

16 October 2022

Mr George Passmore
Queensland Competition Authority
145 Ann Street
Brisbane QLD 4000
(Submitted via QCA Online Submission Form)

RE: Aurizon Network FY22 Capital Expenditure Claim

The Queensland Resources Council (**QRC**), on behalf of the QRC's Rail Working Group, welcomes the opportunity to comment on Aurizon Network's FY22 Capital Expenditure Claim ('Capex Claim').

Introduction

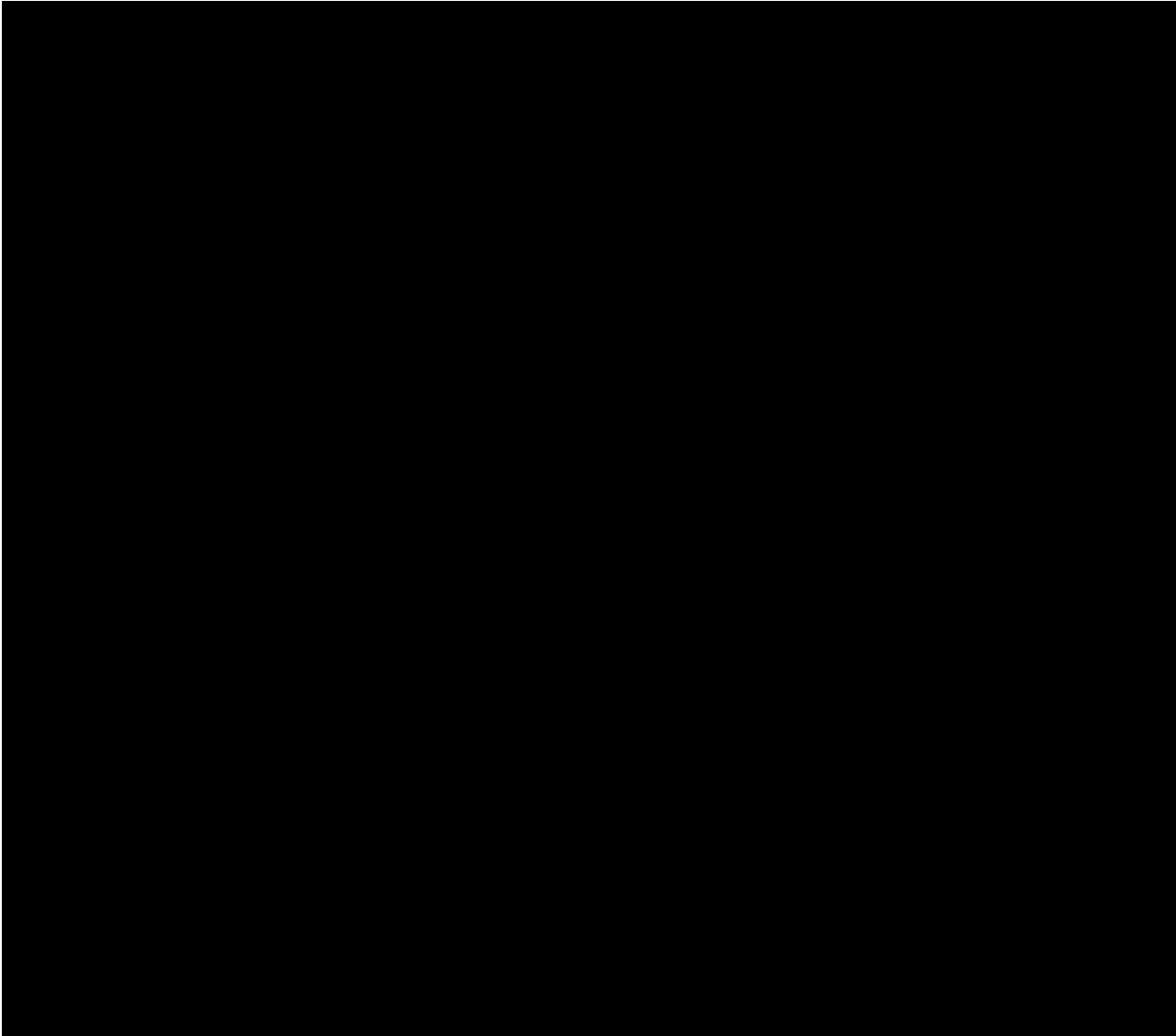
QRC understands that, under Section 7A.11.6(b)(iii), End Users are deemed to support elements of the Capex Claim to the extent that specific elements are consistent with an Approved Renewals Strategy and Budget ('RSB'). Elements of the Capex Claim are not consistent with an Approved Renewals Strategy and Budget for several reasons, including:

