Queensland Competition Authority

Preliminary considerations

GAPE and Newlands pricing DAAU

December 2022

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SUBMISSIONS

Closing date for submissions: 10 February 2023

This document represents the Queensland Competition Authority's (QCA) preliminary considerations and is subject to revision. 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 the GAPE and Newlands pricing DAAU. The QCA will take account of all submissions received within the stated timeframes.

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

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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. We encourage 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 our Brisbane office, or on our website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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PURPOSE OF THIS PAPER

On 2 September 2022, Aurizon Network proposed a package of amendments to the 2017 access undertaking (UT5), which sought to deal with ongoing issues arising from the GAPE[1] project (the GAPE and Newlands pricing DAAU).

The GAPE and Newlands pricing DAAU has been developed following consultation with stakeholders.[2] While Aurizon Network said it had not been able to establish proposed amendments that would be acceptable to all parties, it considered the proposed package of amendments to represent those most capable of acceptance.[3] Stakeholder submissions on the GAPE and Newlands pricing DAAU indicated that there was general support for a number of key aspects of the DAAU, although other aspects remained in contention.

We are encouraged by the efforts of Aurizon Network and stakeholders to reach common ground. The purpose of this paper is to build on these efforts, by providing an early insight into our preliminary considerations on the GAPE and Newlands pricing DAAU.[4]

We understand that Aurizon Network's proposal, in part, deals with matters arising through commercial arrangements relating to the GAPE project. These arrangements were negotiated outside of the regulatory framework, around the time the GAPE project commenced.

While Aurizon Network and stakeholders considered these matters relevant in our assessment of the DAAU, we do not consider it appropriate to make amendments to UT5 that are intended to resolve matters arising under previously accepted commercial arrangements.

That said, where Aurizon Network and stakeholders reach agreement on aspects of the DAAU that deal with matters arising through commercial arrangements, we will take such agreement into consideration. Aurizon Network and stakeholders should consider the implications of this approach.

Next steps

Stakeholder insights on our preliminary considerations will assist us in progressing with our assessment of the GAPE and Newlands pricing DAAU.

We invite written submissions by 10 February 2023. All submissions made by this date will be taken into consideration.

The way we apply the statutory assessment criteria, and our thinking, may change, in response to stakeholder submissions.

[1] Goonyella to Abbot Point expansion.

[2] Aurizon Network said it had engaged with Bravus, Glencore, Jellinbah, Middlemount, QCoal, Rio Tinto and Stanmore. Aurizon Network, sub. 1, p. 24.

[3] Aurizon Network, sub. 1, p. 1.

[4] There should be no expectation that these views and recommendations will prevail to the end of the decision-making process.

1 BACKGROUND

In 2011, Aurizon Network opened the Goonyella to Abbot Point expansion (GAPE) project, connecting the Newlands and Goonyella systems (see Box 1).

Aurizon Network's GAPE and Newlands pricing DAAU deals with issues arising from the GAPE project—in particular:

- the allocation of deferred Newlands system infrastructure enhancement (NSIE) expenditure—to date, a portion of NSIE expenditure has been deferred under the regulatory framework
- the allocation of future asset replacement and renewals expenditure on the shared rail corridor—to date, asset replacement and renewal expenditure in the shared rail corridor (between Newlands Junction and the Port of Abbot Point) has been predominantly recovered from Newlands users through the reference tariff,[5] despite GAPE users also railing through the corridor.

Concerns around these issues have been ongoing, and stakeholders have emphasised the need to find an appropriate resolution to these matters, in light of changing circumstances in the GAPE and Newlands systems, including:

- a trend increase in volumes associated with GAPE users utilising the shared rail corridor
- a trend increase in asset replacement and renewal expenditure on the shared rail corridor (in part, due to the reclassification of re-railing and ballast undercutting expenditure[6])
- the commencement of new users on the Newlands system.

The DAAU was submitted following the publication of a guidance paper in September 2021, in which we encouraged Aurizon Network and affected stakeholders to work collaboratively and transparently, with a view to developing an agreed solution to address the concerns being raised.[7]

[5] Expenditure is allocated to the relevant coal system in which the asset financially resides. Aurizon Network, sub. 1, p. 12.
[6] Re-railing and ballast undercutting was previously treated as a maintenance activity and expensed.
[7] QCA, *Pricing of shared infrastructure for the GAPE and Newlands systems*, guidance paper, September 2021.

