



06 November 2015

Mr Charles Millsteed
Director Economic Regulation
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane Qld 4000

www.qca.org.au/submissions

Dear Charles,

Aurizon Network's FY15 Revenue Adjustment Amounts and Increments

Vale Australia Pty Ltd (**Vale**) welcomes the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of Aurizon Network's FY2015 Revenue Adjustment Amounts and Increments explanatory memorandum. Aurizon Network (**Aurizon**) is seeking to recover (or return) a revenue adjustment and an extension of time for the submission of an increments claim for FY15.

1. Revenue Cap Adjustments

Aurizon has submitted a claim for a Revenue Cap Adjustment for FY2015 based on an over-recovery of the System Allowable Revenue. Aurizon's submission states that the cause of the over recovery of revenue is primarily due to actual throughput varying from the parameters underlying the regulatory system forecasts. Due to Aurizon's confidentiality claims, Vale is constrained in its ability to draw conclusions or make absolute recommendations on the values of the adjustments that have been presented. Vale would request that consideration be given to how Aurizon's customers can be provided with greater transparency around this process in the future. The need for greater transparency in reporting has been discussed at length during the assessment of Aurizon's 2014 Draft Access Undertaking (**UT4**). In the meantime, the process of independent verification by the QCA is critical to ensuring a thorough assessment of Aurizon's submission.

2. Increment

The second part of Aurizon's submission seeks an extension of time to provide a FY2015 increment claim for the over recovery of revenue in the Blackwater and Goonyella Systems. Aurizon is seeking an extension of time as it believes it needs guidance from the QCA on what evidence is needed in order for the QCA to approve an increment claim, and then an opportunity to engage with industry to provide any additional information in line with the QCA guidance.

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Although not seeking the increment in this submission, Aurizon believes it could claim an increment for the year of up to \$4.9 million in the Blackwater System and \$4.7 million in the Goonyella System.

Vale does not support the provision of an extension of time for Aurizon to provide an increment claim as it is inconsistent to apply a 2010 Access Undertaking approach (**UT3**) to revenue for a period that effectively forms part of the UT4 period for revenue purposes. It is intended that Maximum Allowable Revenues and tariff related matters for the FY2015 year will be assessed as part of UT4 and, if necessary, adjusted over the remaining UT4 term. Vale believes the question of whether Aurizon can claim an Increment for FY2015 should therefore be assessed under the final UT4 provisions similar to the Aurizon's proposed approach regarding adjustments to FY2015 maintenance costs, MCI, electricity connection costs, and operating costs. The final adjustments for these matters will be determined based on UT4 terms, including, for example, the use of UT4 approved escalation mechanisms. Therefore Vale believes Aurizon's proposal to claim an Increment for FY2015 based on UT3 terms is inconsistent with this approach.

The QCA has previously considered the issue of applying a UT3 revenue approach in a UT4 revenue period as Aurizon also presented an increment claim in its FY2014 revenue cap submission. On page 12 of the QCA Final Decision it stated that it *"shared stakeholders' concerns regarding Aurizon Network's proposal that its claim for increments be considered under the 2010 AU provisions, as applied though the extended 2010AU, during what will ultimately be the UT4 period"*. The QCA went on further to note that in its Draft Decision on the 2014 DAU it proposes to *"require removal of the increment calculation and application provisions from the 2014 DAU"*. Vale supports these decisions and therefore believes it would be inappropriate to allow an extension of time to a UT3 revenue provision in the UT4 period.

Vale generally supports the development of incentives that will encourage efficient behaviour by Aurizon and within the coal chain generally. While supportive, Vale is also cognisant of the difficulty in establishing appropriate incentives and the performance required to be achieved under a revenue cap environment. Key to the development of these incentives will be the establishment of baselines that are measureable and transparent to all stakeholders to allow alignment across the coal chain and visibility with its interaction to the revenue provided under the revenue cap. Vale's strong view has always been that the incentives must be set with regard to the contractual position and provide symmetrical outcomes.

For further information regarding this advice please contact myself on (07) 3136 0936.

Yours sincerely,



Paul Hartfiel
Logistics Development and Regulatory Principal
Vale Australia Pty Ltd