

21 July 2022

Charles Millstead
Queensland Competition Authority
GPO Box 2257
Brisbane. 4001
Email: <http://www.qca.org.au/submissions>

Copy:
George Passmore: George.Passmore@qca.org.au

Dear Charles,

Bravus Comments on Aurizon Network's proposed Concept Study Draft Amending Access Undertaking (DAAU)

Please find attached Bravus Mining and Resources Pty Ltd (Bravus) comments on *Aurizon Network's proposed Draft Amending Access Undertaking (DAAU) on the inclusion of Concept Study's in response to Existing Capacity Deficit (ECD)*.

Summary

- 1. Bravus does not support any DAAU that would propose to rectify the ECD in an extended and unspecified time frame, however Bravus would support a DAAU that provides the Independent Expert with the discretion to require Concept Studies where multiple undecided options for resolving the ECD exist. Bravus continues to propose that all Goonyella Abbot Point Expansion (GAPE)/Newlands system ECD's be rectified within 2 years (with the Stage 1 Remote Control Signalling (RCS) to be installed within 12 months.)*
- 2. Related to point 1, Bravus contends that costs associated with performing additional studies are part of costs associated with the GAPE Project and should be for the account of GAPE project users.*
- 3. Bravus would support a DAAU that gives the Independent Expert the ability to refine and review the Initial Capacity Assessment Report (ICAR), however Bravus does not support the inclusion of 'forecast demand' information unless the term is broadened to also include realistic demand from Access Seekers.*
- 4. Bravus does not support any DAAU that is inconsistent with Aurizon Networks Behavioural Objectives [2.3 (b)(ii)(B) of UT5], and that would allow for additional rounds of Newlands Relinquishments to address the remaining ECD as the Newlands ECD has been created by the failure of the GAPE project to deliver promised capacity where Newlands system demand exists for the same capacity. Project costs and project rectification costs should be for the account of GAPE project users and not be transferred to Newlands users via increased Newlands tariffs.*

Bravus has reviewed this Concept Study DAAU in conjunction with its previous submission on Aurizon Network's Detailed Response to the Initial Capacity Assessment Report dated 24 March 2022 (detailed response) and the related Aurizon Network consultation on the Newlands / GAPE capital

cost allocation, and reiterates that any costs associated with the GAPE project to deliver 51Mtpa of installed capacity, including the rectification of the Newlands Abbot Point Expansion (NAPE) ECD, should be for the account of GAPE Project users in line with the Queensland Competition Authority's (QCA's) 2016 Final Decision (QCA, April 2016).

Supporting Reasons.

- 1. Bravus does not support any Draft Amending Access Undertaking (DAAU) that would propose to rectify the Existing Capacity Deficits (ECD) in an extended and unspecified time frame, however Bravus would support a DAAU that provides the Independent Expert with the discretion to require Concept Studies where multiple undecided options for resolving the ECD exist.**

It remains Bravus's view that all Newlands ECD solutions should be completed by Aurizon Network within 2 years. This view is supported by Bravus recent experience having completed the 207km Carmichael Rail Network (CRN) including the installation of passing loops and signalling system technology that are almost identical to the ECD solutions identified by Aurizon Network within this time frame.

As stated in our other submission, the Newlands / GAPE ECD is a direct legacy of the System Capacity shortfall created by the Goonyella to Abbott Point Expansion (GAPE) Project. Although this shortfall was identified by Aurizon Network in 2012, it has failed to install the Project Capacity effectively allowing GAPE users to avoid meeting their Expansion costs for the contracted System Capacity contrary to the Expansion Pricing Principles outlined in 6.4.1(d)(i) of UT5.

Bravus also notes that a large historic unused portfolio of GAPE capacity which was not previously relinquished under 7A.5(a)(iii)(A) of UT5, is being actively marketed by the incumbent Access Holder, and it is appropriate that Aurizon Network installs sufficient Deliverable Newlands Capacity (DNC) to cover this contracted demand as soon as possible, and at a minimum should be installed well ahead of Aurizon Network's measured demand proposed under this Concept Study DAAU. Absent this, Bravus could support the staging of Stages 2, 3 and 4 as proposed by Aurizon Network in its detailed response, to complete additional Concept Studies that have been recommended by Aurizon Network to the Independent Expert, so long as already agreed Transitional Arrangements such as the Remote-Control Signalling solution identified in Stage 1 of the detailed response (RCS solution), is implemented without any further delay.

