

1 Part 7.6 and Schedule H: Network Management Principles

1.1 Hierarchy of operational protocols (NDP, SOA, NMP, System Rules and Access Agreement)

In order to consider whether the Network Management Principles are appropriate, it is necessary to consider the various layers of operational protocol and how they interact with each other.

There are five layers of operational protocols under UT4, which are:

- (a) Network Development Plan;
- (b) System Operating Assumptions;
- (c) Network Management Principles;
- (d) Individual System Rules; and
- (e) Individual Access Agreements.

The Network Development Plan is a generally prospective document outlining the broader goals for development of the CQCN to ensure that Aurizon Network has a long term plan focused on the development and capacity maximisation of the network. The Network Development Plan is informed by the other documents which outline an End User's railings, however, it does not directly impact on existing railings. Rather, the Network Development Plan outlines a framework for expansion and investment in the network over the short to medium term and, as such, impacts the System Operating Assumptions over a period of months to years.

The System Operating Assumptions are defined in Part 12 of UT4 to be Aurizon Network's specific 'assumptions on the operation of each element of the coal supply chain and the interfaces between those elements including in relation to the supply chain operating mode, seasonal variations and live run losses'. This is a more specific analysis of the operation of the network than the Network Development Plan, but does not necessarily directly inform the practical operation of train services and railings.

Although there is no direct reference to schedule H in clause 7.6 of UT4, the definition of Network Management Principles in Part 12 specifically states that they are the 'principles set out in schedule H and all System Rules existing from time to time'.

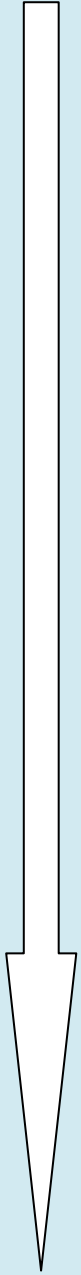
System Rules are defined in Part 12 of UT4 (specifically see page 157), the System Rules are to 'plan, schedule and control the operation of Train Services... in greater detail than under schedule H'. The Network Management Principles, therefore, cover the same concepts but at a higher level and with less specific operational detail. In particular, the Network Management Principles guide the development of all System Rules on the CQCN, whereas the System Rules themselves can vary operational details system-by-system.

As such, Anglo American understands that the hierarchy of the operational protocols (from most specific to most general) is:

- (a) each user's (either Access Holder or End User) individual Access Agreement outlining the specific railings and contractual provisions binding Aurizon Network and that Access Holder / End User;
- (b) the specific System Rules applying to the system that the Access Holder / End User is using to transport product from the specific mine that the Access Agreement relates to, eg, the Capricornia System Rules (will) apply to Anglo American's railings from Dawson to Gladstone on the Moura System;

- (c) the Network Management Principles as outlined in schedule H and clause 7.6 of UT4, which apply broadly to all railings (regardless of the specific system) and inform the general provisions underlying the System Rules;
- (d) the System Operating Assumptions determining the interactions and interfaces between various elements of the supply chain, and used to determine inefficiencies in the operation of the network from mine to port (although it should be noted that these operating assumptions are solely developed by Aurizon Network); and
- (e) the Network Development Plan, which includes various options and constructive plans for the short- and medium-term development of the CQCN, informed by all existing layers to determine the most appropriate extension, use, capital investment in, or interaction between Coal Systems in order to maximise network Capacity.

This can be shown in the following diagram.

