03 February 2023

George Passmore
Director Business Performance
Queensland Competition Authority
Level 27, 145 Ann St, Brisbane QLD 4000
[Via QCA online submissions]
cc email: george.passmore@qca.org.au

Dear George,

QCA review of the performance rebate mechanism

We note that the Queensland Competition Authority (QCA) has been requested to undertake a review of the rebate mechanism and the QCA is seeking stakeholder views by the 3 February 2023. The Coal Network Capacity Company (CNCC), being the Independent Expert (IE) appointed under Aurizon Network's 2017 Access Undertaking (UT5), welcomes the opportunity to provide CNCCs views on the rebate mechanism.

2021-22 Rebate process

UT5 required the IE to determine if a performance rebate is payable by Aurizon Network (AN) to an end user. For this initial rebate process, the rebate mechanism applied from the report date, determined by the QCA as 14 March 2022, to 30 June 2022 (2021-22 rebate).

Part 7A.6 Rebate of UT5 requires a performance rebate to be calculated at an origin-destination level for each end user's access agreement and requires the IE to consider whether:

(i)   An End User has not received their train service entitlements (TSEs) (performance shortfall); and
(ii)   Whether the performance shortfall is due to an AN breach (AN performance breach).

CNCC worked extensively with AN to identify the decision criteria the IE would use to assess rebates as well as the information required by the IE to do so.

The 2021-22 rebate calculations were finalised by CNCC in late December 2022 and end users were advised of their rebate outcomes and the quantum of rebates that were determined for each coal system in the CQCN.

Rebate Objectives

UT5 clause 7A.6 (g) outlines the rebate objectives as being:

(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 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 Train Service Entitlements in a Year due to an AN Performance Breach.

CNCC has reflected on the 2021-22 rebate process and the rebate objectives and provide the following feedback for consideration by the QCA.

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(i)   **Information and AN support for the IE's work**

There has been significant and positive engagement between AN and CNCC for the 2021-22 rebate process. AN were transparent in their interactions with CNCC and they provided the information requested (where it was available) and responded to CNCC's queries within a reasonable timeframe.

There were some items of train order information that CNCC consider AN may not be capturing in their current planning and scheduling processes, which are outlined in the root cause analysis sections below.

(ii)   **Root cause analysis – TSEs are unable to be ordered**

CNCC identified two main challenges to assess whether TSEs were unable to be ordered by end users:
1. Whether all customer demand (train orders) requested through the integrated rail planning (IRP) process were being captured by AN as requested orders, and
2. Whether the root cause of requested orders that were not scheduled were allocated to the correct responsibility party.

AN acknowledged early in discussions with CNCC that the low level of coal production and customer demand during 2021-22 may present challenges to assess whether a performance shortfall is a result of lack of end user demand as distinct from demand that may have been unable to be ordered by end users.

CNCC notes from observations of the AN planning and scheduling processes and feedback from industry stakeholders, that not all customer demand is able to be presented to AN and/or may not be fully captured by AN. There are two principal elements to this issue:

- Role of rail operators. AN's integrated rail planning (IRP) and intermediate train planning processes requires rail operators to provide AN with customer demand on behalf of their end users (i.e., with no direct role for customers).
- Maintenance and other supply chain restrictions. In the current IRP process, customer demand, albeit expressed by rail operators, is entered into the Aurizon Network system <u>after</u> the inclusion by AN of supply chain constraints occurring in that period, including track maintenance possessions, train load out outages, terminal in-loader outages and rail operator constraints or preferences. These constraints reduce the available paths on which customer demand can be expressed.

CNCC understands that these factors mean that underlying customer demand may not be transparent to AN and therefore captured by them as rail operators are unable to update the AN system appropriately. If this demand is not captured as "requested orders" at this early stage in the IRP process, the reasons why that demand could not be presented by rail operators is also not being captured (i.e., which constraint inhibited the demand from being ordered). CNCC would require both the quantum and the root cause to be captured to evaluate if this has any impact on performance rebate outcomes.

The IRP process and the RACE tool seek to develop an optimised rail plan that is agreed with rail operators and leads to the development of the intermediate train plan (ITP). To achieve this the RACE tool seeks to solve to the best plan outcome using the range of system constraints. If the orders used as an input into this plan are not all achieved, the nature of the RACE tool makes attribution of a shortfall in order achievement very difficult to determine. Complicating the issue of transparency regarding the outcomes of this process is AN's incorporation of "supply chain preferences" in the RACE tool constraints. These represent limitations communicated by supply chain participants (other than Aurizon Network) that can range from hard constraints (physical limitations) to soft constraints (e.g., crewing limitations or hours of operation) but the effect of these limitations, as distinct from below-rail factors, is difficult to discern and not evident to end users. While it is clear to CNCC that, in principle, negative effects of non below-rail supply chain preferences are not AN's responsibility, their inclusion further complicates the identification and separation of below-rail impacts for which AN is responsible.