Bravus notes the implementation of the RCS solution in Newlands is currently planned to occur during the full system closure in March 2024 as proposed under the FY24 Maintenance and Renewal Strategy Budget (MRSB). Due to the very limited number of proposed Newlands system closures in the MRSB, any further delays with the QCA's final decision on the Stage 1 RCS solution is highly likely to result in missing this closure window which would cause significant further delays to rectifying the primary cause of the Newlands ECD.

This delay will inevitably have a significant knock-on impact to the timing of subsequent stages as actual volumes will remain capped at 33Mtpa which is well short of Aurizon Networks proposed Stage 2 implementation trigger of 38Mtpa.

- 2. Bravus contends that costs associated with performing additional studies are part of costs associated with the GAPE Project and should be for the account of GAPE project users.**

Bravus notes that elements of AN's proposed allocation of ICAR Expansion costs to deliver 51Mtpa of installed capacity are contrary to the QCA's 2016 Final decision on the Allocation of GAPE Project Costs including costs associated with studies.

Bravus notes that in the QCA final decision on GAPE (QCA, April 2016) it outlines that all Project costs including Newlands Enhancement Costs are for the account GAPE and NAPE customers. The GAPE Projects original design scope to install 51Mtpa System Capacity was costed at \$1.6b. Both the SKM (SKM Engineering, April 2014) report and the GAPE Deed refer to project descoping and the stripping out of project capital costs as part of a value engineering/value maximisation initiative performed by Aurizon Network which resulted with capital costs being reduced by circa \$600m delivering a lower total costs of ownership (TCO) for Project users including the cost of performing Studies.

Aurizon Network reported to GAPE project users in February 2012 (2 months after commencement of GAPE rail traffic.) that errors in their project capacity modelling assumptions including the descoping of project infrastructure as part of the value engineering exercise has resulted in insufficient installed Project Capacity. At this time, Aurizon Network proposed GAPE project users fund the installation of capital solutions to address the projects capacity shortfall which are identical to the ECD solutions proposed in Aurizon Network in its detailed response.

The headway and capacity was further impacted by the implementation of operational restrictions in the Collinsville Passing Loop with the onset of the larger 84 wagon GAPE trains which has resulted with the need to construct a substitute passing loop nearby at Coral Creek.

Bravus notes that problems around utilisation of Collinsville passing loop arose in 2010 out of community concerns of additional noise, dust and local hospital access issues resulting from the impending completion of the GAPE project and associated increase of larger trains utilising the Collinsville passing loop (Whitsundays Online, July 27th, 2010)

In 2012, GAPE project users elected not to install RCS as recommended by Aurizon Network to address the GAPE project capacity shortfall but elected instead to defer the installation of this project capital under a commercial arrangement with Aurizon Network which exists outside of the regulatory framework.

From a cost of study perspective, the GAPE deed outlines the risks associated with the Project Capacity shortfall is for the account of GAPE project users and given their explicit involvement in the value engineering process that descoped RCS and led to the operating restrictions at Collinsville, collectively the root cause of today's ECD, it would be unjustifiable that Newlands users now be asked to pay for this failure.

- 3. Bravus would support a DAAU that gives the Independent Expert the ability to refine and review the Initial Capacity Assessment Report (ICAR), however Bravus does not support the inclusion of 'forecast demand' information unless the term is broadened to also include realistic demand from qualified Access Seekers.***

Bravus would support a DAAU that gives the Independent Expert the ability to refine and review the Initial Capacity Assessment Report (ICAR) and update the DNC & ECD based upon the latest data sets and model assumptions including changes to contract assumptions.

Bravus acknowledges that the data set and assumptions used for calculating the ECD should be based upon up-to-date information and recalculated as necessary, to potentially avoid unnecessary or sub optimal ECD solutions being installed based on a range of outdated assumptions. For

example, from a Bravus perspective once Remote-Control Signalling (RCS) is installed, the remaining ECD will be affected by:

- Changes in contract origin assumptions within GAPE
- The addition of BRC trains into the system
- Changes to rail performance or train operation assumptions
- The addition of the BRC maintenance and provisioning facility between Pring and NQXT.

