

15 January 2021

Mr. George Passmore
Queensland Competition Authority
GPO Box 2257
Brisbane Queensland 4001

Submitted via QCA's online submissions portal

Dear Mr Passmore

Arcadis's report on Aurizon Network's 2019-2020 capital expenditure claim

The QCoal Group (QCoal) welcomes the opportunity to make a submission on the Queensland Competition Authority's (QCA) consultant, Arcadis's report (**Report**) on Aurizon Network's FY20 capital expenditure claim (**FY20 Expenditure Claim**).

QCoal is an active explorer, developer and owner of operating coal mines and has a number of coal mining projects at various stages of development throughout Queensland. QCoal currently has six (6) operating mines located in the northern Bowen Basin. These mines rail product utilising both the Newlands and GAPE systems. QCoal is also an active member of the Rail Industry Group (**RIG**).

On 27 March 2020 QCoal provided a submission to the QCA regarding Aurizon Network's FY 21 tariff review submission (**FY21 Tariff Review**) which included its proposed FY20 capital expenditure, the subject of the Report.

In its decision on the FY21 Tariff Review,¹ the QCA noted:

"where the proposed capital indicator is consistent with the approved renewals strategy and budget, we are required to approve the proposed capital indicator allowances:

"the allocation of renewals expenditure between the Goonyella to Abbot Point system and the Newlands system..... will be determined as part of the assessment of subsequent capital expenditure claims (schedule E). In doing so, it is expected that Aurizon Network will outline the extent to which capital expenditure incurred on the Newlands system is an "incremental cost".

"We expect that Aurizon Network will continue to work collaboratively with all participants of the Rail Industry Group in order to develop an appropriate approach to allocate the incremental costs of renewals on the Newlands system due to the Goonyella to Abbot Point system traffics bringing forward such capital expenditure".

QCoal has delayed making a submission to the QCA on the FY20 Expenditure Claim as it has been awaiting the publication of the Report. QCoal has now reviewed the Report. Neither the FY20 Expenditure Claim nor the Report provide detailed system specific information which enables access holders to determine whether the expenditure is consistent with the RIG approved Maintenance and Renewals Strategy and Budget (**MRSB**). Although in most cases the relevant

¹ QCA Decision Notice _ Annual review of Reference Tariffs, 20 May 2020, pgs. 4 – 5
<https://www.qca.org.au/wp-content/uploads/2020/03/qca-decision-notice.pdf>

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system can be identified by the location of the capital expenditure item this is not the case with the 'Newlands' system where two systems converge. No information is provided on the capital expenditure within the area located in the Newlands system and in particular what proportion of that expenditure is due to wear attributed to Newlands system users and that of GAPE System users; i.e. the GAPE incremental wear (cost). Aurizon Network has failed to outline the extent to which capital expenditure incurred on the Newlands system is an incremental cost, as required by the QCA in its FY21 Tariff Review decision.

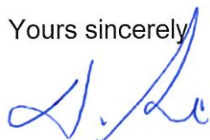
Additionally, despite the QCA stating that it expects that *"Aurizon Network will continue to work collaboratively with all participants of the Rail Industry Group in order to develop an appropriate approach to allocate the incremental costs of renewals on the Newlands system due to the Goonyella to Abbot Point system traffic bringing forward such capital expenditure"*, in the intervening period between the FY21 Tariff Review decision and leading up to the publication of the draft FY22 MRSB, Aurizon Network has not engaged with participants of the RIG to do so. Indeed, Aurizon Network has continued to provide no transparency on the incremental costs associated with GAPE traffic nor how it intends to allocate renewals between the two systems.

Therefore, whilst the QCA is required to approve the proposed capital indicator allowances where it is consistent with the approved renewals strategy and budget², there should be no extension that approval of Aurizon's FY20 Expenditure Claim is an approval of Aurizon Network's allocation of the capital expenditure between systems and in particular the Newlands and GAPE systems. This is especially so in circumstances where Aurizon Network has not provided any information to support its allocation and the allocation between systems is not obvious based upon location.

QCoal has sought further information from Aurizon Network on both the allocation between the Newlands and GAPE systems of its FY20 capital expenditure and in its proposed FY22 MRSB. Aurizon Network has very recently responded with a high-level summary of the allocation of its FY20 capital expenditure between the two system but has, at this time, not provided any information on the allocation it intends for the FY22 MRSB.

Accordingly, QCoal submits that the QCA not approve the FY21 Capital Expenditure claim on the basis that Aurizon Network has not outlined the extent to which capital expenditure incurred on the Newlands system is a GAPE "incremental cost", as was required of them as part of the QCA's FY21 Tariff Review decision.

Yours sincerely



Deborah Silver
Manager Infrastructure

² QCA decision Notice _ Annual review of Reference Tariffs, 20 May 2020, page 4
<https://www.qca.org.au/wp-content/uploads/2020/03/qca-decision-notice.pdf>