Mr George Passmore
Director Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4000

April 2023 Newlands-GAPE Pricing DAAU

6 April 2023

Dear George,

Aurizon Network is pleased to submit to the Queensland Competition Authority (**QCA**) a Draft Amending Access Undertaking (**DAAU**) to amend the Aurizon Network 2017 Access Undertaking (**UT5**) to implement variations and amendments to the pricing and access arrangements for access to the Newlands and GAPE Systems (**the April 2023 GAPE-Newlands Pricing DAAU**).

On 2 September 2022, Aurizon Network submitted to the QCA a draft amending access undertaking to implement variations and amendments to the pricing and access arrangements for access to the Newlands and GAPE Systems (**the Initial GAPE-Newlands Pricing DAAU).** This DAAU was prepared following detailed stakeholder engagement and included aspects which were informed by the commercially negotiated access arrangements.

The QCA released its Preliminary Considerations on the Initial GAPE-Newlands Pricing DAAU on 15 December 2022. Those Preliminary Considerations noted that in the absence of broad customer agreement on those elements that addressed matters relating to the commercially negotiated access arrangements, the QCA did not consider it appropriate to amend UT5 to resolve matters under those commercial arrangements. Consequently, the QCA said that it was minded to refuse to approve those elements as not satisfying the statutory criteria for approval of a DAAU, and after considering the stakeholder submissions it received.

Following further engagement with customers, Aurizon Network withdrew the Initial GAPE-Newlands Pricing DAAU on 14 February 2023 and committed to developing a replacement DAAU that either:

- included an alternate package of amendments acceptable to all GAPE and Newlands customers; or
- where an agreement is not attainable, is informed by the QCA's Preliminary Considerations.

Aurizon Network's customers informed us that there was limited prospect of achieving a consensus proposal and that Aurizon Network should progress the development of a replacement DAAU. Accordingly, this April 2023 GAPE-Newlands Pricing DAAU has been prepared with the purpose of satisfying the statutory criteria in section 138(2) of the *Queensland Competition Authority Act 1997* (Qld) and after consideration of the QCA's Preliminary Considerations.

In preparing the April 2023 GAPE-Newlands Pricing DAAU, Aurizon Network has provided customers with details of the proposed amendments, including the purpose and objectives of those amendments. In addition to these details, individual customers meetings were held at which information was provided to customers on the effect of the proposed amendments on revenues and tariffs over the remaining Term of UT5. Further information has been provided in response to individual customer queries.

The variations to Schedule F in this DAAU have been prepared based on updated Reset Schedule F Preliminary Values submitted to the QCA on 27 February 2023 and will consequently need to be updated to reflect any subsequent decisions by the QCA on those Reset Schedule F Preliminary Values and other reset financial parameters.

As various elements of the supporting explanatory materials refer to matters relevant to the commercially negotiated access arrangements, Aurizon Network requests that the QCA not publish that confidential information as disclosure may harm Aurizon Network's commercial interests. A version of the supporting explanatory material (excluding this confidential information) has been provided to the QCA for publication. This supporting explanatory material has been provided to affected customers concurrently with lodgement of the April 2023 GAPE-Newlands Pricing DAAU to the QCA.

Should you have any questions or require further information, please do not hesitate to contact Jon Windle at Jon.Windle@aurizon.com.au.

Yours sincerely,

Dan Kearney
Head of Finance and Regulation

April 2023 GAPE Newlands Pricing Draft Amending Access Undertaking

6 April 2023

Submission to the Queensland Competition Authority – Public Version

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1.0 Executive Summary

All capitalised terms which are not otherwise defined in this document have the meaning given to them in Aurizon Network's approved 2017 Access Undertaking (**UT5**).

The Goonyella to Abbot Point Expansion (**GAPE**) comprised the construction of the Goonyella to Newlands Connection with significant upgrades and Expansion of the existing Newlands System, known as the Newlands System Infrastructure Enhancements (**NSIE**), to have a common infrastructure standard and interoperability between the GAPE and Newlands Systems.

