

17th March 2026

Queensland Competition Authority
(Submitted via QCA Online Submission Form)

To Whom it May Concern

The Queensland Resources Council (QRC), on behalf of the QRC's Rail Working Group, welcomes the opportunity to comment on Aurizon Network's 2025 Draft Amending Access Undertaking (or 'UT5+ DAAU' or 'DAAU').

The Rail Working Group has worked closely with Aurizon Network on the development of a package of amendments to Aurizon Network's current 2017 Access Undertaking ('UT5'), to support its continued application over an extended term to 2037. As has been explained by Aurizon Network in its submission accompanying the UT5+ DAAU, this engagement has resulted in substantial agreement on the elements contained in the DAAU. Reflecting this, letters of support from a material number of Rail Working Group members have been submitted to the QCA, supporting significant elements of the UT5+ DAAU.

In relation to the assessment of Allowable Revenue and Reference Tariffs, Aurizon Network and the Rail Working Group members did not seek to reach complete agreement. Instead, agreement was generally reached on the methodology to be applied for determining the various components of Allowable Revenue, but not on the specific values to be adopted.

For many Allowable Revenue components there are detailed methodologies and processes agreed for determining the specific cost allowances. This is the case, for example, for:

- Direct Maintenance Cost, which is established based on the maintenance budgets approved by the Rail Industry Group through the annual Maintenance and Renewal Strategy & Budget process; and
- Depreciation and WACC, where detailed agreement on the methodology has been reached, with the cost allowance to be finalised based on the most current information available in the 2027 Annual Review of Reference Tariffs.

However, for some Allowable Revenue components, such as the Non-Electric Operating Expenditure and Indirect Maintenance Costs, Aurizon Network has discretion in how it applies the agreed methodology to derive its proposed cost allowance, with the final value subject to QCA review and determination. In these cases, Aurizon Network's DAAU submission sets out its proposed cost allowance together with its supporting

rationale. The QRC has identified numerous base-year and step adjustment moves that collectively inflate non-electric operating expenditure by more than \$15m pa (FY28 \$s):

- The QCA should reject Aurizon Network's Board/CEO blended allocator, strip all non-recurring FY25 regulatory and one-off costs, enforce an appropriate general non-coal allocator (not Aurizon Network's low functional-only approach), and require application of verified 2025 efficiency savings as a negative step to the base year;
- The proposed insurance uplift is unjustified and should be scaled back. Aurizon Network's consultants model a costly stand-alone retail program (via Marsh) instead of recognising Aurizon's Captive placement, as well as exclude insurances unrelated to the declared service (Civil Liability & Professional Indemnity) and double counted risk and allowances (including Motor Vehicle and consultancy/brokerage costs) — producing an unwarranted ~\$6.2m FY28 increase. The QCA should also require that derailment self-insurance be reduced to the uninsured exposure (adjusted for recoveries, including from the high cost Marmor derailment) — and any “expenses” loading must be proven, not banked from commercial insurer margins;
- Step changes and trend claims lack substantiation. Mid-term reset fees, extra cyber-specialist hires and other step increases must be proven efficient or made conditional on trigger events. The QCA should limit mid-term external advisory allowances, scrutinise Daily Rolling Plan licensing and require evidence that additional cyber FTEs are necessary before accepting step cost increases;
- The impact of Aurizon's 2025 non-operational cost review should be reflected across all relevant cost elements, rather than being applied on a selective basis as proposed by Aurizon Network;
- Burngrove RAB treatment: QRC supports removing west-of-Burngrove assets from the RAB — but insists on a binding cap if assets ever re-enter the asset base, where re-entry value must equal the deferred value that would have applied (indexation/depreciation fixed ex-ante), prohibit any fresh DORC uplift, and restrict roll-ins to genuinely new, prudently incurred augmentations.

This QRC submission responds to Aurizon Network's submission, in particular:

- Appendix A addresses Aurizon Network's proposed Non-Electric Operating Expenditure Allowance; and
- Appendix B discusses the treatment of infrastructure west of Burngrove in Aurizon Network's Regulatory Asset Base.

In addition to these specific comments, we continue to rely on the QCA to conduct a thorough review of all Allowable Revenue components to ensure that they reflect an accurate application of Aurizon Network's described methodology and underlying data.

Yours sincerely



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Deputy Chief Executive

Non-Electric Operating Expenditure

A.1 Executive Summary

The broad methodology for determining the Non-Electric Operating Expenditure Allowance (NOEA) has been agreed between Aurizon Network and the QRC. However, Aurizon Network and the QRC did not seek to agree the specific NOEA, but instead agreed that the final value would be subject to QCA review and determination. Further, within the agreed methodology, the QRC notes that there is substantial discretion for Aurizon Network in assessing its proposed allowance. The QRC is not privy to the cost information underpinning Aurizon Network's assessment of its proposed NOEA, and therefore relies on the QCA to undertake a detailed assessment of the proposal having regard to this cost data. However, based on Aurizon Network's description of its approach as set out in its UT5+ DAAU submission, the QRC has a number of concerns with the way in which Aurizon Network has applied the agreed approach to derive its proposed NOEA, as set out in this Appendix.

The QRC acknowledges that some of the issues raised in this Appendix may not, in isolation, be considered material. However, given the significant number of issues identified, we estimate their aggregate impact to exceed \$15m pa (FY28 \$s), more than 10% of Aurizon Network's proposed NOEA. This reflects a substantial and unreasonable overstatement of the efficient non-electric operating cost required to deliver the declared coal services.

Remaining vigilant in the pursuit of cost efficiency in below rail services is essential to preserving competitiveness and long-term viability for the Queensland coal industry. Sustained cost discipline strengthens the resilience of Queensland's coal operations, helping safeguard jobs, regional economies, and export market share, particularly during periods of global market pressure.

A.1.1 Base-Step-Trend assessment

For the purposes of assessing NOEA components other than risk and insurance, Aurizon Network has applied the agreed 'base-step-trend' approach based on FY25 actual costs. The QRC has identified a range of concerns with Aurizon Network's assessment, summarised as follows:

- In adjusting its FY25 actual costs to form the 'base year' costs:
 - Aurizon Network has proposed a number of changes to current allocation methodologies. The QRC supports the majority of these changes as reflecting an improved causal cost allocation, however recommends that the QCA reject the changed approach for Board and CEO costs. This change is designed to align Aurizon Network's allocated cost with their estimated stand-alone cost, rather than allocating the Aurizon Group's actual costs using a causal allocator that reasonably approximates the contribution that the network business makes to the total shared cost. As a result, these costs will be 'over-allocated' to Aurizon Network, to the advantage of Aurizon's above rail business groups.

This is inconsistent with the QCA's established regulatory precedent on the principles for allocating shared costs;

- Aurizon Network has proposed some adjustments to remove temporary and one-off costs from its FY25 actual costs. However, noting that following a period of strong cost discipline there has been a significant increase in costs between FY24 and FY25. The QRC is concerned about the reasonableness of these additional costs being reflected in the 'base year' costs, although there is insufficient information to allow the QRC to examine this in detail. Accordingly, the QRC requests that the QCA closely review the FY25 cost increases to ensure that their drivers are well understood, all non-recurring costs are fully excluded, and ongoing step increases have been examined to ensure they are efficient. Some specific issues of concern have been identified for the QCA's further consideration; and
- Aurizon Network has applied some, but not all, of the QCA's previously approved non-coal allocators. The QRC believes that Aurizon Network's resulting total allocation of costs to non-coal services is unreasonably low in comparison to both the contribution of these services to Aurizon Network's overall cost base, and to the revenue earned from these services. The QRC recommends that the QCA continue to require a general allocation of costs to non-coal services, and has proposed an alternate allocation methodology for the QCA's consideration;
- The QRC requests that the QCA review Aurizon Network's proposed 'step adjustments' to its 'base year' costs, as it is concerned that these may not reflect the efficient cost of the nominated additional tasks;
- The QRC does not consider that Aurizon Network's proposed efficiency adjustments to the 'base year' costs reflect the impact of Aurizon's 2025 non-operational costs efficiency review in relation to Aurizon Network's Direct/Indirect CQCN costs. The QRC recommends that the QCA require Aurizon Network to advise the efficiency savings realised in the 2025 non-operational cost review relevant to its Direct and Indirect CQCN costs and apply these as a negative step to the adjusted base year costs.

A.1.2 Risk and Insurance costs

In aggregate, Aurizon Network's UT5 risk and insurance premium has been 'about right', providing for an aggregate over-performance of \$1.3m across the last 6 years (although some adjustment between external and self-insurance allowances is required). However, notwithstanding the apparent reasonableness of the existing risk and insurance allowance, Aurizon Network has proposed that this increase by \$6.2m from FY28. The extent to which Aurizon Network's proposed increase in the risk and insurance allowance is out of step with its actual costs over the last six years is of real concern. The QRC's specific concerns are described as follows:

- In relation to Aurizon Network's proposed external insurance costs:
 - The QRC believes that a significant contribution to the divergence between actual cost and estimated insurance premium is driven by the assumption that Aurizon Network will need to procure external insurance on a stand-alone basis which has led to its insurance consultant estimating the premiums that could be achieved in the retail market, even though Aurizon places much of its

insurance through its Captive insurer. Costing shared functions as if they were managed on a stand-alone basis is inconsistent with the approach required by the QCA for the allocation of Corporate Overheads, where the QCA was careful to ensure that shared costs were not 'over-allocated' to Aurizon Network to the advantage of Aurizon's above rail groups. It is not clear why insurance should be treated differently to other shared costs. Accordingly, the QRC recommends that the QCA require external insurance premiums to be estimated on the assumption that insurance is placed in a manner consistent with Aurizon's actual practice, and in particular, on the assumption that Aurizon Network can insure through Aurizon's Captive insurer.

