Queensland Rail AU3 Access Undertaking
Submission following Final Decision

14 April 2025

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1 Introduction

On 24 March 2025, the Queensland Competition Authority (***QCA***) issued its decision (the ***Final Decision***) in relation to Queensland Rail's (***QR***) 2025 draft access undertaking (***DAU3***).

We acknowledge that the Final Decision was described as final in nature in relation to a majority of the issues concerning DAU3. However, the Final Decision indicated that a further opportunity would be given to provide submissions on West Moreton access terms, such that the components of the decision related to those matters that were provided as draft positions with further submissions invited by 14 April 2025.[1]

Accordingly, this submission is provided on behalf of Yancoal Australia Limited (***Yancoal***) as the operator of the Cameby Downs coal mine, but is confined to the matters relating to the West Moreton access terms for which further submissions were invited.

Yancoal sincerely thanks the QCA for the opportunity to provide a final submission on the West Moreton pricing, because the pricing proposed by QR, and even as proposed in the Final Decision, will have significant adverse consequences for the Cameby Downs mine and the future economic viability of the West Moreton system.

Yancoal remains hopeful that these submissions can help find a way to an appropriate result for all stakeholders.

Yancoal acknowledges the QCA's continuing indication that it would be preferable if the West Moreton stakeholders were able to resolve a negotiated outcome in relation to pricing.[2] Yancoal agrees, and it has strived to reach an agreed outcome with QR but has been unable to do so.

Unfortunately, those discussions have once again demonstrated that QR is not capable of genuinely negotiating and compromising as is necessary to reach an agreement in the current circumstances where QR is operating a rail system not designed for coal services, with high capital expenditure requirements driven by past underinvestment, high fixed costs, and low railing volumes. In those circumstances, there is no zero risk way for QR to earn a full recovery on what it regards as its efficient cost. The fact that QR does not appreciate the significant stranding risk an unaffordable tariff creates does not mean such a risk does not exist or make it appropriate to let QR impose a tariff that assumes that risk and will severely damage individual customers.

In the circumstances, Yancoal's submissions are that:

(a) where the QCA considers that a reference tariff is appropriate, it should adopt the compromise affordability measures that have been proposed by Yancoal to ensure the West Moreton reference tariff is affordable. In that regard, we note the QCA's reluctance to approve a tariff that would result in QR receiving less than its efficient costs,[3] but draw the QCA's attention to the fact that the affordability measures proposed in this submission have been revised from the measures previously proposed by Yancoal to be consistent with the principle, while moving the timing of some of that recovery into periods of higher coal pricing to address affordability; and

(b) in the absence of such changes being adopted there should be no reference tariff so that the matter of access pricing can be subject to negotiation (and likely) arbitration at the time. Yancoal is no more confident than indicated in its previous submissions that negotiation will be successful. However, under a negotiate-arbitrate regime the QCA, as arbitrator, will ultimately get to determine whether affordability adjustments are appropriate, based on the circumstances at the time for recontracting when the volume

[1] Section 8 and Appendices B to E, Final Decision.
[2] Pg 96, Final Decision
[3] Pg 114, Final Decision

risk most accurately arises. Yancoal submits that will allow an appropriate result, rather than granting QR what will practically become a “take it or leave it” reference tariff that is set in the current uncertain environment and will produce a significant risk of Cameby Downs volumes declining or becoming far more uncertain through ad-hoc railing, either of which would threaten the economic viability of not just the mine, but in turn other mines and the West Moreton system.

2 Consultation with Queensland Rail

Shortly after the release of the QCA's Final Decision, QR put to Yancoal a series of positions that QR indicated were already agreed in principle with New Hope. Yancoal responded with some adjustments which would allow Yancoal to support the proposed tariff outcome.

QR has rejected that proposal, seemingly in its totality. Consequently, Yancoal is also not in a position to even understand which parts of the Yancoal position were acceptable to QR. In places where QR indicated it was intending to propose drafting or amendments in connection with various positions, QR are yet to provide such drafting or proposed amendments to Yancoal.

