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8 November 2022

Mr George Passmore
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4001
by email: george.passmore@qca.org.au
via Submission process at: www.qca.org.au

Dear George,

Aurizon Network – Revised Concept Studies DAAU

Glencore is pleased to have this opportunity to comment on Aurizon Network's November 2022 Revised Concept Study DAAU (Revised DAAU). Glencore support the submission made by the QRC in its entirety. This submission is to elaborate further on the potential for fee free relinquishments as a possible Transitional Arrangements, highlighting that:

- Aurizon Network should not be incentivised to spend additional capital to address capacity shortfalls if there is already adequate capacity on the network that can be accessed by offering fee free relinquishments – this is the fundamental objective embedded in UT5. With an agreed extension to considering capital options, any deviation from allowing fee free relinquishments undermines the intent of UT5 and should cause Aurizon Network's WACC uplift to be reviewed.
- Free relinquishments should only be available when an increase in capacity is being considered that may require capital to be otherwise spent or at any other similar decision point.

The QCA acknowledges in its Preliminary Position Paper "that enabling Aurizon Network to subsequently consider non-expansion transitional arrangements in a staged manner potentially provides for an ECD to be addressed in a more efficient manner. However, the process for addressing an ECD outlined in the Concept Study DAAU does not prevent or disincentivise the ongoing implementation of operational changes and relinquishments by Aurizon Network and affected end users – the effects of which may be accounted for as part of the independent expert's analysis of the ECD to be addressed" (page 7). This is clearly in line with the objective of the UT5 capacity arrangements, being to accurately determine the actual deliverable capacity of the network and then find the most efficient and effective way to resolve any resulting deficit to Committed Capacity, both as determined by an impartial expert body. We believe that by extending the period to properly consider and examine appropriate options and timing for mechanisms to extinguish the remaining ECD, still being able to consider the maximum suite of options provides the most efficient and effective outcome for industry and all stakeholders. That is, capacity expansions, operating changes and fee free relinquishments should all be available options to extinguish the ECD.

Not allowing fee free relinquishments but still progressing capital intensive expansion projects for Committed Capacity without demand would be economically inefficient and wastes scarce resources which may be more economically deployed in Queensland for growth where it is required. Indeed, it is inherent in the DAAU that consideration may be given to demand when considering the timing of projects, in a similar way, to not consider demand reductions also may result in wasted capital spend and higher costs.

As all stakeholders seem to agree, the Concept Studies DAAU is likely to provide a sensible stage-gated process of assessing potential Transitional Arrangements in comparison to demand, which is potentially a further 3-5 year process. This is in contrast to the original DAAU which envisaged a once-off process to extinguish the ECD. As the time frame which considerations for Transitional Arrangements is extended, it

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would be incongruous to disallow fee free relinquishments during this extended period and would be akin to now determining the original undertaking was incorrect in allowing fee free relinquishments.

Over a multi-year horizon, it is certainly within the normal planning process for a producers' mine plans or washing strategies to change and thereby result in it holding excess contracted capacity. For example, the Independent Expert's (IE) response to Aurizon Network's Detailed Response (June 2022) indicated implementing the optimized BCM, yard scheduling improvements and Connors Range headway reduction would result in a remaining ECD after these measures of only 5.8Mt, which is approximately 4% of Committed Capacity. The only cost of these measures would be the Connors Range Headway Reduction of \$163,000, with all further projects subject to a concept studies approach. As a global producer, Glencore has numerous examples of mine plans being refined or changed, or changes in washing strategies or markets that result in the mine plans changing by more than 4%.

It may be argued that producers could transfer excess capacity to Access Seekers (which may be existing Access Holders or entirely new Access Seekers), however this is not always achievable. For example, demand levels may be for a different amount of capacity (they require a larger amount to match a mine size which can mean an "all or nothing" proposition), the timing of demand does not align or, because of documented capacity constraints, the Independent Expert may determine the transfer even further reduces deliverable capacity and hence is not approved.

Even where an Access Seeker does have a matching demand and could transfer its excess capacity, this creates a situation where all the existing Access Holders continue to wear the consequences of Aurizon Network not building sufficient capacity for the Committed Capacity it sold, as existing Access Holders will continue to be subject to scale back of their use of existing Committed Capacity under Schedule G (given contracted TSEs are not reduced due to the ECD), where new Access Holders (who were Access Seekers) would then be competing with and have the same rights to schedule trains, despite the Committed Capacity still exceeding what the network is capable of delivering. A pre-existing Access Holder may have paid take or pay for capacity which does not exist in the past, and would continue to do so as Access Seekers will have attained capacity which does not exist and compete for the use of paths which do not exist. Any transfer to an Access Seeker still does not (in the absence of further Transitional Arrangements) create Available Capacity capable of being taken up by Access Seekers, such relinquishments will have a neutral impact on these stakeholders. Glencore does not perceive that further fee free relinquishments have adverse implications to Access Seekers, other than requiring Access Seekers to obtain access via the process set out in UT5 and ensuring that any expansion costs for the benefit of Access Seekers are subject to socialisation tests.

In absence of fee free relinquishments or Access Seekers to trade capacity, the only alternative means for a producer to reduce its excess contracts and potential associated expenses (which are not backed by deliverable capacity), would be to relinquish and pay a relinquishment fee, which would be illogical for capacity which does not actually exist and would provide a double benefit to other Access Holders as they would receive both the scheduling/usage benefit of less Committed Capacity competing for scarce actual capacity, but also receive a financial gain for this due to the contribution of the relinquishment fee.

Whilst we support fee free relinquishments, Producers should not have an unfettered ability to relinquish at all times, as this may create uncertainty for planning purposes for Aurizon Network, Access Holders and Access Seekers. The offers of further fee free relinquishments should only be undertaken at an appropriate stage, such as whilst scoping/before committing to further studies or committing to commence an expansion (or other similar decision points). It is important to note that any expansion capacity will not typically align with the size of the remaining ECD and as such, capacity projects to remedy an ECD are never likely to perfectly match the ECD, so planning will always be considering multiple projects or combinations of projects in any event. Consistent with the original intent of UT5, relinquishments would also need to be capped at any

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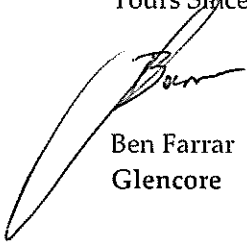
remaining ECD (after committed Transitional Arrangements at that point). We believe the IE and or QCA should have ultimate decision on the timing of further possible relinquishments, consulting with Aurizon Network so as to minimize planning re-work.

We also support that if further operational changes are identified in time, they should also be logically considered as a manner to resolve an ECD.

We note this submission is made two days following the due date of submissions, however we received some late information on Aurizon Network's position on fee free relinquishments, which was received only on 4 November 2022. We would appreciate if you could still consider this submission.

We thank you for your consideration and for the opportunity to comment on this DAAU. We would welcome the opportunity to discuss this further, should the QCA require.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Ben Farrar', is written over a large, light-colored oval shape that serves as a background for the signature.

Ben Farrar
Glencore