

GLENCORE

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
Level 27
145 Ann Street
BRISBANE QLD 4000

12 November 2014

Dear Dr Roberts

AURIZON NETWORK'S FY2014 REVENUE ADJUSTMENT CLAIM

We are writing in response to the QCA's request for submissions in relation to Aurizon's FY2014 Revenue Adjustment Claim. We have had the opportunity of reviewing the Queensland Resources Council submission and are in agreement with the points which it makes.

We note that Aurizon has included a claim for an Increment in relation to the over-recovery of System Allowable Revenue. Aurizon claims that the QCA should conclude that it should be entitled to an Increment of 2% of the System Allowable Revenue in Blackwater and Goonyella, which would be the maximum sum which could be awarded in relation to those systems under the provisions of clause 3.3 of Part B of Schedule F of the 2010 Access Undertaking.

We remain of the same view we expressed in relation to the draft 2010 Access Undertaking, that the award of an additional performance based Increment to Aurizon where the capacity that has been delivered by Aurizon is less than the capacity that it is contractually obliged to deliver is a perverse outcome. We recognise that this is a possible outcome on the basis of the 2010 Access Undertaking, but would submit that the tests which are set out in that Undertaking should be applied strictly to ensure that Aurizon cannot derive an additional benefit from merely operating its network in a situation of unexpectedly high demand. We note that in its approval of the Increment mechanism, and particularly in its Draft Decision of June 2010 on the pricing aspects of the 2010 Access Undertaking, the QCA emphasised that an Increment would only be awarded where Aurizon could demonstrate that its whole-of-coal-chain activities or initiatives have increased the efficiency of the below rail network. We would submit that there is no basis for any such finding. Indeed, we do not believe that Aurizon's submission includes any evidence whatsoever which demonstrates an increase in the efficiency of the Below Rail network.

In our view, in order to demonstrate an increase in efficiency, it is not sufficient to simply point to the provision of train paths in excess of forecast, as Aurizon has done in its submission. If this was all that was required, then by definition every time that Total Actual Revenue exceeded System Allowable Revenue then an Increment would be awarded, because for this situation to exist then greater than forecast tonnes would have been delivered. The requirement for an increase in efficiency must impose a further test. Efficiency relates to the conversion of an input into an output. In this case, we would submit that the input is the cost of the provision of the Below Rail network, and the output is the level of throughput capacity that is provided. The Aurizon Network submission only demonstrates the delivery of additional train paths, but does not demonstrate that this is due to an increase in efficiency.

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We consider that the increase must be demonstrated against the baseline of the efficiency which the Below Rail network would have been expected to deliver at the time of the approval of the System Allowable Revenue. The System Allowable Revenue is based on the level of efficient operating and maintenance costs which the QCA has approved as necessary to deliver the forecast tonnages – if Aurizon merely maintains the level of efficiency contemplated when setting the System Allowable Revenue then no increase in efficiency has occurred that would justify an increase in the approved System Allowable Revenue. We would submit that in order to claim that the efficiency of the system has increased, Aurizon must demonstrate that the level of throughput that has been delivered would, if it had formed part of the System Forecast, have justified a higher level of System Allowable Revenue for AT2-4 than Aurizon was actually permitted for FY2014.

We do not consider that it would be justifiable to include in this consideration for FY2014 any purported increase in the capacity of the Below Rail network to deliver an increased level of throughput with the same level of capital assets. As mentioned above, Aurizon has delivered less capacity in FY2014 than it is contracted to provide to its customers. One would expect that the Below Rail network assets whose capital cost is reflected in the regulatory asset base should have sufficient capacity to deliver the tonnages that Aurizon has contracted to provide to its customers. Therefore its ability to deliver this level of contracted capacity (in fact, significantly less than this level of capacity) in FY2014 cannot be said to reflect an increase in efficiency. If Aurizon's network did not have the capacity to deliver contracted tonnages prior to improvement in efficiency, then Aurizon has contracted to deliver train services which it was not physically capable of delivering. If this were the case, we do not consider that Aurizon should be rewarded with an Increment merely because it had rectified its previous inability to deliver its contractual obligations.

There is nothing in Aurizon's submission which provides any evidence of an increase in efficiency with which Aurizon operates the network or which quantifies any such increase in efficiency. Aurizon points to various measures which it has taken which it asserts have improved the reliability, availability and performance of the network. As outlined above, the fact that the Below Rail assets are capable of delivering a level of throughput which is less than Aurizon is contractually obliged to provide is not a demonstration of increased efficiency.

General

Glencore Coal consents to this submission being made public.

Should you require any further information or discussion on any aspect of this letter, please feel free to contact me.

Yours sincerely



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Cc Tania Homan, John Hindmarsh