Mr George Passmore
Director Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane, Qld, 4000

3 February 2023

Dear George,

Aurizon Network Submission to QCA Request for Stakeholder Views on the Rebate Mechanism

Aurizon Network welcomes the opportunity to respond to the Queensland Competition Authority's (**QCA**) request for stakeholder views on the Rebate mechanism, in particular whether stakeholders consider the Rebate Objectives have been met in a material way.

Unless otherwise defined, capitalised terms in this submission have the meaning given to those terms in Aurizon Network's 2017 Access Undertaking (**UT5**).

Context

The Rebate mechanism (as provided for in clause 7A.6 of UT5) was a key component of the negotiated package agreed with customers as part of the UT5 Draft Amending Access Undertaking (**DAAU**). The Rebate Objectives were agreed as part of the negotiation of the UT5 DAAU and the supporting mechanism remained consistent throughout those negotiations until the QCA approval of the UT5 DAAU on 19 December 2019.

In accordance with clause 7A.6(f) of UT5, if requested by an End User, the QCA must consider whether the Rebate mechanism is achieving the following objectives (**Review**):

(i)   provision of comprehensive and transparent information, and support by Aurizon Network for the Independent Expert's work in relation to the determination of the Rebate;

(ii)   accurate, reliable and timely root cause analysis of the reasons why an End User's Train Service Entitlements (**TSE**) are unable to be ordered, are ordered but not provided, or are not utilised; and

(iii)   timely and effective provision of an individual Rebate to End Users calculated in accordance with clause 7A.6(b) in circumstances where an End User has received less than their TSE in a Year due to an AN Performance Breach,

(together the **Rebate Objectives**).

As part of the Review, the QCA must seek submissions from End Users, Aurizon Network, the Independent Expert and Train Operators. The QCA must then determine whether the Rebate Objectives have been met in a material way. Under clause 7A.6(j) of UT5, if the QCA considers that the Rebate Objectives have not been met in a material way, the QCA must review the Rebate mechanism and determine if amendments can be made to the Access Undertaking in order to achieve the Rebate Objectives.

Aurizon Network Response

Consistent with the intent of UT5, Aurizon Network committed to give effect to the range of enhancements that were negotiated with Customers and incorporated within UT5. Following approval of UT5, Aurizon Network has implemented changes to its business processes in order to support the Rebate process.

In doing so, Aurizon Network considers that it has met each of the Rebate Objectives in a material way. The following sections describe how Aurizon Network has achieved this.

Rebate Objective (i) – Providing comprehensive and transparent information

Since approval by the QCA of the UT5 DAAU, Aurizon Network has worked diligently to provide accurate, comprehensive and transparent reporting on the operation of the network to the Independent Expert (being Coal Network Capacity Company, or **CNCC**).

Each month, Aurizon Network provides the Independent Expert with comprehensive information on network performance (to the extent known by Aurizon Network), including all source and underlying information and data, as required by clause 10.8 of UT5.

This information is provided to the Independent Expert in a format compatible with PowerBI, resulting in easy access to the raw underlying data and in a format that can be easily analysed by the Independent Expert. A monthly meeting between Aurizon Network and the Independent Expert provides a regular forum to discuss and respond to any queries that the Independent Expert may have regarding the information.

It is then a requirement of clause 10.8.3 that the Independent Expert provides the information on network performance at a Coal System level to all Access Holders, their Customers and Train Operators. In addition, Access Holders and their Customers receive individual performance data on their Train Service and Ad-hoc ordering performance data from Aurizon Network under clause 10.8.4. This is required to be provided 15 Business Days after the conclusion of the month and is accessible to all relevant stakeholders at their convenience.

The provision of this information has assisted the Independent Expert to fulfill a range of its obligations under UT5, including:

› conducting realistic assessments of Deliverable Network Capacity and System Capacity required for the System Operating Parameters, and preparing the Initial Capacity Assessment Report and Annual Capacity Assessment Reports;

› preparing the monthly network and customer performance report (**Customer Reports**); and

› determining the Performance Rebate Amount for FY22.

Following the approval of UT5 on 19 December 2019, Aurizon Network released the Customer Reports for the month of January 2020 on 21 February 2020, ensuring compliance with UT5 and the new obligations. Clause 10.8.5 of UT5 required that Aurizon Network prepare the Customer Reports until December 2020 (12 months after the Approval Date of UT5). It should be noted

that with the delays in establishing the CNCC and therefore the Independent Expert, Aurizon Network continued to provide this information directly to stakeholders until the Independent Expert published its first Customer Reports in November 2021. Aurizon Network provided this information to its customers to ensure they had access to comprehensive and transparent information on network performance, thereby meeting the intent of both the Rebate Objective and the enhanced network performance reporting regime provided for under UT5.

The provision of the network performance information is included within the annual compliance audit completed under clause 10.6.1 of UT5 for the benefit of the QCA. In each year that this has been a requirement, the independent auditor has found Aurizon Network to be in compliance with the obligation to provide comprehensive details of network performance information to the Independent Expert under clause 10.8 of UT5.

