



24 April 2015

Mr Malcolm Roberts  
Chairman  
Queensland Competition Authority  
Level 27, 145 Ann Street  
Brisbane Qld 4000

By email: rail@qca.org.au

Dear Malcolm,

### **Aurizon Network's March 2015 Extension DAAU**

Vale Australia Pty Ltd (**Vale**) welcomes the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of the Proposed Access Undertaking Extension Draft Amending Access Undertaking (**DAAU**) submitted by Aurizon Network Pty Ltd (**Aurizon**). The proposal seeks to finalise the tariffs for FY15 and establish transitional tariffs until the earlier of the commencement of the next Aurizon Network Access Undertaking or 30 November 2015.

The existing Aurizon Network Access Undertaking (**UT3**) was due to expire on 30 June 2013. A new undertaking was not ready at this time, so Aurizon requested an extension of the term of UT3, initially to 30 June 2014 and a further extension to 30 June 2015. Aurizon has acknowledged that the commencement of a new undertaking is unlikely to occur prior to the extended termination date of 30 June 2015, and has provided this submission to the QCA to extend the term of UT3 until 30 November 2015. Vale supports the extension of the UT3 to 30 November 2015.

As part of the extension, Aurizon has proposed the mechanism to apply to the finalisation of the FY15 tariffs and the establishment of transitional tariffs for FY16. Since the last UT3 term extension, the QCA has released its draft decision on Aurizon's Maximum Allowable Revenue for the 2014 Draft Access Undertaking (**2014DAU**). Although the views expressed within this draft decision are not final, there has been extensive consultation on the matters raised in the draft decision and Vale believes they present the best available information on the likely outcome of the final decision. Vale believes it is appropriate to incorporate the parameters included within the Maximum Allowable Revenue draft decision in the determination of the FY15 and FY16 tariffs as it currently reflects the best information and knowledge. Aurizon has proposed to reflect all the Maximum Allowable Revenue draft decision parameters except for the tonnage volumes to determine Take or Pay for FY15 and the transitional tariffs for FY16. Vale does not believe the approach to the tonnage volumes outlined in Aurizon's submission is appropriate as they reflect the views of only one stakeholder, and there has already been an independent assessment of the System Volume Forecast as part of the QCA's Maximum Allowable Revenue draft decision.

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## **FY15 Tariffs**

Aurizon's approach to finalise the FY15 tariffs is to confirm the transitional allowable revenues, volumes and Reference Tariffs as final, with the exception of revenues associated with Aurizon's 2013 Flood Review Event submission. Aurizon's submission highlights that this approach is likely to result in an over recovery of System Allowable Revenue which will be returned to, or collected from, Access Holders via the revenue cap mechanism outlined under Schedule F of UT3. Aurizon has indicated that the estimated retrospective revenue adjustment required on approval of the 2014DAU is likely to be offset by the over recovery of revenue for FY15.

Aurizon established the FY15 transitional tariffs following consultation with stakeholders and reflected these views in the submission provided to the QCA in the May 2014 Draft Amending Assess Undertaking (**May14 DAAU**). As the 2014DAU was still under consideration by the QCA, Aurizon agreed with stakeholders to calculate the transitional tariffs based on the same methodology utilised to establish the FY14 transitional tariffs with the exception of the approach to the tonnage volumes.

The tonnage volumes for FY14 tariffs were confirmed as final for Take or Pay purposes, but the tonnage volumes used in the calculation of the FY15 transitional tariffs were considered transitional volumes. Aurizon established the transitional volumes for FY15 based on their 2014DAU submission, updated for any known changes since the submission. In the May14 DAAU QCA decision, the QCA confirmed the agreed position between the QRC and Aurizon, that the transitional volumes were only necessary for the purposes of establishing transitional Reference Tariffs rather than also confirming the trigger for Take or Pay amounts. The QCA's decision noted that using the transitional volumes was an acceptable position for the transitional tariffs as final volume forecasts would be determined through the 2014DAU approval process. Aurizon are now proposing to confirm the use of the transitional tonnage forecast for the purposes of the determination of Take or Pay for FY15. Vale does not support the proposed change in application of the transitional tonnage forecast, as this would be effectively confirming Aurizon's UT4 submission despite the QCA completing an independent System Volume Forecast assessment as part of the QCA's Maximum Allowable Revenue draft decision on 2014DAU, released in September 2014. Vale believes it would be more appropriate to use the System Volume Forecasts determined as part of the QCA's Maximum Allowable Revenue draft decision. Vale believes this would reflect the intent of the May14 DAAU decision to establish the System Volume Forecasts during the 2014DAU approval process.

## **FY16 Tariffs**

Aurizon has proposed to establish the FY16 transitional tariffs under the same basis used to finalise the FY15 transitional tariffs. Aurizon will apply the QCA's Maximum Allowable Revenue draft decision to establish the revenue required and transitional tonnage volumes be based on Aurizon's volume forecasts in its 2014DAU submission adjusted for known changes. All parties have incurred significant resources and time in presenting arguments for their respective positions as part of the consultation process on the 2014DAU. Based on this consultation, the QCA has assessed these particular views and provided a draft decision. Vale therefore supports the use of the QCA's Maximum Allowable Revenue draft decision as the latest and best information available to Aurizon and stakeholders to determine the revenue requirement for the basis of the FY16 transitional tariffs.

However, Vale does not support the use of Aurizon's tonnage forecast to determine the transitional tonnage volumes to apply to the FY16 transitional tariffs. Aurizon proposes to use the System Volume Forecasts based on their original 2014DAU submission adjusted for known changes. While the transitional tonnage volumes only apply to the determination of the transitional tariffs,

Vale does not believe it is appropriate to utilise the tonnage volumes of one stakeholder given the QCA has already assessed the System Volume Forecasts as part of its Maximum Allowable Revenue draft decision. Vale believes it would be consistent to use the QCA's Maximum Allowable Revenue draft decision approach across both the revenue and tonnage aspects in the determination of the FY16 transitional tariffs. Vale believes the QCA will address the System Volume Forecasts as part of the final 2014DAU decision and until this time, the draft decision is the best available information in establishing future tariffs.

For further information regarding on this submission, please contact myself on (07) 3136 0936.

Yours sincerely,

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Paul Hartfiel  
Logistics Development and Regulatory Principal  
Vale Australia Pty Ltd