contact Dean Gannaway at Dean.Gannaway@aurizon.com.au

Kind regards,

Jon Windle
Manager – Network Regulation