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25 May 2023

Mr George Passmore
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4001
by email: george.passmore@qca.org.au
via Submission process at: www.qca.org.au

Dear George,

Aurizon Network – GAPE and Newlands pricing DAAU April 2023

We refer to the Queensland Competition Authority's ("QCA's") Stakeholder Notice published 20 April 2023 regarding Aurizon Network's GAPE and Newlands pricing DAAU April 2023 (DAAU). Glencore appreciate the opportunity to comment on the DAAU on behalf of our Newlands and Collinsville mines (Existing Newlands Access Holders) and our Clermont mine (a GAPE access holder). A contracted producer in each of the systems, we feel our unique position allows us to objectively respond to the DAAU and our response to each of the DAAU's key items are discussed below:

1. Asset Replacement and Renewals Expenditure

Glencore support the recommendation put forward in the DAAU regarding the allocation of renewals based on Gtk Forecast (subject to the comments regarding drafting in the table at item 7). Glencore welcome the engineering-based approach in determining usage related replacement and renewal costs and the intended allocation methods based upon forecast Gtk by system.

2. Newlands System Infrastructure Enhancements (NSIE) Amounts

It is difficult for Glencore to assess the appropriateness of the amounts that Aurizon Network seek to include in the Newlands Reference Tariff over and above the initial $46M proposed (an amount which was endorsed by customers) in the previous DAAU given the redactions made to the current document.

It is Glencore's position that Aurizon Network should not seek to "double recover" costs including:

a. interest which has accrued on values which were recovered under GAPE Deeds such that there was no associated cost or loss attributable to Aurizon Network as a result of the deferral of the NAPE Deed's commencement; and
b. amounts recovered to date in relation to the capital costs of the NSIE under the GAPE Deeds.

Any further anticipated losses that Aurizon Network may be attempting to mitigate by increasing the previously proposed $46M inclusion, would be considered commercial in nature. Any attempt to use the lack of transparency around the non-regulatory agreements to extract greater value from customers via the interaction of regulatory and commercial arrangements is something that the QCA needs to be aware of when approving additional amounts to the Newlands asset base because of the high value incentives available to hide this economic rent extraction.

Glencore continues to rely upon the QCA to review and appropriately consider Aurizon Network's calculations with respect to the NSIE Amounts given the lack of transparency. Glencore support the inclusion of an amount for NSIE to the extent that it does not result in a double recovery of interest and or capital costs as noted above.

On the basis that the timing of any additional NSIE amounts to be added to the Newlands Pricing RAB (if any) was to be supported by additional volumes (by way of RCS installation as a transitional measure, as suggested by Aurizon Network), Glencore request that any additional amount only be added to the RAB once the IE has determined that the installation of RCS has been effective in reducing the ECD as proposed.

3. Socialised Newlands Pricing on Contracted Volumes

In our previous submission, Glencore supported the use of contracted volumes as the basis for determining tariffs as part of Aurizon Network's then proposed package of arrangements which included:

- inclusion of the NSIE amounts in the Newland RAB (albeit not necessarily the amount proposed by Aurizon Network in this DAAU), with part of these amounts reflected in the socialized Newlands tariff and part of these amounts incorporated in a system premium applied to NAPE users;
- existing users were given an opportunity to voluntarily relinquish contracted capacity on a fee free basis is available prior to any such change.

As part of that package of arrangements, the use of contract volumes for pricing was seen as necessary, as the NAPE user also shipped coal under the socialised Newlands tariff from the same loadout facility. The use of contract volumes for pricing provided Newlands customers with confidence that the NAPE user would be unable to achieve more favourable commercial outcomes through the way in which it attributed forecast and actual tonnes between access agreements.

However, in the absence of this imperative, Glencore does not support the use of contract volumes to determine the Newlands reference tariff. As has been highlighted by Aurizon Network, the use of contract volumes for the purpose of setting tariffs significantly changes the risk position for coal producers, and in particular increases the likelihood of paying take or pay on unused capacity. As a result, the use of contract-based pricing will materially increase the cost to coal producers of holding 'buffer capacity', that is, capacity that is above their forecast demand, but held to provide a higher reliability of train services being scheduled as required if available capacity is constrained, which is particularly relevant in the current environment given the large ECD.

Glencore acknowledges that the DAAU proposal includes a number of measures designed to address these consequences, including:

- a one off, fee free relinquishment to enable users to align contract volumes to forecast, to reduce the resulting increase in take or pay exposure; and
- the provision that any such relinquished capacity relinquished can only be contracted by access seekers on a conditional basis, subject to the capacity only being available to use once the ECD has been rectified.