While Yancoal will remain open to discussions after the DAU is approved, it considers that negotiations will practically not occur if there is an approved reference tariff in place.

Consequently, any reference tariff needs to be an appropriate one that is affordable, will maintain volume on the West Moreton system, and promotes efficient use of the West Moreton rail line.

As set out below, Yancoal considers it is possible to do that in a manner that is likely to support QR recovering its efficient costs of investment in the West Moreton system

3 QR / New Hope Proposal

As Yancoal understand it, the QR / New Hope proposal reflects the following:

[redacted]

[redacted]

Queensland Rail indicated it would provide drafting amendments on some of these issues, however, Yancoal was not provided any drafting. As such, it is not possible for Yancoal to comment on some of the detail of what QR has proposed.

Yancoal acknowledges that the arrangements negotiated between QR and New Hope may provide some level of improvement. However, they are ultimately fairly close to what was included in the Final Decision, and do not go far enough to address affordability.

Given the findings around concerns with the efficiency of QR's costs which have been raised in Arcadis reports, Yancoal considers the efficiency reduction is an appropriate part of any reference tariff irrespective of whether it forms part of a total negotiated outcome. In particular it is clearly consistent with the pricing principle that prices should 'provide incentives to reduce costs or otherwise improve productivity'[4], which is a mandatory factor to have regard to in considering whether a draft access undertaking is appropriate.[5] [redacted]

4 Yancoal Proposal

In order for the resulting reference tariff to be appropriate and affordable, Yancoal proposes that the West Moreton access terms reflect the QR/New Hope proposal, adjusted as outlined below. It would still have concerns about individual components of the tariff build-up in such an arrangement but would accept it was appropriate when considered as a whole.

To be clear however, in the absence of these adjustments, Yancoal's position is that there should be no reference tariff, so that affordability can be addressed by the QCA in an arbitration at the point QR's pricing approach would otherwise result in Cameby Downs ceasing to contract or only contracting on an ad-hoc basis.

Issue	Yancoal proposed modifications	Why the proposed modifications are appropriate
Basis for Reference Tariff including weighted average cost of capital (*WACC*)	Where the other measures – particularly the affordability measures in the last row of this table are applied, no change is proposed.	Yancoal considers that there are strong arguments for why the building blocks tariff should be lower, and why the benchmarking/top down evaluation exercise needs to be redone if the time based parameters result in a further increase in pricing, but (consistent with previous submissions in the DUA3 process) is willing to accept a higher base reference tariff where there is affordability protections – so that it is able to continue contracting.
Treatment of AU2 loss capitalisation	Providing a volume trigger for review of the tariffs if the contracted volumes vary by more than +/- 1 mtpa relative to the forecast (i.e. <6.5 mtpa or >8.5 mtpa)	There needs to be precision around the trigger for variances in contracted volumes that cause a reopening of the reference tariff. Yancoal considers the appropriate threshold as +/- 1 mtpa relative to the 7.5 mtpa forecast as those thresholds should be: • balanced (apply to both increases and decreases in contracted volumes) – unlike what QR proposes which only applies to increases • set high enough that small scale variations do not trigger reopening, but set low enough that larger scale events like New Wilkie returning to full production or Cameby Downs ceasing to operate, would result in a review – again unlike what QR proposed which applies to any increase.

[4] Section 168A(d) *Queensland Competition Authority Act 1997* (Qld)
[5] Section 138(2)(g)