The GAPE Project was underwritten through commercially negotiated access arrangements with users of the Goonyella to Newlands Connection (**GAPE Customers**) and a Newlands Access Seeker (**NAPE Customer**). The QCA approved the 2013 GAPE Draft Amending Access Undertaking (**2013 GAPE DAAU**) in September 2013 which established a separate GAPE System for pricing and risk allocation purposes. The 2013 GAPE DAAU allocated the QCA approved Capital Expenditure amounts relating to the NSIE between the GAPE and NAPE Customers in proportion to their contracted volumes. The amounts allocated to the Newlands System within the 2013 GAPE DAAU, have not been included in existing Reference Tariffs for the Newlands System and have remained set aside and indexed annually at the Approved WACC.

Concurrently, and consistent with promoting the objective of tariff equalisation for common use infrastructure under clause 6.4.8(a) of UT5, Asset Replacement and Renewal Expenditure on the corridor from Newlands Junction to Abbot Point (**Shared Rail Corridor**) was allocated to the relevant System Reference Tariff rather than the GAPE Expansion Tariff.

These processes, along with other matters such as how GAPE Reference Tariffs are determined, did not correspond with stakeholder expectations in terms of the interplay between the regulatory pricing arrangements and the commercially negotiated access arrangements. In addition, Newlands System customers raised concerns with the disproportionate growth of Asset Replacement and Renewals Expenditure on the Shared Rail Corridor relative to Newlands customers use of that corridor and the impact of QCA approved changes in capitalisation policy which resulted in the transfer of those costs previously recovered from GAPE Customers to Newlands Customers.

Following extensive engagement with Newlands and GAPE End-Users (**Stakeholders**), Aurizon Network submitted a Draft Amending Access Undertaking (**DAAU**) with the QCA on 2 September 2022 which sought to deal with ongoing issues arising from the GAPE project (**Initial GAPE-Newlands Pricing DAAU**).

The package of amendments comprising the Initial GAPE-Newlands Pricing DAAU did not receive universal support from Stakeholders, with all elements receiving support from some Stakeholders and few elements being supported by all Stakeholders. As aspects of the Initial GAPE-Newlands Pricing DAAU sought to address issues associated with the commercially negotiated access arrangements, and was not fully supported by all relevant stakeholders, the QCA published its Preliminary Considerations in December 2022 outlining the elements of the Initial GAPE-Newlands Pricing DAAU that:

- it was minded to approve; and
- those elements that it could not approve largely on the basis that they sought to address issues arising from the commercially negotiated access arrangements which, in the absence of broad customer agreement, the QCA did not consider it appropriate to amend UT5 to resolve.

As the Initial GAPE-Newlands Pricing DAAU represented a package of amendments that was not capable of acceptance by the QCA without consensus among all Stakeholders, Aurizon Network withdrew the DAAU on 14 February 2023.

The QCA's Preliminary Considerations noted that without agreement among Stakeholders it must assess the DAAU against the statutory criteria for approving or refusing to approve a DAAU. Given a consensus agreement is unattainable, Aurizon Network has prepared this April 2023 GAPE-Newlands Pricing Draft Amending Access Undertaking (**April 2023 DAAU**) having regard to amendments which best satisfy the statutory criteria. Where these amendments do not address a commercial issue, the QCA notes[1]:

> *We are of the view that matters related to commercial arrangements can be dealt with outside of the regulatory framework, through negotiation and/or relevant dispute processes, where appropriate.*

Parts of this April 2023 DAAU relate to the commercially negotiated GAPE and NAPE access arrangements. Aurizon Network requests that the QCA does not publish this confidential information as disclosure may harm Aurizon Network's commercial interests. Aurizon Network has separately provided to the QCA a version suitable for publication.

In summary, this April 2023 DAAU amends UT5 (including the Minerva and Concept Study DAAU) and the Allowable Revenues and Reference Tariffs for the Newlands and GAPE Systems in respect of the period between 1 July 2023 to 30 June 2027 by:

> including an initial amount of $46.2 million of the deferred capital component of the NSIE in the Newlands System Reference Tariff from 1 July 2023 and a subsequent amount of $32.7 million from 1 July 2024;

> implementing contract volume-based pricing (with an adjustment for 'Aurizon Network Cause') in the Newlands System and allowing Newlands Access Holders to relinquish Access Rights without incurring a Relinquishment Fee;