- For FY22, there was no Approved RSB for the Newlands and GAPE Systems.
- Some items of scope which were not part of the Approved RSBs have been undertaken by Aurizon Network within the year (although some of these were separately supported by the RIG during FY22).
- In some cases, the unit cost of renewals is not materially consistent with the Approved RSB. This may be because total costs exceed budget, or because scope delivered is below budget and costs have not reduced proportionally.

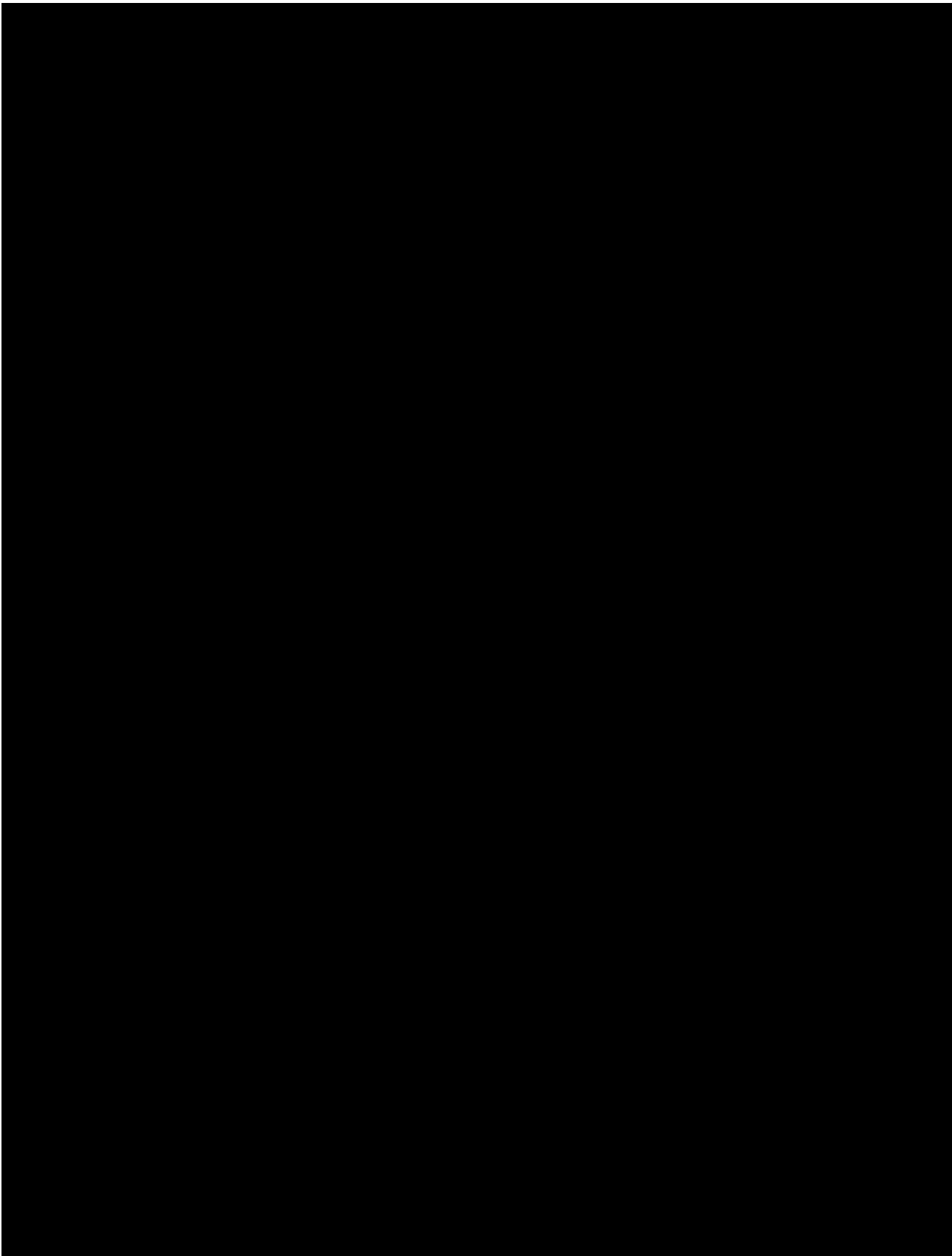
We rely on the QCA to conduct a thorough review of the Capex Claim to the extent that it is not consistent with an Approved RSB. The explanations for variances contained within the Capex Claim are quite high level, however, the RIG has been provided with further detail on some of these items within Aurizon Network's Quarterly Maintenance and Renewals Reports, and in various forums. We understand that these reports will be provided to the QCA.

