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Queensland Rail 2023/24 Capital Expenditure Claim

We refer to Queensland Rail's (**QR**) 2023/24 capital expenditure claims (and supporting submission) submitted to the Queensland Competition Authority (**QCA**) on 20 December 2024.

As you know, the matter for the QCA to assess is the extent to which the capital expenditure described should be accepted as being prudent in scope, standard and cost and therefore included in the regulatory asset base for the West Moreton system for the purposes of reference tariffs under QR's access undertaking.

That remains clearly relevant to the reference tariffs applying under the current QR access undertaking (**AU2**). We consider it would also continue to be relevant following expiry of AU2, even if the QCA's final decision in the DAU3 process is to proceed without reference tariffs, as QR would be anticipated to seek in any pricing negotiation, a return on and of capital expenditure that the QCA has accepted as prudent .

To emphasise to the QCA the high levels of concern both current users of the system have with the process QR follows in relation to capital expenditure planning and what it means for their ability to assess prudence, New Hope and Yancoal, as the only current coal users on the system, have considered it necessary to jointly provide this submission.

Lack of Genuine Consultation

We strongly disagree with QR's claim that it has consulted with access holders 'where relevant'.

We also reject the QR assertion that the provision of a reference tariff model, without any substantiating detail to demonstrate the prudence of the capital expenditure projects assumed in it somehow enables stakeholders to assess QR's capital claim.

What actually occurs is QR presenting to the South West User Group (**SWUG**) QR's upcoming maintenance and capital work program. However, critically, that is occurring in the context of those projects being a pre-approved fait accompli. SWUG is merely being used to advise users and haulage operators of the impacts on network availability, not consult on the relevant projects.

Similarly, QR does not currently provide users (or to our understanding haulage operators) information about alternatives to proposed capital expenditure projects or demonstration as to why QR considers that the works are necessary to achieve particular outcomes. While QR's submission described high level desired outcomes, there is nothing in QR's submission which even attempts to measure or report on the impact on achieving those outcomes which result from the relevant projects.

The closest QR has come to providing information of that nature was in recent discussions regarding DAU3 where some examples of QR internal documentation regarding capital expenditure proposals were provided as part of informing access holders about the internal process for capital expenditure approval. Those documents were not provided for the purpose of, and did not contain enough information, to enable New Hope and Yancoal to make any prudence assessment.

Consequences of QR's capital expenditure process

QR's capital expenditure claim and failure to properly consult and consider access holder views gives rise to a need for the QCA to carefully scrutinise the capital expenditure project and whether there is actually sufficient information to support the prudency claims.

In doing so it should not be assumed that access holders support QR's proposals as we continue to have insufficient information to reach an informed position on prudency.

If anything, in the current environment, consultation is even more important. Where there is some uncertainty around volumes, and real affordability issues with the tariffs QR is proposing, there is a material risk that QR is investing in imprudent capital expenditure given the lower volumes that might ultimately occur due to an overly optimistic view as to the usage by others on the system.

Statutory factors in prudency assessment

In the context of QR's current claim, New Hope and Yancoal note that each of the following is a factor the QCA is required to have regard to in assessing prudency of scope (Schedule E, 3,2(e)(v) and (vii) AU2):

- (a) the extent to which consultation has occurred (which, as noted above, has not occurred in the sense of a genuine consideration of access holder's views *before* the project is committed to); and
- (b) the appropriateness of QR's process to evaluate and select proposed capital expenditure projects, including the extent to which alternatives are evaluated as part of the process (which New Hope and Yancoal considers has not been demonstrated to have occurred in respect of the projects for which claims are being made).

While we are suffering from significant information asymmetry in this process, we consider those are factors that are likely to weigh against accepting some of the capital expenditure claim as prudent.

Relevance to DAU3 Process

Finally, QR's lack of genuine consultation further reinforces the need, identified in our respective submissions during the DAU3 process, to require QR to involve access holders in the capital expenditure planning process. We are seeking genuine involvement at a time when alternatives are being considered and the likelihood of achieving the desired outcomes from projects, and whether it can be achieved more efficiently by an alternative project, are actually being considered.

We consider these circumstances also demonstrate the quantum leap that the QCA's DAU3 paper suggesting the removal of reference tariffs, is assuming QR will undertake in commercial negotiations. Where QR has no real history of genuinely consulting, current users consider it is a major assumption that they will suddenly hold meaningful stakeholder consultation and access negotiations.

Please do not hesitate to contact Jeri Mules of New Hope on [REDACTED] or Pauline Ahern of Yancoal on [REDACTED] if you have any queries in relation to this submission.

Yours sincerely

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