> allocating Asset Replacement and Renewals Expenditure on the Shared Rail Corridor between Newlands and GAPE Systems by applying a causation-based method, where costs are allocated based on relative use of the corridor;

> allowing the contracting of relinquished Access Rights in the Newlands System to an Access Seeker on a conditional basis subject to not increasing the existing capacity deficit (**ECD**) and commencing only after the Independent Expert has determined the ECD has been resolved;

> modifying the GAPE Reference Train Service criteria to assist in facilitating, subject to compliance with the terms of the GAPE Deeds, the potential transfer of Access Rights on the Shared Rail Corridor from a user of the GAPE System to a user of the Newlands System where that user is willing and able to pay the GAPE Reference Tariff for those transferred Access Rights; and

> amending the definition of Private Infrastructure to align with the definition of Customer Specific Branch Line (**CSBL**) for Private Incremental Costs (**PIC**) to apply to rail transport infrastructure constructed solely to connect a Customer's loading facility to Rail Infrastructure.

The DAAU also describes consequential adjustments to the regulatory asset base (**RAB**) that will be relevant to the determination of future Allowable Revenues and Reference Tariffs.

Stakeholders have been consulted on the development of this April 2023 DAAU through the provision of proposed changes and the basis for those changes and individual customer meetings on Reference Tariffs and Allowable Revenue impacts. The Stakeholders include:

> Glencore (Newlands, McNaughton and Clermont Loading Facilities);

> QCoal (Sonoma and Byerwen Loading Facilities);

> Bravus (CRN Connection);

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[1] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, p. iii

> Jellinbah Resources (Lake Vermont Loading Facility);
> Rio Tinto;
> Stanmore Coal (Poitrel and Isaac Plains Loading Facility); and
> Yancoal (Middlemount Loading Facility).

2.0 Assessment of the DAAU Against the Statutory Criteria

The Initial GAPE-Newlands Pricing DAAU was informed by considerable engagement with relevant Stakeholders and represented the package of amendments Aurizon Network considered most capable of approval. As was evident from stakeholder submissions in response to the Initial GAPE-Newlands Pricing DAAU, that package was not supported by all Stakeholders.

In summary, the QCA's Preliminary Considerations on the Initial GAPE-Newlands Pricing DAAU expressed the view that[2]:

> *We understand that Aurizon Network's proposal, in part, deals with matters arising through commercial arrangements relating to the GAPE project. These arrangements were negotiated outside of the regulatory framework, around the time the GAPE project commenced.*
>
> *While Aurizon Network and stakeholders considered these matters relevant in our assessment of the DAAU, we do not consider it appropriate to make amendments to UT5 that are intended to resolve matters arising under previously accepted commercial arrangements.*
>
> *That said, where Aurizon Network and stakeholders reach agreement on aspects of the DAAU that deal with matters arising through commercial arrangements, we will take such agreement into consideration. Aurizon Network and stakeholders should consider the implications of this approach.*

Following publication of the QCA's Preliminary Considerations, Aurizon Network engaged Stakeholders on their expectations and understanding of the prospects of developing an alternate DAAU proposal which all parties could reach agreement on for all aspects. This engagement indicated that Stakeholders did not consider this a likely outcome, and Aurizon Network should develop a replacement DAAU.

In developing this April 2023 DAAU, Aurizon Network has had regard to the QCA's Preliminary Considerations, Stakeholder submissions in response to those considerations, and submissions in response to the Initial GAPE-Newlands Pricing DAAU. The April 2023 DAAU has been prepared independently of the commercial arrangements and is primarily guided by the statutory criteria including the matters in section 138(2) of the *Queensland Competition Authority Act, 1997* (Qld) (**QCA Act**). In particular, the April 2023 DAAU:

> allocates Asset Replacement and Renewals Expenditure between users of the Shared Rail Corridor which aligns with their ongoing use of the service and physical degradation of those assets;
> includes the efficient and prudent costs of prior investment in improvements to the Newlands Shared Rail Corridor in a Newlands Reference Tariff which reflects the benefits accruing to legacy and post-GAPE Newlands users;

