

25 November 2022

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

Dear George,

RE: Aurizon Network Draft Amending Access Undertaking – Minerva

The Queensland Resources Council (**QRC**), on behalf of the QRC's Rail Working Group, welcomes the opportunity to comment on Aurizon Network's Minerva Draft Amending Access Undertaking (the DAAU).

1. Introduction

The QRC welcomes (subject to comments in Section 2) the proposed adjustments to Blackwater Allowable Revenue and Reference Tariffs to reflect the exclusion of assets which are no longer in use.

However, we do not support other elements of the DAAU which:

- Establish new rules, the application of which would extend beyond the relevant assets (Burngrove to Wurba) with potential implications for all Central Queensland rail infrastructure (Section 3).
- Require that the Burngrove to Wurba infrastructure be maintained within the RAB, escalated at WACC, and not depreciated, rather than being escalated at CPI and depreciated, as currently applies and is proposed to continue for the non-coal portion of this infrastructure (Section 4).

2. Adjustment to Allowable Revenue and Reference Tariffs

The QRC welcomes the proposed adjustments to Blackwater Allowable Revenue and Reference Tariffs to reflect the exclusion of assets which are no longer in use. We consider that these adjustments are necessary to comply with the Pricing Limits of Section 6.6 of the Undertaking, which are based on (among other considerations) the value of assets reasonably expected to be required for the Stand-Alone provision of Access for the Train Services.

We note that the DAAU proposes to adjust Allowable Revenues for the year commencing 1 July 2022. The DAAU does not disclose the date of the closure of the Minerva mine. We encourage the QCA to consider whether the effective date of the adjustment is appropriate.

3. Amendments with wide application

3.1: Proposed addition of Clause 1.1(f) of Schedule E.

This proposed new clause provides that “*the value of any assets in the Regulatory Asset Base that are not included within a Reference Tariff will have a depreciation value of zero and will be indexed for the Year based on the Approved WACC*”. We understand that this approach has been adopted in previous cases involving new coal-specific infrastructure, where initial demand was low but was expected to grow. These cases involved decisions by the QCA which were based on a consideration of the relevant facts and circumstances. We consider that the proposed amendment is:

- Unnecessary: This style of indexation has been applied in the past, without the need for an amendment to Schedule E. If the QCA determines that this style of indexation is appropriate for any assets in the future, including for the Burngrove to Wurba assets, then we consider that it can be accommodated without the proposed amendment.
- Inappropriate: The proposed amendment would lock in an approach to escalation of any assets which are in the RAB that are not included within a Reference Tariff. This appears to preclude the QCA from considering the facts and circumstances which are relevant to future situations. For example:
 - As Aurizon Network has noted in its submission, the QCA, in the context of Queensland Rail's 2020 Draft Access Undertaking, considered that capitalised assets should have a limited life, to prevent the accumulated amount from ballooning to a level at which there is no reasonable prospect of recovery.
 - Where Access Conditions exist, it is possible that Aurizon Network may earn returns on (and of) an investment despite the assets being ‘suspended’ for the purposes of regulatory pricing. The QCA may wish to take this into account where determining the appropriate escalation and depreciation of the RAB values.
 - Where Aurizon Network has specifically accepted the risk of under-utilisation of an asset when agreeing Access Conditions, the QCA may wish to consider the appropriateness of escalation at the WACC where this occurs.

These are just a few examples of the types of issues which the QCA would be precluded from considering if the proposed clause 1.1(f) of Schedule E was approved.

3.2: Proposed addition of Clause 1.2(d) of Schedule E.

