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Mr. George Passmore
Queensland Competition Authority
GPO Box2257
Brisbane Queensland 4001

Submitted via QCA's online submissions portal

Dear Mr Passmore

Aurizon Network annual reference tariffs review

The QCoal Group **(**QCoal) welcomes the opportunity to make a submission on Aurizon Network's FY21 annual reference tariff review **(Tariff Review Submission).**

QCoal is an active explorer, developer and owner of operating coal mines and a number of coal mining projects at various stages of development throughout Queensland. QCoal currently has six (6) operating mines located in the northern Bowen Basin. These mines rail product utilising both the Newlands and GAPE systems.

QCoal is an active member of the newly formed Rail Industry Group **(RIG)** which approved Aurizon Network's Newlands (Newlands/GAPE) System Maintenance and Renewal Strategy and Budget.

QCoal's comments are confined to the Capital Indicator component of the Tariff Review Submission, specifically the Newlands Capital Indicator. It should be noted that in discussions between Aurizon Network **(Aurizon)** and the RIG during the pre–approval stage, information on this system was presented as "Newlands System". Aurizon stated that the figures represented by the "Newlands" figures were combined Newlands/ GAPE system costs. Further when asked by RIG members to specify data for the Newlands access charge separately from the GAPE access charge Aurizon stated that apportionment between the two reference tariffs would be undertaken in accordance with the methodology previously applied by the QCA.

The currently approved FY2021 Capital indicator apportions $6.7M to the Newlands system and $1.9M to the GAPE system, a total of $8.6M. In its Tariff Review Submission, Aurizon has proposed that the entirety of the capacity indicator of the "Newlands System", $20.7M, as approved by the RIG, is to be apportioned to the Newlands system only, with no costs attributed to the GAPE system. In its Tariff Review Submission Aurizon has provided no detail of how the costs were apportioned or justification for the change in the apportionment between the Newlands and GAPE systems from the currently approved FY2021 figures.

QCoal considers that the apportionment of the renewal costs between Newlands and GAPE as proposed by Aurizon Network in its Tariff Review Submission to be inappropriate for the reasons set out below:

1. The apportionment between Newlands and GAPE does not reflect usage of the asset.

The requirement for renewal of all the cost categories comprising the Capital Indicator budget, e.g. rail, ballast undercutting, formation, is largely driven by the volume of traffic using that asset. Aurizon has not provided a detailed breakdown of the location of each renewal category, however, it is assumed from the Tariff Review Submission that all are located in the Newlands system. Assets on the Newlands system are used by traffic from both the GAPE and Newlands systems, with GAPE traffic utilising all of the Newlands assets. In its Tariff Review Submission Aurizon has forecast 32.1M net tonnes of traffic using the Newlands section of the rail network of which 18.9Mt or 59%, being GAPE traffic.

2. Information provided to RIG supports an apportionment of costs between Newlands and GAPE.

During the pre-approval process Aurizon provided members of the RIG some details (including location) of the "Structure" cost component of the proposed "Newlands" renewals budget. That information included the following:

a. a major driver of the requirement for the renewal of structures is traffic volume;

b. a further driver of the requirement for the renewal of structure is axle load, which was increased as a result of the GAPE project;

c. at least one of the structures proposed to be replaced (culvert at Newlands – 14.44km) is a structure that was to be replaced as part of the GAPE project but was not completed or included in Aurizon's GAPE DAAU.

In its 2013 DAAU GAPE decision the QCA determined that the GAPE system tariff is to recover incremental system costs[1]. Applying this principle to the Capital Indicator, as the driver for the need to expend $20.7M in the "Newlands" system traffic (generated by both Newlands and GAPE systems), then the incremental increase in these costs as a result of the GAPE traffic ought to be accounted for in the GAPE tariff. As a corollary of this, all renewals costs associated with assets that service both the Newlands and GAPE services, should not all be accounted for in the Newlands Capital Indicator, as Aurizon has proposed in its Tariff Review Submission.

QCoal suggests that the FY2021 Capital Indicator for Newlands proposed by Aurizon be apportioned between the Newlands and GAPE systems, proportionate to traffic using the "Newlands" system infrastructure; reflecting incremental costs.

An alternative methodology, and in the absence of any rationale from Aurizon for the change in the apportionment between Newlands and GAPE from the approved FY2021 Capital Indicator, is that the Capital Indicator be apportioned in the same proportions as the currently approved FY2021 Capital Indicator.

Additionally, a clear statement on the methodology to be applied to the current and future apportionment of the Capital Indicator between Newlands and GAPE is necessary to ensure its proper application.

Yours sincerely,

Deborah Silver
Manager Infrastructure

[1] Queensland Competition Authority, Consolidated draft decision, Aurizon Network 2014 draft access undertaking, Volume III – pricing & tariffs, December 2015, p104