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11 February 2014

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Malcolm

Standard User Funding Agreement (SUFA)

Thank you for your letter dated 6 February 2014, regarding the development of the Standard User Funding Agreement (SUFA).

I appreciate the time the Queensland Competition Authority (QCA) has taken to further its understanding of our proposed SUFA and that our regular meetings have been beneficial.

A workable SUFA remains a key priority for Aurizon Network and our coal supply chain partners, and, while we will continue to seek to maintain commercial flexibility over funding, we may not always have the availability of funds for the expansions required. Furthermore, Access Seekers require options to provide a choice in funding of expansions for the growth of the Central Queensland Coal Network. We maintain that a SUFA provides this choice to Access Seekers to seek alternative funding where Aurizon Network opts not to fund or where mutually acceptable terms for funding cannot be agreed between both parties.

I agree there is value in continued constructive engagement between the QCA and Aurizon Network to provide a greater understanding of relevant issues and an opportunity to work collaboratively to resolve outstanding issues. In addition, I welcome the inclusion of relevant stakeholders, including; the Queensland Resources Council, Queensland Treasury Holdings and other interested participants in this process.

In order to progress this discussion, I propose we meet to discuss the most effective means of engagement and nominate Lana Stockman, Vice President Regulation, as the facilitator for this initial discussion.

Yours sincerely

Alex Kummant
Executive Vice President

Queensland Competition Authority

File Ref: 694163

6 February 2014

Mr Alex Kummant
Chief Executive Officer
Aurizon Network Pty Ltd
GPO Box 456
BRISBANE QLD 4001

Dear Mr Kummant

Standard User Funding Agreement

I am writing to you regarding Aurizon Network's 2013 Standard User Funding Agreement draft amending access undertaking (the 2013 SUFA DAAU).

The QCA is now considering stakeholders' submissions, including reply submissions, on Aurizon Network's most recent SUFA proposal. I very much welcome that the latest SUFA proposal reflects more than two years of discussions between Aurizon Network and stakeholders, and I appreciate the continued efforts made by all stakeholders to develop an agreed model.

I equally appreciate that Aurizon Network staff have been very generous with their time to regularly meet with QCA staff so we can gain a greater understanding of Aurizon Network's proposed SUFA structure and intended use. Similar discussions have also been held with industry and collectively the insight gained from these meetings has been of great benefit to the QCA.

As productive as this process has been, the QCA cannot overlook the view of stakeholders that Aurizon Network's 2013 proposal still needs significant work. Stakeholders are concerned the draft SUFA will have limited application and be a 'barely workable' option for funding capacity expansions. Many stakeholders do not consider the proposal to be a viable option for smaller projects funded by mining companies or for third-parties interested in funding projects.

In view of these concerns, the QCA has had the SUFA proposal, and the alternative proposed by the Queensland Resources Council, reviewed by legal and commercial advisors. Based on preliminary advice, we are forming the view the SUFA proposal is not yet at a point where the QCA could be satisfied that potential user-funders, third-party financiers and debt providers would have confidence in the arrangements.

The QCA understands that a workable SUFA remains a key priority for both Aurizon Network and its customers and an effective SUFA is central to Aurizon Network's approach to network expansion in UT4. However, the QCA is also aware that a number of significant issues need to be addressed in order that the proposed SUFA model is an effective alternative to Aurizon Network's funding proposals in UT4.

Given the success of meetings the QCA has conducted to this point with both Aurizon Network and the coal industry, I see much value in the QCA continuing to discuss possible solutions with Aurizon Network on a number

of key issues over the coming months. The issues outlined below are those that, in the QCA's view, are necessary to resolve to support agreement to an effective SUFA, and they include:

- (1) Gaining agreement on how statutory severance for future SUFA funded infrastructure will be resolved
- (2) Agreeing on an approach for obtaining an opinion from the Australian Taxation Office on the tax treatment for the standard set of SUFA agreements (administratively binding advice)
- (3) Developing arrangements to allowing security to be taken over rental cash flows
- (4) Developing a process to providing surety for all parties respecting construction costs, timings and QCA approval of SUFA funded infrastructure assets for inclusion into the Regulatory Asset Base
- (5) Providing a sufficient level of comfort to potential SUFA funders respecting the termination provisions in the SUFA infrastructure lease between Aurizon Network and Queensland Treasury Holdings (QTH).

As I have indicated, the QCA is continuing its assessment of the 2013 SUFA DAAU. However, unless the QCA can be confident that Aurizon Network is willing to work with the Authority to reach solutions to the issues outlined, I am uncertain that the assessment can result in an effective SUFA being approved.

I propose to publish this letter on the QCA's website on 14 February 2014 to keep all interested stakeholders informed of the Authority's current approach, unless you have major concerns about the letter being publically available.

I would be pleased to discuss this matter with you at your earliest convenience.

Yours sincerely



Malcolm Roberts
Chairman

cc: *Mr Michael Roche, Chief Executive, Queensland Resources Council*
Mr Richard Somerville, Company Secretary, Queensland Treasury Holdings