Box 1: History of the GAPE project

The GAPE project connected the Newlands and Goonyella systems through the construction of the Northern Missing Link (NML). Infrastructure enhancements were also required to the existing Newlands and Goonyella systems.

Following completion of the GAPE project, the rail corridor between the Newlands Junction and the Port of Abbot Point (the shared rail corridor) has been utilised by:

- Newlands users, including:
  - legacy Newlands users, whose mines were operational or committed prior to negotiation of the GAPE project and directly connect to the existing Newlands system
  - NAPE users, who sought access as part of the GAPE project and directly connect to the existing Newlands system
  - post-GAPE Newlands users, who sought access following completion of the GAPE project and connect to the existing Newlands system through the unregulated Carmichael Rail Network
- GAPE users, who sought access as part of the GAPE project and connect to the existing Newlands system through the NML.

A new coal system—the GAPE system—was established for pricing and revenue cap purposes in 2013. The associated reference tariff recovers expansion costs related to the NML and Goonyella infrastructure enhancements from GAPE users, along with an allocation of NSIE expenditure based on the relative proportion of total contracted paths across GAPE and NAPE users.[8]

1.1 Aurizon Network's proposal

The GAPE and Newlands pricing DAAU reflects progress made through engagement with affected stakeholders. Aurizon Network considered that it represents the package of amendments most capable of acceptance by stakeholders.

The package of proposed amendments includes:

- recovering $46.9 million of the deferred NSIE expenditure, to be socialised in the Newlands system reference tariff
- recovering an additional $13.8 million of the deferred NSIE expenditure through a dedicated system premium, applicable only to NAPE users, with a corresponding reduction in the GAPE pricing regulatory asset base (RAB)
- implementing contract volume-based pricing (with an adjustment for 'Aurizon Network cause') in the Newlands system and allowing Newlands users to relinquish access rights without incurring a relinquishment fee
- removing capitalised interest associated with previously deferred expenditure linked to Byerwen (NAPE), reducing the value of the GAPE pricing RAB by approximately $13 million

[8] The remaining allocation of NSIE expenditure has been deferred.

- allocating asset replacement and renewals expenditure on the shared rail corridor between Newlands and GAPE systems by applying a causation-based method, where costs are allocated based on relative use of the corridor
- expensing re-railing and ballast undercutting expenditure in the GAPE system.

The proposed amendments have consequential impacts on the allowable revenues and reference tariffs applicable to the Newlands and GAPE systems. Aurizon Network has proposed that these amendments apply in setting the FY2023 reference tariffs, with no retrospectivity.[9]

1.2 Statutory obligations

Under the *Queensland Competition Authority Act 1997* (QCA Act), Aurizon Network can submit a voluntary DAAU to amend the approved access undertaking (s. 142(1)).

We are required to consider the DAAU and either approve, or refuse to approve, the DAAU (s. 142(2))—having regard to the matters in s. 138(2) and other conditions in the QCA Act, including that the DAAU has been published and submissions have been sought and considered (s. 143).

If we refuse to approve the DAAU, we must provide our reasons and views on the amendments we require, in order for it to be appropriate for us to approve the DAAU (s. 142 (3)).

1.3 Consideration of stakeholder submissions

Stakeholders were provided an opportunity to comment on the GAPE and Newlands pricing DAAU. Six submissions were received—from Bravus, Glencore, Jellinbah, QCoal, Queensland Resources Council and Stanmore.

Supporting Aurizon Network's view that the DAAU represents the package of amendments most capable of acceptance, there was general support for key aspects of the DAAU, including the amendments to:

- recover $46.9 million of the deferred NSIE expenditure, to be socialised in the Newlands system reference tariff
- remove capitalised interest associated with previously deferred expenditure linked to Byerwen (NAPE), reducing the value of the GAPE pricing RAB by approximately $13 million
- allocate asset replacement and renewals expenditure on the shared rail corridor between Newlands and GAPE systems applying a causation-based method, where costs are allocated based on relative use of the corridor.