[2] Ibid. p. iii

- recovers those costs in a non-discriminatory manner through a progressive inclusion in the Newlands Reference Tariff commensurate with both a change in the use of the Newlands System and the usable capacity of the Newlands Shared Rail Corridor;
- has regard to the effect of excluding existing assets for current and future pricing purposes, including Aurizon Network's voluntary reduction in the capitalised interest in the deferred capital component of NSIE;
- promotes the efficient utilisation of and investment in the Newlands System by increasing financial accountability for contracted Committed Capacity and permitting the release of excess or surplus Access Rights where the Deliverable Network Capacity (**DNC**) is less than Committed Capacity;
- has regard to Aurizon Network's legitimate business interests, including that prices will continue to be set in a manner such that the expected revenue to be earned in a Year equals the Allowable Revenue for that Year;
- balances the interests of existing users of the Shared Rail Corridor, by ensuring capacity which ceases to be Committed Capacity is not usable by Access Seekers until the ECD has been resolved such that Aurizon Network is able to deliver the Committed Capacity for existing Access Holders, while providing improved clarity on the Expansion pathway for Access Seekers to obtain Access Rights through the Transitional Arrangements;
- promotes efficient utilisation of the Shared Rail Corridor by facilitating, where commercially feasible, the option of transferring Committed Capacity between users of the GAPE and Newlands Systems;
- promotes competition in the market for construction and ownership of directly connected mine specific rail infrastructure by limiting the pricing principles to infrastructure which solely connects a customer's loading facility to the Central Queensland Coal Network (**CQCN**); and
- mitigates the possibility of unfair differentiation between GAPE Customers with investment in Private Infrastructure and Access Seekers for new coal carrying Train Services after completion of the NSIE.

3.0 Alignment with Current Regulatory Processes

The QCA approved the Minerva DAAU on 16 February 2023 and the Concept Study DAAU on 23 March 2023. This April 2023 DAAU has been prepared as amending a consolidated version of UT5 comprising all approved variations up to and including the Minerva and Concept Study DAAUs.

In February 2023, Aurizon Network submitted updates to the proposed Reset Schedule F Preliminary Values. At the time of lodgement of this April 2023 DAAU, the QCA was continuing to assess Aurizon Network's submission. This April 2023 DAAU has been prepared using the proposed reset Schedule F Preliminary Values[3] as the base Access Undertaking to vary, as Aurizon Network believes that this is the most relevant given it provides Reference Tariffs for Financial Year 2024. Aurizon Network is aware that this is currently not approved by the QCA, and if necessary, will provide an updated April 2023 DAAU to reflect the outcomes from the Reset Schedule F Preliminary Values process.

[3] Inclusive of the updated values submitted to the QCA on 3 April 2023 to reflect among other matters, the approval of the FY2022 Capital Expenditure Claim.

4.0 DAAU Commencement Date

In the Initial GAPE-Newlands Pricing DAAU, Aurizon Network stated that the DAAU had been prepared on '*a forward-looking basis with no retrospectivity*' and '*if the DAAU is not approved during FY23, Aurizon Network will resubmit a DAAU with revised FY24 calculations and allocations*'[4].

Consistent with these statements, Aurizon Network has prepared this April 2023 DAAU on the presumption that it will not be approved before 30 June 2023 and that the change in Newlands and GAPE Reference Tariffs will commence from 1 July 2023.

5.0 Asset Replacement and Renewals Expenditure Allocation

The Initial GAPE-Newlands Pricing DAAU proposed to identify and allocate Asset Replacement and Renewals Expenditure based on usage related costs determined through a bottom-up engineering assessment of the drivers of asset renewals. The proposed causation-based methodology:

> was derived from the WIK Consulting Methodology[5] accepted by the Australian Competition and Consumer Commission's assessment of the allocation of incremental costs in the Hunter Valley Coal Network and adjusted where appropriate to account for Aurizon Network differences; and

> resulted in allocations which were broadly consistent with published benchmarks.

The QCA's Preliminary Consideration of the proposed causation-based methodology indicated that the QCA was minded to accept the proposal noting[6]:

We consider that Aurizon Network's proposed method will result in reference tariffs that reflect the incremental costs of providing access to the shared rail corridor and provide cost-reflective price signals.

The method recognises that the physical degradation of assets contributes to asset replacement and renewal expenditure. Further, where degradation occurs from use, GAPE and Newlands user's contribution to the degradation may change, as the relative forecast gtk between the two systems changes.