This proposed clause provides that “*Subject to Aurizon Network obtaining the QCA's approval, Aurizon Network may elect to remove assets that are subject to Access Conditions from the Regulatory Asset Base in the event that such assets cease to be utilised by coal carrying Train Services*”. We have several concerns with this clause:

- We do not understand why it is necessary, given that retaining assets within the RAB does not necessarily require that charges relating to the assets be reflected within reference tariffs.
- The proposal seems to differentiate unfairly between assets which are subject to Access Conditions (which could include User Funded assets) and other assets. Aurizon Network proposes that its own assets which are no longer in use will be retained within the RAB, not depreciated, and will be capitalised at the WACC, allowing Aurizon Network to earn future revenues if demand for the assets returns. We do not understand the case for the undertaking to treat Aurizon-funded assets differently from User-Funded assets in this context.
- If User-Funded assets are removed from the RAB but are subsequently required for coal-carrying train services, User-Funders will have no power to seek the reintroduction of the assets into the RAB in order to recover their investment. This creates a greater risk profile for User-Funders than for Aurizon Network, as Aurizon Network would, in similar circumstances, be able to seek the reinstatement of its assets into the RAB.
- For the reasons discussed above, the clause will discourage User-Funding, forcing Access Seekers to accept Access Conditions which are based on Aurizon Network funding.
- The clause provides no clarity on the considerations to which the QCA should have regard when deciding whether to approve the removal of the assets from the RAB.

3.3: Proposed addition of Clause 1.3(b)(vii) of Schedule E.

We support the addition of this clause, which will improve transparency regarding 'deferred' assets. We consider that the clause should apply to any assets which are held within the RAB and are not currently reflected in Reference Tariffs, regardless of the method of escalation being applied.

4. Treatment of Burngrove to Wurba infrastructure

Aurizon Network proposes that the Burngrove to Wurba infrastructure be retained within the RAB, escalated at the WACC, and not depreciated. In contrast, the non-coal allocation of this section of infrastructure will be escalated at CPI, and depreciated (i.e. the same approach as applies for the CQCN).

The approach proposed by Aurizon Network for the Burngrove to Wurba has previously been applied in cases where new investment was made to support coal industry expansions and where growth in demand was ultimately expected such that the relevant assets would cease to be 'surplus'. The circumstances for the Burngrove to Wurba infrastructure are entirely different:

- The relevant assets were not built for coal traffic and were not initially part of the RAB. The assets were added to the RAB due to the commencement of coal carrying train services from Minerva in 2005. With these services now having ceased, it is not clear why these assets should not simply revert to the pre-2005 position (i.e. not part of the RAB).

- The asset value was derived by apportioning the DORC value between coal and non-coal use (approximately 55% to coal). It is not clear why a notional allocation of 55% to coal should be retained when the utilisation of the infrastructure has returned to 100% non-coal.
- As Aurizon Network states on Page 3 of its submission, the DORC valuation involved the revaluation of substantially written down assets. Removing the assets from the RAB does not represent any loss of investment by Aurizon Network, simply a recognition that the demand which resulted in the addition of the assets to the RAB no longer exists.
- Aurizon Network acknowledges that it accepted the risk that demand for these assets could end before the assets were fully depreciated (although we note that this 'risk' relates to under-recovery of an asset that was created mainly through revaluation).

Interestingly, Aurizon Network's submission quotes Section 85 of the National Gas Rules which state "A full access arrangement may include (and the AER may require it to include) a mechanism to ensure that assets that cease to contribute in any way to the delivery of pipeline services (redundant assets) are removed from the capital base". Despite quoting this provision in support of its DAAU, Aurizon Network does not propose to remove the redundant assets from the capital base.

Taking into account these considerations, we consider that the Burngrove to Wurba assets should be removed from the RAB.

We acknowledge Aurizon Network's comment (page 5) that "*the deferral of the current asset values in the RAB roll-forward provides greater certainty and transparency to prospective coal carrying train services relative to the scenario of removing those assets from the RAB and undertaking a subsequent DORC valuation of existing assets to include those assets within the RAB if coal carrying train services recommenced*". Aurizon Network could provide this certainty in a number of ways, such as by committing (if demand returns) to seek to include in the RAB no more than the amount which would have applied if the assets were treated as proposed in this DAAU. We consider this preferable to the proposed approach, which locks in an escalation approach which:

- Is not appropriate for the Burngrove to Wurba infrastructure, given the background and circumstances associated with its inclusion in the RAB.
- May not be appropriate for other 'deferred assets' in the future, and will prevent the QCA from assessing the appropriateness of the approach to these assets based on the relevant facts and circumstances at the time.

Thank you for the opportunity to provide this submission.

Yours sincerely


Andrew Barger
Queensland Resources Council