However, stakeholders held different views on the remaining aspects. Aurizon Network noted that the prospect of obtaining consensus on the package was challenging, as resolution involves an increase in the overall revenue requirement, and a redistribution of that revenue, without a substantive increase in volume on the shared rail corridor.

[9] Aurizon Network, sub. 1, p. 5.

Treatment of agreed positions

We are encouraged by the efforts of Aurizon Network and stakeholders to reach common ground on aspects of the DAAU. Where agreement is reached, we will take this into consideration.[10]

However, we cannot accept aspects of the DAAU solely on the basis that they reflect an agreed position between Aurizon Network and stakeholders, nor can we focus our assessment only on those parts that are in dispute.

In accordance with s. 138(2) of the QCA Act, we must have regard to a range of matters, including the interests of parties who are not necessarily represented by those reaching agreement (for example, the interests of access seekers and the public interest).

Further, we recognise that Aurizon Network's proposal represents a package of amendments, and our views on aspects of the proposed package may have implications for the general support among stakeholders on other aspects of the DAAU.

Broader matters raised by stakeholders

Stakeholders provided views on a range of broader matters. They requested that we take a direct role in resolving issues where information asymmetry is present and that we require greater transparency from Aurizon Network in justifying its decisions (including timing of decisions) dealing with cost allocation issues.[11]

As noted in our guidance paper on the pricing of shared infrastructure, our role in resolving the issues identified in the GAPE and Newlands pricing DAAU has been constrained under UT5 and the QCA Act more generally to date.[12]

Now that Aurizon Network has submitted the GAPE and Newlands pricing DAAU, we will consider these matters to form a view on whether it is appropriate to approve the DAAU.

Accordingly, this paper sets out our preliminary considerations, to provide an early insight on the package of amendments we might consider are appropriate.

That said, we consider that there can be benefits to industry-led solutions and encourage Aurizon Network and stakeholders to continue to work collaboratively on these matters.[13]

To the extent stakeholders consider that we should have an increased role in these matters going forward, we would consider these matters when presented through the relevant assessment process (for example, as part of the UT6 process, as foreshadowed in the QRC's submission[14]).

Separately, Bravus sought that the DAAU be expanded to solve for the efficient use of unused contracted GAPE expansion capacity by Newlands system users.[15] We consider that matters relating to the existing capacity deficit identified in the Newlands system are best dealt with through the related processes.[16]

[10] Consistent with s. 138(2)(h) of the QCA Act. The significance of this factor will depend (amongst other things) on the stakeholders involved, the level of support expressed by stakeholders, and the matters involved.

[11] Bravus, sub. 2, p. 3; QRC, sub. 6, pp. 2–3, 4.

[12] These constraints are outlined in QCA, *Pricing of shared infrastructure for the GAPE and Newlands systems*, guidance paper, September 2021, p. 3.

[13] Our views on the potential benefits are outlined in QCA, *Pricing of shared infrastructure for the GAPE and Newlands systems*, guidance paper, September 2021, pp. 2–3.

[14] QRC, sub. 6.

[15] Bravus, sub. 2, p. 3.

[16] See cl. 7A.5 of UT5.

1.4 Consideration of commercially negotiated arrangements

The capacity created by the GAPE project has been subject to the following commercial arrangements:

- the Newlands to Abbot Point expansion deeds (NAPE deeds)
- the Goonyella to Abbot Point expansion deeds (GAPE deeds).

These long-term capacity contracts were negotiated by Aurizon Network, GAPE and NAPE users outside of the regulatory framework and provided the commercial underwriting and commitments necessary to facilitate investment in the GAPE project.

Both Aurizon Network and stakeholders identified the interplay between commercial arrangements and the regulatory framework as relevant to our consideration of the GAPE and Newlands pricing DAAU. Accordingly, a number of Aurizon Network's proposed amendments deal with outcomes occurring under the commercial arrangements.

