QUEENSLAND resources COUNCIL

Resourcing Queensland's future

26th July 2024

Queensland Competition Authority
(Submitted via QCA Online Submission Form)

Thank you for the opportunity to comment on Aurizon Network's Infrastructure Rebates and GAPE RCS Draft Amending Access Undertaking (the DAAU).

The DAAU seeks to:

- Include the previously deferred Remote Control Signalling (RCS) investment in the GAPE Reference Tariff from 1 July 2024.

- Alter the treatment of mine specific infrastructure funded under Access Facilitation Deeds.

We do not understand the purpose or meaning of the opening paragraph of Aurizon Network's Executive Summary to this DAAU which includes "*Aurizon Network is seeking to limit engagement on amendments to the current undertaking to circumstances which are more procedural in nature and do not represent significant policy changes*". The QRC's Rail Working Group is currently engaging with Aurizon Network regarding the possibility of preparing a DAAU which would propose a number of significant changes to the undertaking. While we find the opening paragraph confusing in this context, it appears to have no relevance to this DAAU.

RCS Investment:

As Aurizon Network notes, the intent to include RCS investments in reference tariffs for FY25 was mentioned in the Annual Review of Reference Tariffs (ARRT) submission, and no submissions were received in response to this information. We don't know if this information is provided by Aurizon Network to suggest that the lack of submissions implies support for the proposal, but it should not. The lack of submissions may also have reflected the fact that this statement of intent had no relevance to the ARRT process, that the information provided in the ARRT was very limited, and that stakeholders knew that the issue would be properly assessed, and consulted upon, in a separate process.

We have reviewed the various UT4 decisions and have found little to explain the logic of this deferral other than the quote provided on page 4 of Aurizon Network's submission. If it is the case that the reason for the deferral of this investment has now ceased to

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 **E** info@qrc.org.au
www.qrc.org.au

apply (which appears to be the case), then we support determining the treatment of the deferred expenditure at this time. However, we have a number of questions and concerns:

- Should the amount of $23.6m be considered prudent and efficient, and appropriate to reflect in reference tariffs? The original cost of $11.6m was incurred in 2013-14. If the relevant assets were not required for a full decade after installation, then on what basis is the 2013-14 cost, escalated at WACC (rather than inflation) considered a reasonable value to reflect in charges at this time?

- Is $23.6m an appropriate value to reflect in future charges, for an asset which is now a decade old? In approving the deferral in 2016, it seems unlikely that the QCA would have envisaged a decade long delay to this asset being included in the RAB for tariff purposes, such that an asset which may be well into its useful life is now being reflected in charges as though it is new.

- The Independent Expert's Annual Capacity Assessment Report 2024 (page 14) notes that there has been a reduction in the expected capacity benefit of RCS of 1.4 to 1.9mt. Should the past RCS expenditure in the GAPE system, and the more recent expenditure, be considered prudent and efficient in the context of the reduced capacity benefit?

Finally, we understand that, in respect of GAPE expenditure, Aurizon Network's proposals may be driven by consideration of both regulatory and commercial environments, where commercial agreements may have provided a disincentive to end the deferral at the earliest opportunity. In the QCA's February 2024 decision on the GAPE and Newlands pricing DAAU (page 4), the QCA noted that while the amount to be included in the Newlands pricing RAB for deferred NSIE capital "*does not reflect he full value of the deferred NSIE capital, it algins with our view that existing commercial arrangements may have dampened incentives under the regulatory framework to recover deferred revenue at the earliest possible opportunity*". We question whether similar 'dampened incentives' may be relevant in this case, resulting in a proposal to add $23.6m to the pricing RAB for an asset which had an original cost of $11.6m, and is now ten years old.

Discounting Access Charges for Infrastructure Rebates

The QRC's Rail Working Group does not have a shared view on the appropriateness of Aurizon Network's proposal to change the way in which rebates are paid for Access Facilitation Deeds (AFDs). We rely on the QCA to review the proposal, but note that the proposal may be appropriate to approve <u>if:</u>

- The existing treatment of AFDs results in inequitable outcomes.

- The proposed arrangement aligns the treatment of AFDs with the UT5 approach to Private Infrastructure. We note that alignment could also be achieved by altering discounts for Private Infrastructure, which would be a more appropriate solution if the analysis indicated some defect in the approach to providing discounts for Private Infrastructure. We are not aware of any such defect.

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 E info@qrc.org.au

www.qrc.org.au

- There is a contractual right for the parties to AFDs to require Aurizon Network to review arrangements to reflect current regulatory practices.

- Impacts on other customers are expected to be minimal.

- The change would simplify revenue cap adjustments (by removing rebate variations from the adjustments).

Aurizon Network's submission indicates that each of the above conditions apply in this case, however we are unable to verify this analysis.

We note that under Aurizon Network's proposal, parties to AFDs will only transition to the new arrangement on a voluntary basis. Therefore, there should be no concerns regarding impacts on those parties.

Yours sincerely

Tom Cunningham

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 E info@qrc.org.au

www.qrc.org.au