- There is no evidence that Aurizon Network provides any professional services (of the type for which Civil Liability & Professional Indemnity insurance is required) as part of the provision of declared services. Accordingly, consistent with its decision on UT5, the QCA should reject the inclusion of an allowance for Civil Liability & Professional Indemnity insurance premiums as part of the external insurance component of NOOEA;
- Noting that Aurizon Network has not previously sought any recognition of an allowance for Motor Vehicle insurance, QRC requests that the QCA closely examine the way in which motor vehicle costs are incorporated and reflected in maintenance and renewal expenditure, in order to identify whether the motor vehicle charges already incorporate risk related costs, that is, either by including insurance cost or recovery of actual costs that would otherwise be covered by insurance. This is essential in order to ensure that the inclusion of an allowance for Motor Vehicle insurance does not 'double count' motor vehicle related risks;
- To the extent that there are insurable risks that Aurizon does not currently hold insurance coverage for, the costs associated with those risks as they arise from year to year must be reflected in Aurizon's actual costs. Therefore, unless the actual costs of these risk events are excluded from Aurizon Network's actual base year costs, including an allowance for insurance costs will 'double count' these risks. Therefore, the QRC recommends that the QCA exclude premium estimates for any insurance policies not currently held by the Aurizon Group from the external insurance allowance;
- The QRC considers it inappropriate to provide a separate provision, within the external insurance cost allowance, for the notional cost to Aurizon Network if it were required to manage an external insurance program on a stand-alone basis. Aurizon provides insurance management as a corporate service, and a portion of these costs will be allocated to Aurizon Network as part of corporate overheads. To include insurance management costs in the external insurance allowance would not only 'double count' an allowance for these costs, but would do so in a way that is inconsistent with the QCA's established principles for the allocation of shared costs. Accordingly, the QRC recommends that the QCA reject Aurizon Network's request for an allowance for insurance consultancy and brokerage services;
- The QRC considers that the most efficient way of managing risks associated with network damage, including from derailments and third party incidents, is to treat these as a cost passthrough. If Aurizon Network's preference is to maintain a self-insurance

arrangement for derailment and third party damage risks, it is important that this not impose a cost on users that is greater than would be reflected through a cost passthrough arrangement, as this would no longer represent the efficient cost of managing these risks. In this context, the QRC does not consider that Aurizon Network's proposed self-insurance premium reflects an efficient cost for managing risks associated with network damage. Specifically the QRC recommends that:

- The QCA require the estimate of derailment losses to be adjusted to reflect insurance recoveries (including acknowledgement of the potential recoveries associated with the Marmor derailment); and
- The QCA only accept an 'expenses' loading on the projected derailment losses to the extent that Aurizon Network can identify any **additional** expenses incurred in managing self-insured derailment losses that are not already recovered through the Direct and Indirect CQCN cost components of the NOEA.

A.2 Agreed Methodology

Non-electric operating expenditure is comprised of four components:

- Direct CQCN operating costs (eg network control, safe working and operations, infrastructure management);
- Indirect CQCN operating costs (eg business management);
- Corporate overheads; and
- Risk and insurance.

The broad methodology for determining the NOEA has been agreed between Aurizon Network and the QRC Rail Working Group members, involving:

- Elements other than risk and insurance will be assessed using the ‘base-step-trend’ approach with FY25 to be adopted as the base year;
- In applying the ‘base-step-trend’ approach, Aurizon Network has committed to the following:
 - Trend movements in costs will be measured by a weighted index, with WPI to be applied to the labour proportion of costs, and CPI to be applied to all other costs;
 - Direct and Indirect CQCN operating costs will escalate from FY25 onwards at CPI/WPI less an efficiency factor of 0.5%; and
 - Reflecting the expected outcomes of Aurizon’s 2025 non-operational cost review, a minimum \$2m step down in corporate overheads will be applied to the FY25 base year costs, with costs then to escalate at CPI/WPI;
- The risk and insurance cost component will be based on an actuarial assessment.

Beyond this, Aurizon Network and the QRC did not seek to agree the specific NOEA, but instead agreed that the final value would be subject to QCA review and determination. Further, within the agreed methodology, the QRC notes that there is substantial discretion for Aurizon Network in assessing its proposed allowance. Accordingly, this Appendix sets out the QRC’s views on the way in which Aurizon Network has applied the agreed approach to derive its proposed NOEA.

This response is structured as follows:

- Section A.3 addresses the adjusted base year costs;
- Section A.4 covers Aurizon Network’s proposed step adjustments;
- Section A.5 deals with the efficiency adjustments to the trend movement in the allowance; and
- Section A.6 discusses risk and insurance costs.

A.3 Adjusted Base Year Costs

For the purpose of assessing the base year costs, Aurizon Network has identified its actual FY25 costs and then proposed a number of adjustments, including:

- Allocation changes;
- Removal of temporary or one-off costs; and
- Other adjustments.

The impact of these adjustments is summarised in the table below:

Table 1 Aurizon Network Proposed FY25 Adjusted Base Year Costs (\$m)

	UT5 Allowance	Actual Costs	Allocation Adjustments	Other Adjustments	UT5+ Base Year Costs
Direct/Indirect CQCN	72.3	66.8	2.2	(0.7)	68.3
Corporate Overheads	55.2	59.4	(1.9)		57.5
Less Non-Coal Allocation	(1.0)			(2.1)	(2.1)
Subtotal	126.5	126.2	0.3	(2.8)	123.7

Source: Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; Table 8-4, p.134.

A.3.1 Allocation Changes

In developing its adjusted base year costs, Aurizon Network has proposed a number of changes to the cost allocation methodologies previously accepted by the QCA for the purpose of UT5. These largely relate to the allocation of corporate overhead costs, as follows:

- Board and CEO – Aurizon Network proposes to change from a direct cost allocation method to a blended cost allocator (using EBITDA and FTEs), which would result in the allocated Board and CEO cost increasing from \$1m to \$2.2m;
- Information Technology and ERP – refinements have been made to the allocation to more directly reflect causation, causing a \$2.6m reduction in the allocated cost;
- Procurement - refinements have been made to the allocation to more directly reflect causation, resulting in an increased allocation of \$1.5m;
- Real Estate – allocated costs have increased by \$0.3m to reflect expected arm’s length transaction costs;
- Safety and People Partners – these have moved from a corporate function to become directly managed within Aurizon Network, causing a \$2.2m cost transfer from Corporate Overheads to Direct/Indirect CQCN costs.

In considering the reasonableness of these allocation changes, the QRC has had regard to the principles that have previously guided the QCA’s consideration of allocated corporate costs. These were clearly expressed in the QCA’s UT5 Final Decision, where it described its approach as follows:¹

¹ QCA (2018); Decision – Aurizon Network’s 2017 Draft Access Undertaking; December 2018; p.145-146.

In considering an appropriate allocation of shared overhead costs, we have considered the reasonableness of:

- The nature of costs allocated to Aurizon Network, and whether they would be reasonably incurred if Aurizon Network was a stand-alone business;
- The parameters used to allocate those costs, and the extent to which the resulting allocated amounts are a reasonable reflection of the contribution of the Aurizon Network business to total costs.

In general, the QCA considers that shared costs should be allocated in a manner that advances the pricing principles at s.168(c) of the QCA Act. That is, costs should not be allocated in a way that allows Aurizon Network to set terms and conditions for access that discriminate in favour of downstream operations of a related body, for example by subsidising its non-regulated activities by over-allocating shared costs to its regulated activities. To achieve this, the QCA considers that shared costs should, wherever possible, be allocated using a causal allocator that reasonably approximates the contribution that the network business makes to the total shared cost.

In response to Aurizon Network's arguments around the extent to which the allocated cost departed from stand-alone cost, the QCA's view was that '...the stand-alone benchmark cost is not necessarily the efficient cost to Aurizon Network. Rather, the QCA considers it represents an upper-bound of a reasonable cost estimate for Aurizon Network'.²

Reflecting these principles, for UT5 the QCA concluded that:

- Where possible, corporate costs should be allocated based on causation;
- For those cost categories where no clear causal cost driver can be identified for allocation of costs to Aurizon Network, corporate costs will be allocated in accordance with the proportion of Aurizon Network total direct costs to Aurizon Group total direct costs.

The use of 'direct costs' as the default allocator where no clear causal cost driver exists was determined by the QCA for UT4, where it rejected a blended cost allocator proposed by Aurizon Network (in that case, based on revenue, assets and FTEs) on the basis that – given its emphasis on allocating costs based on asset value – it would overstate the level of corporate overheads reasonably attributable to the operation of Aurizon Network.³ For UT5, around 60% of Aurizon Network's proposed corporate overhead was allocated based on the default 'direct cost' allocator.