In general, we do not consider it appropriate to give weight to the potential outcomes occurring under commercially negotiated arrangements in our assessment of the DAAU. We consider that doing so could harm certainty and predictability, both in relation to commercial arrangements and the regulatory framework:

- It may have the practical effect of reopening commercially negotiated arrangements, which we were not party to. This could risk negating the intended commercial effect of the arrangements.[17]
- It could require us to adopt different positions to those previously considered appropriate, in the absence of compelling evidence.

We consider an approach that supports certainty is in the legitimate business interests of Aurizon Network and the interests of access seekers, access holders and the public interest. It is important in promoting future efficient use of, and investment in, the network and competition in dependent markets.

Further, we are of the view that matters related to commercial arrangements can be dealt with outside of the regulatory framework, through negotiation and/or relevant dispute processes, where appropriate.

Accordingly, we do not consider it appropriate to amend UT5 to resolve matters arising under previously accepted commercial arrangements.[18]

However, as noted above, where Aurizon Network and stakeholders can reach agreement on these aspects of the DAAU, we will take this into consideration.[19]

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[17] Where commercially negotiated arrangements are explicitly linked to the regulatory framework, the parties will take on a risk that there may be changes to the regulatory framework in light of new and compelling evidence in the future. However, we do not consider it reasonable for these parties to expect changes to the regulatory framework with the sole purpose of intentionally unwinding commercially negotiated outcomes.

[18] While QCoal considered that revenue earned under commercial arrangements must be taken into consideration, in accordance with cl. 6.2.3 of UT5 (QCoal, sub. 5, p. 5), we note that this clause relates only to customer-specific branch lines. We do not consider the deferred NSIE expenditure falls within this definition.

[19] The negative implications for certainty may be diminished where affected parties are able to reach agreement. The impact on parties who were not part of the agreement, including future access seekers, must however also be considered.

2 PRELIMINARY CONSIDERATIONS

We are minded to refuse to approve the GAPE and Newlands pricing DAAU, having regard to the relevant statutory criteria, and after considering the stakeholder submissions we received.

We consider that Aurizon Network's proposed package of amendments reflects a genuine attempt to find an acceptable resolution to ongoing issues, which have been complicated by the interplay with commercial arrangements. At present, we are of the view that Aurizon Network's broad approach to recovering the deferred NSIE and allocating future asset replacement and renewal expenditure on the shared rail corridor is reasonable.

However, as discussed above, in the absence of agreement, we do not consider it appropriate to make amendments to UT5 to resolve matters under commercial arrangements. Accordingly, we do not consider Aurizon Network's proposed NAPE system premium and treatment of re-railing and ballast undercutting expenditure are appropriate.

Our preliminary considerations on the GAPE and Newlands DAAU are set out in further detail in Table 1.

Stakeholder insights on our preliminary considerations will assist us in progressing with our assessment of the GAPE and Newlands pricing DAAU.

Table 1 Our preliminary considerations on the GAPE and Newlands pricing DAAU

Aurizon Network's proposal	*Stakeholder views*	*Our preliminary considerations*
	Recovery of deferred expenditure	
Aurizon Network proposed to include $46.9 million of the deferred NSIE expenditure into the RAB, to be socialised in the Newlands system reference tariff. The value Aurizon Network proposed to recover is not the full amount of NSIE expenditure that remains deferred in the Newlands RAB. Rather, the full amount of the deferred NSIE expenditure was adjusted down to $46.9 million, to account for contributions that Aurizon Network may have recovered under the GAPE deeds.[20]	Stakeholders were generally supportive of Aurizon Network's proposal.[21] While Bravus supported the approach in principle, it stated that timing should be considered, and any solution should not be introduced until GAPE project installed capacity is fully delivered.[22]	**Amount of deferred NSIE to be recovered** Aurizon Network's proposal to recover $46.9 million deals with outcomes occurring under commercial arrangements. In general, we consider it appropriate for Aurizon Network to recover an amount equivalent to the full value of the deferred NSIE,[23] including the capitalisation of foregone returns, to compensate Aurizon Network for the deferral. However, if there is ongoing agreement between Aurizon Network and stakeholders on this matter, we are minded to accept Aurizon Network's proposal. **Allocation of deferred NSIE** The NSIE expenditure was incurred to increase the:[24] • capacity of the Newlands system by increasing the number of train paths • capability of train services by increasing axle loads from 20 to 26.5 tonne axle loads (TAL) and lengthening existing passing loops. We understand that all Newlands users utilise and benefit from the NSIE,[25] such that there is no differentiation in the service

