



Dr Malcolm Roberts  
Chairman  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4000

19 December 2014

By email: [Aurizon@qca.org.au](mailto:Aurizon@qca.org.au)

Dear Malcolm,

### **Aurizon Network 2014 Draft Access Undertaking – Maximum Allowable Revenue**

Wiggins Island Rail Project (**WIRP**) users, collectively Washpool Coal Pty Ltd, Caledon Coal Pty Ltd, Wesfarmers Curragh Pty Ltd, Colton Coal Pty Ltd, Cockatoo Coal Pty Ltd, Yarrabee Coal Company Pty Ltd, and Glencore Coal Assets Pty Ltd (**WIRP Users**), welcome the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) on its Draft Decision on the Aurizon Network's 2014 Draft Access Undertaking – Maximum Allowable Revenue (**2014 DAU-MAR**).

We wish to specifically outline our response to matters in the Draft Decision on the 2014 DAU-MAR that relate to WIRP, and seek QCA's consideration of the following key areas:

- Volume forecasts;
- Determination of the Regulatory Asset Base; and
- Market conditions and efficient costs.

#### *Volume forecasts*

### **Draft Decision 3.1 : Should Aurizon Network amend its forecast volumes for the 2014 DAU consistent with the QCA's UT4 volume forecasts?**

We strongly oppose the use of the WIRP Stage 1 forecast as the forecast tonnages for WIRP materially understate expected railings through WICET. The Energy Economics forecast referred to by the QCA is not reasonable and has not been prepared in consultation with any of the WIRP Users. Should the QCA rely on this unrealistic and unreasonable forecast it will cast considerable doubt over matters of pricing for WIRP Users, with the associated commercial implications conceivably making some of the WIRP User's mining projects unviable.

We request that the QCA consider and adopt the forecast tonnages prepared by independent expert John T. Boyd Company (**Boyd**), in December 2014 on behalf of WICET's financiers. Boyd's report reflects a recent independent technical review of the production schedules for the mines and projects expected to rail through WICET. Boyd's report contains high, medium and low scenarios for railings through WICET, with Boyd stating that the 'medium' case is "the outcome that BOYD considers most likely to occur". We consider that the medium scenario is the most accurate and reliable for forecasting volumes through WICET and, in the view of the WIRP users, is still conservative based on our understanding of availability and likely demand for "ad-hoc" port capacity at WICET by any producer in the Blackwater/Gladstone system. In our view this provides an

additional level of confidence that the Boyd medium case scenario reflects a minimum in terms of “WIRP” volumes over the UT4 period.

We understand that Boyd’s detailed report has been provided to the QCA.

#### *Determination of the Regulatory Asset Base (RAB)*

We note the QCA’s statements in Section 8.1.5 regarding the determination of the RAB as it applies to WIRP Stage 1. We note, and support, the QCA’s proposed acceptance of the WIRP Stage 1 infrastructure into Aurizon Network’s proposed capital indicator for the purpose of developing the MAR for the 2014 DAU.

However, we note the QCA’s references to consideration of the tariff arrangements for WIRP, and that Clause 6.2.4 of the 2014 DAU is being considered separately from this Draft Decision on the 2014 DAU-MAR. Whilst we support separate consideration of this issue from the MAR decision, we submit that it is not appropriate to look to apply the proposed UT4 principles to the WIRP infrastructure. The WIRP infrastructure was committed to during UT3, some 19 months ahead of Aurizon Network’s UT4 DAU. Further, the WIRP project commenced construction in November 2011, is currently 70% complete, and by the time UT4 is scheduled to come into effect (on 1 August 2015) the WIRP programme is estimated to be to be 98% complete.

In providing this submission we also acknowledge the QCA’s invitation to Aurizon Network to submit a WIRP Pricing Proposal Request under the Aurizon Network 2010 Access Undertaking (**UT3**), ahead of the 2014 DAU being finalised by the end of June 2015.

#### *Market conditions and efficient costs*

Section 1.2 of the QCA’s Draft Decision refers to the challenging market conditions currently being faced by coal producers and their suppliers. WIRP Users are conscious that these difficult market conditions extend not only to producers but also to all participants in the Queensland coal mining sector including explorers and mine developers. Some WIRP Users have mines not yet in operation however are facing similar, if not more challenging, cost constraints and concerns of ongoing price depression. We impress upon the QCA to consider all WIRP Users as part of the overall mining industry and as equal users of the Aurizon Network when considering the implication of macroeconomic market conditions.

If you have any questions relating to this submission, please contact our representative Jamie Freeman on (07) 3222 3401 or 0431 912 776 or at [jfreeman@balanceadvisory.com](mailto:jfreeman@balanceadvisory.com).

Yours sincerely

**WIRP Users<sup>1</sup>**

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<sup>1</sup> Collectively; Washpool Coal Pty Ltd, Caledon Coal Pty Ltd, Wesfarmers Curragh Pty Ltd, Colton Coal Pty Ltd, Cockatoo Coal Pty Ltd, Yarrabee Coal Company Pty Ltd, and Glencore Coal Assets Pty Ltd.