The QRC considers that Aurizon Network's adjustments to the allocation of Information Technology and ERP, Procurement and People and Safety Partners reflects improved causal allocation, and aligns with the QCA's guiding principles for allocating shared costs. While Real Estate costs are identified to have increased, the methodology for allocating these costs appears unchanged. However, the QRC has concerns with Aurizon Network's proposed changes to Board and CEO cost allocation as discussed below.

Board and CEO Costs

Aurizon Network submits that the Board and CEO cost allocator requires refinement due to the growth in costs of the other Aurizon Group business units. Aurizon Network argues that the direct cost allocation approach results in a significantly lower CEO and Board

² QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.154.

³ QCA (2014); Draft Decision - Aurizon Network 2014 Draft Access Undertaking: Maximum Allowable Revenue; September 2014; p.75.

remuneration than what would be required if Aurizon Network operated as a stand-alone entity. Aurizon Network has instead proposed the use of a blended cost allocator, in this case based on 50% EBITDA contribution and 50% FTE, which it considers results in an allocated cost more consistent with that which would be incurred if Aurizon Network were to operate as a stand-alone business.⁴

The QRC does not consider that Aurizon Network’s proposal is consistent with the QCA’s established precedent for the allocation of corporate overheads.

In recent years, the Aurizon Group has been steadily reshaping its business model to reduce its long-standing dependence on coal. This is in direct response to the increased uncertainty around long-term coal volumes, together with investor and regulatory pressure to decarbonise. Aurizon’s CEO has repeatedly stated that the company’s core strategic goal is to double the size of its bulk freight division by the end of the decade,⁵ with bulk freight (including minerals, agricultural freight, industrial freight and containerised freight) seen as having greater long term growth potential than coal. Accordingly, Aurizon has been aggressively pursuing growth in the bulk freight market, with key strategies towards this goal including:

- Aurizon’s 2022 acquisition of One Rail Australia, which substantially expanded Aurizon’s non-coal footprint, particularly in South Australia and the Northern Territory;
- Re-entry into the national containerised freight business in 2023, underpinned by a long-term contract with Team Global Express;
- Emphasis on developing new rail-based supply chains, including a rail-based logistics service for Tronox’s mineral sands in 2023 (operating over 2,800km between Broken Hill and Perth), landbridging containerised freight via the Port of Darwin in 2024, and commencing a large integrated rail, road and ports logistics service in South Australia for BHP Copper in 2025.

However, while the bulk freight haulage business offers long term growth potential, it typically operates with greater competition from other transport modes and achieves lower margins. This can be seen from the Aurizon Group’s FY25 financial results.

Table 2 Aurizon Group Financial Results FY25 (\$m)

Business Segment	Revenue	Operating Cost	EBITDA
Network	1,428	472	956
Coal	1,308	781	527
Bulk	1,112	953	169
Other (including Containerised Freight)	142	218	(76)

Source: Aurizon Annual Report 2024-25

While this strategic repositioning has caused the direct costs of other Aurizon Group business areas to increase, Aurizon Network has not made the case that direct cost allocation no longer reasonably approximates the contribution that the network business makes to the Board and CEO costs. Indeed, given the long-term stability, much lower relative risk and higher margins of the Aurizon Network business, it is likely that the focus

⁴ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; p.152-153.

⁵ International Railway Journal (2023); Aurizon targets bulk growth as coal volumes fall; February 2023.

of Board and CEO attention will be on pursuing this strategic goal of reshaping Aurizon's business model towards the bulk business.

By aiming to align the allocated Board and CEO cost to the cost that would be incurred by Aurizon Network as a stand-alone entity, Aurizon Network has departed from the guiding principles underpinning the QCA's previous decisions on corporate cost allocation. As noted above, the QCA has taken the view that stand alone cost is not necessarily the efficient cost to Aurizon Network, but rather represents an upper bound for the efficient cost, and that corporate costs are to be allocated using a causal allocator wherever possible, and in any case in a way that reasonably approximates the contribution that the network business makes to the total shared cost.

For Board and CEO costs, the most relevant causal driver is 'management attention', and a reasonable allocator will be one that best reflects this. The QRC considers that direct cost represents the best proxy for 'management attention' for the Aurizon Group, as it not only reflects the different operational complexity and risk of each business segment, but also aligns the resulting cost allocation with the overall strategic focus of the business.

Accordingly, the QRC objects to Aurizon Network's proposed changes to the QCA's previously approved allocation methodology for Board and CEO costs, on the basis that the proposed change does not reflect an improved measure of causality, and is inconsistent with the QCA's established regulatory precedent on the principles for allocating shared costs. By departing from the QCA's established regulatory precedent, QRC considers that Aurizon Network's proposal will over-allocate Board and CEO costs to Aurizon Network, to the advantage of Aurizon's above rail businesses.

However, in the event that the QCA were to consider an alternative allocation method, the QRC does not consider it reasonable to include EBITDA as part of an allocation metric. Aurizon Network's regulatory framework supports a strong and stable EBITDA, driven largely by the RAB value of infrastructure assets. The competitive elements of Aurizon's business are less asset intensive and are subject to greater volatility, and generate lower EBITDAs as a result. In particular, where a new business element is being developed, as is occurring due to a number of Aurizon's containerised freight and bulk strategies, EBITDA is likely to be low or even negative until that business is well established. This pattern is clearly evident in Aurizon's financial results. As can be seen from Table 2 above, EBITDA is heavily skewed towards the Aurizon Network business, which contributed 60% of the Aurizon Group's EBITDA in FY25. In contrast, the Bulk and Other segments (which includes the Containerised Freight business) together contributed 6%. Given Aurizon's strategic focus on aggressively growing its bulk and containerised freight businesses together with their operational reach and complexity, this does not represent an acceptable proxy for management attention.

A.3.2 Temporary and One-off Costs

In order to ensure that the adjusted base year costs provide a reasonable starting point for forecasting efficient costs, it is necessary to examine Aurizon Network's actual FY25 costs to remove any temporary or one-off impacts.

Aurizon Network has proposed to remove \$0.7m of costs from its actual FY25 costs, on the basis that these are incremental costs associated with preparing the UT5+ regulatory submission and are non-recurring.

Non-Recurring Regulatory Review Costs

The QRC agrees that the costs of external advisors relating to the preparation of the UT5+ DAAU and supporting submissions will be non-recurring, and should be removed from Aurizon Network's actual FY25 costs in order to establish the adjusted base year costs.

However, from Aurizon Network's description of the costs that have been removed from its actual FY25 costs, the QRC is concerned that the cost adjustment may be too narrow. Aurizon Network has described the removed costs as being 'Costs incurred in FY25 associated with preparing the UT5+ regulatory submission (reflecting the costs of various independent experts)'⁶. The QRC believes that the non-recurring costs should reflect **all** external advisory costs associated with the UT5+ DAAU review process, including:

- The costs of independent experts preparing reports and advice for Aurizon Network's regulatory submission (as proposed by Aurizon Network);
- Any other costs of independent expert and legal advisors used in the development and refinement of Aurizon Network's UT5+ policy positions and its external engagement processes; and
- External legal costs associated with UT5+ DAAU drafting.

The QRC requests that the QCA closely examine Aurizon Network's FY25 actual costs to ensure that all of these non-recurring regulatory review costs are fully excluded from the adjusted base year costs.

Other Costs

The QRC notes that, following a period of strong cost discipline, Aurizon Network's actual non-electric operating costs increased substantially between FY24 and FY25, with its submission showing a \$7.8m (or 6.5%) increase in that year alone. With less than 30% of this increase related to escalation of salary costs, it is clear that there has been significant step increases in other costs between FY24 and FY25. While some of the cost increases have been identified as temporary (notably \$0.7m in regulatory review costs) and others were transparently incurred to improve customer service delivery (e.g. \$0.5m in additional licensing costs to support the Daily Rolling Plan initiative), the case for other cost increases to be included in the adjusted base year costs is unclear.

For example, in UT5, Aurizon Network sought a step increase in costs to provide for a Network control school, involving annual training for up to 12 trainees to address impending skill shortages.⁷ However, in its UT5+ DAAU submission, Aurizon Network advised that its costs increased by \$0.7m from FY24 to FY25 due to the re-introduction of Trainee Network Controllers to manage succession planning.⁸ The QRC queries the extent that Aurizon Network actually incurred the expected UT5 step increase over the full UT5 regulatory period, and if not, what is the efficient level of ongoing expenditure on trainee controllers to effectively manage succession risk and whether some of these costs should instead be considered temporary or cyclical.

⁶ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; Table 8-15, p.158.

⁷ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.127.

⁸ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; Table 8-15, p.159.

Further, not all of the identified cost increases appear to be ongoing. For example, costs associated with an external manual handling review and switchgear condition assessment would appear to be one-off. While the QRC acknowledges that it is possible that similar reviews may be undertaken in the future, to the extent that the need for such reviews is ongoing, it would be expected that such costs would have also been incurred in previous years.

The QRC is concerned that, knowing that FY25 was to be used as the base year for determining the UT5+ NOEA, Aurizon Network was incentivised to relax the strongly disciplined approach that it applied to cost management earlier in the UT5 period, in order to support a higher allowance in UT5+. Accordingly, QRC believes that there is a need for the QCA to closely review the factors that have led to increased costs in FY25 to ensure that:

- All material drivers of cost increase are understood (noting that Aurizon Network's explanation does not appear to address the full amount of the cost increase);
- All non-recurring costs are fully excluded (for example, Aurizon Network's Annual Financial Report shows that its employee benefits expense for FY25 includes redundancy costs of \$5.1m,⁹ but it is unclear if any of this expense is included in Aurizon Network's actual FY25 costs);
- Ongoing cost increases have been examined to ensure that they are efficient.