These changes once incorporated could significantly alter the ECD and or reduce the effectiveness of some ECD solutions identified by Aurizon Network.

Bravus would not support a DAAU that proposes to include use of a forecast demand based solely on existing contracted capacity and fails to consider demand for the same capacity arising from *Aurizon Network's Capacity Notification Register under 7.2.2 of UT5*. Incorporating demand from this register at 7A.5(d)(ii) of this DAAU will ensure the Independent Expert holistically considers demand that is reasonably likely to be railed if the capacity was available, and where the requestor also demonstrates they have the operational and contractual arrangements in place to utilise the capacity having met the conditions of 7.2.2(b)(c) of UT5.

4. Bravus does not support any DAAU that is inconsistent with Aurizon Networks Behavioural Objectives [2.3 (b)(ii)(B) of UT5] including an additional round of Newlands Relinquishments to address the remaining ECD.

As previously discussed the Newlands ECD has been created by the failure of the GAPE project to deliver promised Project Capacity and the capacity shortfall rectification costs should be for the account of GAPE project users and should not under the principles outlined in clause 2.3 be transferred to Newlands users under this process via increased Newlands tariffs.

Bravus notes under 2.3 (b)(ii)(B) of UT5, Aurizon Network must not unfairly differentiate between Access Seekers or Access Holders. Aurizon Network and the Independent Expert have indicated to Bravus that it would be unable to lock in the benefits of any Expansion conducted outside the ICAR process using Part 8 of UT5, until the ECD is fully rectified.

Aurizon Network has indicated in its submission that it believes there is merit for allowing further fee free relinquishment option to permanently reduce the ECD where it remains unresolved, and no alternative plans are in place to rectify the ECD. Aurizon Network also states that as the concept of this option has not been consulted with users to date, it is willing to consider and work with the Queensland Resources Council (QRC) Rail Working Group (RWG) on this concept to develop a proposal to the QCA as part of its consultation process on this DAAU.

Bravus notes that any further relinquishment using this process would permanently extinguish system nameplate capacity and ultimately reduce Newlands system volume leading to an increase in the Newlands system tariffs for remaining Newlands users. If the same surplus capacity would otherwise be dealt with under 7.4.8 (Relinquishments) and 7.6 (Capacity Resumption) of UT5 there would be no increase to system tariffs.

Bravus notes that under 7.4.8 (e)(ii)(D) a Reduction Factor is applicable to the relinquishment fee where the relinquished capacity can be taken up by an Access Seeker. Given the geographical position of the Newlands Access Seeker the calculated Reduction Factor would be equal to the relinquishment fee itself resulting with no fee payable, proving that options to relinquish capacity

under UT5 remains a practical, cost effective and are a more prudent way of dealing with surplus capacity.

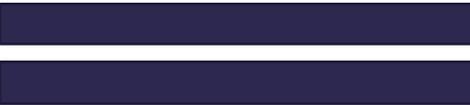
Bravus could support a DAAU where proposed surplus capacity is offered first under 7.5 (Mutually Exclusive Access Applications) of UT5 to Access Seekers who are registered on the Capacity Notification Register and who demonstrate compliance with the contracting criteria under 7.5.3(b) of UT5, or where there are no alternative options for rectifying the remaining ECD

Regards



Steve Straughan

Bravus Mining and Resources



Bibliography

Goonyella Abbot Point Expansion Project Deed (2009)

Aurizon. (2016). *Network Development Plan 2016*. Aurizon Network.

Aurizon Network. (12 March 2018). *Aurizon Network 2017 Draft Access Undertaking Response to the Queensland Competition Authority's Draft Decision*.

Aurizon Network. (14th March 2022). *Aurizon Network's Detailed Response to the Initial Capacity Assessment Report*.

SKM Engineering. (April 2014). *Engineering assessment of five post-commissioning projects in Aurizon Network's 2012-2013 capital expenditure claim*. QCA.

QCA. (April 2016). *Final Decision Aurizon Network 2014 draft access underaking Volume III - Pricing & tariffs*.

Whatsundays Online. (July 27th, 2010). *Coal Trains blocked by Protestors at Collinsville*.