



17 February 2017

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane Qld 4000

By email: www.qca.org.au/submissions

Dear Charles,

Aurizon Network's 2017 DAU (UT5)

Fitzroy Australia Resources Pty Ltd (**Fitzroy**) welcomes the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of the 2017 Draft Access Undertaking (**UT5**) submitted by Aurizon Network. The UT5 submission has been provided in response to the Initial Undertaking Notice issued by the QCA on 11 May 2016.

The Aurizon Network UT5 submission follows a period of regulatory examination of Aurizon Network's undertaking that could potentially only be matched by the experience encountered when establishing the first Aurizon Network Access Undertaking. The Aurizon Network 2016 Access Undertaking (**UT4**) approval process involved significant investment by all stakeholders in the coal industry due to the substantial changes proposed in Aurizon Network's initial submission. The 2013 Draft Access Undertaking (**2013 DAU**) submitted by Aurizon Network to the QCA in April 2013 involved a significant re-write of the 2010 Access Undertaking as well as 3,000+ pages of supporting detail. The UT4 approval process involved extensive negotiations and discussions between all stakeholders as well as the submission and withdrawal of the 2013 DAU, submission of the 2014 Draft Access Undertaking (**2014 DAU**), followed by the QCA's consultation process that included a Maximum Allowable Revenue Draft Decision, a Policy Draft Decision, a Consolidated Draft Decision, a Final Decision, and an Amended 2014 DAU followed by Draft and Final Decisions. Throughout these processes all stakeholders had an opportunity to provide further details and responses to the QCA to assist in their assessment process. The process involved approximately 3 ½ years of discussions and negotiations to reach a final approved Access Undertaking on 11 October 2016. Despite this extensive engagement of all stakeholders during the UT4 process, and the limited time since the QCA's Final Decision, Aurizon Network's UT5 submission proposes further changes to the approved 2016 Access Undertaking.

Fitzroy does not propose to provide detailed responses to each of the issues in Aurizon Network's UT5 submission as it believes these issues have all been extensively debated during the UT4 consultation process. Fitzroy believes the QCA's UT4 Final Decision dated 11 October 2016 provided a fair and balanced position between all stakeholders, and the limited time since has been insufficient to provide an appropriate



assessment as to whether there are any failures on those final approved positions. Fitzroy's strong view is that UT5 should be the same as UT4 with the exception of matters that are designed to be reset at the commencement of each undertaking period.

Particularly concerning to Fitzroy is Aurizon Network's position that it has taken on the Maximum Allowable Revenue (**MAR**) for UT5. The components of the UT4 MAR were subject to an extraordinary amount of debate and discussion both before and during the consultation process on UT4. For example, the WACC components have been reviewed by the QCA during the past 4 years through the QCA's Cost of Capital Discussion Papers, Aurizon Network's UT4 process, and DBCT Management's 2016 Draft Access Undertaking process. These processes have involved significant examination by an array of consultants and experts of all aspects of the WACC. The QCA has provided a consistent response on the WACC components during these processes that provide regulatory certainty to all stakeholders. Fitzroy believes there are no market or environment changes that have occurred since these decisions that would justify a move away from these recent QCA decisions. Fitzroy's strong view is that the UT4 WACC components should be retained in UT5, with the only exceptions being the updating of the market based parameters to the agreed UT5 assessment period.

Fitzroy also believes that the overhead and maintenance costs included in the MAR for UT5 should be less than those proposed in UT4, or at worse, retain the same nominal values as UT4. Throughout the UT4 process Aurizon Network advised that they were introducing more efficient processes in both maintenance and overhead areas. One of the major initiatives commenced was the movement from a reactive to preventative maintenance approach. This change was identified as an important step to manage the rail network in an efficient manner as it would enable the rail assets to be maintained at the appropriate time and at an appropriate level. Fitzroy would be expecting to see the financial benefit of these efficiency measure starting to flow through the UT5 maintenance and overhead allowance via a reduction in the nominal costs.

All stakeholders have contributed significant time and costs in developing the recently approved 2016 Access Undertaking, and Fitzroy believes there has been insufficient application of this document, or changes to the market or environment, to justify changes at this time. Fitzroy strongly urge the QCA to not approve the UT5 submission and propose an undertaking the same as UT4 with the exception of matters designed to be reset at each undertaking period.

For further information regarding this advice please contact myself on (07) 3153 2268.

Yours sincerely,

Paul Hartfiel
Logistics and Infrastructure Manager
Fitzroy Australia Resources Pty Ltd