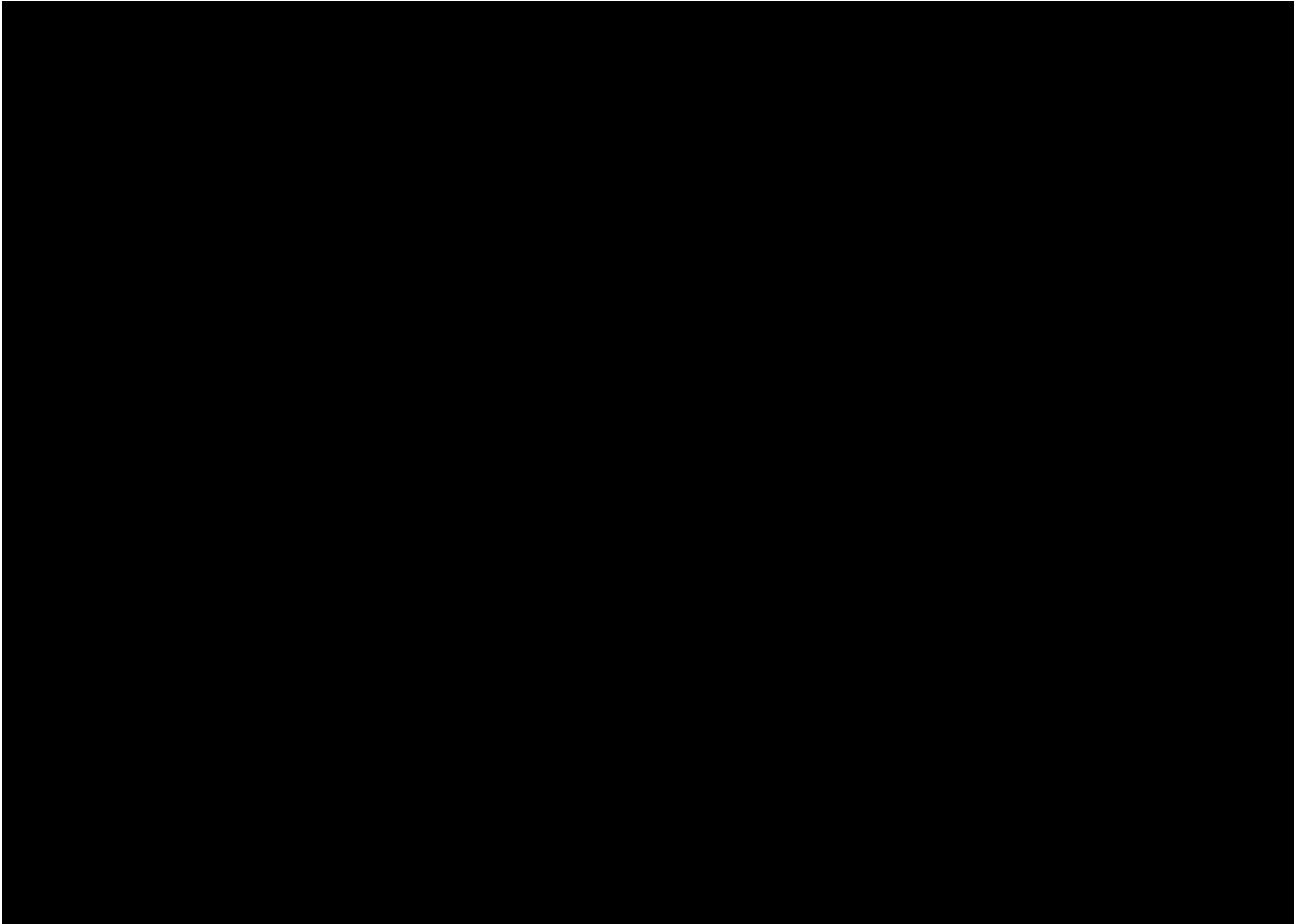
Aurizon's Enterprise Investment Framework