		Having a clear specified threshold that meets those criteria is important to maintain pricing at efficient levels because, as an example, in the event of volumes increasing, otherwise the capital true-up will pass through the changes in capital costs without opening up the potential for tariff reductions through volume increases. See proposed drafting amendments in the Annexure (compared to the clause QR proposed).
	QR to make payment of past rebates owing to Yancoal for recovered AU2 capitalised losses	This is consistent with the principles [redacted] namely that where it recovers the capitalised losses it has obtained full cost recovery and therefore earned the return it should have paid a rebate for. See proposed drafting amendments in the Annexure.
Capital True-up	None	Yancoal supports the QCA Final Decision on this matter
Customer consultation and approval of capex	Yancoal supports the drafting proposed in the Final Decision subject to two amendments: 1. Reducing the A$20m threshold to A$5m (or less)	The reduction in the capex threshold is necessary to ensure the process is used for the majority of significant capex projects on the system. A threshold of $20m will result in very few projects being captured by this regime and largely defeating the purpose of the regime in driving more efficient investment decisions and creating more transparency and alignment between the parties. See proposed drafting amendments in the Annexure (compared to the drafting proposed in the Final Decision).
	2. Refining the language around calculating voting rights so that 'contracted or have been renewed or reapplied for' needs to be contracted or 'reasonably likely to be renewed or reapplied for'	A voting threshold that refers to renewal or extension having been applied for seems likely to arbitrarily deprive customers of votes near the end of the terms (and result in anomalous outcomes like other mines having a disproportionate vote as a result). See proposed drafting amendments in the Annexure (compared to the drafting proposed in the Final Decision).

Affordability	One of the following alternative affordability measures is adopted: 1. The accelerated depreciation of 19 years is removed and replaced with the previous depreciation arrangements based on physical assets lives to calculate the reference tariff. However, commencing from the year starting 1 July 2026, where the API 5 index is above the thresholds below there would be an increase to the AT1 and AT2 components of the West Moreton reference tariff: • above AUD130 – increase of 10% • above AUD150 – increase of 15% (noting the other loss capitalisation 5% also initiates at this range – so there is actually a 20% increase) We propose that for the purposes of determining whether an increase applies at the next 1 July, the API5 price would be calculated based on the previous calendar year (as per the proposal in relation to loss capitalisation) The additional revenue is applied directly as against depreciation of QR's longest remaining asset life assets	The accelerated depreciation was designed to lessen the stranding risk – but given that the current tariff calculated with that accelerated depreciation is likely to result in non-renewal and hinder New Wilkie's prospects of economically restarting it has actually dramatically increased stranding risk. QR's proposal also brings forward the stranding risk, whereas Yancoal's proposal makes it later dated to provide a better opportunity for coal prices over the medium terms (or volume increases) to reduce the stranding risk instead. However, we understand QR's desire to seek to address the longer term stranding risk, and have therefore proposed an acceleration where coal prices rise such that that becomes affordable. Yancoal have set the recovery mechanism in a way which is designed to achieve quick acceleration in periods of profit making prices – even where relatively marginal profits might be being made, and use that additional revenue to specifically apply to depreciation of the assets with the longest remaining asset lives. Yancoal's understanding is that this would not require detailed drafting to be inserted into AU3 given the depreciation methodology / approach to asset lives is not prescriptively written in to AU3 – rather it just needs to feature in the Final Decision so that it can be applied as part of a tariff roll-forward, and then have a reference to that in the roll-forward provision in Schedule E – see the Annexure for proposed drafting. For completeness, Yancoal strongly disagrees with the statement in the Final Decision that it 'accepted' QR's 19 year asset lives[6] – when Yancoal's acceptance was clearly conditional on the tariff being affordable in a way not provided for by either

[6] Pg 105, Final Decision.

		QR or the Final Decision.
	2. An affordability tariff would be set at $33.00/'000 gtk plus, commencing from the year starting 1 July 2026, an increase to the AT1 and AT2 components of the West Moreton affordability tariff below where the API 5 index is: • above AUD130 – increase of 10% • above AUD150 – increase of 15% (noting the other loss capitalisation 5% also initiates at this range – so there is actually a 20% increase). We propose that for the purposes of determining whether an increase applies at the next 1 July, the API5 price would be calculated based on the previous calendar year (as per the proposal in relation to loss capitalisation) Where the reference tariff is higher than the affordability tariff, Yancoal pays the affordability tariff. The difference will be capitalised in a Affordability Loss Capitalisation Account. Where the reference tariff is lower than the affordability tariff, Yancoal would pay the reference tariff, plus pay down the Affordability Loss Capitalisation Account through the tariff increases listed above	This is the most direct method of resolving the affordability issue. Yancoal has set the proposed recovery mechanism in a way which is designed to achieve quick recovery of the capitalised loss in periods of profit making prices – even where relatively marginal profits might be being made (so recoveries would be being made well below the pricing for the AU2 capitalised loss mechanism detailed above). However, it has proposed the alternative change to the depreciation methodology as it understands QR is resistant to further loss capitalisation. See proposed drafting amendments in the Annexure.

