

6 March 2025

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Submitted via QCA online submissions portal

Dalrymple Bay Infrastructure NECAP 2024-25

1 Submission on prudence where insufficient information has been provided

We refer to Dalrymple Bay Infrastructure Management's (*DBIM*) application of 6 February 2025 (under clause 12.10(b) of the current Access Undertaking (*AU*)) seeking the QCA's approval for part of their NECAP 2024-25 claim (*NECAP Prudence Ruling*).

The capital projects in questions are NS01 (Arc flash mitigation phase 2) and NS06 (Site roads upgrade program), and DBIM is seeking a prudence ruling in respect of the actual expenditure of \$6.115 million on completion works in respect of those projects.

Fitzroy Australia Resources (*Fitzroy*) is an existing user at the Terminal, and is the user that has not approved DBI's currently NECAP claim. It is not a member of Dalrymple Bay Coal Terminal Pty Ltd (the *Operator*), such that the only information it receives in relation to non-expansion capital project is received in its capacity as a user of the Terminal.

Fitzroy has not accepted the prudence of the 2 projects for which DBI has not provided it with evidence with demonstrates prudence as defined in the AU. Rather than seek to provide Fitzroy with further evidence, DBIM has simply applied to the QCA, such that it now falls to the QCA to assess the issue while those information deficiencies remain.

For completeness, Fitzroy notes it has approved as prudent the other 6 NECAP projects within the 2023-24 claim for which it has received sufficient information to demonstrate prudence.

2 Regulatory context

The tariff arrangements which apply in respect of Dalrymple Bay Terminal, continue to provide a return on and of capital investment in NECAP, deemed or determined by the QCA to be prudent.

The User Group sought the QCA's continued role in assessing prudence in the non-reference tariff form of regulation the QCA determined, as without it there is very limited protections against inefficient and imprudent capital expenditure.

The conditions in the AU for deemed prudence have not been met in respect of these two projects, such that the QCA must consider prudence having regard to (among other things) the factors listed in section 12.10(c) of the AU. That is a fresh consideration of the prudence of the relevant projects, and it is not relevant to that assessment whether other customers have accepted a project.

Fitzroy accepts that both projects are Capital Expenditure and NECAP within the meaning of the AU, and has accordingly confined its submissions the issue of whether prudence has been demonstrated.

3 NS01 – Arc Flash Mitigation – Phase 2

This project is stage 2 of a 4 stage project. The first stage was approved in the previous NECAP process when DBIM provided estimated costs for the 4 stages of \$7.5-8 million. DBIM now suggests that aggregate project costs across the 4 stages have basically doubled to in the order of \$15.8 million.

That raises questions as to prudence, which are not appropriately responded to by simply continuing with subsequent phases of the existing project or indicating the earlier phase was proposed. The fact that it is a safety initiative does not simply mean that legitimate objective necessarily justifies the particular project DBI is proposing.

Rather the assessment should be whether it is prudent to continue with subsequent phases in the project, particularly relative to alternative ways of mitigating the risk of arc flashes or beyond the point where there is limited further mitigations for high costs.

Rather, for the QCA to be satisfied as to prudence of scope, standard and cost and demonstration that whole of asset life costs will be minimised (as the factors listed in sections 12.10(c)(2) to (4) and (7)) by the action that DBI is proposing, Fitzroy submits that there needs to be a robust analysis of the alternative(s) methods for mitigating the risk of arc flashes, a cost benefit comparison and a consideration of the extent to which it is prudent to continue investing to mitigate this particular risk.

However, Fitzroy cannot see any evidence of that occurring in the DBI submissions or Project Briefs attached.

The other factors in section 12.10(c) AU concerning issues like safety during construction and operations (12.10(c)(5) and compliance with environmental requirements during construction and operation (section 12.10(c)(6)) should not be seen as favouring the existing project, where those matters would also be able to be satisfied in realistic alternative projects.

Accordingly, Fitzroy submits that there is insufficient information for the QCA to make a ruling that the NS01 project is prudent.

4 NS06 – Site Roads Upgrade Program

We understand the potential need for maintenance and, in the right circumstances, more major repair and reconstruction, of site roads, and appreciates safe and timely transport along these roads is a legitimate objective.

However, in seeking to understand how the proposed repair and reconstruction works compared to continued maintenance activities, what became evident was that the Operator/DBI do not keep track of maintenance costs to an individual road level. Without that level of cost information Fitzroy is not satisfied this project is prudent and submits the QCA should also not be satisfied.

It should not be enough to show pictures of worn roads and provide a project brief indicating they are in poor condition.

That indicates a need for some action, not that the action proposed by DBIM is prudent. Leaping from evidence of poor condition to major reconstruction works, ignores the factors regarding prudence of scope (i.e. what should be done) and minimising whole of asset life costs.

For the QCA to be satisfied as to prudence of scope, standard and cost and demonstration that whole of asset life costs will be minimised (as the factors listed in sections 12.10(c)(2) to (4) and (7)) by the action that DBI is proposing, Fitzroy submits that there needs to be a robust analysis of the alternative, i.e. continued maintenance of the roads.

No where in DBI's submission or the attached Project Briefs does it address this information deficiency. Fitzroy would like to provide further comment on this issue, but there simply is no information provided on the most obvious or alternatives.

The other factors in section 12.10(c) AU concerning issues like safety during construction and operations (12.10(c)(5) and compliance with environmental requirements during construction and operation (section 12.10(c)(6)) should not be seen as favouring the existing project, where those matters would also be able to be satisfied in realistic alternative projects.

Accordingly, Fitzroy submits that there is insufficient information for the QCA to make a ruling that the NS06 project is prudent.

As always, please do not hesitate to contact Paul Hartfiel on [REDACTED] if you have any queries in relation to this submission.

Yours sincerely



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