

DRAFT DECISION NOTICE

PRIVATE INCREMENTAL COST APPROVAL—CARMICHAEL RAIL LOOP AND CONNECTING INFRASTRUCTURE

7 October 2022

The Queensland Competition Authority (QCA) is considering approving \$44 million as the prudent and efficient value of the private incremental costs associated with the Carmichael rail loop and connecting infrastructure. The preliminary assessment has been made in accordance with clause 6.3.2 of Aurizon Network's 2017 access undertaking (UT5).

Private incremental cost claim—Carmichael rail loop and connecting infrastructure

Aurizon Network's 2017 access undertaking provides for us to approve the prudent and efficient value of private incremental costs (PIC) associated with private infrastructure, if requested by an access seeker or Aurizon Network. In doing so, we:

- must be satisfied this expenditure is for the prudent and efficient value of the assets that are used to provide the relevant train services over private infrastructure¹
- may have regard to the **scope of works, standard of works and cost**²
- may approve all, or part, of the claim (making adjustments to the PIC as we consider appropriate).³

On 13 April 2022, Bravus made a PIC application of \$44 million in respect of infrastructure related to the operation of the Carmichael mine. Specifically, the claim is for:

- the connection to the Newlands system and associated infrastructure
- the Carmichael mine balloon loop.

We note that while these pieces of infrastructure are connected to the Carmichael Rail Network (CRN) project, which extends approximately 200 km from the Carmichael mine and connects to Aurizon Network's Newlands system, the CRN itself is not part of this claim.

¹ UT5, cl. 6.3.2(a).

² UT5, cl. 6.3.2(b).

³ UT5, cls. 6.3.2(e)(i), (g).

Bravus has claimed \$5 million for connection costs to the Newlands system and \$39 million for construction costs associated with these two pieces of infrastructure. Bravus has stated that both of these amounts are lower than actual expenditure and are based on what Bravus considers to be prudent industry benchmarks.

Engineering consultant's assessment

We engaged Arcadis to provide engineering advice on the prudence and efficiency of Bravus' PIC claim.

Arcadis assessed the claim items and reported on them based on a site visit to both facilities, as well as a desktop review of documentation Bravus provided. Additional information was also assessed, as well as clarification Bravus provided throughout the review to clarify and substantiate the information it provided initially.

Overall, Arcadis found the scope and standard of all works to be prudent and efficient.

While Arcadis found that the cost of the rail loop sat at the higher end of the benchmark range, it considered these costs could be explained by key site-specific differences between Bravus' rail loop and more typical benchmark projects. These include the stringent conditions and remoteness of the project, whole-of-life considerations in material specifications, and resource constraints. Given these engineering factors, as well as activist issues that caused disruptions, high insurance costs and issues with material sourcing, Arcadis considered the works to be prudent.

Arcadis' estimate of connection costs was \$80,456 lower than the amount claimed by Bravus.

Arcadis' draft report is available on our [website](#).

We used Arcadis' advice as one input into our overall assessment; we have not simply adopted Arcadis' views, recommendations or analysis.

QCA assessment and decision

Based on the information provided to date, including that from Arcadis, we are considering accepting \$44 million as the prudent and efficient value of the assets that are used to provide train services over private infrastructure for the Carmichael Mine.

We accept that the works that are the subject of the PIC claim are of a prudent standard to meet the project scope and are not overdesigned—with the design and configuration of the works appropriate and fit for purpose, given projected production, demand and capacity levels.

While the approved costs are at the higher end of industry norms, we accept that the amount claimed is prudent and efficient, given the specific matters Bravus faced in constructing the infrastructure, including difficult geotechnical conditions and remoteness. While the overall costs estimated by Arcadis were \$80,456 lower than that claimed by Bravus, we consider that the difference is likely attributable to the data available and the methodology used to apportion common costs between projects. In any event, given the difference between Arcadis' estimate and the claim amount is less than 1% of the overall claim, we do not consider the amount will have a material impact on users.

Accordingly, based on information currently available, we are considering approving \$44 million in PIC costs.

Approved PIC

We intend to approve \$44 million in private incremental costs relating to the Carmichael rail loop and connecting infrastructure project.

Way forward

We note there is broader stakeholder interest in the Bravus application and invite comments on the PIC amount of \$44 million in our draft decision, and on the draft Arcadis report. The due date for these comments is **4 November 2022**.

We will use information we receive to further inform our views in reaching a final decision on the value of the approved PIC amount to apply for the Bravus Carmichael rail loop and connecting infrastructure project.