A.3.3 Other Adjustments

Beyond allocation changes and removal of non-recurring costs, Aurizon Network has proposed to adjust actual FY25 costs to allocate a portion of costs to non-coal services. In doing so, Aurizon Network has allocated \$2.1m to non-coal services by applying the QCA's previously approved causation linked cost allocators to specific operating cost functions. However, Aurizon Network has not applied the 'general non-coal allocator' that the QCA previously required for all other operating cost functions.

Non-Coal Functional Cost Allocation

The QRC supports Aurizon Network's continued application of the QCA's previously approved causation linked methods for allocating specific operating cost functions to non-coal activities, covering the following functions:

- Network train operations (train control);
- Network finance;
- Customer; and
- Legal.

The \$2.1m functional cost allocation to non-coal services represents 3.1% of Direct and Indirect CQCN costs, which is broadly consistent with outcome for UT5 where the functional allocation to non-coal services represented \$2.6m or 3.5% of total Direct and Indirect CQCN costs.¹⁰

⁹ Aurizon Network Pty Ltd Annual Financial Report for the year ended 30 June 2025; p.17.

¹⁰ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.194.

Non-Coal General Cost Allocation

In addition to the specific functional allocations noted above, for UT5 the QCA also required the application of a 'general non-coal allocator' to all other operating cost functions. This general allocation represented a further \$1m.¹¹

The rationale for a general allocation of costs to non-coal services is similar to that which underpins the QCA's corporate cost allocation approach. Coal service stand-alone cost (determined by deducting the incremental cost of non-coal services from total operating costs) reflects the upper bound cost allocation for those coal services. This upper bound cost may be appropriate if non-coal services were only able to generate revenue at a level similar to their incremental cost (both operating and maintenance). But where non-coal services generate revenue materially above incremental cost, allocated amounts (to non-coal services) should be a reasonable reflection of the contribution of those services to total below rail costs.

Based on its UT5 investigation, the QCA was concerned that the application of the functional non-coal allocations alone was likely to understate the reasonable non-coal costs when taken as an overall portion of operating costs, and that this was likely to result in reference tariffs for coal carrying trains recovering the costs of providing access that should be attributed to non-coal carrying traffic.¹²

The QCA's UT5 decision was to apply a general non-coal allocator to those operating cost functions with no specific functional allocation of costs to non-coal services. The selected general allocator was 1.15%, based on the proportion of non-coal access charge revenue to total access charge revenue.¹³ The QCA considered this approach to recognising non-coal costs to be an interim measure, and suggested that in future, the matter of non-coal allocations ought to be considered more broadly, potentially at the total allowable revenue level.¹⁴

While Aurizon Network has considered other allocation methods in its UT5+ submission, the QRC does not believe that these adequately address the concerns that the QCA raised in its UT5 Final Decision. In particular:

- Aurizon Network has only considered selected alternate general allocators at an operating cost level, not at a total allowable revenue level, as sought by the QCA; and
- It has selected alternate general allocators that are skewed towards coal services (which have very high g/k and revenue per service compared to non-coal services) and as a consequence do not address the QCA's concern that the existing functional cost allocations are likely to understate non-coal costs when taken as an overall portion of operating costs.

The QRC further considers that Aurizon Network's resulting total allocation of maintenance and operating costs to non-coal services (based on its proposed functional allocation) is unreasonably low in comparison to the revenue earned from those services:

¹¹ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.194.

¹² QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.190.

¹³ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.193.

¹⁴ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.194.

Table 3 AN proposed cost allocation to coal and non-coal services

	Coal	Non Coal
TOTAL REVENUE (ex Electric Traction)	1,363.5	21.4
Maintenance Cost Allocation	203.0	1.5
Non-Electric Operating Cost Allocation	132.8	2.1
Electric Operating Cost Allocation	79.5	-
TOTAL OPERATING COST ALLOCATION	415.3	3.6
Allocated Operating Cost as % Revenue	31%	17%
Depreciation	484.1	-
TOTAL COST ALLOCATION	899.4	3.6
Allocated Total Cost as % Revenue	66%	17%

Source: Revenue estimates from Aurizon Network UT5+ Submission p.183; Maintenance cost allocation from Aurizon Network FY25 Maintenance Cost Claim p.6; Operating cost allocations from Aurizon Network UT5+ Submission p.183; Depreciation cost from Aurizon Network FY25 RAB Roll-forward.

Aurizon Network’s proposed functional allocation results in non-coal operating and maintenance costs equalling approximately 17% of non-coal revenue. This compares to coal services, where operating and maintenance costs constitute around 31% of revenue, and total costs account for 66% of revenue.

The QRC considers it unreasonable to adopt highly limited cost allocations to non-coal services, if this then results in AN earning much higher profit margins on those non-coal services than it is permitted to earn on coal services. In the QRC’s view, this confirms that the application of a general allocation of operating costs to non-coal services (in addition to the accepted functional cost allocations) is not only reasonable but necessary, having regard both to their contribution to total shared costs as well as to their revenue generating capacity.

The QRC considers that the most reasonable way to consider the appropriate allocation of costs to non-coal services, having regard to both the scale of the services and their revenue generating capacity, is to align the resulting cost as a % of revenue to that permitted through reference tariffs for coal services. In this regard, the most appropriate measure of cost to use is total cost, that is maintenance, operating and depreciation costs.

A.4 Step Changes

From its adjusted base year cost, Aurizon Network has proposed the application of the following step changes, in order to recognise future additional efficient costs:

- Daily Rolling Plan implementation costs, including a one-off cost of \$1.5m for additional licensing costs incurred from FY25-FY27;
- Increased Operational Technology costs of \$0.7m pa for three additional cyber security specialists;
- Regulatory review costs, including \$0.5m for the mid-term reset and \$1.5m for the final period reset, to cover the cost of external specialist advice; and
- Network Control Centre upgrade costs of \$1.1m pa.

Regulatory Review Costs

The QRC acknowledges that Aurizon Network will incur additional costs associated with its regulatory resets. These will be incurred on a cyclical basis and will generally relate to external specialist and legal advice required for developing regulatory policy positions, preparing supporting submissions and legal drafting. Provided that the full costs of the UT5+ regulatory review are removed from the adjusted base year cost, it is reasonable for these cyclical costs (where material) to be recognised as step costs in the years in which they are likely to be incurred.

However, the QRC questions Aurizon Network's proposed allowance for the mid-term reset over FY31-32. The UT5+ DAAU includes a detailed specification of how the mid-term reset will be undertaken, with external advisors largely only likely to be required if nominated trigger events occur, including:

- A review of the NOEA, using the 'base-step-trend' approach may be required, but only if the difference between Aurizon Network's allowance and its actual costs exceeds a certain materiality threshold;
- A review of the economic life of the Moura system will be required, and a review of the economic life of other systems may be required if specified trigger events occur; and
- A review of elements of the cost of debt methodology may be required if specified trigger events occur.

The QRC considers it unlikely that all of these trigger events will occur, but even if this were the case, we would not expect Aurizon Network's external advisory costs to be 33% of the costs incurred in a full regulatory reset, which involves reassessment of all elements of the access undertaking and allowable revenue. Rather, given the internal capability maintained within Aurizon Network, QRC would be surprised if the external costs associated with a mid-term reset were likely to be sufficiently material to warrant a specific step allowance.

The QRC believes that the QCA should be able to form a robust view on the potential mid-term regulatory review costs by investigating the costs actually incurred by Aurizon Network for these specific elements of its UT5+ DAAU proposal. In the event that a materially higher cost is expected if a particular trigger event occurred, it could be reasonable to include this as a conditional step increase (i.e. the additional cost is only included in the NOEA if that review trigger occurs).

Other Proposed Step Changes

The QRC acknowledges the remaining proposed step changes, and relies on the QCA to investigate whether the steps are reasonable and efficient. In particular:

- The QRC acknowledges that Aurizon Network's 2024 System Rules provided that the Daily Rolling Plan would initially be introduced as a trial and that, in the event that it were to be introduced into business-as-usual operations, Aurizon Network could seek to recover its prudent incremental costs through a DAAU. Aurizon Network advised customers that there would be an estimated incremental licensing costs of \$0.5m pa prior to their final vote on continuation of the Daily Rolling Plan. QRC therefore supports the inclusion of the incremental licensing costs for FY25-27 as a one-off step change, provided that the QCA concludes that the cost is efficient;
- While the QRC acknowledges the necessity of maintaining strong cyber-security arrangements across Aurizon Network's information and operational technology systems, we do not have sufficient information to assess the reasonableness of the proposed step change, however in discussions with Rail Working Group members and the requirements of their own organisations, the QRC doubts an incremental three cyber specialists are required in an organisation such as Aurizon Network. The QRC notes that the demand for improved cyber-security is also the primary justification used by Aurizon Network for an increase in corporate overhead expenditure of \$2.4m pa from FY25 onwards. The QRC requests that the QCA specifically assess Aurizon's current and proposed cyber-security arrangements to satisfy itself that Aurizon Network is managing this issue in a prudent manner and that the costs are efficient.

