



08 February 2018

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane Qld 4000

By email: www.qca.org.au/sumbissions

Dear Charles,

Aurizon Network's 2017 Electric Traction DAAU

Fitzroy Australia Resources Pty Ltd (**Fitzroy**) welcomes the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of the 2017 Electric Traction Draft Amending Access Undertaking (**AT5 DAAU**) submitted by Aurizon Network. Aurizon Network has submitted this DAAU seeking pricing reform for the electric traction component of Reference Tariffs (AT5).

Fitzroy commenced coal operations in Queensland in 2016 following the acquisition of the Carborough Downs Mine and other coal interests from Vale Australia. The Carborough Downs mine operates on the electrified Goonyella rail system of the Central Queensland Coal Network. Fitzroy is forecasting a long-term future through its existing mine and other coal projects and believes that certainty and efficiency of pricing of rail access is important in the facilitation of this business growth.

Aurizon Network has previously submitted DAAUs on pricing reform of AT5 to combat the "free option" available to diesel users as they do not contribute to the maintenance of the electric infrastructure but it is available to them if they choose to switch to electric traction at a later date. Aurizon Network is also concerned that users will switch to diesel traction resulting in the AT5 price spiralling upwards for the continuing electric traction users. The current AT5 DAAU attempts to address this issue by setting a system cap on electric traction utilisation on the electrified Blackwater and Goonyella rail systems which allows any under recovery of AT5 revenue through the annual adjustment process. The system caps are set at current electric traction utilisation and any under recovery will only occur if electric traction volumes fall below the electric system caps.

Aurizon Network's AT5 DAAU does appear to be superior to the prior submissions and addresses previous concerns raised through these processes. This pricing approach is also likely to be less contentious in the Goonyella system as it has a long history of using electric traction and currently utilisation is almost 100%. This means that all current Goonyella users are starting from a similar position having contributed to the establishment of this electrified system. Fitzroy believes the pricing proposal does provide an efficient approach for Goonyella users as they are able to make traction



choices, but the AT5 revenue recovery system does recognise their historical decisions that contributed to the existing electric infrastructure.

Although Fitzroy generally agrees with the principles outlined in the AT5 DAAU, it does believe some further adjustments are required to re-balance the significant shift of risk to Aurizon Network's customers. Under the current arrangements, electric infrastructure investments are balanced via by Aurizon Network's competing business interests of the AT5 revenue risk versus the volume of electric volumes contracted and their decisions on what electric investments are undertaken. Under the new AT5 DAAU this balance between revenue recovery and investment decisions appears to have been de-coupled as the risk of AT5 revenue recovery would now shift to the customers of the rail service, however, it will be important to establish a robust investment approval process that maintains tension in the investment decision process to assist in the generation of efficient decisions. Fitzroy provides the following items that it believes the QCA should consider during their evaluation of the AT5 DAAU.

- The current proposal provides AT5 revenue certainty to Aurizon Network but does not guarantee efficient decisions on electric infrastructure investments. There is a concern that due to the revenue certainty provided to Aurizon Network there will be a reduced incentive for them to complete a robust analysis of future investments in the electric infrastructure. Fitzroy believes it would be prudent to introduce a pre-approval process that will encourage Aurizon Network to be transparent to stakeholders on the value and benefits of any investments. Fitzroy also believe it would be appropriate to put timeframes on these investment approvals to ensure it provides certainty to stakeholders on the actual timing to commence construction of any works.
- Fitzroy believes the AT5 DAAU should also include an ability for the QCA to exclude parts of the AT5 revenue recovery if Aurizon Network has contributed to the reduction in traction utilization. Rollingstock investments are a long lead time item and therefore, investment decisions on electric infrastructure must take this into account. If decisions on electric infrastructure are not made in a timely manner, or create uncertainty in the market, the default traction choice on any system is diesel. It is therefore very important under the AT5 DAAU to consider how this risk should be managed and ensuring that Aurizon Network must retain responsibility for providing clear and transparent direction to the market on its long-term plan for electric infrastructure. This should apply across major repairs, renewals and expansions. There is a significant concern that the lack of clarity on the recent Blackwater electric infrastructure upgrades contributed to the uncertainty in the market and created an environment where diesel traction was contract as it provided the greatest certainty. Fitzroy believes it will be important to establish clear responsibilities for electric infrastructure investment in time for the decisions on the Goonyella electric upgrades that have been identified by Aurizon Network.
- Fitzroy sees the adoption of the AT5 DAAU continuing the migration of risk away from Aurizon Network to its customers. As outlined above, this should be balanced by other means to ensure efficiency of investment decisions, but this change in its risk profile should also be reflected in their future Maximum Allowable Revenue (MAR) decisions. Aurizon Network has submitted the AT5 DAAU under the existing access undertaking (UT4), however, if it is adopted



this change in the risk profile should also be reflected in the determination of Aurizon Network's MAR in the new access undertaking (UT5).

- Aurizon Network has proposed to recover variable transmission charges via EC. Fitzroy suggests that all costs which are variable in the short and medium term should be recovered via EC, rather than via AT5. We rely on the QCA to consider whether the transfer of variable transmission charges alone achieves this outcome.
- Fitzroy also believes that the portion of AT3, which arises from prior AT5 revenue shortfalls should only be recovered through the revenue adjustment process and excluded from any take or pay recovery. It will be important to ensure there is transparent records kept of any AT5 revenue recovery so that all stakeholders can ensure the commercial intent of this propose is maintained.

Conclusion

There is value in adopting the AT5 DAAU, however, simply reforming AT5 pricing should not subvert the requirement for Aurizon Network to provide clear and transparent evaluation of the expected costs and efficiency gains of any investments in electric infrastructure, as well as a clear understanding of the timing of the investment decision and works to be completed. Fitzroy's believes further measures must also be adopted to re-balance the risk positions of all stakeholders otherwise there is a risk that inefficient investment decisions will be made. Fitzroy is also concerned that the AT5 DAAU reduces the risk for Aurizon Network and this should be reflected in their assessment of their MAR.

For further information regarding this advice please contact myself on (07) 3153 2268.

Yours sincerely,

A black rectangular redaction box covering the signature of Paul Hartfiel.

Paul Hartfiel
Manager Marketing Operations
Fitzroy Australia Resources Pty Ltd