

Consultation paper - request for comments

Aurizon Network's 2017 draft access undertaking: maintenance allowance and practices

May 2018

SUBMISSIONS

Closing date for submissions: 20 June 2018

This consultation paper seeks submissions from interested parties on matters that have arisen following the Queensland Competition Authority's (QCA's) draft decision and stakeholders' submissions in response. The QCA's thinking may change towards its final decision, which will be informed by submissions made in response to this document. This consultation paper has no force of itself. There should be no expectation that it presents views and recommendations as to how the QCA may consider it appropriate to amend Aurizon Network's 2017 draft access undertaking (2017 DAU) which will prevail to the end of the decision making process unless the QCA is persuaded otherwise.

Public involvement is an important element of the decision-making processes of the QCA. Therefore submissions are invited from interested parties concerning its assessment of Aurizon Network's 2017 DAU. Submissions received within the stated timeframes will be considered.

Submissions, comments or inquiries regarding this paper should be directed to:

Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Tel (07) 3222 0555

www.qca.org.au/submissions

Confidentiality

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available. However, if a person making a submission believes that information in the submission is confidential, that person should claim confidentiality in respect of the document (or the relevant part of the document) at the time the submission is given to the QCA and state the basis for the confidentiality claim.

The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is available on request. The QCA encourages stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

Contents

SUBMISSIONS	I
Closing date for submissions: 20 June 2018	i
Confidentiality	i
Public access to submissions	i
CONSULTATION PAPER—OVERVIEW	III
Submission deadline	iv
1 REQUEST FOR COMMENTS-DETERMINING AN APPROPRIATE MAINTENANCE ALLOWANCE	1
1.1 Selection of an appropriate base-year for maintenance costs	1
1.2 Prudent adjustments to Aurizon Network's actual base year costs	3
1.3 Transition from actual costs to efficient costs, while maintaining network service level standards - 'network performance incentive'	5
1.4 Transition from actual costs to efficient costs, while maintaining network service level standards - 'maintenance performance monitoring framework'	6
1.5 Calculation of non-coal allocations towards network maintenance	6
2 REQUEST FOR COMMENTS—MAINTENANCE ACCOUNTABILITY MECHANISMS	8
2.1 Obligations to maintain the network and minimise disruptions to train services	8
2.2 Reporting requirements to assist access holders to identify reasons for disruption to train services	9
2.3 Aurizon Network's Board and maintenance matters	9
2.4 Supply chain co-ordination obligations with regard to the planning and scheduling of maintenance activities	9
2.5 Adjustments to Aurizon Network's revenue-cap arrangements	9
APPENDIX A : INFORMATION REQUESTED—ADJUSTMENTS TO BASE YEAR	11
Turnout resurfacing	11
Flood rectification costs	11
Ballast cleaning costs	11
Structures	12

CONSULTATION PAPER—OVERVIEW

This consultation paper seeks stakeholder comments on a number of maintenance and operational matters in light of issues raised by Aurizon Network and other stakeholders in response to our draft decision. Broadly, these relate to:

- **determining an appropriate maintenance allowance for the UT5 period for direct maintenance costs; and**
- **considering Aurizon Network's level of accountability in the event that maintenance and operational practices unreasonably disrupt train services.**

The QCA is considering various matters raised in submissions in response to the QCA's draft decision relating to Aurizon Network's UT5 maintenance allowance and related operational practices. At this stage in the process we consider there is benefit in obtaining further stakeholder comments to inform our forthcoming final decision on Aurizon Network's 2017 DAU.

These matters have become relevant at this time because of new information provided in response to the draft decision, including Aurizon Network's revised direct maintenance cost claim and changes to maintenance practices in response to the QCA's draft decision.

The QCA does not agree with Aurizon Network's characterisation of the QCA's draft decision including, amongst other things, alleged reliance on independent consultant reports in relation to maintenance matters and the presumption that the QCA is not open to revisiting matters in light of new information, evidence or arguments provided in response to the draft decision.

