



30 October 2015

Charles Millstead
Director Economic Regulation
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane Qld 4000

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

Dear Charles,

Aurizon Network's Costing Manual Review

Vale Australia Pty Ltd (**Vale**) welcomes the opportunity to provide a submission to the Queensland Competition Authority (**QCA**) in respect of the review of Aurizon Network Pty Ltd's (Network) Costing Manual. The principle purpose, as stated in the Costing Manual, is to provide a framework for the identification, attribution and allocation of assets, costs, revenues and investments relating to Queensland based Below Rail Services provided by Network and the development of Financial Statements required in accordance with the Undertaking.

Vale has been an active participant in the Queensland Resources Council's (**QRC**) efforts to develop an agreed industry position regarding this matter. We note the QRC will be submitting an industry submission, from these discussions, to the QCA and Vale takes this opportunity to endorse the QRC's submission. Vale also proposes to provide some additional comments that Vale believes clarifies its position on some of the key principles.

Vale understands that the review of the Costing Manual will be conducted separately to the new access undertaking (UT4) reset process, however, the revised Costing Manual will be applied retrospectively from FY14 onwards. The financial statements produced between FY14 to FY16 would then inform Network's access undertaking 5 (UT5). The QCA has indicated that they are particularly interested in stakeholder's views on the level and type of information that should be provided in the financial statements. Vale believes the current Costing Manual and the resulting financial statements are of little value to stakeholders and the limited adjustment proposed by Network is not likely to improve a stakeholders understanding of the below rail network.

It is unclear to Vale what the purpose of the current Costing Manual is as it lacks any consistency or transparency of how the values in the financial statements relate to Network's Maximum Allowable Revenue (MAR) and ultimately the price that is paid for below rail access. One of the major discussion points raised during every undertaking reset is the determination of what are the efficient costs to operate the below rail network, and the lack of appropriate comparative businesses to assist in this determination. This issue has, and is continuing to be, debated strongly throughout Network's current access undertaking (UT4) reset process. Vale believes the

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current review of the Costing Manual is an opportunity to refocus the financial statements to provide better information to all stakeholders and improve the efficiency when determining the MAR at each undertaking reset period.

Vale believes the other major prevailing theme during the UT4 reset process is the coal industry's desire for there to be greater transparency across all aspects of the undertaking and particularly on Network's costs. Part 10 of the proposed UT4 has focussed on the provision of additional reporting to provide greater transparency and information to stakeholders. Vale believes this same focus to transparency and greater information should be applied to the Costing Manual. The manual should be adjusted to reflect the desire for greater transparency by providing financial statements that inform stakeholders about the performance of the network and access pricing. Vale believes this is likely to be achieved by providing financial statements that reflect the tariff setting process and aligning the identification, attribution, and allocation of assets, costs and revenues, within the financial statements, with the methodologies determined and approved under the QCA's MAR decision.

Vale believes any financial statements should be purposeful and inform stakeholders of the performance of Network's operations. Suggested changes would be:

- The assets presented in the reports should reflect all assets owned by Network split between those used for the regulated below rail business and those used for other services. The report should also separately identify any additional assets if they are owned by other parts of the Aurizon Group but are included in the Regulated Asset Base (RAB). This would allow stakeholders to reconcile the ownership of assets within the RAB and provide guidance on the level of assets employed under regulated and non-regulated activities. The Asset split between regulated and non-regulated assets is also likely to be informative in the assessment of the revenue allocation.
- The revenue presented in the reports should disclose the split between revenue earned via coal and non-coal activities. Understanding this revenue split is likely to be informative to stakeholders in their assessment of the level and split of cost allocations between the coal and non-coal activities.
- The costs presented in the reports should reflect the actual costs incurred and split between coal and non-coal activities. This provides historical cost data for Network's operations which can be utilised as another data point within the benchmarking and shadow benchmarking processes to assist in the determination of efficient costs. The benefits of providing the historical actual costs will grow over time as a greater history of costs are established. Vale believes the level detail, or cost line items, will also be important to maximise this benefit

The changes proposed to the financial statements above will only provide benefits if the methodology used to identify, attribute, and allocate assets, costs, and revenues are applied consistently over time. Vale believes the methodology used should be clear to all stakeholders to provide transparency of the methodology and a clear understanding of the drivers of the allocation process. Vale believes the reports would be enhanced by the following;

- These reports should be presented by Coal System as this is the basis of the tariff setting process. The combination of these reports should also be able to be reconciled back to a set of audited Network financial statements.
- Align the methodology for identification, attribution, and allocation of assets, costs and revenues with those used as part of the QCA's approved MAR decision. This provides greater transparency and consistency than the current Costing Manual approach to use a reasonable basis.
- Line items for expenses and revenues should be provided in the lowest level of detail and in the same categories as identified in the QCA's final MAR decision.

- The line items for expenses and revenues in the reports should be presented and compared against the QCA's allocation for that item in the final MAR decision.
- Cost should reflect actual costs and should not include any subjective allocations, such as an allowance for stand-alone efficient costs as proposed by Network under 3.2(b), and 4.1(b)(ii). The determination and evaluation of efficient costs is a matter the is best left for discussions during the undertaking reset process. As stated above, the actual costs are likely to provide an additional data point in this assessment.
- Sufficient cost and revenue line elements should be presented to limit the use of the "Other" line item category in the reports to an immaterial amount. Vale believes the use of the Other line item reduces stakeholder transparency on the costs and revenues.

The current Costing Manual provides limited value to Vale as the financial reports developed under this manual are not relevant to the tariff setting process and the identification, attribution, and allocation methodologies applied across the statements are not transparent to stakeholders. Vale believes that producing stand-alone financial reports that are not linked to the tariff setting process or are not calculated under the same allocation methodology as the QCA's MAR determination is inefficient and provides little to no value to coal producers. Vale believes the purpose of the financial reports should be to provide stakeholders with better information on actual costs and revenues for reference against current and future MAR decisions. During the UT4 MAR decisions, the QCA outlined the difficulty in finding sufficient comparative businesses for benchmarking costs. These reports would help provide all stakeholders with better information and another data point to be used in the benchmarking exercise to determine Network's efficient costs. The focus of Vale, and the wider coal industry, during the UT4 process is on improving transparency and consistency across the regulated environment for all stakeholders. The current Costing Manual does not appears to be removed from the regulated below rail tariff setting process and therefore does not provide any purposeful information to aid the evaluation of Network's performance. Vale believes the Costing Manual should be significantly rewritten to provide a simplified process that produces information that aids transparency to all stakeholders and aligns with other regulatory processes.

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

Yours sincerely,

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

Paul Hartfiel
Logistics Development and Regulatory Principal
Vale Australia Pty Ltd