[20] Aurizon Network, sub. 1, pp. 40–43.
[21] Bravus, sub. 2, p. 4; Glencore, sub. 3, p. 3; QCoal, sub. 5, pp. 4–5.
[22] Bravus, sub. 2, p. 4.
[23] The deferred NSIE reflects GAPE project costs, which were found to be prudent in scope, standard and cost through the capital expenditure review processes in place at the time (see, for example, QCA, *Aurizon Network's 2011–12 capital expenditure*, draft decision, August 2013). It is not clear why the recovery of these costs should be delayed until additional works are undertaken, as we understand Bravus is suggesting. Concerns regarding the existing capacity deficit in the Newlands system are best dealt with through the related processes.
[24] Aurizon Network, sub. 1, p. 7.
[25] Benefits have previously been identified as part of our annual review of reference tariffs process, particularly in relation to the avoidance of longer-term costs to maintain the less productive 20 TAL assets. QCA, *Annual review of reference tariffs 2021–22*, decision notice, 22 June 2021, p. 6.

Aurizon Network's proposal	***Stakeholder views***	***Our preliminary considerations***
		offering or level of service between GAPE, NAPE and Newlands users[26]. We see merit in Aurizon Network's proposed approach to socialise deferred NSIE expenditure, in that it accounts for the benefits received by all Newlands users and reflects the level of service provided to users.
Aurizon Network proposed to recover $13.8 million of the deferred NSIE expenditure through a dedicated system premium, applicable only to NAPE users. A corresponding reduction in the GAPE pricing RAB of $13.8 million was proposed, reflecting that the costs associated with the delayed inclusion the of the deferred NSIE expenditure into a Newlands reference tariff have to date been primarily incurred by GAPE users under the GAPE deeds.[27]	Stakeholders held differing views on Aurizon Network's proposal. While Glencore expressed support,[28] QCoal did not consider the system premium appropriate, due to interactions with commercial arrangements and QCoal's view that Aurizon Network did not incur incremental costs in providing capacity for NAPE users above that required to provide capacity for GAPE users.[29] QCoal considered that the reference tariff to apply to new coal-carrying services in the Newlands system should be the highest on a dollar per net tonne kilometre basis, such that the relevant tariff would include the NAPE system premium (should one be applied).[30] Bravus stated that it had contracted historic Newlands capacity (not expansion tonnes) and did not receive benefits beyond those provided to all Newlands users.[31]	Aurizon Network's proposed NAPE system premium deals with outcomes occurring under commercial arrangements. We do not consider the NAPE system premium appropriate on the basis that it deals with outcomes occurring under commercial arrangements, by transferring expenditure from the GAPE pricing RAB into a NAPE system premium, to account for the recovery of deferred NSIE expenditure through the GAPE deed.
Application of contract volume-based pricing in the Newlands system		

[26] In this case, legacy and post-GAPE Newlands users.
[27] Aurizon Network, sub. 1, pp. 46–47.
[28] Glencore, sub. 3, p. 3.
[29] QCoal, sub. 5, pp. 6–14.
[30] QCoal, sub. 5, p. 3.
[31] Bravus, sub. 2, pp. 4, 5.