For clarity, the QCA's draft decision:

- Used Aurizon Network's FY2017 actual maintenance costs,¹ reflecting Aurizon Network's current operating and maintenance service level standards and realised cost savings from various productivity improvements implemented by Aurizon Network.
- Did not simply adopt recommendations outlined by independent consultants. Although, this advice noted that Aurizon Network's proposal was not sufficiently justified and, based on the information available, was materially greater than that required to maintain the below-rail service for coal-carrying trains. The QCA proposed an aggregate efficiency factor to allow Aurizon Network to retain control over how and when it might implement any initiatives to reduce costs and/or improve its productivity.
- Did not prescribe that Aurizon Network change its maintenance programme nor the operation of its maintenance practices. The QCA did not advocate giving priority to maintenance activities rather than train services.
- Did not require Aurizon Network to pursue cost minimisation at the expense of operational flexibility by requiring maintenance activities take priority over train services. Rather, the QCA's approach sought to promote economic efficiency, in which costs are commensurate with existing service level standards.
- Identified concerns as to how Aurizon Network manages the trade-offs between maintenance costs and network path availability.

¹ The QCA applied FY2017 as the base year to all cost categories, excluding rail grinding, structures and traction power which reflected Aurizon Network's forecast UT5 costs.

- Sought submissions from interested parties on opportunities to develop incentives that encourage Aurizon Network and its customers to work together to realise efficiencies and cost savings, while preserving service level standards expected when obtaining access to the declared service.

The draft decision sought further submissions from all stakeholders and did not represent any final views. Having considered the submissions received, moving towards a final decision, the QCA's preliminary view is that it is favourably disposed to accepting Aurizon Network's revised claim for direct maintenance costs, subject to it providing sufficient justification and evidence. Further information has been requested from Aurizon Network so that the QCA can consider the direct maintenance costs further (see **Appendix A** for a summary of the information requested). We also seek stakeholder views to assist us in making our final decision.

The QCA notes that stakeholders have submitted that greater accountability should be applied to Aurizon Network in relation to its maintenance and operational activities. This consultation paper seeks stakeholder views on the appropriate level of accountability to apply to Aurizon Network.

The comments, suggestions and any preliminary views expressed in this consultation paper are not intended to be exclusive or determinative and do not represent any final views of the QCA. The issues raised in this consultation paper are provided by way of guidance on matters which may be addressed and in order to assist all stakeholders to consider the issues and provide submissions. In making its final decision, the QCA will have regard to stakeholder submissions and apply the statutory criteria in section 138(2) of the QCA Act in determining whether it is appropriate to approve Aurizon Network's 2017 DAU.

Submission deadline

Stakeholder consultation is an important element of the QCA's decision-making process. On 15 December 2017, the QCA released a draft decision which was informed by the submissions and information provided by interested parties, including Aurizon Network.

Submissions in response to the draft decision raised a number of issues highlighted in this consultation paper where we consider there is benefit in obtaining further stakeholder comments. Interested parties are invited to make written submissions to the QCA on the specific issues identified in this consultation paper.

Submissions must be received by 20 June 2018.

All submissions made by this time will be taken into account, but stakeholders are encouraged to provide focused, detailed responses. Where possible, information and evidence should be provided in support of arguments advanced in submissions and consideration should be given to the matters the QCA must have regard to in section 138(2) of the QCA Act.

Constructive engagement is in the best interests of all parties. We encourage stakeholders to collaborate, discuss and, where possible, provide joint submissions. To this end, the QCA encourages Aurizon Network and its customers to concurrently engage with each other in order to reach a pragmatic consensus on these matters.

1 REQUEST FOR COMMENTS-DETERMINING AN APPROPRIATE MAINTENANCE ALLOWANCE

Request for comment

Given the importance of determining an efficient allowance to undertake maintenance work during the regulatory period, the QCA is seeking stakeholder comments on approaches to determine an appropriate maintenance allowance for direct maintenance costs, namely:

- **selection of an appropriate base-year for maintenance costs and prudent adjustments;**
- **transition from actual costs to efficient costs, while maintaining network service level standards through the inclusion of a:**
 - (a) 'network performance incentive'; and**
 - (b) 'maintenance performance monitoring framework';**
- **calculation of non-coal allocations towards network maintenance.**