Rebate Objective (ii) - Accurate, reliable and timely root cause analysis

The second Rebate Objective requires Aurizon Network to provide accurate, reliable and timely root cause analysis of the reasons why an End User's TSEs are unable to be ordered, ordered but not provided, or are not utilised. This root cause analysis is shared with Access Holders, Customers and Train Operators on a monthly basis in accordance with clauses 10.8.3 and 10.8.4 of UT5.

Whilst Aurizon Network develops and communicates an optimised plan to other Supply Chain Participants as part of the Integrated Rail Planning (**IRP**) process, train orders are a function of several factors including network availability, mine/coal export terminal availability, customer demand and operator capability. Aurizon Network can only report on the impact of external factors such as mine/coal export terminal availability, customer demand and operator capability to the extent actually known by it (a fact that is explicitly recognised in clause 10.8.2(a) of UT5). For example, Aurizon Network does not collect or verify information from Train Operators on TSEs not ordered for a particular End User, noting that those train orders may be subject to an End User's commercial arrangements with either Train Operators or Terminals.

As a consequence, Aurizon Network may not know the circumstances that would result in a TSE not being ordered for a particular End User. In the planning process, Aurizon Network therefore strives to ensure that below rail activities do not constrain network availability to the extent that Committed Capacity (or Deliverable Network Capacity where there is an Existing Capacity Deficit) cannot be delivered.

Once a TSE is ordered, Aurizon Network's reporting systems track the status of that order, from the day it was submitted to Aurizon Network, through to the day of operations. Aurizon Network captures all information required to identify why a TSE was ordered but not provided, or not utilised and this information is provided to the Independent Expert.

Accordingly, Aurizon Network considers this Rebate Objective has been met in a material way and that it has at all times complied with its obligation to provide information to the extent that information is known by Aurizon Network.

Recognising the multitude of factors that can impact train orders, and the fact that Aurizon Network will not always know the reasons why a TSE is unable to be ordered, Aurizon Network identified this as a gap in the information that can be made available (being reasons why Train Operators are not ordering trains).

Consequently, Aurizon Network sought to support the Independent Expert in its determination of the Rebate, and specifically to provide additional information that would help the Independent Expert to identify whether planned below rail maintenance activities had impacted the ability for TSE to be ordered.

After reviewing alternative approaches and discussing the limitation of these with the Independent Expert, it was established that Aurizon Network would be required to use its RACE[1] model to assess whether the obligations pertaining to the amount of access that is made available for the ordering or planning of train services were being met. In adopting this approach, Aurizon Network worked collaboratively with the Independent Expert. This level of support involved considerable investment of time and resources from Aurizon Network.

Using the RACE tool, Aurizon Network modelled whether Deliverable Network Capacity could be achieved given the actual below rail constraints (including planned maintenance and renewal activities) that were inputs into the weekly planning process. That is, all other things remaining constant, whether Aurizon Network's maintenance and renewal practices inhibited the ability for orders to be placed. Aurizon Network considers this to be a conservative approach, where actual demand may be less than the Deliverable Network Capacity. Considering this known information gap, the RACE analysis allows the Independent Expert to better understand whether Aurizon Network had provided the opportunity for Customers to order their contractual entitlements and whether demand could have been fulfilled at that level.

In the absence of detailed information at an Origin/Destination level of why TSEs were not ordered, Aurizon Network considered that the overall approach listed above to be a reasonable and logical approach to support this Rebate Objective.

Aurizon Network continues to work with Independent Expert to refine the methodology for determining the root cause where TSEs were 'unable to be ordered' and to ensure that where an AN Performance Shortfall exists, any rebate assessment will identify whether it is the result of an AN Performance Breach.

This work will support the performance rebate assessment for FY23, and Aurizon Network does not believe that such refinement means the Rebate Objectives have not been met in a material way.

Rebate Objective (iii) - Timely and effective provision of a Rebate to End Users

The Independent Expert notified Aurizon Network of the Performance Rebate Amount for FY22 on 23 December 2022, which reflected the QCA's decision on the FY22 Revenue Adjustment Amounts.

In accordance with the requirements of clause 7A.6(d) of UT5, Aurizon Network issued a Recipient Created Tax Invoice (**RCTI**) to eligible End Users on 4 January 2023. A RCTI was unable to be issued to one End User by this date, as they had not supplied the required information. Once this End User had met the required conditions of clause 7A.6(c) of UT5, Aurizon Network issued an RCTI to it on 9 January 2023.

The amounts set out in the RCTI will be paid to eligible End Users by the required date of 2 February 2023. Accordingly, Aurizon Network considers this Rebate Objective has been met in a material way.

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[1] RACE is a rail supply chain optimisation tool that uses mathematics to maximise throughput and asset utilisation.

Next Steps

Aurizon Network considers that it has achieved each of the Rebate Objectives in a material way and is supportive of the QCA's Review being transparent and consultative. Aurizon Network welcomes the opportunity to work together with the Independent Expert, End Users and Train Operators to support the Review.

Should you have any questions in relation to this submission please contact Lauren Dixon via email Lauren.Dixon@aurizon.com.au.

Kind regards,

Jon Windle
Manager Regulation
Aurizon Network