Aurizon Network's proposal	*Stakeholder views*	*Our preliminary considerations*
Aurizon Network proposed the implementation of contract volume-based pricing in Newlands system, while other systems retain pricing based on forecast volumes.[32] Reasons to adopt contract volume-based pricing included: • ensuring there are incremental contract tonnes attributable to the incremental revenue associated with the inclusion of the deferred NSIE expenditure • avoiding incentives for users to shift or rail tonnes between access agreements to obtain more favourable outcomes • noting the risk diversification benefits associated with forecast volume-based pricing are less in smaller systems (such as Newlands) and systematic underperformance can alter the relative contribution users make to the costs of providing the service.	Stakeholders held differing views on Aurizon Network's proposal. Glencore supported Aurizon Network's proposal, noting that it provided confidence that the NAPE user (who holds capacity associated with the expansion costs) would be unable to avoid contributing to the return on and of this capital.[33] QCoal considered the application of contract volume-based pricing inappropriate where there is an existing capacity deficit on the Newlands system. It stated that access seekers should not have to pay for contracted capacity where this capacity cannot be delivered.[34] The QRC submitted that contract volume-based pricing should be considered across the CQCN in the future.[35]	We consider that Aurizon Network's proposal has merit under the circumstances in the Newlands system, as outlined in Aurizon Network's DAAU. In general, we consider that a shift to contract volume-based pricing would reflect a move to more contract accountability, improving price signals to users regarding their consumption of below rail capacity. However, we seek further information from stakeholders on this matter to better understand the implications. We acknowledge QCoal's comment that users should not have to pay for capacity that cannot be delivered. In this regard, access holders can manage their risk arising from contract volume-based pricing through short-term transfers or the opportunity to relinquish access rights on a fee-free basis (discussed below). We may consider the issue of contract volume-based pricing more broadly, for the entire CQCN, where appropriate (i.e. through a DAAU or in the context of the next review of the undertaking).[36]
Aurizon Network proposed to adjust contract volumes to account for the expected revenue impact of 'Aurizon Network cause'. It proposed an allowance of 3.5 per cent for FY2023, having regard to the historical	Bravus and Glencore did not support a reduction to contracted volumes to account for 'Aurizon Network cause'. Bravus was concerned that this would reduce the incentives for Aurizon Network to deliver contracted	We are not minded to support Aurizon Networks' proposed reduction to contracted volumes to account for 'Aurizon Network cause', at least for the purposes of the current arrangements in the Newlands system. The proposed allowance is based on historic averages and may not be relevant to, or reflective of, any given year within the duration of UT5. We note that 'Aurizon Network cause' impacts

[32] Aurizon Network, sub. 1, pp. 43–44.
[33] Glencore, sub. 3, p. 3.
[34] QCoal, sub. 5, p. 6.
[35] QRC, sub. 6, p. 3.
[36] While a consistent approach across the entire CQCN is preferrable, we do not consider this sufficient ground to refuse to approve Aurizon Network's proposal, given our understanding at this time that the implications would be contained within the Newlands system and noting that the proposal seeks to deal with particular circumstances in the Newland system.

Aurizon Network's proposal	Stakeholder views	Our preliminary considerations
percentage of contracted services lost to 'Aurizon Network cause' in the Newlands system.[37]	tonnage and for access holders to trade unused capacity.[38] Glencore stated that the risk of financial impact due to 'Aurizon Network cause' would decrease where actual volumes are less than contract. It stated that Aurizon Network also failed to account for the possibility that actual railings may exceed contract volumes in certain circumstances.[39]	have varied from 1.6 to 7 per cent of contracted services over the 2017–21 period. Impacts arising from 'Aurizon Network cause' or force majeure are accounted for through other aspects of UT5, including take-or-pay arrangements. As noted by Bravus, this should provide Aurizon Network an incentive to minimise 'Aurizon Network cause' outcomes.
Aurizon Network proposed to allow Newlands users to relinquish access rights without incurring a relinquishment fee, acknowledging there may be a change in users' financial risk with the shift to contract volume-based pricing. Aurizon Network required that the relinquishment notice be issued no later than 28 October 2022, to ensure the relinquishments are related to the shift to contract volume-based pricing and so that appropriate volumes can be used to determine the revised FY2023 reference tariff.[40]	Stakeholders held differing views on Aurizon Network's proposal. Glencore and QCoal were supportive of the opportunity to relinquish access rights without incurring a fee.[41] However, QCoal did not consider the issuing date appropriate, noting users cannot make informed decisions when the pricing for the system has not yet been determined. Bravus did not support the option to relinquish without incurring a fee. It considered long term transfers the first best economic solution and noted that the option to relinquish would result in the Newlands system paying (through higher reference tariffs) for the existing capacity deficit on the Newlands system.[42] Bravus stated that we must recognise its pre-existing rights as an access seeker, consistent with cl. 2.3 of UT5.[43]	We are minded to support one-off fee-free relinquishments, to complement the move to contract volume-based pricing. This recognises that there may be a change in financial risk to users with the change from forecast to contract volume-based pricing. We note that the option to relinquish does not prevent users from transferring access rights, where it is in their commercial interests to do so. We consider that matters relating to the existing capacity deficit are best dealt with through the related processes (see cl. 7A.5 of UT5). One-off fee-free relinquishments complement the move to contract volume-based pricing, which we consider align with the interests of access seekers in that it should better incentivise access holders to be accurate about their demand requirements. However, a more reasonable date for concluding relinquishments needs to be settled, providing for a reasonable amount of time after our final decision. In this regard, we note that Aurizon Network suggested an alternative may be to limit the relinquishments to years following the year contract volumes are

