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Queensland Competition Authority
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Aurizon Network - GAPE and Newlands Pricing Draft Amending Access Undertaking

Stanmore appreciates the opportunity to provide the following comments in relation to Aurizon Network's (AN) GAPE and Newlands Pricing Draft Amending Access Undertaking (DAAU).

Introduction

Stanmore, through Stanmore SMC Pty Ltd, is an existing access holder for the GAPE system since its inception in 2011. Stanmore has however only become party to those agreements following acquisition of the BMC assets in May 2022.

This submission provides high level commentary relating to certain aspects of the DAAU and the process by which the DAAU has eventuated. We seek for the QCA to undertake a detailed and rigorous assessment of all aspects of AN's proposal, including obtaining any additional information to form its view.

History of GAPE Arrangements

The GAPE arrangements, together with the NAPE arrangements, when negotiated substantively in 2010/11, were bespoke commercial arrangements between those users and AN. Each party to those negotiations was sophisticated, in that each party knew the risks in which it was assuming under those arrangements. On that basis, the QCA should consider the overarching objective of the GAPE Deed [REDACTED]

[REDACTED] The usual rationale / methodologies applied under a regulatory approach can not necessarily be adopted in the same manner to a commercially agreed document without having regard to that document.

If an item is not explicitly excluded from specific calculations, it should not be automatically assumed that it should be and needs to be considered as part of these broader overall project arrangements.

It is important to note that GAPE users were not involved in, or privy to, the NAPE arrangements and vice versa (except to the extent that a user was involved in both). Therefore, any discrepancies or matters which were inadvertently not included by AN in the respective GAPE / NAPE

arrangements should not be borne by those users, but by AN as the only party privy to both sets of arrangements.

Process to the DAAU

AN has made efforts to put forward several proposals to the broad customer group (GAPE, NAPE and Newlands users). However, by virtue of the different commercial and allocation drivers of each of these groups (and sub-groups within those groups including whether contracted capacity is utilised or not), the likelihood of reaching a consensus position was remote. The proposals put forward by AN to attempt to reach consensus were put forward as a 'packaged' arrangement, further contributing to the unlikelihood.

The interaction of individual GAPE Deed elements and the regulatory pricing elements share an interrelated and complex relationship. This relationship is extended by AN's proposal which has commensurate impacts on NAPE and Newlands tariffs. While certain information has been afforded to Stanmore upon which AN is basing its proposal, there remains an element of information asymmetry to permit a fulsome assessment of the detail (e.g. how and the circumstances by which the deferred NSIE attributable to the Byerwen NAPE capacity was transferred from the Newlands RAB to the GAPE RAB). Further, it is not clear to Stanmore why AN is now seeking to amend the current methodologies which have generally existed since the GAPE Deed was executed, nor why these matters can not equally be dealt with as part of UT6.

QCA Assessment and Information Requirements

We encourage the QCA to obtain all the necessary information it requires to conduct a thorough assessment of AN's proposal. We note that the underlying GAPE Deeds have been varied since they were originally executed, and it is important that the QCA consider these variations in its assessment of the DAAU. We are unable to confirm if the GAPE Deed provided confidentially by AN as part of the DAAU reflects all of these variations.

Specific Matters

a) Ballast Undercutting and Renewal Costs

Due to the change in regulatory framework, re-railing and ballast costs are now treated as capital expenditure rather than maintenance expenditure. The current GAPE commercial arrangements do not allow AN to pass on these costs as capital to GAPE users. AN proposes to allocate the relevant usage component of re-railing and ballast undercutting costs on the shared corridor between GAPE and Newlands systems based on relative forecast GTK for the relevant year. It is also Stanmore's preference that a consistent approach to the treatment of these costs is applied across the CQCN.

As stated above, there is an underlying assumption that each party was sophisticated at the time of negotiating the GAPE arrangements. AN has continued to earn [REDACTED] on the GAPE project and [REDACTED] accepted certain risks, including any 'regulatory risks'

associated with changes in regulation over the period of the GAPE Deed. As that regulatory risk has eventuated, it should not fall to GAPE users (or even Newlands users) to now accept this risk. Therefore, Stanmore suggests the QCA consider that the treatment of costs be allocated as proposed by AN (based on relative contribution of forecast GTK), however the GAPE portion of these costs is borne by AN in recognition of the GAPE commercial arrangements that were negotiated and agreed (i.e. do not form part of the GAPE capital or the GAPE maintenance indicator).

b) Over Recovery / Windfall Gains

There are several aspects of the proposal under which AN has the potential to obtain windfall gains. Stanmore encourages the QCA's detailed assessment of these circumstances, in particular, the capitalised interest associated with the transfer of the Byerwen NAPE to GAPE and ensuring these amounts have not previously been recovered under the GAPE access arrangements.

We look forward to the QCA's consideration of the DAAU and the matters contained in this letter.

Yours sincerely



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