While Aurizon Network has not conducted a detailed engineering assessment to identify expenditure that is variable with usage, we consider its proposed approach prudent, on the basis that:

- *WIK Consulting's assessment of the HVCN appears to provide a reasonable foundation for identifying expenditure that is incremental with usage, as it represents independent, expert advice for a rail system with features similar to Aurizon Network's; and*

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[4] Aurizon Network (2022) Newlands-GAPE Pricing DAAU Explanatory Paper, September, p. 5.

[5] WIK-Consult (2015) Assessment of the Incremental Costs of Pricing Zone 3 Access Holders' Use of Pricing Zone 1 and 2 of the Australian Rail Track Corporation's Hunter Valley Rail Network, Study for the Australian Competition and Consumer Commission, September, Available at https://www.accc.gov.au/system/files/WIK-Consult%20T%C3%9CV%20-%20Consultant%20report%20for%202013%20Annual%20Compliance%20%28PUBLIC%29.pdf

[6] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, pp. 11-12

- *where Aurizon Network's engineers have formed views that differ from WIK Consulting's assessment, these have been justified through the identification of differences between the two rail systems and the assessment task at hand.*

This April 2023 DAAU retains the causation-based methodology for allocating costs and revenue from Asset Replacement and Renewals Expenditure on the Shared Rail Corridor by applying the variable cost percentage allocators in Appendix A.

The primary difference between this April 2023 DAAU and the Initial GAPE-Newlands Pricing DAAU is that allocations of rail renewals and ballast undercutting will be capitalised in the April 2023 DAAU, whereas the original proposal sought to expense allocations to GAPE System users to address outcomes occurring under the commercial arrangements.

This variation results in a minor change to the allocation procedures described in the explanatory submission for the Initial GAPE-Newlands Pricing DAAU. However, it retains the concept of the shared corridor variable cost pool for which the variable cost component of the Asset Replacement and Renewals Expenditure will be assigned. The Allowable Revenue for the shared corridor variable cost pool will then be allocated between the Newlands and GAPE Systems as part of the Annual Review of Reference Tariffs (**ARRT**) process using the forecast gtk on the Shared Rail Corridor.

The procedures for this allocation process are summarised as:

> *Step 1. Identify the RAB within which the replacement asset financially resides*

This step establishes the percentages that will be applied in allocating the fixed costs to the relevant coal system in step 3.

> *Step 2. Determine the variable costs for each activity*

This step applies the variable cost percentages in Appendix A to determine the variable cost for each asset activity.

> *Step 3. Allocate the fixed costs to the respective RAB*

The fixed costs represent those costs that are not identifiable as being variable with usage and represent the residual of the total costs less variable costs for each activity. The fixed costs for each activity are then allocated to the relevant coal system proportionally with where the replaced asset financially resides (as identified in step 1).

> *Step 4. Allocate the Forecast Variable Renewal Costs for Each Activity to the Relevant Coal System*

The forecast variable costs for the forthcoming year are allocated to the relevant coal system Capital Indicator using that coal system’s percentage of forecast gtk over the Shared Rail Corridor.

> *Step 6. Allocate the Prior Year Variable Renewal Costs to the Relevant Coal System*

The variable renewal costs associated with asset replacement expenditure in prior years is added to the shared corridor asset cost base. The allowable revenue for the forthcoming year attributable to the shared corridor asset cost base is then allocated to the System Allowable Revenue for the relevant coal system using that coal system’s percentage of forecast gtk over the Shared Rail Corridor.

For the purposes of this April 2023 DAAU, there is no prior year variable renewal costs applicable to the FY24 reference tariffs.

Aurizon Network acknowledges the QCA’s Preliminary Considerations where the QCA has appropriate oversight of the RAB Roll-forward and ARRT processes to ensure these allocations are correctly calculated and applied to both the GAPE and Newlands Reference Tariffs.

6.0 Newlands System Infrastructure Enhancements Amounts

In the explanatory submission for the Initial GAPE-Newlands Pricing DAAU, Aurizon Network noted that historically the

> observed decline in Newlands System volumes; and

> predominant allocation of Asset Replacement and Renewals Expenditure on the Shared Rail Corridor to the Newlands pricing RAB,

did not provide a compelling basis for the inclusion of the deferred capital component of the NSIE in Newlands Reference Tariffs.