Network Development Plan	<ul style="list-style-type: none"> • Existing and potential Capacity Expansions for each Coal System of: <ul style="list-style-type: none"> ○ Theoretical paths ○ Usable paths ○ Contractible TSE paths 	
System Operating Assumptions	<ul style="list-style-type: none"> • Assumptions reducing theoretical paths down to usable paths and contractible TSE paths, including definitions or assumptions underpinning: <ul style="list-style-type: none"> ○ Port operating mode path requirements ○ Network availability ○ Planned and unplanned loss ○ TSE 	
Network Management Principles	<ul style="list-style-type: none"> • High level principles used to develop and inform the System Rules for each Coal System • Where System Rules are not in place, the Network Management Principles are used to inform the planning, scheduling and management of trains 	
System Rules	<ul style="list-style-type: none"> • Allows the practical drawdown of usable and contracted paths for the Day of Operation for a Coal System • Documents the detailed processes agreed for each Coal System to plan, schedule and manage the operation of trains, in order to realise contracted TSE, based upon the capacity available as detailed in the NDP and the assumptions detailed in the System Operating Assumptions • Specific processes detailed are: <ul style="list-style-type: none"> ○ MTP ○ ITP ○ DTP ○ Contested path decisions ○ Train control decisions ○ Traffic management decisions 	
Access Holder Agreement	<ul style="list-style-type: none"> • Contracted TSE paths, based upon the capacity assumptions as per the System Operating Assumptions and drawdown conditions as per the System Rules 	
Operational outcome	<ul style="list-style-type: none"> • <i>Actual TSE and Ad hoc paths used</i> • <i>Tonnes hauled</i> 	

1.2 NMP should be part of UT4

The intent of the NMP and associated components (in particular, the TSE, MTP, ITP, DTP, Train Control, System Rules, Contested Path Decisions and Traffic Management Decisions) is to maximise the contractual entitlements (for contracted and Ad Hoc Train Services) in an equitable and transparent manner.

Section 7.6.1(a) of UT4 states that an Access Agreement will include obligations for the Access Holder and Aurizon Network to comply with the Network Management Principles. Anglo American believes that this approach is inappropriate. UT4 should itself impose an obligation on Aurizon Network to comply with the NMP. This is important as the QCA should have oversight in respect of ensuring Aurizon Network is complying with the NMP. In this regard Anglo American specifically supports the submission of the QRC in respect of its proposed amendment to clause 7.6.1 of UT4.

Anglo American also believes that there should be an explicit right for the QCA to audit Aurizon Network's compliance with the NMP.

1.3 Train Service Entitlement

Schedule H does not sufficiently set out Aurizon Network's approach to the allocation and consumption of TSEs. Although the System Rules do, in part, address the allocation and consumption of TSEs, general principles around allocation and consumption should be set out in the Access Undertaking itself, with the System Rules providing more detail in respect of how the general principles apply to a specific system.

In the view of Anglo American, some of the general principles which should be recognised in the Access Undertaking (in Schedule H) are:

- (a) as a first priority, TSEs are to be calculated, allocated and managed by Aurizon Network to ensure that the contracted monthly TSEs of all users are achievable in practice;
- (b) the calculation of TSEs must take into account the expected availability and capability of the network for planned and unplanned maintenance, outages, variability and speed restrictions; and
- (c) TSE allocation and consumption, including Aurizon Network non-performance, are to be reported transparently to users and end users.

1.4 Monthly Train Plan

Schedule H sets out that the purpose of the MTP is to demonstrate how Aurizon Network plans to deliver TSEs, having regard to Planned Possessions, Existing Capacity and other relevant characteristics of each respective system. It then provides for various methods of amending the MTP with (and sometimes without) the consultation of relevant stakeholders.

Anglo American believes that the UT3, and proposed UT4, approach to the MTP does not provide sufficient information to relevant stakeholders in respect of the calculation and allocation of TSEs, nor do relevant stakeholders have sufficient information in the MTP to determine how Aurizon Network will deliver all contracted TSEs. Anglo American believes that clause 3.1 of Schedule H needs to identify the purpose of the MTP more specifically and include the fact that the MTP should have information in respect of:

- (a) the maximum number of round trip paths available for each loading and unloading location;
- (b) contracted TSE train paths on a round trip basis;
- (c) train paths available for make-up of expected loss; and

- (d) train paths that are not practically able to be utilised or to be sterilised (due to resourcing, variability or track utilisation issues).