Aurizon Network's revised maintenance submission of \$928.1 million (nominal)² in response to the draft decision applies bottom-up cost estimates for ballast and resurfacing; generally accepts the QCA's proposed FY2017 base year; proposes a number of adjustments to FY2017 base year costs; and does not accept the application of the efficiency factor.³

Stakeholders are, in general, supportive of revisions to the maintenance allowance where Aurizon Network is able to demonstrate its costs are efficient.⁴

To the extent Aurizon Network is able to substantiate its revised claim, the QCA is open to increasing the maintenance allowance accordingly, but is seeking further information from Aurizon Network and the views of stakeholders.

1.1 Selection of an appropriate base-year for maintenance costs

The QCA is seeking submissions on the use of Aurizon Network's FY2017 actual costs as the appropriate base year.

Aurizon Network's 2017 DAU proposal used FY2015 as the base year to derive its UT5 maintenance costs. The QCA's draft decision adopted Aurizon Network's base year approach, although proposed FY2017 actual costs as the appropriate base year.⁵ This year was chosen as it reflected Aurizon Network's current operating and maintenance service level standards and

² Aurizon Network's 2017 DAU submission proposed a maintenance allowance of \$920.6 million (nominal). The QCA's draft decision proposed Aurizon Network amend its allowable revenues and reference tariffs to reflect a maintenance allowance of \$817 million (nominal) over the UT5 period.

³ Aurizon Network, 2017 Draft Access Undertaking Response to the Queensland Competition Authority's Draft Decision, March 2018: 223.

⁴ Queensland Resource Council, Submission on QCA draft decision, March 2018: 28; Anglo American, Submission in response to the QCA Draft Decision on the Aurizon Network 2017 DAU, March 2018: 7; Glencore, Submission to the Queensland Competition Authority, March 2018: 8.

⁵ The QCA applied FY2017 as the base year to all cost categories, excluding rail grinding, structures and traction power which reflected Aurizon Network's forecast UT5 costs.













included realised cost savings from various productivity improvements implemented by Aurizon Network.

Aurizon Network supported in principle our intended approach of adopting FY2017 actual costs as the base year for non-mechanised maintenance activities, and the QCA's draft decision for traction power.⁶ The QRC has also supported the QCA's proposal to adopt FY2017 as the base year.⁷

Aurizon Network has broadly⁸ accepted the direct cost proposed in the QCA's draft decision for the majority of identified cost categories (see **Table 1**). Around 59 per cent of the variance between direct maintenance costs proposed in the QCA's draft decision and Aurizon Network's revised costs can be attributed to a single cost category — ballast undercutting (mainline). The QCA notes ballast undercutting costs (mainline) as proposed by Aurizon Network in response to the draft decision are \$11.3 million greater than its 2017 DAU proposed ballast costs, despite Aurizon Network introducing a number of productivity improvements.⁹

The QCA is interested in stakeholder views on Aurizon Network's revised ballast undercutting allowance, in which Aurizon Network is seeking a 19.4 per cent increase from the draft decision, which used FY2017 actual costs as the base.

Table 1 Variance between QCA's draft decision and Aurizon Network's revised proposal

<i>Direct Cost Category</i>	<i>Aurizon Network's proposed variance to draft decision, \$m</i>	<i>Aurizon Network's general acceptance of costs proposed in the draft decision</i>
<i>Resurfacing — mainline</i>	0.7	
<i>Grinding — mainline</i>	0.4	
<i>Grinding — turnouts</i>	0.2	
<i>Signalling</i>	0.7	
<i>Telecommunications</i>	0.1	
<i>Traction Power</i>	0.2	
<i>Maintenance planning & support</i>	0.2	
<i>Ballast undercutting — mainline</i>	42.9	
<i>Ballast undercutting — turnouts</i>	1.9	
<i>Resurfacing — turnouts</i>	4.1	
<i>General track</i>	12.4	
<i>Structures</i>	9.3	

⁶ Aurizon Network, 2017 Draft Access Undertaking Response to the Queensland Competition Authority's Draft Decision, March 2018: 202.