A.5 Trend and Efficiency

The UT5+ DAAU specifies the trend factor to be applied to the NOEA, specifically:

- The allowance will be escalated according to a weighted index that combines Wages Price Index (WPI) and Consumer Price Index (CPI), with the weights based on the actual incidence of labour and non-labour costs in FY25 (separately assessed for Direct/Indirect CQCN Costs and Corporate Overheads; and
- An efficiency factor of 0.5% pa will be applied to the weighted index for Direct/Indirect CQCN Costs.

While it was agreed that no efficiency factor would be applied to Corporate Overheads, Aurizon Network committed to a minimum \$2m step reduction in Corporate Overheads as a result of its 2025 non-operational cost review. Aurizon Network has presented this within the efficiency factor, showing a step down in Corporate Overhead cost from 2025. Accordingly, the QRC has addressed the implications of Aurizon's non-operational cost review in this same way.

In 2025, Aurizon implemented a broad ranging review of non-operational costs. In mid 2025, Aurizon stated that:¹⁵

- The initial phase of the review identified ~\$50m of projected annualised savings in labour (~200 FTEs) and external spend;
- Further annualised savings of ~\$10m have been actioned; and

¹⁵ Aurizon (2025); Aurizon FY25 Results Presentation; 18 August 2025; p.7

- Full benefit of ~\$60m savings will be realised from 1 July 2025.

Aurizon has recognised around \$23m in transformation costs during FY25, including approximately \$18m in redundancy costs.¹⁶

While Aurizon Network has described the 2025 non-operational cost review as a having a focus on Corporate Overheads,¹⁷ it is clear from Aurizon's public statements that the review had a much broader scope, covering all non-frontline operational roles. This is consistent with advice provided to customers by Aurizon Network in relation to efficiency savings in its maintenance and renewals workstreams, where Aurizon Network identified that [redacted].

Aurizon Network's 2025 Statutory Report shows that the total redundancy cost borne by Aurizon Network in 2025 was \$5.1m, with \$4.7m attributed to the transformation program.¹⁸ A further \$18.5m transformation costs, including \$13.5m redundancy costs, was reported for Aurizon Operations,¹⁹ bringing the total cost across the Aurizon Group to the amounts included in the Aurizon 2024-25 Annual Report.

Given the breadth of Aurizon's non-operational cost review, and the extent of redundancy costs allocated to Aurizon Network (beyond the costs related to its maintenance and renewal functions), the QRC expects that efficiency savings will also have been identified for Aurizon Network's Direct/Indirect CQCN cost functions.

Consistent with the philosophy of the 'base-step-trend' approach, where the selected base year costs are intended to reflect the revealed *efficient* cost of providing the relevant services, known implemented efficiency savings should be deducted from the adjusted base year costs before applying the forecast trend cost escalation. This aligns with the QCA's precedent in applying the 'base-step-trend' methodology in its review of non-electric operating expenditure for UT5. In particular, the QCA required that transformation initiatives expected over the UT5 period should be reflected as negative step changes, where those initiatives were categorised as 'cash-flowing', 'locked in' and 'implementing'. The QCA also required that 50% of the benefits from initiatives in the 'evaluation' stage should also be included as a negative step change.²⁰

The QCA should require Aurizon Network to advise the efficiency savings realised in the 2025 non-operational cost review relevant to its Direct and Indirect CQCN Costs, and apply these as a negative step to the adjusted base year costs (with the value of the savings to be applied in real FY25 \$ terms).

¹⁶ Aurizon (2025); Aurizon Annual Report 2024-25; p.61

¹⁷ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; p.169.

¹⁸ Aurizon Network Pty Ltd Annual Financial Report for the year ended 30 June 2025; p.17.

¹⁹ Aurizon Operations Pty Ltd Annual Financial Report for the year ended 30 June 2025; p.18.

²⁰ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.163.

A.6 Risk and Insurance

Aurizon Network mitigates risks through a combination of:

- External/commercial insurance;
- Self-insurance; and
- Cost pass-through, eg via the Review Event mechanism.

Aurizon Network has sought a large increase in its risk and insurance allowance of \$6.2m (68%) from FY28, supported by reports provided by Marsh McLennan (Marsh) and Finity Consulting (Finity), respectively. Aurizon Network has provided no further information to explain the need for such a large increase in risk and insurance allowance.

Table 4 Aurizon Network Proposed FY25 Risk and Insurance step increases (\$m)

	FY28	FY29	FY30	FY31	FY32
External Insurance					
UT5 allowance	3.2	3.2	3.2	3.2	3.2
Steps (inc electric)	<u>5.2</u>	<u>5.4</u>	<u>5.7</u>	<u>5.9</u>	<u>6.3</u>
Subtotal	8.4	8.7	8.9	9.2	9.5
Self Insurance					
UT5 allowance	5.8	5.8	5.8	5.8	5.8
Steps	<u>1.0</u>	<u>1.3</u>	<u>1.5</u>	<u>1.8</u>	<u>2.0</u>
Subtotal	6.8	7.1	7.4	7.6	7.9
TOTAL	15.3	15.8	16.3	16.8	17.4

Source: Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; Table 8-51, p.191.

Aurizon Network's actual insurance and self insurance expenses compared to the UT5 allowance are shown below.

Table 5 Aurizon Network performance against Risk and Insurance allowance FY20-FY25

	FY20	FY21	FY22	FY23	FY24	FY25	Total
Allowance							
Commercial Insurance	3.2	3.2	3.2	3.2	3.2	3.2	19.1
Self insurance	<u>5.8</u>	<u>5.8</u>	<u>5.8</u>	<u>5.8</u>	<u>5.8</u>	<u>5.8</u>	<u>35.0</u>
Total Allowance	9.0	9.0	9.0	9.0	9.0	9.0	54.1
Expenses							
Commercial Insurance	3.8	2.7	5.6	6.5	3.3	2.7	24.5
Self insurance	<u>6.4</u>	<u>2.8</u>	<u>4.9</u>	<u>7.2</u>	<u>3.8</u>	<u>3.0</u>	<u>28.2</u>
Total Expenses	10.2	5.5	10.5	13.7	7.1	5.7	52.7
Allowance less Expense							
Commercial Insurance	(0.6)	0.5	(2.4)	(3.3)	(0.1)	0.5	(5.4)
Self Insurance	(0.6)	3.0	0.9	(1.4)	2.0	2.8	6.7
(Under)/Over Performance	(1.2)	3.5	(1.5)	(4.7)	1.9	3.3	1.3

Source: Aurizon Network Below Rail Financial Statements

From this, it is apparent that:

- Up to FY25, Aurizon Network’s actual insurance costs (representing its allocation of Aurizon Group premiums) has been higher than its \$3.2m pa external insurance allowance by, on average, \$0.9m pa. While this supports the view that a step increase in external insurance allowance is appropriate, it does not in any way indicate a need for the allowance to increase by \$5.2m pa from FY28;
- In terms of Aurizon Network’s self-insurance program, it has achieved an average over-recovery of \$1.1m pa up to FY25, indicating scope for a reduction in the self-insurance premium. However, notwithstanding that weather and dewirement risks are now to be excluded from the self-insurance program, Aurizon Network is seeking to increase the self-insurance premium by \$1m pa from FY28.
- In aggregate, Aurizon Network’s risk and insurance premium has been ‘about right’, providing for an aggregate over-performance of \$1.3m across the last 6 years.

Notwithstanding the apparent reasonableness of the existing risk and insurance allowance, Aurizon Network has proposed that this increase by \$6.2m (FY28 real \$s). The extent to which Aurizon Network’s proposed increase in the risk and insurance allowance is out of step with its actual costs over the last six years is of real concern and needs to be addressed by the QCA.

A.6.1 External Insurance

Aurizon Network’s claim for external insurance costs is as set out in the table below:

Table 6 External Insurance costs

Policy	FY26 Cost (\$m)	Included in UT5 Allowance
General Liability	0.89	Yes
Industrial Special Risks	2.32	Yes
Directors and Officers	1.94	Yes
Civil Liability & Professional Indemnity	0.46	No
Employment Practices Liability	-	Yes
Terrorism	-	Yes
Corporate Travel	0.01	Yes
Crime	-	Yes
Contract Works	0.87	Yes
Motor Vehicle	0.90	No
Marine Cargo	0.08	Yes
Consultancy services and brokerage	0.30	No
TOTAL	7.77	

Source: Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; Table 8-35, p.172-173.

In presenting its proposed UT5+ external insurance costs, Aurizon Network provides a comparison with the forecast used by Aurizon Network in setting its allowance for the

2019 UT5 DAAU, advising that this also aligned with the approach approved by the QCA in its 2018 Final Decision.²¹

However, from detailed review of the QCA's 2018 Final Decision, it appears that Aurizon Network's Table 8-35 presents a comparison of the UT5+ proposal against the premium estimates included in the report provided by its insurance advisor, JLT.²² However, not all of these amounts were included in the external insurance allowance specified in the QCA's Final Decision, in particular:

- Aurizon Network did not propose to include an allowance for Motor Vehicle insurance;²³ and
- The QCA rejected the inclusion of an allowance for Civil Liability & Professional Indemnity insurance.²⁴

So, while JLT's estimated external insurance premium totalled \$3.32m (excluding GST)²⁵, Aurizon Network's proposed commercial insurance costs for FY18 (adjusted for escalation) totalled \$3.04m (excluding Motor Vehicle insurance)²⁶, and the QCA's approved amount was \$3.02m (excluding Professional Indemnity insurance but with varied cost escalation)²⁷.