Notwithstanding these provisions, Glencore considers that moving the Newlands system alone to contract-based pricing will create additional throughput risk for Newlands users, particularly given the large ECD. This risk arises because, in the scheduling environment, priority is given to access holders who are 'more behind' on their use of contracted TSEs (see UT5 Schedule G, clauses 8.3(a)(v) and (vi)). The Newlands system is operated and scheduled together with the GAPE system. However, the GAPE system will continue to have reference tariffs determined according to forecast tonnes, with no incentive on access holders to relinquish contracted buffer capacity in excess of forecast usage. Consequently, while Newlands

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system users will have a financial incentive to relinquish any buffer capacity, it is likely that GAPE system users will continue to maintain buffer capacity. This will create a systematic risk that, at any time, GAPE system users will be 'more behind' on their use of contracted TSEs and will be given priority over Newlands system users in the scheduling environment. This risk is of particular concern given the extent of the existing ECD, and the resulting risk that access holders may not reliably be able to rail to their contracted volume.

It is incongruous to apply different approaches between the GAPE and Newlands systems, when they operate and are scheduled together, given the impact of relative holding of TSE's contracted has on the priority of scheduling. Glencore considers that a move to contract-based pricing should only be considered:

- once the ECD has been rectified, reducing the perceived need for access holders to retain 'buffer capacity' in order to increase the reliability of their railings; and
- if it was proposed to apply to all systems, and not to a single system, in order to avoid creating unintentional distortions in the scheduling environment.

Glencore maintains its position that, if contract volumes are used, Aurizon Network should not adjust the volumes for Aurizon Network cause and directs the QCA to Glencore's submission on the now withdrawn original DAAU. If the QCA were minded to allow such an adjustment, Glencore believe that adjustment should be no higher than that assumed in the SOP's on the basis that this has been independently assessed, and is consistent with the rebate calculations to which Aurizon Network indicate serve as the primary incentive for Aurizon Network to deliver contracted TSE's.

4. Feedback on drafting changes

DAAU Amendment	Aurizon Network description	Glencore comment
New clause - 7.4.8(m)	Allow Newlands Access Holders the opportunity to relinquish excess or surplus Access Rights without the payment of a Relinquishment Fee associated with the introduction of contract volume pricing in Newlands. Notification of intention to relinquish must be made on or before the nominated date which will reflect the due date on submissions in response to the QCA Draft Decision on the April 2023 DAAU. References to the new clause 7.4.8(m) are also included in: • clause 7.4.8(d); and • Schedule F clause 4.3(h)	As outlined, any move to contract-based pricing should not occur until the ECD is rectified or the move undertaken equally in both systems (preferably the former). If the QCA was minded to allow fee free relinquishments, the nominated date should not occur until after stakeholders have full knowledge of the changes to UT5 that will be accepted by the QCA in order to determine their preferred position. The nominated date therefore should be a specified period (eg two weeks) after the QCA's acceptance of any DAAU.
New Definition - April 2023 GAPE Newlands Pricing DAAU	Required for the application of the Asset Replacement and Renewals Expenditure allocation methodology for the Shared Rail Corridor described in the April 2023 DAAU.	Supported
New Definition - Newlands Shared Rail Corridor Replacement Assets	Required to define the assets subject to the Asset Replacement and Renewals Expenditure allocation methodology for the Shared Rail Corridor described in the April 2023 DAAU.	Supported
New clause - Schedule E, 1.3(c)	Modification of the RAB Roll-forward reporting requirements to reflect the approved Asset Replacement and Renewals Expenditure allocation methodology in the RAB Roll-forward report.	We continue to be of the view that, notwithstanding that the QCA's review provides confidence that the RABs are appropriately maintained, there is benefit in promoting understanding by users of how the tariffs are determined and, in the absence of this information being considered to

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DAAU Amendment	Aurizon Network description	Glencore comment
		be commercially sensitive (which we don't consider to be the case), then there is benefit in it being published.
New clause - Schedule F, 4.1(b)(vii)(G)	Modification to the Annual Tariff Review Process to distribute the Allowable Revenue attributable to prior Newlands Shared Rail Corridor Replacement Assets on the basis the relative Gtk Forecasts for the Newlands and Goonyella to Abbot Point Systems	This amendment is consistent with the previous DAAU proposal. This provision is based on defined term "Gtk Forecasts" for Newlands System and that proportion of GAPE system associated with use of the Newlands System, where the GTK Forecasts for the Newlands system are now proposed to be defined as contract volumes. However, the allocation of asset renewals should be based on forecast volumes regardless of whether contract volumes are used for pricing. This clause should be amended to replace "Gtk Forecasts" (defined term) with 'gtk forecasts" (undefined term). This has been informally raised with Aurizon Network who confirms that it is an error.
New clause - Schedule F, 10.3(a)	Inclusion of requirement for the Newlands Gtk Forecast to be determined with reference to the aggregate gtk for all relevant Train Service Entitlements.	Not supported.

We thank you for your consideration and for the opportunity to comment on this DAAU. Please do not hesitate to contact me should you wish to discuss.

Yours Sincerely

Megan Chapman
Glencore