⁷ Queensland Resource Council, Submission on QCA draft decision, March 2018: 30.

⁸ While minor variances may exist, these are largely attributed to changes in the Maintenance Cost Index (MCI).

⁹ Aurizon Network, 2017 Draft Access Undertaking Response to the Queensland Competition Authority's Draft Decision, March 2018: 207.

Direct Cost Category	Aurizon Network's proposed variance to draft decision, \$m	Aurizon Network's general acceptance of costs proposed in the draft decision
Total variance direct costs	73.0	

Notes: Numbers may not add due to rounding. The QCA is continuing to assess responses to the draft decision on the MCI as well as other indirect cost items. As such, these are not discussed in detail within this consultation paper.

1.2 Prudent adjustments to Aurizon Network's actual base year costs

Aurizon Network has not accepted the direct cost parameters outlined in the QCA's draft decision for ballast undercutting and resurfacing and has instead sought to apply a 'bottom up' cost estimate. The QCA is currently assessing Aurizon Network's 'bottom up' cost estimates and has requested Aurizon Network provide additional information to assist in forming a view on the reasonableness of costs derived from this approach (see Appendix A for a summary of the information requested).

Aurizon Network has also proposed a number of adjustments to FY2017 base year costs to account for unusual circumstances. Aurizon Network's proposed adjustments to FY2017 base year costs are provided in Table 2 (see over page).

In determining FY2017 as an appropriate base year in the draft decision, the QCA gave consideration to the cost saving factors identified by Aurizon Network in the FY2017 Maintenance Cost Report.¹⁰

Aurizon Network's direct maintenance expenditure for FY2017 was \$187.0 million, representing an underspend of \$5.3 million against Aurizon Network's adjusted maintenance allowance of \$192.3 million. This compares with an aggregate overspend across the UT4 period of \$31 million, details of which are set out in a separate section below.

The primary reasons for this variation in FY2017 includes:

- Under-spend of \$13 million on Ballast Undercutting through a combination of:
 - improved track access in the first half of FY2017 facilitating greater productive output and reducing unit rates
 - greater ballast screenability in track locations undercut during FY2017. This resulted in cost savings because a higher proportion of existing ballast could be cleaned and returned to track;
 - changes to the resourcing model for operating and maintaining the ballast undercutting machine;
 - 5km volumetric scope mainline under-delivery as a consequence of lost track access during Tropical Cyclone Debbie; and
 - completion of some FY2017 turnout undercutting scope in previous years.
- \$3 million saving in signalling maintenance costs as a result of changes to our Enterprise Agreements;
- Resurfacing costs were \$3 million lower due to the change in the operating / maintaining model for the resurfacing plant;

¹⁰ Aurizon Network, FY2017 Maintenance Cost Report.
<http://www.aurizon.com.au/~media/aurizon/files/what%20we%20do/network/network%20downloads/maintenance%20costs/annual%20maintenance%20cost%20report%202016-2017.pdf>, October 2017: 11.

- Overspend of \$3 million in the 'structures' category attributable to additional drainage and culvert maintenance as part of our flood readiness programme; and
- An insufficient UT4 maintenance allowance for rail grinding, resulting in a \$5 million "overspend".

It should be noted that following Tropical Cyclone Debbie, Aurizon Network maintenance staff assisted with the initial inspection, damage control, and initial rectification works. For clarity, such labour costs have historically been not deemed to be incremental by the QCA, and were not included within the Review Event Claim associated with Tropical Cyclone Debbie; nor are they contained in the \$187m of actual direct maintenance costs presented in this report.

While the FY2017 Maintenance Cost Report signalled a number of productivity improvements, it did not indicate that any of the cost savings were once-off occurrences.

The QCA's preliminary view is that it is favourably disposed to accept Aurizon Network's proposed adjustments to base year costs and increase the maintenance allowance accordingly, subject to Aurizon Network substantiating its claims. In this regard, the QCA has requested additional information from Aurizon Network to assist in this process (see Appendix A for a summary of the information requested). However, this does not represent the QCA's final view. Views from stakeholders in relation to these matters would assist the QCA in making our final decision.