Schedule H should incorporate general principles in respect of the content of the MTP, including:

- (a) the MTP must take into account the System Operating Assumptions and planned network availability and capability for the period;
- (b) each of the paths shown in the MTP must be practically achievable on at least an origin-destination basis taking into consideration required headways between successive trains arriving at unloading or loading facilities;
- (c) the maximum number of usable round trip paths is not to exceed the practical utilisation ceiling of any track sections; and
- (d) key assumptions forming the MTP are to be documented in the System Operating Assumptions.

Schedule H does set the method of amending the MTP. In general, Anglo American agrees that Aurizon Network should be able to unilaterally vary the MTP where that amendment has no effect on any other Access Holder's ability to obtain sufficient TSE under its agreements. In this regard, Anglo American believes that clause 3.3(b)(iii) does not go far enough as it allows amendment to the MTP for new TSEs to occur unilaterally where the new or varied TSE 'does not result in any other Access Holder's scheduled Train Service not being met'. Clause 6.3 should be amended to ensure that unilateral changes cannot be made where there is any possibility that changes to the MTP materially disadvantage another Access Holder.

Schedule H should also require that any changes to the MTP template must be undertaken in consultation with users and End Users, with any Access Holder having the right to refer any dispute regarding changes to the MTP to the QCA for a determination.

1.5 Intermediate Train Plan

Schedule H provides very little information on the scope and operation of the ITP, other than recognition that somehow it is an intermediate scheduling step between the MTP and the DTP.

Scheduling on the CQCN is a complex matter and all aspects of scheduling cannot be fixed in UT4. However, there are some general principles which are sufficiently important that they should be recognised in UT4 itself and the QCA should have oversight in respect of compliance with those general principles.

1.6 Daily Train Plan

Schedule H sets out that the purpose of a DTP is to indicate all scheduled Train Services and Planned Possessions for a particular day and provides some general principles around when a DTP may depart from the ITP and also variations to a DTP after it is scheduled.

Schedule H should recognise the following general principles:

- (a) the DTP is a locked down 48 hour plan of scheduled train services, taking into account final agreed orders for train services, planned availability of the network, planned maintenance of terminals / loading facilities and TSE allocations for the scheduling period; and
- (b) the DTP is to be updated each day to reflect changes required.

1.7 Contested Path Decisions

Clause 8 of Schedule H sets out the contested train path decision making process. This is an important protection for users. Anglo American supports the general principles contained in

clause 8.1 that the contested decision making process should have the objective of ensuring that, firstly, Aurizon Network meets its contractual obligations to Access Holders and, secondly, that Aurizon Network does not unfairly differentiate between Access Holders.

Anglo American believes that Schedule H should also include an objective of maximising the capacity and throughput of each coal system. However, it acknowledges that there may be some tension between these 3 objectives.

Anglo American believes that there are two options for addressing the priority of the objectives to avoid this tension. That is that Schedule H should either:

- (a) include a third objective in UT4 schedule H clause 8.1 to maximise the throughput of the system, however, this should be second in priority to the requirement that Aurizon Network meet its contractual obligations with Access Holders (as such, priority would be to contractual obligations first, system throughput second, and unfair discrimination between users third); or
- (b) remove UT4 schedule H clause 8.1 because without clarification of priority and some focus on system throughput the entire clause is flawed and will create conflicting obligations on Aurizon Network.

Anglo American also believes that there should be transparent reporting in respect of the consumption of TSEs. The TSE Reconciliation Report should detail the cause for non-performance, with the aggregated and individual information readily available to all Access Holders and End Users.

1.8 Train path consumption is left to be defined in the System Rules

Anglo American disagrees with the QRC submission that train path consumption should be determined under the System Rules. Currently the proposed System Rules are unacceptable for users as they contain matters which can significantly impacts upon the rights of the users, whereas, the original intention of the System Rules was that they would be limited to operational requirements.

