

Mr. George Passmore
Director Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4000

29 January 2021

Dear George,

**Aurizon Network Pty Ltd (Aurizon Network) – Response to Stakeholder Submissions
FY2020 Capital Expenditure Claim**

On 31 July 2020, Aurizon Network submitted its FY2020 Capital Expenditure claim (**FY2020 Capex Claim**). The FY2020 Capex Claim encompasses 40 projects across the Central Queensland Coal Network (**CQCN**), totalling **\$236 million** (excluding interest during construction). The Queensland Competition Authority (**QCA**) engaged Arcadis Australia Pacific Pty Ltd (**Arcadis**) to provide an assessment of the prudence and efficiency of the capital expenditure undertaken in the FY2020 Capex Claim, based on the scope, standard and cost as per the terms outlined in clause 2 of Schedule E of Aurizon Network's 2017 Access Undertaking (**UT5**).

As part of its assessment, Arcadis reviewed a sample of the FY2020 Capex Claim totalling approximately 70% of the FY2020 Capex Claim value (\$169 million) and provided the QCA with an Assessment Report. The QCA subsequently published the Arcadis Assessment Report which deemed Aurizon Network's FY2020 Capex Claim as prudent and efficient, stating in its report that;

“Overall Arcadis assessed the sample of projects reviewed as prudent and efficient in scope, standard and cost...”¹.

On 10 December 2020 the QCA published a Stakeholder Notice inviting interested stakeholders to submit comments on the Arcadis Assessment Report by 15 January 2021.

The QCA received and provided Aurizon Network with two submissions from stakeholders in response to the Stakeholder Notice. One from the QCoal Group (**QCoal**) and another from Glencore (collectively, the **Response Submissions**). The Response Submissions did not raise concerns relating to the prudence and efficiency of FY2020 capital expenditure. However, the Response Submissions did raise concerns about the allocation of capital expenditure between individual Coal Systems, incremental costs and information pertaining to a Maintenance and Renewals Strategy and Budget (**MRSB**) for FY2020.

Aurizon Network maintains that the matters raised in the Response Submissions are independent of the QCA's assessment of the FY2020 Capex Claim and welcomes the opportunity to respond to the key concerns raised

¹ Arcadis, FY2020 Capital Expenditure Claim, Assessment Report, page 4

within the FY2020 Capex Claim Response Submissions below. Aurizon Network acknowledges that as part of the FY2021 Annual Review of Reference Tariff process (**FY2021 ARRT**), QCoal raised similar concerns relating to the allocation of Newlands System renewal capital expenditure between Newlands and GAPE Train Services. The QCA in its Final Decision on the FY2021 ARRT, outlined that it expects 'that Aurizon Network will continue to work collaboratively with all participants of the Rail Industry Group in order to develop an appropriate approach to allocate the incremental cost of renewals on the Newlands system'. While progress in this regard has been limited to date, Aurizon Network has committed to accelerate discussions with the QCA and interested stakeholders and this commitment has been included in Aurizon Network's Final Draft MRSB for FY2022.

1. The regulatory process relating to the approval of Capital Expenditure

a) Capital Expenditure Claim

It is important to clarify that the Capital Expenditure Claim (**Capex Claim**) is one aspect of an overall regulatory assessment process, referred to as the Capital Approval Process. Clause 1.3 (a) in Schedule E of UT5 outlines that Aurizon Network will;

"...provide to the QCA the details for capital expenditure that Aurizon Network considers should be included in the Regulatory Asset Base with sufficient supporting evidence that the QCA may require to determine the prudence and efficiency of the capital expenditure..."

Upon submission of the Capex Claim the QCA's obligation according to clause 2.2 (b) in Schedule E of UT5 is;

"...determining the prudence and efficiency of capital expenditure, the QCA must have regard to the following:

- (i) the scope of works;*
- (ii) the standard of works; and*
- (iii) the costs"*

When Aurizon Network submits a Capex Claim, it outlines the capital expenditure associated with the projects and assets that have been commissioned during the financial year. In this context, the QCA's task should be limited to reviewing and assessing the prudence and efficiency of the annual capital expenditure that Aurizon Network considers should be included in the Regulatory Asset Base (**RAB**).

b) RAB Roll-Forward

Following the QCA's approval of the FY2020 Capex Claim under clause 1.3 (a) of Schedule E of UT5, Aurizon Network is required to submit to the QCA a RAB Roll-Forward report in accordance with clause 1.3 (b) of Schedule E.

