



Mr George Passmore
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4001

Aurizon Network – Annual Review of Reference Tariffs – FY2022

9 April 2021

Dear George,

Aurizon Coal welcomes the opportunity to respond to Aurizon Network's FY2022 Annual Review of Reference Tariff (**FY22 Annual Review**) submission dated 26 February 2021 and updated 17 March 2021.

Aurizon Coal is generally supportive of the proposed variations to the Allowable Revenues and Reference Tariffs for FY2022 but takes this opportunity to provide comment on the application of Private Incremental Costs (**PIC**) to the new coal carrying train service in the Newlands system. Our interest in this matter stems from our role as coal haulage provider for a number of existing mines in the Newlands and Goonyella to Abbot Point (**GAPE**) systems. We wish to ensure our customers' business remains sustainable following the entrance of a new coal carrying train service as detailed in clause 4.6 of the FY22 Annual Review.

The relevant provisions in the 2017 Access Undertaking (**UT5**) governing determination of access charges for new coal carrying train services operating on the Central Queensland Coal Network (**CQCN**) rest on the fundamental premise of contestability in the construction and ownership of the mine specific infrastructure.

Historically, the capital costs of building a spur line or balloon loop for a new mine connecting to the CQCN were considered costs incurred by Aurizon Network, whether or not actually funded by a third-party. Consequently, such costs were treated as common costs, included in the relevant system Regulated Asset Base (**RAB**), and socialised across all users. This approach to pricing mine specific investment was developed in a commercial environment of low coal prices and excess track capacity. For a period of time, Aurizon Network utilised Access Facilitation Deeds (**AFDs**) to finance the construction of mine specific infrastructure for customers, but this approach was phased out due to accounting impacts.

The current concept of Approved Private Incremental Costs allows a private infrastructure owner to fund and own private infrastructure that will connect to the Rail Infrastructure for the purpose of Access without being financially disadvantaged vis-à-vis competitors whose mine specific rail infrastructure was socialised across all users in the relevant rail system. This is done via a discount to the reference tariff to the extent of the user's contribution to the capital costs of their private infrastructure.

This is achieved by application of clause 6.3.1(c) of UT5 which provides the access charge for a new coal carrying train service is the higher of the relevant Reference Tariff less the annual maximum allowable revenue derived from the Approved PIC, and the Minimum Revenue Contribution (calculated as the sum of the incremental costs of using any Rail Infrastructure specifically for the new service and the sum of AT₂ and half of the AT₃ component for the distance the service will travel on the mainline of the relevant coal system).

Aurizon Network expect the capital expenditure on private infrastructure for the new coal carrying service to be material. Although the Queensland Competition Authority (**QCA**) has not yet approved the relevant PIC, its expectation of the materiality of this amount has led Aurizon Network to conclude that the new coal carrying train service will pay an access charge comprising only the Minimum Revenue Contribution.

Aurizon Coal has inferred from this statement that a significant portion of the mine specific privately funded rail infrastructure will be included in the Approved PIC.

Aurizon Coal acknowledges that the owners of new coal carrying services are entitled to rely upon the pricing principles in the current approved access undertaking when costing their rail access requirements. However, the history briefly detailed above provides insight into the intended objective behind the discounting of access charges for private infrastructure and the factors considered in calculating a fair and appropriate discount (including competitive neutrality).

The private infrastructure in question here has the potential to become multi-user. The new coal carrying train service could also continue to pay an access charge reflecting only the Minimum Revenue Contribution (MRC) if and when its volumes comprise the vast majority of the Newlands system volume.

Aurizon Coal requests that the QCA evaluate these circumstances when it considers:

1. Whether the application of the PIC discount is consistent with the intended objectives for pricing private infrastructure connecting to the CQCN;
2. If the requirements of section 138 *Queensland Competition Authority Act 1997* (Qld) are satisfied, including the object of promoting economically efficient operation of, use of and investment in, significant infrastructure by which services are provided, with the effect of promoting effective competition in upstream and downstream markets; and
3. Whether the MRC represents a fair and efficient contribution to common costs given the relatively low value of AT₂ in the Newlands system compared to other systems, such as GAPE.

Should you have any questions in relation to the submission please contact me via phone on 0439 921 562 or email at Mariese.Murphy@aurizon.com.au.

Kind regards



Mariese Murphy
Manager Commercial Development & Integration
Coal Customers