Table 2 Aurizon Network's proposed adjustments to base year costs and QCA's draft decision

<i>Aurizon Network's proposed adjustments to the base-year</i>	<i>QCA's understanding at the draft decision stage</i>
Flood rectification work post Tropical Cyclone Debbie has resulted in understated labour costs for general track activities.	The QCA's draft decision included a proposed adjustment to FY2017 general track costs equivalent to \$2m (FY\$2015) to reflect an increase in volumes in FY2018 to, amongst other things, give consideration to Cyclone Debbie impacts on ordinary labour forecast requirements.
For the structures cost category, applying FY2017 costs is appropriate as they include costs related to the 'flood-readiness' programme.	The QCA's draft decision applied Aurizon Network's proposed 2017 DAU costs for structures. We note these costs allowed for increased scope to support what was referred to as a 'storm readiness' regime in Aurizon Network's 2017 DAU proposal. ¹¹
Ballast screenability during FY2017 was 3 per cent higher than the UT4 average of 71 per cent, resulting in reduced ballast costs. The UT4 average should be applied.	The QCA's draft decision did not provide an adjustment for this factor.
Stockpiles of cascaded ballast (ballast material not fully utilised in FY2016) was used in FY2017, reducing ballast costs in FY2017.	Aurizon Network's FY2017 Maintenance Cost Report did not mention the once-off savings resulting from cascaded ballast, hence the QCA's draft decision did not make an adjustment for this factor.
The expected average costs of plant maintenance for ballast undercutting and resurfacing is expected to be greater in UT5, due to varying maintenance cycles and new machinery with different physical characteristics. This will result in an increase to the UT5 cost base by \$5.1m and \$2.4m respectively.	Aurizon Network's FY2017 Maintenance Cost Report did not make clear savings experienced through reduced plant maintenance costs in FY2017 were once-off occurrences. The QCA's draft decision therefore did not make adjustments for this factor.

¹¹ Aurizon Network, 2017 draft access undertaking Submission, November 2016: 188.

1.3 Transition from actual costs to efficient costs, while maintaining network service level standards - 'network performance incentive'

The QCA's draft decision sought submissions on opportunities to develop incentives that encourage Aurizon Network and its customers to work together to realise efficiencies and cost savings, while preserving service level standards expected when obtaining access to the declared service.

In response to submissions on the draft decision, the QCA is seeking stakeholder views on whether it is appropriate to introduce a network performance incentive, which will create a positive incentive on Aurizon Network to meet its relevant performance outcomes. One example of how this could be achieved is by removing the efficiency factor (to the extent the QCA identifies any such amount in the final decision) when Aurizon Network meets or exceeds relevant performance outcomes. Such a mechanism could be designed to allow Aurizon Network to recover at least the efficient costs of maintaining the network, while promoting good operational decisions. However, there may be other ways in which a network performance incentive could operate.

The network performance incentive could encourage Aurizon Network to deliver its maintenance program in a manner that:

- does not result in a deterioration of network availability and performance to the detriment of access seekers, access holders, and their customers; and
- recognises and balances the trade-offs between Aurizon Network's maintenance costs and the operational and logistical needs of the broader supply chain, in the interests of efficient outcomes.

In the process, appropriate incentives should encourage Aurizon Network to give greater consideration to managing trade-offs between maintenance expenditure and supply chain disruptions, and improve transparency of these relationships.

The QCA acknowledges that incentive mechanism design can be complex. Any mechanism considered should be simple to understand and implement and would require the following key elements to be determined:

- appropriate measures of performance, including definitions and exclusions;
- establishing baseline levels of performance and minimum (target) performance levels;
- the strength and structure of incentives; and
- reporting requirements and processes for review.

Our preliminary view is that it would be appropriate to focus any such incentive on relevant measures of network availability (for example, train path availability and cancellations) and network performance (for example, on-time performance, transit time delays and temporary speed restrictions).

However this is not the QCA's final view and the QCA seeks stakeholder feedback on these and any other matters stakeholders consider relevant to a network performance incentive.