[37] Aurizon Network, sub. 1, pp. 44–45.
[38] Bravus, sub. 2, p. 4.
[39] Glencore, sub. 3, p. 3.
[40] Aurizon Network, sub. 1, pp. 45–46.
[41] Glencore, sub. 3, p. 3; QCoal, sub. 5, p. 15.
[42] Bravus was of the view that Aurizon Network and users associated with the GAPE project are responsible for the existing capacity deficit.
[43] Bravus, sub. 2, pp. 5–6.

Aurizon Network's proposal	***Stakeholder views***	***Our preliminary considerations***
		introduced.[44] We seek stakeholder views on an appropriate resolution to this matter.
Removal of Byerwen (NAPE) capitalised interest from the GAPE pricing RAB		
Aurizon Network proposed to remove capitalised interest associated with previously deferred expenditure linked to Byerwen (NAPE)[45] from the GAPE pricing RAB (reducing the value of the GAPE pricing RAB by approximately $13 million), due to stakeholder concerns that this was previously recovered from GAPE users under the GAPE deeds.[46]	Stakeholders were generally supportive of Aurizon Network's proposal.[47]	Aurizon Network's proposal to remove capitalised interest deals with outcomes occurring under commercial arrangements. In general, we consider it appropriate for Aurizon Network to recover the capitalisation of foregone returns under the regulatory framework, to compensate it for the deferral. However, if there is ongoing agreement between Aurizon Network and stakeholders, we are minded to accept Aurizon Network's proposal.
Allocation of future asset replacement and renewals on the shared rail corridor		
Aurizon Network proposed a causation-based method to allocating future asset replacement and renewals expenditure in the shared rail corridor.[48] Under this method, expenditure that is variable with usage is allocated between the GAPE and Newlands systems according to the relative forecast gtk in each system.	Stakeholders were generally supportive of Aurizon Network's proposal.[50] However, Glencore considered that additional matters needed to be addressed:[51] • to improve transparency: – the value of the Newlands shared rail corridor replacement assets should be separately identified in the RAB roll-forward reports	We are minded to accept Aurizon Network's proposal to allocate asset replacement and renewal expenditure on the shared rail corridor according to the causation-based method. We consider that Aurizon Network's proposed method will result in reference tariffs that reflect the incremental costs of providing access to the shared rail corridor and provide cost-reflective price signals.[52]

[44] Aurizon Network, sub. 1, p. 45.
[45] Previously deferred expenditure (including capitalised interest) associated with Byerwen (NAPE) was transferred to the GAPE RAB during UT5. The deferral of this expenditure was ceased in 2017–18. QCA, *Aurizon Network's 2017 draft access undertaking*, decision, December 2018, pp. 33–38.
[46] Aurizon Network, sub. 1, p. 47.
[47] Glencore, sub. 3, p. 4; QCoal, sub. 5, p. 15; Stanmore, sub. 7, p. 3.
[48] Aurizon Network, sub. 1, pp. 29–38.
[50] Bravus, sub. 2, p. 3; Glencore, sub. 3, p. 2; QCoal, sub. 5, p. 4.
[51] Glencore, sub. 3, p. 2.
[52] This should promote economically efficient outcomes and is consistent with the pricing principles in UT5, which state that access charges should be set at no less than the level that will recover the expected incremental cost of providing access to the user and no more than the level that will recover the expected standalone cost of providing access to the user (cl. 6.6.2 of UT5).