Even where root causes as to why those requested orders have not been scheduled could potentially be identified, they are not sufficiently captured or reported on by AN. CNCC noted that in most cases root case allocation was assigned only to rail operators with the reason as "order withdrawn" or "order changed". CNCC finds it difficult to accept that the rail operators are the only reason for an order not being scheduled through the IRP process.

To address this issue in the rebate assessment, AN sought to demonstrate to CNCC that full demand was able to be accommodated within its train planning and scheduling process using the RACE tool. Although CNCC acknowledges the substantial amount of work that AN undertook in this regard, the use of the RACE rebate modelling approach did not sufficiently address this question to CNCC's satisfaction. CNCC was therefore unable to determine if a performance shortfall was due to low demand or insufficient paths provided by AN resulting in end users being unable to order their TSEs.

(ii) **Root cause analysis – TSEs are ordered but not provided**

To a large extent, CNCC was able to identify those TSEs that were ordered but not provided to end users, including the root cause and responsibility allocations assigned to these TSEs. CNCC was unable to obtain third party information regarding root cause and responsibility allocations against which to validate AN's information. CNCC has therefore relied on the robustness of the existing monthly reconciliation process where access holders, managed by their rail operators, can dispute AN's responsibility allocation.

This process appears to be well understood by stakeholders and CNCC has observed regular changes in train cancellation root cause and responsibility allocations, which CNCC has discussed with AN monthly.

Similar to the IRP process, the rail operators, on behalf of the end users, manage these monthly reconciliation discussions with AN. CNCC therefore could not ascertain to what extent, if any, end users may have a different perspective on root cause or responsibility assignment to the rail operator or AN and how transparent the outcomes of discussions between AN and rail operators are to the end user.

(iii) **Timely and effective provision of Rebates**

CNCC is unable to comment on the timeliness and effectiveness of AN's provision (or payment) of the rebate to end users.

In terms of the timeliness and effectiveness of the IE's determination of the rebate, both CNCC and AN acknowledge that the initial rebate process took longer than anticipated to finalise. The initial rebate outcomes were planned to be finalised by August/September 2022 and the actual rebate outcomes were communicated to end users in December 2022. This delay in part, was due to the effort to establish what is a complex process, but in part, was a result of the time involved in assessing whether TSEs are unable to be ordered using the RACE modelling approach, which did not yield the outcomes that either party intended.

Rebate Calculation Methodology

Although UT5 provided some definitional guidance for CNCC and the IE to assess rebates, including how to calculate the performance rebate amount, what was a performance shortfall and what might constitute an AN performance breach, the definitions were not definitive, and this required the IE to exercise a degree of judgement. One of the more critical areas related to how the IE would determine that an AN performance breach existed for any specific performance shortfall (e.g. a train cancellation).

UT5 outlined several factors for the IE to consider when determining an AN performance breach, which extends to breaches of UT5 or an Access Agreement, AN acting inconsistently with the Approved Maintenance and Renewals Strategy and Budget, or where AN fails to comply with a System Operating Parameter under its control. Most of these factors are relevant to a coal system or Central Queensland Coal Network (CQCN) level which make it difficult to assign an AN performance breach at an individual train service level.

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As a result, CNCC took a pragmatic approach to assessing an AN performance breach at an origin-destination level for the 2021-22 rebate process. Where the quantum of actual below rail caused train cancellations for an origin-destination during the rebate period exceeded the allowable AN loss target for the relevant coal system (as determined from the Initial Capacity Assessment (ICAR) modelling undertaken in 2021), an AN performance breach was assessed. The quantum of actual train cancellations that exceeded the allowable loss target was used to determine the performance rebate amount.

Ultimately, the IE considers that there is a fundamental mismatch between the requirement to assess a performance rebate amount which requires linking a specific train service with identification of an AN performance breach which occurs on a system-wide basis.

Recommendations

Ultimately the construct of a performance framework to oversee and incentivise AN's performance is best determined by the AN and the Industry collectively. CNCC does offer some suggestions on items that could improve the transparency and effectiveness of future rebate assessments for the IE.

1) Capture and report on all underlying customer demand, or at least capture and report on customer demand as provided by rail operators to AN.
2) Make the quantum and status of requested, agreed, and scheduled orders more transparent to end users throughout the AN planning and scheduling process.
3) Expand the reason codes for root cause assignment of why requested orders have not been agreed to consider the impact of different constraints occurring on the rail network and impacts on which orders are able to be placed.
4) Where rail operators either withdraw or change an order on their end user's behalf, expand the root cause reason codes to explain the underlying driver and the responsibility party, i.e. mine production issues etc.
5) To better align to the assessment of an Aurizon Network breach, consider assessing AN's performance and any rebate payable at a coal system level.

Please do not hesitate to contact me if need any further clarity on the items raised above.

Yours faithfully,

T. Renwick

Timothy Renwick
Chief Executive Officer

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