1.4 Transition from actual costs to efficient costs, while maintaining network service level standards - 'maintenance performance monitoring framework'

In the draft decision the QCA noted the trade-offs between maintenance costs and network performance and availability. It was, however, unclear to the QCA how Aurizon Network is managing these trade-offs and whether its management is leading to efficient outcomes:

- The UT5 maintenance cost proposal highlights the capital, maintenance and operating trade-offs that were made when it developed the scope of its proposed UT5 maintenance program. However, no detail has been provided on how senior management monitor these trade-offs to ensure maintenance outcomes deliver 'value for money'.¹²
- Aurizon Network has been unable to demonstrate that it has given due attention to cost control processes, the efficiency of its resources (labour and equipment) and longer-term productivity initiatives to maintain the network. For example, there was limited supporting evidence that Aurizon Network has an effective governance system in place to guide decision-making on the cost and service quality trade-offs (i.e. capital, maintenance and network operations) as they emerge in the conduct of its business.

The QCA also has concerns regarding the trade-offs that Aurizon Network must manage when maintaining the network in accordance with its 'Asset Management Paradigm'—in particular, where, when and how Aurizon Network decides to incur additional costs for maintenance activities to improve network path availability in a specific coal system, or more generally across the network.¹³

The QCA notes that Aurizon Network has been making such decisions over a number of years, although it is unclear if appropriate consultation with coal producers has been undertaken in this regard. The QCA considers further understanding of these trade-offs would assist in determining the efficient maintenance allowance in future undertakings. In moving towards a final decision, the QCA is seeking stakeholder views on whether it is appropriate to implement a maintenance performance monitoring framework, which may provide information necessary to allow these trade-offs to be identified and assessed in a transparent manner.

To be effective, any maintenance performance monitoring framework would need to clearly demonstrate how changes to the supply chain operations impact maintenance costs and *vice versa*. Doing so would require service level specifications encompassing asset reliability and condition; maintenance performance and costs; and network performance measures (for example, number and duration of maintenance possessions, variations to planned possession start and end times).

1.5 Calculation of non-coal allocations towards network maintenance

The QCA is seeking stakeholder views on making an adjustment to base year costs to reflect a fair allocation to non-coal train services.

The QCA notes that allocating a portion of maintenance costs to non-coal traffic has been applied in previous access undertaking processes. Stakeholder views are requested on an appropriate allocation that best reflects the impact of such train services on Aurizon Network's maintenance costs, including:

¹² QCA, Draft Decision Aurizon Network's 2017 draft access undertaking, December 2017: 270.

¹³ QCA, Draft Decision Aurizon Network's 2017 draft access undertaking, December 2017: 271.

- what metrics (for example, gtk, train paths) are appropriate for estimating non-coal impacts on maintenance costs; and
- whether to apply a non-coal allocation to all maintenance categories. For example, should ballast undercutting and traction costs only apply to coal train services, given ballast fouling is a significant contributor to ballast degradation and the impact of non-coal services on electric traction maintenance is immaterial?

2 REQUEST FOR COMMENTS—MAINTENANCE ACCOUNTABILITY MECHANISMS

Request for comment

Given the adverse impacts maintenance work can have on an access holder's ability to utilise their access rights and the concerns raised by stakeholders as to changes to Aurizon Network's maintenance practices since the draft decision, the QCA is seeking stakeholder comments on the appropriateness of:

- **obligations to maintain the network and minimise disruptions to train services;**
- **reporting requirements to assist access holders to identify reasons for disruption to train services;**
- **involvement of Aurizon Network's Board with respect to maintenance matters generally;**
- **supply chain co-ordination obligations with regard to the planning and scheduling of maintenance activities; and**
- **any adjustments to the materiality threshold that applies to Aurizon Network's revenue-cap arrangements.**

The QCA has received submissions from stakeholders expressing concern about Aurizon Network's stated intention to change maintenance practices in a way which will have the effect of reducing throughput.

Stakeholders have submitted that greater accountability is required of Aurizon Network.