Aurizon Network's proposal	*Stakeholder views*	*Our preliminary considerations*
To identify expenditure variable with usage, Aurizon Network first considered an assessment of incremental costs on the Hunter Valley Coal Network (HVCN) undertaken by WIK Consulting.[49] It then supplemented this work with engineering judgement applied by its own asset managers.	– any component of the system RAB not used for the calculation of reference tariffs should be separately identified in the RAB roll-forward reports • to ensure the outcomes of the DAAU are consistent with the intent of the proposal, additional amendments are required so that expenditure is allocated according to relative forecast gtk in each system (rather than contract gtk in the Newlands system).	The method recognises that the physical degradation of assets contributes to asset replacement and renewal expenditure. Further, where degradation occurs from use, GAPE and Newlands user's contribution to the degradation may change, as the relative forecast gtk[53] between the two systems changes. While Aurizon Network has not conducted a detailed engineering assessment to identify expenditure that is variable with usage, we consider its proposed approach prudent, on the basis that: • WIK Consulting's assessment of the HVCN appears to provide a reasonable foundation for identifying expenditure that is incremental with usage, as it represents independent, expert advice for a rail system with features similar to Aurizon Network's • where Aurizon Network's engineers have formed views that differ from WIK Consulting's assessment, these have been justified through the identification of differences between the two rail systems and the assessment task at hand. We do not consider Glencore's proposed amendments to improve transparency are necessary for the GAPE and Newlands pricing DAAU to be considered appropriate to approve. We continue to have a role in approving the annual RAB roll-forward under UT5, which should provide confidence that the RAB will be appropriately maintained.
Treatment of re-railing and ballast undercutting in the GAPE system		
Aurizon Network proposed that re-railing and ballast undercutting expenditure be expensed in the GAPE system.	Stakeholders raised concerns with Aurizon Network's proposal.[55]	This proposal deals with outcomes occurring under commercial arrangements.

[49] See WIK-Consult, *Assessment of the Incremental Costs of Pricing Zone 3 Access Holders' Use of Pricing Zone 1 and 2 of the Australian Rail Track Corporation's Hunter Valley Rail Network*, final report, 30 September 2015.

[53] We consider it appropriate that amendments are made to clarify the use of forecast gtk for determining asset replacement and renewal allocation, consistent with Glencore's submission (Glencore, sub. 3, p. 2) and the intent of Aurizon Network's proposal (Aurizon Network, sub. 1, p. 44.). Forecast gtk are appropriate in this instance, to provide a like-for-like comparison with the GAPE system.

[55] Glencore, sub. 3, p. 2; QCoal, sub. 5, p. 15; QRC, sub. 6, p. 4; Stanmore, sub. 7, pp. 2–3.

Aurizon Network's proposal	*Stakeholder views*	*Our preliminary considerations*
Expenditure associated with re-railing and ballast undercutting is currently treated as capital expenditure under UT5. Aurizon Network identified that the GAPE deeds prevent it from recovering capitalised re-railing and ballast undercutting expenditure associated with the shared rail corridor from GAPE users.[54]	Concerns revolved around the use of the regulatory framework to avoid consequences under commercial arrangements and the inconsistent treatment across systems.	We remain of the view that re-railing and ballast undercutting expenditure should be capitalised, for the reasons set out in our UT4 and UT5 decisions respectively.[56]

[54] Aurizon Network, sub. 1, pp. 34–35.

[56] See QCA, *Aurizon Network 2014 Draft Access Undertaking—Maximum Allowable Revenue*, draft decision, September 2014, p. 111; QCA, *Aurizon Network's 2017 draft access undertaking*, decision, December 2018, pp. 217–222.

APPENDIX A: SUBMISSIONS

The submission numbers below are used in this paper for referencing purposes. The submissions are available on the QCA website unless otherwise indicated.

Stakeholder	***Sub. no.***	***Submission***	***Date***
Aurizon Network	1	Proposal	September 2022
Bravus	2	Initial submission	November 2022
Glencore	3	Initial submission	November 2022
Jellinbah Group	4	Initial submission	November 2022
QCoal	5	Initial submission	November 2022
Queensland Resource Council (QRC)	6	Initial submission	November 2022
Stanmore	7	Initial submission	November 2022