5 No Reference Tariff

Where the QCA does not consider it appropriate to:

(a) adopt the Yancoal adjustments proposed above; or

(b) otherwise adjust the reference tariff to no more than A$33/'000 gtk,

Yancoal submits that it is not appropriate to approve a reference tariff (which will otherwise be unaffordable).

That is consistent with the position that Yancoal has held throughout the QCA's submission process. Yancoal's support for various tariff elements has always before conditional on their being an appropriate affordability tariff. To the extent that sections of the Final Decision seem to reflect a perception that Yancoal was supportive of other tariff elements without that caveat, then Yancoal wishes to correct the record – so Yancoal's strong opposition can be properly take into account.

Yancoal holds the view that no reference tariff is the only appropriate outcome (in the absence of an affordability tariff or approach as outlined above) because:

(a) Cameby Downs is, over the long term, and continues to be, a marginal operation. It is anticipated to be loss making across the DAU3 term at the tariff levels proposed by QR or the Final Decision in respect of DAU3 based on industry consensus thermal coal pricing;

(b) An appropriate tariff is critical both for Cameby Downs and the future of the West Moreton system, because Yancoal will face a decision whether to renew its access (which currently expires on 31 December 2026) during the term of AU3;

(c) While its existing access agreement provides pricing protection until the end of its term (through applying escalation of the charging inputs at CPI where there ceases to be a reference tariff during the term), Yancoal anticipates that it shortly faces a choice of:

    (i) committing to significant capital and contractual take or pay commitments to continue mining, including entering a new rail access agreement with QR;

    (ii) closing the mine; or

    (iii) continue operating but with no or significantly reduced long term fixed volume commitment so that it can suspend operations if the coal price continues at lower levels without incurring significant take or pay liabilities to QR;

(d) it is clear from Yancoal's negotiations with Queensland Rail that Queensland Rail is not willing to address affordability issues, and has insufficient incentives to retain volumes on the West Moreton line given its overriding focus on the passenger network; and

(e) the QCA previously recognised in its Draft Decision the level of regulatory risk that might be involved in setting a tariff (hence its desire for a negotiated outcome), and Yancoal considers that rather than this being resolved, a reference tariff without affordability adjustments actually cements regulatory error in place without the opportunity to reach a resolution at the time when it becomes evident that QR's pricing will result in loss of volume on the line.

In our previous submission, Yancoal noted the amendments required to remove the reference tariff and related provisions from the access undertaking, and it continues to consider those are the appropriate amendments where the QCA approves the changes sought.

6 Conclusion

For the reasons set out above, Yancoal submits that:

(a) It is not appropriate to approve the reference tariff proposed in the Final Decision as:

    (i) it is not affordable for Cameby Downs and it is highly unlikely to be affordable so as to allow the restart of the New Wilkie at current and projected prices for the coal produced by those mines;

    (ii) as a result the tariff is creating serious asset stranding risk for the West Moreton system; and

    (iii) where volumes fall, that is likely to result in the West Moreton system becoming unsustainable for other users;

(b) the adjustments proposed by Yancoal in these submissions provide an affordable tariff that allows efficient cost recovery by QR and should be adopted as appropriate; but

(c) where the QCA is minded to reject those tariffs, the appropriate outcome is a negotiate-arbitrate regime which provides a final opportunity to reach a resolution at the time when it finally becomes evident to QR that QR's pricing will result in loss of volume on the line.

As always, please do not hesitate to contact Mike Dodd of Yancoal Australia Limited on 0407 297 897 if you have any queries in relation to this submission.

