

DECISION NOTICE

PRIVATE INCREMENTAL COST—CARMICHAEL RAIL LOOP AND CONNECTING INFRASTRUCTURE

15 December 2022

The Queensland Competition Authority (QCA) has approved \$44 million as the prudent and efficient value of the private incremental costs associated with the Carmichael rail loop and connecting infrastructure. This assessment has been made in accordance with clause 6.3.2 of Aurizon Network's 2017 access undertaking (UT5).

UT5 provides for us to approve the prudent and efficient value of private incremental costs (PIC) associated with private infrastructure, if requested by an access seeker or Aurizon Network. In doing so, we:

- must be satisfied this expenditure is for the prudent and efficient value of the assets that are used to provide the relevant train services over private infrastructure¹
- may have regard to the **scope of works, standard of works and cost**²
- may approve all, or part, of the claim (making adjustments to the PIC as we consider appropriate).³

Bravus' private incremental cost application

On 13 April 2022, Bravus made a PIC application of \$44 million in respect of infrastructure related to the operation of the Carmichael mine. Specifically, the claim is for:

- the connection to the Newlands system and the section for which Aurizon is the rail infrastructure manager
- the Carmichael rail loop.

On 10 October 2022 we released a draft decision proposing to approve \$44m as the prudent amount for PIC for the Carmichael rail loop and connecting infrastructure. In response we received a confidential submission that raised issues around the applicability of PIC discounts to the Carmichael Rail Network (CRN), our assessment of the PIC amount, and the tariff(s) to which any approved PIC amount should be applied. Where relevant, these issues have been considered.

We are satisfied that Bravus' application qualifies for consideration under the PIC provisions. We note, for example, that there are no exclusions in the PIC provisions for applications based on the proportion of tonnage and the potential impact on the distribution of system costs, the use of the infrastructure (beyond being used to provide

¹ UT5, cl. 6.3.2(a).

² UT5, cl. 6.3.2(b).

³ UT5, cl. 6.3.2(e)(i), (g).

train services) or whether the infrastructure will be used by third parties. Moreover, based on the information at hand, the infrastructure included in Bravus' PIC claim⁴ does not appear to be unusual for a mining operation, nor outside the bounds of what was considered when the PIC provisions were put in place. On this we note that, while the pieces of infrastructure included in Bravus' PIC claim are connected to the CRN project,⁵ the CRN itself is not part of the claim, and as such the nature of the CRN is not relevant to our assessment.

Bravus has claimed \$5 million for connection costs to the Newlands system and \$39 million for construction costs associated with these two pieces of infrastructure. Bravus has stated that both of these amounts are lower than actual expenditure and are based on what Bravus considers to be prudent industry benchmarks.

Engineering consultant's assessment

We engaged Arcadis to provide engineering advice on the prudence and efficiency of Bravus' PIC claim.

Arcadis assessed the claim items and reported on them based on a site visit to both facilities, as well as a desktop review of documentation Bravus provided. Additional information was also assessed, as well as clarification Bravus provided throughout the review to further explain and substantiate the information it provided initially.

Overall, Arcadis found the scope and standard of all works, including the length of the Carmichael rail loop, to be prudent and efficient, given the reasonable requirements of the operational network and the need to export product from the Bravus mine site.

While Arcadis found that the cost of the rail loop sat at the higher end of the benchmark range, it considered these costs could be explained by key site-specific differences between Bravus' rail loop and more typical benchmark projects. These include the stringent conditions and remoteness of the project, whole-of-life considerations in material specifications, and resource constraints. Given these engineering factors, as well as activist issues that caused disruptions, high insurance costs and issues with material sourcing, Arcadis considered the works to be prudent.

Arcadis' estimate of connection costs was \$80,456 lower than the amount claimed by Bravus.

Arcadis' final report is available on our [website](#).

We used Arcadis' advice as one input into our overall assessment; we have not simply adopted Arcadis' views, recommendations or analysis.

QCA assessment and decision

Based on the information provided, including that from Arcadis, and the confidential submission we received, we have accepted \$44 million as the prudent and efficient value of the assets that are used to provide train services over private infrastructure for the Carmichael Mine.

In doing so, we note that Bravus' application and the infrastructure that is the subject of the claim satisfy the requirements for consideration under the PIC provisions. The provisions specify the scope of our decision to be the prudent and efficient value of the assets included in the PIC claim, and do not allow for the QCA to adjust the manner in which the application should be considered, given the potential impacts on other users.⁶ In this context, we note that the confidential submission also raised issues around the tariff(s) to which any approved PIC amount

⁴ The infrastructure consists of a balloon loop loading facility and network connection.

⁵ The CRN is a large and potentially multi-user network.

⁶ We are aware that due to the current inherent characteristics of the Newlands system (it has a very small number of users, and the existing mine-specific infrastructure has been operating for many years and will therefore assumedly have been depreciated), approving a new PIC will unavoidably have a greater impact on the prices paid by existing Newlands system users than a similar decision would on other systems.

should be applied. However, this issue is beyond the scope of this decision being made under clause 6.3.2, which relates specifically to the prudent and efficient value of the assets included in the PIC claim.

We accept that the works that are the subject of the PIC claim are of a prudent standard to meet the project scope and are not overdesigned—with the design and configuration of the works appropriate and fit for purpose, given the requirements of projected mine production, demand and capacity levels.

While the approved costs are at the higher end of industry norms, we accept that the amount claimed is prudent and efficient, given the specific matters Bravus faced in constructing the infrastructure, including difficult geotechnical conditions and remoteness.

While the overall costs estimated by Arcadis were \$80, 456 lower than that claimed by Bravus, we consider that the difference is likely attributable to the data available and the methodology used to apportion common costs between projects. In any event, given the difference between Arcadis' estimate and the claim amount is less than 1% of the overall claim, we do not consider the amount will have a material impact on users.

Accordingly, based on all information available, we have approved \$44 million as the prudent and efficient value of the PIC associated with the Carmichael rail loop and connecting infrastructure project.

Approved private incremental costs

We approve \$44 million as the prudent and efficient value of the PIC relating to the Carmichael rail loop and connecting infrastructure project.