The RAB Roll-Forward report must be separately reported for each individual Coal System². The capital expenditure associated with the projects approved by the QCA, is comprised of assets that have been commissioned in various locations throughout the CQCN. It is the location of these commissioned assets that determines the basis of how the RAB Roll-Forward is separately reported for each individual Coal System.

Applying this approach, any capital expenditure associated with the renewal or replacement of Newlands System Rail Infrastructure is to be included within the Newlands System RAB.

² Aurizon Network's 2017 Access Undertaking (UT5), clause 1.3 (b) (i) – (vi)

The 'GAPE RAB' is comprised of the project costs associated with the Goonyella to Abbot Point Expansion (GAPE) Project only; this includes costs associated with the GAPE Link, Newlands System Enhancements and Goonyella System Enhancements. For FY2020 capital expenditure, Aurizon Network has identified all costs associated with the replacement or renewal of assets that were originally constructed as part of the GAPE Project, and will include these costs within the GAPE RAB.

Aurizon Network has provided an indicative Coal System breakdown of the overall FY2020 Capex Claim in Appendix A.

c) Annual Review of Reference Tariffs (ARRT)

The allocation of Newlands System asset replacement and renewals expenditure is a 'cost allocation' issue that is relevant to pricing matters, i.e. it is not a RAB issue. As noted above, the RAB Roll-forward will attribute the approved capital expenditure to the RAB for each individual Coal System based on the location of the Rail Infrastructure. It is appropriate for any subsequent contribution towards the cost of shared infrastructure to be considered through the ARRT process (as per Part 4 of Schedule F of UT5), which sets the Allowable Revenues and Reference Tariffs for each individual Coal System.

Given the complexity of the issues that must be considered, Aurizon Network commits to engaging with relevant stakeholders and the QCA to discuss the basis upon which any Newlands System asset replacement and renewal expenditure, which is included in the Newlands RAB, should be attributable to Newlands and GAPE Train Services.

As noted above, Aurizon Network has committed to accelerating this engagement and will use best endeavours to commence discussions prior to submission of the FY2020 RAB Roll-Forward report. As part of this engagement, Aurizon Network will provide a listing of the individual asset renewals on the common rail infrastructure by asset program if required.

2. Response Submissions reference a Maintenance and Renewals Strategy and Budget for FY2020

QCoal have outlined within its Response Submission that neither the FY2020 Capex Claim nor the Arcadis report;

"... provide detailed system specific information which enables access holders to determine whether the expenditure is consistent with the RIG approved Maintenance and Renewals Strategy and Budget (MRSB)."

To clarify, for FY2020 there was no RIG approved MRSB. The FY2020 Capital Indicator for both the Newlands System and GAPE was approved by the QCA as part of its Final Decision on UT5 and the Capital Expenditure Allowable Revenue Adjustment (Schedule E, part 5) will apply to the extent that the approved capital expenditure varies from the Capital Indicator for each Coal System. The QCA's assessment against the RIG-approved maintenance and renewals strategy and budget will be relevant for FY2021 onwards.

If you have any questions in relation to this correspondence or the FY2020 Capital Claim, please do not hesitate to contact me directly on (07) 3019 8460 or via email Jon.Windle@aurizon.com.au

Yours sincerely



Jon Windle
Manager Regulation
Aurizon Network

Appendix A

Table 1 Composition of the FY2020 Capex Claim by Coal System

System	FY2020 (\$m)
Blackwater	95.7
Goonyella	102.8
Moura	13.4
Newlands	20.6
GAPE	3.7
TOTAL	236.2*

**Please note that values are indicative, expressed in mid-year terms, and exclude interest during construction.*