Annexure – Drafting Amendments

1 *Loss Capitalisation*

Schedule D – Reference Tariffs

…

3.2 Review of Reference Tariff

(a) If at any point Queensland Rail, based on its contracted volumes, reasonably believes the annual aggregate contracted coal tonnages for Tariff Train Services (excluding Ad Hoc Train Services and Additional Train Services as defined in the Standard Access Agreement) for a Year during the Term will be:

(i) below 6~~7~~.5 million tonnes; or

(ii) above 8.5 million tonnes,

or is given notice by the QCA that is reasonably believes that will be the case, then Queensland Rail must undertake a review of the Reference Tariff and submit a draft amending access undertaking to the QCA setting out the outcomes of that review (including of any consultation with stakeholders) and Queensland Rail's proposed amendments.

(b) For the purposes of clause 3.2(a):

(i) a draft amending access undertaking submitted under clause 3.2(a) will be treated as if it were submitted in response to an initial amendment notice given by the QCA under the QCA Act; and

(ii) Queensland Rail and the QCA will act in accordance with the provisions of the QCA Act as though this were the case.

(c) Where an amendment to the Reference Tariff is given effect through an amendment to this Undertaking in accordance with this clause 3.2 and the QCA Act, the QCA may determine that matter will be applicable or effective from a date prior to the QCA's approval of the relevant amendment. If the QCA makes such a determination, clause 6 and any other provisions of this Undertaking relating to Adjustment Charges will apply, as applicable, in relation to the amendment to the Reference Tariff.

3.2A Addition of Recovery Charge to Reference Tariff for Increased Coal Prices

(a) If in the 12 month period ending 31 December 2025, 2026, 2027 or 2028, the Average Coal Price exceeds the Threshold Coal Price, then a Recovery Charge will apply from 1 July of the following financial year (e.g. for 1 July 2026 to 30 June 2027 if the Threshold Coal Price is exceeded in the 12 months ending 31 December 2025) as an inclusion in the Reference Tariff.

(b) The Recovery Charge for a Year commencing 1 July will be calculated as:

(i) if the Average Price for the previous calendar year exceeds the Threshold Price but is equal to or less than the Upper Threshold Coal Price, the AT_1 and AT_2 Reference Tariff inputs will be increased by 5% from what it would otherwise have been after all other adjustments under this Schedule D; and

(ii) if the Average Price for the previous calendar year exceeds the Upper Threshold Coal Price, the AT_1 and AT_2 Reference Tariff inputs will be increased by 10%

from what it would otherwise have been after all other adjustments under this Schedule D.

(c) Any Recovery Charge component of a Reference Tariff that is paid by an Access Holder will reduce the Loss Capitalisation Account balance.

(d) For the purposes of this clause 3.2A:

(i) ***Average Coal Price*** means the average of each weekly API5 Index (FOB), expressed in Australian dollars, assuming FX rate as published by RBA the time the weekly index is available

(ii) ***Threshold Coal Price*** means A$150/tonne; and

(iii) ***Upper Threshold Coal Price*** means A$175/tonne.

8.3 Establishing and maintaining the Loss Capitalisation Account

…

(c) Any remaining balance of the Loss Capitalisation Account as at 30 June 2030 will be written down to zero and not recoverable by QR.

Clause 8 in Schedule D would also need to be amended to remove reference to any other methodology of recovery of loss capitalisation.

9. Rebate Capitalisation Account

9.1 Establishing and maintaining the Loss Capitalisation Account

(a) On the Approval Date, an account will be established by Queensland Rail for each Customer with which QR has a Rebate Deed named the "Rebate Capitalisation Account" and the starting balance of the Rebate Capitalisation Amount is the amount of rebates which have not been paid across the AU2 term due to the application of loss capitalisation, rolled forward to 1 July 2025 in accordance with the relevant Rebate Deed.

(b) The Rebate Capitalisation Account will be maintained in accordance with this clause 9.