Stand-alone insurance program assumption

Aurizon Network commissioned Marsh to provide an expert opinion in respect of the cost and structure of a stand-alone insurance program covering solely Aurizon Network's risks in relation to the CQC. Marsh notes that the Aurizon Group has a comprehensive insurance program in place, which includes cover for Aurizon's Property and General Liability exposures through placement via a wholly owned Captive Insurance Company named Iron Horse Insurance Company Pte Ltd (Iron Horse). In addition to the Captive placement, the Aurizon Group carries a number of other policies placed directly within the Australian insurance market. Marsh advises that, if Aurizon Network was to have a stand-alone insurance program, the placement would be via the retail insurance market rather than being placed into Aurizon's Captive insurer.²⁸

The QRC is concerned that this assumption of a stand-alone insurance program placed via the retail insurance market is a significant factor in Marsh's estimated insurance premium being so much greater than Aurizon Network's actual insurance costs over the last six years. Even if Marsh's premium estimate was adjusted to align with the insurance

²¹ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; p.171-172

²² JLT (2016); Conceptual Insurance Program Design and Pricing for the Aurizon Network Access Undertaking 2017; 20 September 2016; p.16 [note, estimated premiums presented in Table 8-35 exclude GST amounts]

²³ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.168.

²⁴ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.176-177, 179.

²⁵ JLT (2016); Conceptual Insurance Program Design and Pricing for the Aurizon Network Access Undertaking 2017; 20 September 2016; p.16.

²⁶ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; Table 53, p.170.

²⁷ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; Table 56, p.180.

²⁸ Marsh (2025); Marsh (2025); Conceptual Insurance Program Design and Pricing for the Aurizon Network Access Undertaking Period Commencing 1 July 2027; 1 July 2025; p.2-3.

coverage contemplated for UT5 (by removing allowances for Motor Vehicle insurance, Civil Liability & Professional Indemnity insurance and consultancy services and brokerage, which total \$1.8m in FY28 \$s), this would result in an insurance premium that is \$3.4m higher than the UT5 external insurance allowance, and \$2.5m above Aurizon Network's allocated insurance costs over the last six years.

The QRC is concerned that this divergence is inconsistent with the philosophy adopted by the QCA for the allocation of corporate overheads, where it concluded that stand-alone cost is not necessarily the efficient cost to Aurizon Network but rather, represents an upper-bound of a reasonable cost estimate for Aurizon Network, and that corporate costs should be allocated in a way that reflects the contribution of the network business to the total shared cost. It is not clear why insurance should be treated differently.

Accordingly, the QRC considers that external insurance premiums should be estimated on the assumption that insurance is placed in a manner consistent with Aurizon's actual practice, and in particular, on the assumption that Aurizon Network can insure through Aurizon's Captive insurer.

Motor Vehicle insurance

Aurizon Network's proposed external insurance costs include an annual premium estimate of \$0.90m (FY26 \$s) for Motor Vehicle insurance. While the exclusion of such an allowance for Motor Vehicle insurance is clear from both Aurizon Network's UT5 DAU supporting submission²⁹ and the QCA's UT5 Final Decision³⁰, neither Aurizon Network nor the QCA provide any explanation for this treatment. It is not clear from Aurizon Network's submission whether the Aurizon Group holds Motor Vehicle insurance or simply bears the costs of motor vehicle damage as it occurs. Regardless, QRC expects that Aurizon Network would only have elected to exclude Motor Vehicle insurance from its proposed allowance if the full cost of its motor vehicles (including insurance costs or costs that would otherwise be covered by insurance) were elsewhere reflected in its cost structure.

The vast majority of Aurizon Network's motor vehicle fleet is used in its maintenance and renewals programs. Motor vehicle costs are therefore a component of maintenance and renewal expenditure, with the efficient maintenance and renewal costs treated as a pass-through for the purpose of assessing reference tariffs.

QRC requests that the QCA closely examine the way in which motor vehicle costs are incorporated and reflected in maintenance and renewal expenditure, in order to identify whether the motor vehicle charges already incorporate risk related costs, that is, either by including insurance cost or recovery of actual costs that would otherwise be covered by insurance. This is essential in order to ensure that the inclusion of an allowance for Motor Vehicle insurance does not 'double count' motor vehicle related risks.

Civil Liability & Professional Indemnity insurance

Aurizon Network's proposed external insurance costs include an annual premium estimate of \$0.46m (FY26 \$s) for Civil Liability & Professional Indemnity insurance. Aurizon Network explains that this 'represents the minimum premium that would be

²⁹ Aurizon Network (2016); Aurizon Network Submission 2017 Draft Access Undertaking; 30 November 2016; p.237-238.

³⁰ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.168.

required if professional services were undertaken and is based on a nominal limit of indemnity of \$20 million.³¹

The appropriateness of including an allowance for Civil Liability & Professional Indemnity insurance is a function of:

- a) whether Aurizon Network provides, or expects to commence providing, any professional services that would be insurable under such a policy; and
- b) if so, whether these are necessary for providing the declared below rail service, or whether any required insurance cost is more properly treated as part of the charge for other services provided by Aurizon Network.

In its UT5 Final Decision, the QCA closely examined these issues and concluded that:³²

The QCA considers that Aurizon Network has not identified how civil liability and professional indemnity insurance costs apply to the provision of regulated below-rail services, or that these costs are unable to be recovered via other cost recovery arrangements (for example, studies funding agreements or way leave cost recovery arrangements).

...

In the absence of sufficient justification, the QCA has formed the view that it would not be appropriate to include Aurizon Network's proposed civil liability and professional indemnity insurance premiums within the operating expenditure allowance.

Aurizon Network's UT5+ DAU submission does not address in any way the concerns that led the QCA to reject an allowance for Civil Liability & Professional Indemnity insurance for UT5. There is no evidence that Aurizon Network provides any professional services (of the type for which Civil Liability & Professional Indemnity insurance is required) as part of the provision of below rail services. Accordingly, the QCA should again reject the inclusion of an allowance for Civil Liability & Professional Indemnity insurance premiums as part of the external insurance component of NOEA.

Nevertheless, even if the QCA were to consider it reasonable to accept a 'minimum amount of Professional Indemnity insurance' as sought by Aurizon Network, the QRC questions whether the proposed premium reasonably reflects such a minimum requirement. Marsh's estimated premium of \$0.46m is more than 9 times the premium estimate developed by JLT for UT5, with Marsh stating that the driver of this increase is an estimated professional services fee revenue increase of 500% from UT5 (from \$0.5m pa to \$3m pa).³³ The QRC does not consider it appropriate to assume a 500% increase in fee revenue, if Aurizon Network's intent is simply to reassess the anticipated premium for a minimum amount of Civil Liability & Professional Indemnity insurance.

Other insurance policies

Aurizon Network has requested Marsh to provide a premium estimate for a stand-alone insurance program, and does not disclose which of these policies are currently held by the Aurizon Group for Aurizon Network's benefit. To the extent that there are insurable risks

³¹ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; p.172.

³² QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.177.

³³ Marsh (2025); Conceptual Insurance Program Design and Pricing for the Aurizon Network Access Undertaking Period Commencing 1 July 2027; 1 July 2025; p.14.

that Aurizon does not currently hold insurance coverage for, the costs associated with those risks as they arise from year to year must be reflected in Aurizon's actual costs. Therefore, unless the actual costs of these risk events are excluded from Aurizon Network's actual base year costs, including an allowance for insurance costs will 'double count' these risks.

For the purpose of estimating Direct/Indirect CQC and Corporate Overheads, the QRC sees no evidence that any risk related costs have been excluded from Aurizon Network's FY25 adjusted base year costs. As a result, the QRC considers that premium estimates for any insurance policies not currently held by the Aurizon Group should be excluded from the external insurance allowance.

Consultancy Services

The QRC agrees that insurance management is a function that would necessarily be required by Aurizon Network as a stand-alone provider of below rail services. However, the QRC notes that insurance is currently managed by Aurizon at a corporate level. Aurizon maintains a specialist insurance capability, which we assume retains consultancy and brokerage services as necessary to manage Aurizon's insurance program. A share of this cost is expected to be allocated to Aurizon Network as part of the Corporate Overhead cost allocation.

Accordingly, the QRC considers it inappropriate to provide a separate provision, within the external insurance cost allowance, for the notional cost to Aurizon Network if it were required to manage an external insurance program on a stand-alone basis. To do so would not only 'double count' an allowance for insurance management costs, but would do so in a way that is inconsistent with the QCA's established principles for the allocation of corporate costs, which reflect that the stand-alone cost for Aurizon Network to manage a comprehensive insurance program is not necessarily the efficient cost to Aurizon Network, but rather represents an upper bound for the efficient cost. Consistent with the approach adopted for other corporate costs, Aurizon Network should continue to be allocated a share of Aurizon's insurance management costs using a causal allocator wherever possible, and in any case in a way that reasonably approximates the contribution that the network business makes to the total shared cost.

