

10 February 2022

Mr Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Charles

### **QR Access Undertaking West Moreton System Capex Claim 2020-21**

I refer to the 2020-21 Capital Expenditure claim lodged by Queensland Rail (QR) in accordance with QR's access undertaking (the Undertaking).

This submission is made on behalf of Yancoal, as the operator of the Cameby Downs mine, being the only current coal user of the West Moreton system, and therefore the entity that is paying the vast majority of the current access charges received by QR in respect of the West Moreton system.

Yancoal appreciates that much of the capital expenditure projects claimed might be perceived as 'business as usual' by QR and are characterised by QR as investments that follow previous practices or were previously disclosed as anticipated. However, given the increasingly uncertain demand outlook that exists, Yancoal considers that being accepted as prudent requires a different approach. In particular, prudence requires a more rigorous assessment of whether long physical life investment should have been deferred, reduced in scale or scope, not done or replaced with maintenance activities.

A continued acceptance of the high capital expenditure and therefore high fixed cost nature mode of operating the system, has the clear potential to make the system uneconomic (or require significant write downs and optimisation of the regulatory asset base) if higher coal volumes do not return by the time thermal coal prices recede.

As QR's capex claim acknowledges:

- a) New Acland Stage 3 does not have the approvals to proceed (and Yancoal notes that even if all required approvals are ultimately forthcoming there is no certainty as to whether that project will ultimately receive investment approval);
- b) the demand forecast for the West Moreton system for the period of the Undertaking is a mere 2.1 mtpa, being solely based on Cameby Downs' production; and
- c) the Inland Rail project has been announced (which Yancoal notes contains Surat Basin coal as part of its anticipated volume in some business cases).

Consequently, even if there may be continuing speculation that the demand profile for the West Moreton could increase, there is a credible, if not more likely scenario, involving volumes not returning. QR's heavy reliance on assessments that occurred at the time of the Undertaking is not appropriate when there was more reason to be optimistic about volumes returning in the Undertaking term than is now the case.

Yancoal is particularly concerned about the higher value capital expenditure projects (Reconditioning, SCS Timber Resleepering and Formation Strengthening) in that context.

In particular, each of those projects are justified partly as avoiding higher operational or maintenance costs, which raises the question as to whether at lower volumes where the wear on the system (and therefore operating and maintenance costs) would be expected to be substantially less, prudence should have led to less work of each of those types. The fact that they form part of multi-year capital programs, does not justify their continuation at the same levels given the changed demand environment. While QR often indicates it considered a 'do nothing' strategy, prudent capital investment should not be a binary 'all or nothing' decision. The question, Yancoal requests the QCA carefully consider is whether a 'do less' strategy was the prudent approach given the demand outlook.

Yancoal considers there is insufficient details provided in the QR capital expenditure report and claim for Yancoal to be supportive of the prudence of those projects (due to limited information being provided).

Yancoal requests that the QCA apply rigour to its assessment of prudence taking into account the disconnect between the long physical life nature of the investments being made and the uncertain demand outlook which exists for the West Moreton system, and the lack of change which is evident from QR's business as usual approach developed when demand on the system was more than triple current usage).

If you would like to discuss this submission, please do not hesitate to contact me on +61 407 297 897 or [Mike.Dodd@yancoal.com.au](mailto:Mike.Dodd@yancoal.com.au).

Yours sincerely

A solid black rectangular box used to redact the signature of Mike Dodd.

**Mike Dodd**

General Manager, Infrastructure  
Yancoal Australia Ltd