As Anglo American has submitted previously (specifically in relation to Aurizon Network's submission of the Capricornia System Rules and the Northern Bowen Basin System Rules), there is no method for producers or operators to challenge the decisions of Aurizon Network in relation to the System Rules. This is a major concerns as, under the current drafting, Aurizon Network also has the power to conclude amendments to the System Rules without the approval of producers, operators or the QCA. Such amendments could be extremely damaging to producers' interests if they apply to regulatory situations, for example determining the situations when a user has consumed its train paths. If Aurizon Network was able to amend the System Rules as they stand, it has power to change the definition of train path consumption and yet there will be no avenue for review within the System Rules or the Access Undertaking. As such, these considerations (including powers to review, amend and control the consumption of train paths) should be covered in the Access Undertaking for the overall protection of producers.

Otherwise, Anglo American supports the submissions made by the QRC.

1.9 Train Control and Traffic Management Decisions

Clause 7.3 of Schedule H contains some general principles in respect of Train Control.

In light of the approval of the End User Access Agreement and Train Operations Agreement some of these general principles are no longer suitable. For example, where a coal producer is an Access Holder under an End User Access Agreement then the following general principles are not appropriate:

- (a) the Access Holder will ensure operational safety is maintained through compliance with the Safeworking Procedures, the Safety Standards, Rollingstock Interface Standards, applicable IRMPs etc (clause 7.3(a)(i) of Schedule H); and
- (b) Access Holders will ensure that Above Rail issues, including Train crewing, locomotive and wagon availability are appropriately managed (clause 7.3(a)(ii) of Schedule H).

However, clause 7.3 should contain the following general principles:

- (a) train control and traffic management processes must consider the System Rules and TSEs, with the objective of an equitable and transparent outcome;
- (b) the Traffic Management Rules are to reinforce that decisions involving reordering the sequence of a train's arrival at an unloader must be referred to the unloading terminal for determination of priority; and
- (c) the exercise of Train Controller discretion must be transparent.

1.10 Pooling of train paths

Anglo American believes that the NMP should enshrine the concept that Access Holders and End Users may pool train paths.

Anglo American supports Aurizon Network's suggestion to create mine capping principles for the pooling of train paths. Further, Anglo American supports Aurizon Network's submission to maintain operator pooling and system pooling for the remainder of unused train paths which cannot be reclaimed through mine capping.

Operator pooling as suggested by Aurizon Network would allow train operators to determine how train path pools are outlined and which users will be in each pool. Anglo American does not support the proposal by Aurizon Network to permit operators to create numerous train pools, and to subsequently determine the membership of those pools. By allowing operators to determine the characteristics and membership of each pool, Aurizon Network is delegating an aspect of its otherwise regulated power to those operators (and, therefore, shifting that important responsibility outside the oversight of the QCA and industry). Train operators would then have the ability to charge fees for membership to train pools, exploit producers for over or under raiiling and discriminate between users without any ramifications under the regulation.

As such, Anglo American believes that Aurizon Network's submission to allow operators to pool and determine the construction of those pools undermines the purpose of regulation in the first place and should not be allowed by the QCA. Access Holders and End Users should be allowed to elect to join an operator pool and each operator should only have one pool.

1.11 Drafting of Schedule H

We have attached Anglo American's redraft of Schedule H incorporating some of the key principles outlined above.

2 Coal Chain Co-ordination

Anglo American believes that centralised coal chain coordination is key to ensure that scheduling occurs so that, firstly, the greatest number of contractual entitlements are delivered and that, secondly, the overall throughput of the various systems (including related assets) is able to be maximised.

However, this role should not be undertaken by Aurizon Network as Aurizon Network is part of a vertically integrated business and as such the role is best performed by a completely independent party, a system which has been successfully employed in other regulated coal chain environments. Anglo American recognises that this objective may not be able to be achieved by

the QCA under UT4 but believes that the QCA should consider the issue and raise it with Government as to the necessary reforms to enable such an objective to be achieved.