CPI Forecast

Aurizon Network's forecast of its external insurance costs adopts the nominal forecast values presented in the Marsh report.³⁴ In providing these forecasts, Marsh estimated the applicable premiums for FY26 and then escalated these:

- to FY27 based on the CPI for Insurance and Financial Services (5.2% as of 26 March 2025); and
- from FY27 onwards, using a projected nominal CPI figure of 3% pa.

QRC considers that there should be a consistent CPI forecast used in the construction of forecast nominal values of the various elements of Allowable Revenue. Aurizon Network has appointed Oxford Economics to provide an expert opinion on the appropriate CPI forecast for Brisbane CPI. This forecast should also be used to convert FY26 external insurance premiums to nominal forecasts.

³⁴ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; p.172.

A.6.2 Self-Insurance

Aurizon Network's claim for the self-insurance premium is as set out in the table below:

Table 7 Self-Insurance costs

Risk Element	FY28 Cost (\$,000)	Included in UT5 Allowance
Derailment	4,800	Yes
Dewirement	-	Yes
Weather	-	Yes
Third party damage ¹	700	Yes
Liability	1,300	Yes
TOTAL	6,800	

Source: Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; Table 8-38, p.176.

Self-Insured Risks

The large majority of Aurizon Network's proposed self-insurance premium relates to the risk of incidents causing damage to the rail network, for which insurance is unavailable as it is beyond the risk appetite of commercial insurers.

The use of a self-insurance arrangement for network incidents originated when Aurizon Network's regulatory framework provided for the network maintenance budget to be determined upfront, with Aurizon Network bearing the risk of variations to this budget (except for defined cost pass-through events). The self-insurance premium was designed to address the risk of additional costs being incurred due to incidents outside Aurizon Network's control.

However, as part of the 2019 UT5 DAAU, this framework was changed, with the Maintenance and Renewal Strategy & Budget agreed between Aurizon Network and the Rail Industry Group on an annual basis, and efficient network maintenance and renewal costs passed through to customers in the Annual Review of Reference Tariffs.

In this context, and as has previously been expressed by the QRC,³⁵ our preference is to treat infrastructure repairs as a maintenance and/or renewal cost pass-through, rather than to manage these through a self-insurance arrangement. The reasons for this preference include:

- There is a lack of clarity on the nature of the risks being assumed by Aurizon Network. For example, when additional work is required due to an incident, it is not always clear whether this should simply be treated as corrective maintenance (and reflected in the maintenance cost pass-through arrangements) or if the incident is of the type that should be absorbed by Aurizon Network as a self-insured risk;
- While the QRC accepts that Aurizon Network's financial recordkeeping and auditing processes will ensure that the costs of identified self-insured events are not also reflected in the maintenance cost pass-through arrangements, the process for determining whether incidents should be classified as self-insured events is unclear. There is a risk that not all incidents of the type intended to be covered by the self-insurance premium are captured under these arrangements. We believe that the QCA

³⁵ See for example QRC (2022); Letter to QCA Re: QCA Discussion Paper – Approach to climate change related expenditure; 16 December 2022; p.2-3.

needs to consider what auditing mechanisms could be introduced to provide improved transparency and accountability around this issue;

- The use of self-insurance arrangements creates regulatory debate around the valuation of risk and the appropriate self-insurance premium to be included in Allowable Revenue, as well as uncertainty around whether the estimated premium will ultimately over or under-compensate Aurizon Network for the risk. Further, as has been noted by Finity,³⁶ Aurizon Network only gets the opportunity to ‘re-price’ its self-insurance premium at the commencement of each new regulatory period, whereas an insurer has the opportunity to re-price annually thus providing greater certainty as they can re-adjust premiums to recoup losses;
- The self-insurance arrangement is not well equipped to respond to improved management of derailment risk. Over the last 15 years, improved maintenance practices and operational management have materially reduced the regularity of derailments (particularly small to moderate derailments), and the QRC encourages Aurizon Network to continue to pursue strategies to reduce derailment risk. However, there is significant friction and delay in successful reduction in derailment risk being reflected in a lower assessed self-insurance premium, particularly when this is assessed only once each regulatory period. For example, Finity’s 2025 assessment is the first time in which the reduced instance of derailments that occurred post 2013 has been fully reflected in the assumed derailment frequency.³⁷

The QCA has also previously questioned the rationale for managing network repairs through a self-insurance premium, noting that:³⁸

As a general observation, the QCA considers the majority of Aurizon Network’s self-insured losses are more akin to unplanned or corrective maintenance and operating costs. As such—and given Aurizon Network’s reluctance to provide a clear commitment to implementing a credible and genuine self-insurance function—the QCA suggests that Aurizon Network consider treating them accordingly in future.

The scope of the self-insurance arrangements was addressed in the engagement between Aurizon Network and Rail Working Group members. It was agreed that the cost of weather and dewirement incidents would be treated as maintenance costs rather than being subject to the self-insurance arrangements, reflecting that these incidents create the greatest ambiguity. However, there was only limited discussion around the treatment of derailment and third party damage risks. While the QRC’s preference is to also treat derailment and third party damage risks as a cost passthrough, the QRC acknowledges that this was not adopted in the arrangements agreed between Aurizon Network and Rail Working Group members. The QRC understands that Aurizon Network is concerned that the treatment of derailment risk is complicated by the insurance arrangements for the Aurizon Group. Accordingly, a change in the management approach for these risks should only be considered if this is also acceptable to Aurizon Network.

³⁶ Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.4.

³⁷ Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.21.

³⁸ QCA (2018); Decision – Aurizon Network’s 2017 Draft Access Undertaking; December 2018; p.175.

Estimate of Annual Self-Insurance Premium

In assessing the proposed self-insurance premium, Finity first determines an estimate of the projected losses for each risk element, using historical data to assess the expected incident frequency and average loss per incident. To convert this loss estimate to a self-insurance premium, Finity then applies a 22% loading to the projected losses (for derailments only), to account for expenses.

QRC's concerns with the self-insurance premium are twofold:

a) *Projected derailment losses*

Aurizon Network's standard Train Operations Deed provides that rail operators are liable for network damage where this is the result of their default or negligence, and each rail operator on Aurizon Network's rail network is required to maintain public liability insurance with a value not less than \$150m, to cover injury or death of any person (other than the insured or an employee of the insured) or loss or damage to any property (other than property owned by the insured).³⁹ As noted by Finity,⁴⁰ in relation to Aurizon Network's related operator, the Aurizon Group insures for damage to rail infrastructure by rollingstock under its umbrella Industrial Special Risk policy. These policies mean that, to the extent that damage to Aurizon Network's rail infrastructure is the result of a derailment caused by a rail operator, Aurizon Network may have the opportunity to claim repair costs under that rail operator's insurance.

While Finity acknowledges that derailments are a partially insured risk, it does not discuss the consequences of this to its valuation of losses. Notably, Finity's description of its methodology for valuing derailment losses is based on assessment of the historical derailment cost (below-rail only),⁴¹ with no mention of any consideration given to insurance recoveries where derailments are caused by a rail operator.

QRC is concerned that this is likely to lead to a 'double recovery' of some derailment costs. This is because the self-insurance premium included within the NOEA will compensate Aurizon Network for the full estimated cost of network repairs due to derailments, while Aurizon Network will also receive some insurance recoveries in relation to the cost of operator caused derailments.

The potential extent of this double recovery is substantial. For example, Finity notes that the selected average size for high severity derailments has been increased from \$1.5m to \$2.0m (FY25 \$s), with the most significant driver of this increase being the FY23 Marmor derailment, which cost \$9.1m (FY25 \$s) over FY23-24.⁴² Given Finity's projected exposure of 1.4 high severity derailments per year,⁴³ the high cost of the Marmor derailment has caused an increase in Finity's projected total derailment losses of around \$0.7m pa (June 25 \$s). However, Aurizon Network's Below Rail

³⁹ Aurizon Network Standard Train Operations Deed; Schedule 7.

⁴⁰ Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.2.

⁴¹ Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.19.

⁴² Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.22.

⁴³ Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.40.

Financial Statements indicate that this derailment is subject to an insurance claim.^{44,45} Resolution of this claim in Aurizon Network's favour would result in a large insurance recovery.

Accordingly, the QRC considers that the self-insurance premium for derailment risk should reflect the uninsured risk only. This is consistent with the QCA's consideration of UT5, where it concluded that the self-insurance allowance should estimate the efficient cost to the business of funding **uninsured** losses [emphasis added].⁴⁶

To achieve this:

- The historic cost of all derailment events should be adjusted to reflect insurance recoveries, so that the assessed loss per incident reflects only the uninsured portion of the cost; and
- Specifically in relation to the Marmor derailment, while the claim has not yet been finalised, given its material impact on the estimated UT5+ self-insurance premium together with the size of the potential insurance recovery, the QRC considers that there should be no increase to the assumed average loss from a high severity derailment due to this incident.

b) *'Expenses' loading*

Following its assessment of Aurizon Network's projected uninsured losses, Finity has converted this to a notional insurance premium corresponding to the estimated loss, applying a 22% loading to the estimated derailment losses to cover 'expenses'. Finity has not provided any detail around the expenses that this loading is intended to compensate for, other than noting that the loading is based on commercial property insurance benchmarks.⁴⁷ The effect of this 'expenses' loading is to increase the derailment component of the self-insurance premium from \$3.95m to \$4.82m (FY28 \$s), an increase of \$0.87m pa.