By way of background, following the draft decision, Aurizon Network indicated through public statements that it intends to change its maintenance practices in a way which could reduce throughput by an estimated 20 million tonnes per annum, with scope for more changes potentially resulting in further reductions.¹⁴

In light of the submissions the QCA has received, the significance of this action, and the potential consequences for access holders and the public interest, the QCA is seeking submissions on whether the terms of Aurizon Network's 2017 DAU provide sufficient transparency for access holders and accountability on Aurizon Network.

2.1 Obligations to maintain the network and minimise disruptions to train services

The QCA is seeking stakeholder views on whether Aurizon Network's 2017 DAU and associated standard agreements in relation to Aurizon Network's obligations to maintain the network and minimise disruptions to train services are appropriate.

The QCA notes the importance of Aurizon Network sustaining the ability to appropriately maintain the network, but also the importance of doing so in a manner that minimises disruptions to train services. It is important for the arrangements in this regard to reflect a reasonable and balanced allocation of rights, obligations, risks and liabilities between parties. This involves an

¹⁴ Aurizon, ASX Announcement, Aurizon Half Year 2018 Financial Results, February 2018: 3.

appropriate balance being struck between the legitimate business interests of Aurizon Network and the interests of access seekers and holders.

The QCA is seeking stakeholder views on whether Aurizon Network's 2017 DAU contains appropriate obligations to maintain the network and minimise disruptions to train services, or whether changes to enhance the operation of these arrangements are appropriate.

2.2 Reporting requirements to assist access holders to identify reasons for disruption to train services

The QCA seeks stakeholder views on whether reporting obligations should be enhanced to provide increased transparency and accountability about the carrying out of maintenance works and the impact of these on train services.

For example, Aurizon Network could provide a written statement to an access holder and/or operator that is adversely affected by the imposition of an operational constraint fully explaining the actions Aurizon Network has taken to minimise disruptions to train services when imposing that operational constraint. Stakeholder views are sought on whether this or any other enhancements to the reporting obligations are appropriate.

2.3 Aurizon Network's Board and maintenance matters

Given the adverse impacts maintenance work can have on an access holder's ability to utilise their access rights and the concerns raised by stakeholders as to changes to Aurizon Network's maintenance practices since the draft decision, the QCA is interested in stakeholder views on the extent to which Aurizon Network's 2017 DAU provides an appropriate level of Board involvement on these important matters.

For example, would specific obligations on the Aurizon Network Board to be involved in certifying Aurizon Network's compliance with its obligations relating to maintenance and related performance outcomes be appropriate? Are there other certification obligations that stakeholders consider appropriate? These could be separate and additional to the obligations in clause 10.7.3 of Aurizon Network's 2017 DAU.

2.4 Supply chain co-ordination obligations with regard to the planning and scheduling of maintenance activities

In light of concerns expressed by stakeholders regarding Aurizon Network's announced changes to its maintenance practices, the QCA is seeking stakeholder views on the appropriateness of Aurizon Network's coal supply chain obligations. In particular, whether these obligations provide supply chain participants with sufficient information about Aurizon Network's maintenance activities and enable it to co-ordinate maintenance with rail and port operators.

2.5 Adjustments to Aurizon Network's revenue-cap arrangements

Under the current drafting of Schedule F of the 2017 DAU (clauses 4.3(d)(iii) and 4.3(g)(ii)), the Total Actual Revenue (TAR) is determined by reference to (in brief) the revenue earned by Aurizon Network, as well as:

“...all revenue from AT[2-4/5] that AN would have been entitled to earn under a Tariff Based Access Agreement in relation to the relevant Reference Tariff during the relevant Year but for AN's breach of that Access Agreement or negligence in the provision of Below Rail Services to the extent that such events of breach or negligence resulted in the non-provision of 5% or more of the total number of Train Services for any single origin-destination pair during the relevant Year (provided

that, where Access Rights are held by a party that is not a Train Operator, the 5% threshold is measured across the number of Train Services for each single origin to destination pair under that Access Agreement, not any relevant train operations deed),”

In the event that Aurizon Network commits a breach of an Access Agreement, the revenue it would have been entitled to but for the breach is included in the TAR.