9.2 Payment for AU2 Loss Capitalisation Recovery

To the extent Loss Capitalisation Account balances which arose during the AU2 term have been recovered by QR:

(a) where that recovery occurred during the term of AU2, QR must pay the Access Holder within 10 Business Days of 1 July 2025, the corresponding rebates that would have been paid under the Rebate Deed for the recovery of that revenue; and

(b) where that recovery occurs during the term of this Undertaking, QR must set-off the corresponding rebates against any Loss Capitalisation that becomes payable during the term of this Undertaking under clause 8 of this Schedule D.

9.3 Rebates during AU3 Period

Noting in this clause 9 is intended to vary how any rebate will be paid under any Rebate Deed in respect of Access Charges charged during the term of this Undertaking. arrangements between QR and Access Holders during the

Rebate Deed means any agreement or deed to which QR and an Access Holder are a party to under which QR pays the Access Holder rebates calculated by reference to the revenue or return QR makes in respect of Access Charges for West Moreton coal services.

2 Customer consultation and approval of capital expenditure

Schedule E, Clause 2.3

(b) Queensland Rail must seek acceptance by the West Moreton Users under this clause 2.3 for:

(i) any capital expenditure project or program of capital works within the West Moreton System reasonably anticipated to cost more $5~~20~~ million or more …

….

(h) On a vote occurring under this clause 2.3, each West Moreton User has the number of votes equal to the aggregate Train Paths they have contracted on the West Moreton System across the next 5 Years after the Year in which the vote is occurring, subject to also including any Train Paths that ~~have been~~ are reasonably likely to be renewed or reapplied for before their expiry.

3 Affordability

For the avoidance of doubt – both of the alternative options below, only apply where there is an affordability based tariff. Neither would be appropriate as an addition to the tariff structure proposed by QR or in the Final Decision as they assume a lower tariff that is raised in certain circumstances where the coal producer can afford for such an increase to apply.

Option 1 – Additional Depreciation for Higher Coal Prices

Schedule E – Maintaining the Regulatory Asset Base

1.1 Roll forward principles

…

(b) depreciation of the assets will be calculated for the Year using asset lives and a depreciation profile endorsed by the QCA (and including any additional contribution to depreciation for a Year applying as a result of the Average Coal Price for the previous calendar year applying the methodology endorsed by the QCA)

Option 2 –

1. The table in 3.1(e) would need to be updated to reflect the affordability Reference Tariff of $33.00/'000 gtk.

2. A new clause would need to be inserted into clause 3 of Schedule D as follows:

3.2B Increase of Reference Tariff for Increased Coal Prices

(a) If in the 12 month period ending 31 December 2025, 2026, 2027 or 2028, the Average Coal Price exceeds the 1st Increased Affordability Threshold, then an addition to the Reference Tariff will apply from 1 July for the following financial year (e.g. from 1 July 2026 to 30 June 2027 if the Threshold Coal Price is exceeded in the 12 months ending 31 December 2025) as an inclusion in the Reference Tariff.

(b) The addition to the Reference Tariff under this clause 3.2B for a Year commencing 1 July will be calculated as:

(i) if the Average Price for the previous calendar year exceeds the 1st Increased Affordability Threshold but is equal to or less than the 2nd Increased Affordability Threshold, the AT_1 and AT_2 Reference Tariff inputs will be increased by 10% from what it would otherwise have been after all other adjustments under this Schedule D other than any additions under clause 3.2A; and

(ii) if the Average Price for the previous calendar year exceeds the Upper Threshold Coal Price, the AT_1 and AT_2 Reference Tariff inputs will be increased by 15% from what it would otherwise have been after all other adjustments under this Schedule D other than any additions under clause 3.2A.

(c) Any increase in Reference Tariff under this clause 3.2B that is paid by an Access Holder will reduce the Loss Capitalisation Account balance.

(d) For the purposes of this clause 3.2A:

(i) ***Average Coal Price*** means the average of each weekly API5 Index (FOB), expressed in Australian dollars, assuming FX rate as published by RBA the time the weekly index is available

(ii) ***1st Increased Affordability Threshold*** means A$130/tonne; and

(iii) ***2nd Increased Affordability Threshold*** means A$150/tonne.