The QRC does not consider that an 'expenses' loading based on external insurance benchmarks is justified. The self-insurance premium is specifically designed to compensate Aurizon Network for the cost of risks that are **not** able to be covered by external insurance, specifically:

- Uninsured risks related to tracks and associated infrastructure, with these risks subject to losses that commercial insurance markets typically do not have the appetite to underwrite; and
- Below-deductible losses on insurance risks where a material level of risk is retained, either due to the frequency of such losses or the size of the retention.

As such, given external insurance is not available for these risks, the conceptual basis for estimating an expenses allowance by using a notional external insurance benchmark is not at all clear. The QCA recognised a similar conceptual difficulty in considering the self-insurance premium for UT5, concluding that the self-insurance

⁴⁴ Aurizon Network; Financial Statements for Below Rail Services provided for the year ended 30 June 2024; p.9

⁴⁵ Aurizon Network; Financial Statements for Below Rail Services provided for the year ended 30 June 2025; p.8

⁴⁶ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.175.

⁴⁷ Finity Consulting (2025); Review of Self Insurance Risk Premium – Access Undertaking UT6; June 2025; p.3-4.

allowance should estimate the efficient cost to the business of funding uninsured losses, rather than attempting to estimate the hypothetical cost of commercial insurance products that the market is unwilling to provide. Ultimately, the QCA considered it appropriate to approve an allowance equal to the value of projected uninsured losses only, excluding margins for profit and reinsurance, but including reasonable expenses for derailments.⁴⁸ While, for UT5, the QCA accepted an externally benchmarked loading to estimate reasonable expenses for derailment losses, this was using a much lower margin of 10%,⁴⁹ and a significantly lower estimated derailment loss.

The QRC accepts that Aurizon Network should be reasonably compensated for its expenses in managing derailment losses, however we do not consider an external insurer's expenses provide a reasonable benchmark for these costs. An external insurer will bear significant expenses in managing the claims processes and co-ordinating rectification works. In contrast, Aurizon Network's management of its self-insurance arrangements and co-ordination of rectification works will be undertaken as part of (and incidental to) its ongoing management of the network. As such, the QRC expects that any such expenses will already be reflected in Aurizon Network's NOEA (as part of Direct/Indirect CQCN costs), which are based on the actual costs incurred by Aurizon Network in FY25. To the extent that Aurizon Network can identify any **additional** expenses incurred in managing self-insured derailment losses, it would be reasonable to include this in its expected self-insurance premium.

Conclusions

As noted previously, there are a range of mechanisms by which risk can be managed, including both self-insurance arrangements and cost passthrough. Allowable Revenues (and Reference Tariffs) are intended to reflect the **efficient** cost of managing these risks.

The QRC considers that the most efficient method for managing the risk of network damage is for the efficient rectification costs passed through to customers as part of network maintenance and/or renewal costs. The QRC confirms that Rail Working Group members are willing to adopt this approach, and indeed would prefer this to be the case.

In this context, if Aurizon Network's preference is to maintain a self-insurance arrangement for derailment and third party damage risks, it is important that this not impose a cost on users that is greater than would be reflected through a cost passthrough arrangement, as this would no longer represent the efficient cost of managing these risks. Therefore, in this event, the willingness of Rail Working Group members to accept a cost passthrough arrangement reinforces the importance of adjusting the self-insurance premium to:

- Adjust the estimate of derailment losses to reflect insurance recoveries (including acknowledgement of the potential recoveries associated with the Marmor derailment); and
- Ensuring that an 'expenses' loading on the projected derailment losses only be accepted to the extent that Aurizon Network can identify any **additional** expenses incurred in managing self-insured derailment losses that are not already recovered through the Direct and Indirect CQCN cost components of the NOEA.

⁴⁸ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.174-175.

⁴⁹ QCA (2018); Decision – Aurizon Network's 2017 Draft Access Undertaking; December 2018; p.175.

Regulatory Asset Base – Infrastructure West of Burngrove

B.1 Aurizon Network Proposal

As part of its UT5+ DAAU submission, Aurizon Network proposes to remove the value of all Rail Infrastructure west of Burngrove from the Regulatory Asset Base (RAB) with effect from 1 July 2027.⁵⁰

The RAB treatment of Rail Infrastructure west of Burngrove was previously considered by the QCA in 2022, following closure of the Minerva mine and the subsequent cessation of coal carrying train services between Burngrove and Wurba. At that time, Aurizon Network submitted a DAAU to the QCA seeking approval to:⁵¹

- permanently remove the value of user-funded rebate assets from the RAB;
- defer the non-rebate coal allocated assets, such that they would not be reflected in the calculation of Blackwater System Reference Tariffs and Allowable Revenues; and
- retain the non-rebate non-coal allocated assets to be considered in non-coal pricing arrangements.

At the time, the QRC supported Aurizon Network's proposed adjustment to Allowable Revenues and Reference Tariffs but preferred that the assets be removed from the RAB⁵². Aurizon Network's rationale for retaining these assets in the RAB (while deferring them from pricing calculations) included that:⁵³

- the deferral and capitalisation of non-rebate assets would not create a material financial disincentive to the development of mineral resources that would utilise those assets; and
- this approach provides greater certainty and transparency to prospective coal carrying train services relative to the scenario of removing those assets from the RAB and undertaking a subsequent DORC valuation of existing assets to include those assets within the RAB if coal carrying train services recommenced.

Aurizon Network now prefer to remove the assets from the RAB based on its view that the likelihood of a new mine development using this infrastructure is low.

B.2 QRC Position

The QRC continues to support the approach that Rail Infrastructure west of Burngrove should not be reflected in the Blackwater System Allowable Revenues and Reference

⁵⁰ Aurizon Network (2025); 2017 Access Undertaking – 2025 UT5 Draft Amending Access Undertaking Submission; 22 December 2025; p.42.

⁵¹ Aurizon Network (2022); Minerva Draft Amending Access Undertaking; Explanatory Notes; 20 October 2022; p.6.

⁵² QRC (2022); Letter to QCA Re Minerva Draft Amending Access Undertaking; 25 November 2022.

⁵³ Aurizon Network (2022); Minerva Draft Amending Access Undertaking; Explanatory Notes; 20 October 2022; p.7.

Tariffs, on the basis that commercial arrangements were negotiated with the relevant Customer to support Aurizon Network's investment in the infrastructure (and avoid the transfer of those costs and risks to other users of the declared service) and that Aurizon Network's acceptance of residual risk relating to the value of the existing infrastructure is consistent with the expectations of the parties at that time. The QRC agrees that removing the assets from the RAB is the most effective way of implementing this approach.

However, the QRC has some concerns about the resulting risk for future coal carrying train services. While Aurizon Network considers the prospect of new coal mine development west of Burngrove to be low, there remain a number of tenements that could potentially be developed and may seek to utilise this Rail Infrastructure. As noted by Aurizon Network in 2022, where the assets are removed from the RAB, if coal carrying train services were to then recommence, Aurizon Network would undertake a new DORC valuation of existing assets and incorporate that value into the RAB.

The approach to valuing the existing assets was a significant issue of contention between Aurizon Network and Felix Resources (developer of the Gindi Minerva mine) in establishing the initial West Blackwater Reference Tariff. In considering this issue, the QCA highlighted that, while it did not dispute the use of the DORC principles for valuing pre-existing assets, it questioned a mechanistic recovery of DORC valuations for infrastructure that offers a standard of service that is quite some way short of a purpose built heavy haul coal railway. Ultimately, the value reflected in the Allowable Revenues and Reference Tariffs for this existing infrastructure reflected:

- an allocation of the DORC value for existing infrastructure amongst coal and non-coal services using that infrastructure; and
- adoption of economic lives that reflected the existence of other deposits in the vicinity and did not seek to fully recover the value of the existing assets over the life of the Gindi Minerva mine.

The removal of the assets from Aurizon Network's RAB should not provide Aurizon Network with an opportunity to revisit the DORC valuation in the event of a future mine development west of Burngrove. Indeed, this would be inconsistent with the well-established regulatory doctrine that asset values should only be able to be recovered once.

Accordingly, while the QRC supports Aurizon Network's proposal to remove the Rail Infrastructure west of Burngrove from the RAB, we consider that this should be accompanied by a clear commitment from Aurizon Network that, in the event that coal carrying train services recommence over this infrastructure in future, the value of the existing assets re-entering the RAB will be no greater than the value that would have applied had those assets remained in the RAB.

In particular, the QRC considers that any future RAB re-entry must not involve a new DORC valuation or any upward revaluation above the existing RAB benchmark, consistent with the QCA's earlier observations regarding the inappropriateness of mechanistic DORC valuations for legacy infrastructure that does not provide the standard of a purpose-built heavy haul coal railway.

The QCA should require a clause to be inserted into the UT5+ DAAU that:

- a) sets the re-entry value of existing assets at the value that would have applied had the assets remained deferred, with indexation and depreciation profiles fixed on an ex ante basis;
- b) prohibits a DORC based revaluation of existing assets on their re-entry to the RAB; and
- c) limits roll in above this cap to new, prudently incurred augmentation or refurbishment demonstrably required by the new user(s).