In light of stakeholders' concerns about changes to Aurizon Network's maintenance practices and reductions in throughput, the QCA seeks views on whether it is appropriate to require amendments to the materiality threshold. Examples could include:

- retaining the 5 per cent materiality threshold in relation to general breaches;
- removing the materiality threshold in relation to failures to use reasonable endeavours to minimise disruption to train services;
- removing the materiality threshold in its entirety.

APPENDIX A: INFORMATION REQUESTED—ADJUSTMENTS TO BASE YEAR

Turnout resurfacing

Plant maintenance—resurfacing

The QCA has requested Aurizon Network provide detailed historical plant maintenance costs (FY2017 and FY2018 year-to-date) and provide explanation for variation between the historical plant maintenance costs and the FY2018 forecast.

Aurizon Network has also been asked to provide a forecast for new plant maintenance activities based on the manufacturer's specifications and to reconcile this against its plant maintenance claim.

The QCA has asked for a description of the process undertaken to derive forecasts of both periodic plant maintenance activities and cost estimates.

Flood rectification costs

Given the UT5 draft decision included a proposed adjustment to FY2017 general track costs equivalent to \$2 million (FY\$2015) (reflecting increased volumes in FY2018, which amongst other things, gave consideration to Cyclone Debbie impacts on ordinary labour), Aurizon Network has been asked to explain why additional adjustments are required.

The QCA has also asked Aurizon Network to clarify the value of its proposed adjustment.

Ballast cleaning costs

Spreadsheet

Aurizon Network's 'bottom-up' estimates provide ballast undercutting costs \$3.8 million (FY\$2015) above its adjusted FY2017 actual estimate.¹⁵ Aurizon Network has been asked to reconcile this difference.

To the extent that material variations are expected in ballast cleaning costs between FY2017 and proposed FY2018, the QCA has requested that Aurizon Network explain why these variations are expected and provide evidence to support these variations.

The QCA has also asked for additional detail on the 'bottom-up' estimates spreadsheet provided.

Plant maintenance—ballast undercutting

Aurizon Network has been asked to provide detailed historical plant maintenance costs (FY2017 and FY2018 year-to-date) and explain where savings in FY2017 plant maintenance were made and why FY2017 provided a unique opportunity to make these savings.

The QCA has also requested Aurizon Network provide a forecast for new plant maintenance activities based on the manufacturer's specifications and reconcile this against its plant maintenance claim.

¹⁵ Aurizon Network, 2017 Draft Access Undertaking Response to the Queensland Competition Authority's Draft Decision, March 2018: 210.

Cascaded ballast

The QCA has requested Aurizon Network provide detail on the revised 'ballast ordering approach' including the date in which it was implemented and whether it has generated any long term savings.

The QCA has asked Aurizon Network to confirm if there is any available ballast on systems that could be utilised in the future, and to provide details of historical ballast requirements.

Return rates

The QCA is clarifying how differences in ballast screenability will affect the cost of mainline undercutting work performed by the excavator.

The QCA has asked Aurizon Network to explain why its adjustment for ballast screenability is calculated based on the total cost of ballast undercutting, given a portion of mechanised mainline ballast undercutting costs are fixed.

Aurizon Network has been asked to explain how the slightly shorter length of site undercut in FY2017 compared to the UT4 average has impacted costs incurred in FY2017 and what work Aurizon Network is doing to manage cost drivers such as length and yield.

Scope

Aurizon Network has been asked to clarify how its scope adjustment was derived and whether it applied the FY2018 forecast split of mainline kilometres between the mechanised ballast undercutting consist and the excavator gangs, or the FY2017 budgeted split.

The QCA has requested Aurizon Network provide the proposed scope adjustment to mainline FY2017 expenditure, split between the mechanised ballast undercutting consist and excavator related costs.

Aurizon Network has been asked to provide updated scope by system for both the excavator and mechanised ballast undercutting consist and to the extent there are significant changes to FY2018 forecast scope and actual scope delivered, provide details of when and why these changes occurred.

Structures

Aurizon Network has been asked to provide detail on the decision making process for the 'flood readiness programme'. Aurizon Network has also been asked to provide historical and forecasted spend related to the programme.