We note Section 3.3.1 of the Capex Claim, headed “*Aurizon's Enterprise Investment Framework supports prudent and efficient investments*”. The documentation and analysis which is used to support Aurizon's internal approvals is not available to Customers, and so we are unable to comment on the extent to which these processes should provide comfort regarding the prudence of capex which has not been approved as part of the RSB. Through the MRSB process, customers have sought business cases for significant investment decisions on which our input has been sought. Our experience has been that the analysis prepared by Aurizon Network falls well short of a thorough business case. While Aurizon Network has generally responded with improved analysis following customer feedback, these experiences lead us to be concerned about the level of rigour applied to the analysis of projects which pass through Aurizon's internal processes, but which are not included in the Approved RSB. We therefore encourage the QCA to conduct a thorough review of these projects.



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Costs incurred compared to approved scope

Aurizon Network's tables 3, 5, 7 and 9 show the costs incurred and scope achieved for the year in each system. While unit costs are not provided, they can be calculated in some cases. We note the following variances which result in the cost of approved renewals being materially higher than the approved unit cost (noting that there is no Approved RSB for Newlands and GAPE).

Blackwater

Item	Unit Cost Variance (% over budget)
Sleeper Renewal	248%
Turnout Renewal	241%
Mainline Undercutting	24%
Bridge Rollouts	19%
Culvert Renewal	29%
Telecomm Assets	125%
Overhead Line Eq	76%

Goonyella

Item	Unit Cost Variance (% over budget)
Track Upgrade	9%
Mainline Undercutting	39%
Turnout Undercutting	15%
Bridge Rollouts	41%
Culvert Renewal	13%
Formation Renewal	160%

Moura

Item	Unit Cost Variance (% over budget)
Mainline Undercutting	130%
Formation Renewal	50%

Newlands/GAPE

Item	Unit Cost Variance (% over budget)
Track Upgrade	44%
Turnout Renewal	78%
Mainline Undercutting	12%
Safeworking – Asset Protection	144%

While it is noted that Aurizon Network has provided more detail on the reasons for the change in scope and indirectly cost in its quarterly reports, the linkage between the reasons provided and the costs incurred / scope delivered is not always clear. Further investigation of the reasonableness of factors such as how wet weather has impacted on the scope delivered, reasons for major variations in scope delivered and the impact of incomplete scope on the calculated unit rates is required.

Thank you for the opportunity to provide this submission.

Yours sincerely


Andrew Berger