Notwithstanding, Aurizon Network considered it was necessary to include amounts relating to the deferred capital component of the NSIE in Newlands Reference Tariffs due to:

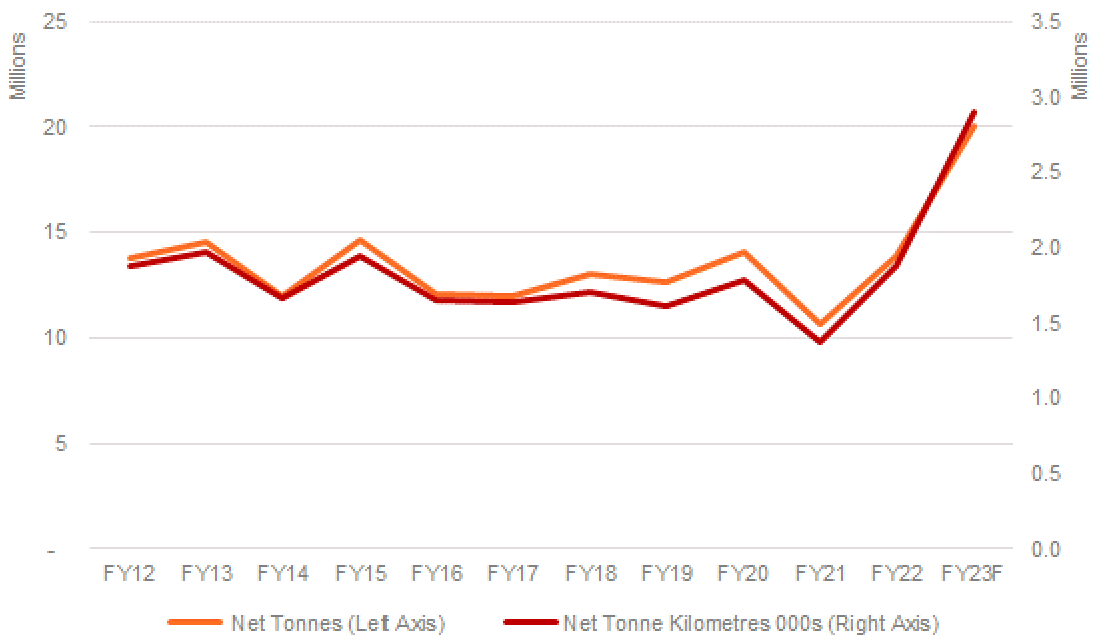
> [Begin C-I-C] [redacted] [End C-I-C];

> the full scope of the NSIE contributing to the delivery of existing service levels where the DNC was at or below current utilisation of the Shared Rail Corridor; and

> it not being appropriate or economically prudent for past investment to remain excluded from Reference Tariffs while additional investment is necessary to increase the DNC, as identified within the Initial Capacity Assessment Report.

Following the development and submission of the Initial GAPE-Newlands Pricing DAAU, there has been a material change in the utilisation rate as shown by the year-to-date extrapolation of FY23 volumes in the Newlands System as shown in Figure 1.

Figure 1 Historical and Projected Newlands System Volumes



The Initial GAPE-Newlands Pricing DAAU proposed to include amounts of the deferred capital component of the NSIE commensurate with the Depreciated Historic Costs (**DHC**) of the GAPE project cost allocations to NAPE. In determining this amount, Aurizon Network had regard to the extent to which these costs were reflected in the GAPE commercial arrangements.

The QCA's Preliminary Considerations noted that in the absence of an agreement amongst Stakeholders on these amounts then:

> *In general, we consider it appropriate for Aurizon Network to recover an amount equivalent to the full value of the deferred NSIE, including the capitalisation of foregone returns, to compensate Aurizon Network for the deferral.*

The QCA's Preliminary Considerations in this regard are consistent with QCA prior approvals regarding the prudency of the:

> overall GAPE capital expenditure claim;

> NSIE allocations to the Newlands RAB Roll-forward; and

> ongoing deferral of those allocations and capitalisation at the Approved WACC.

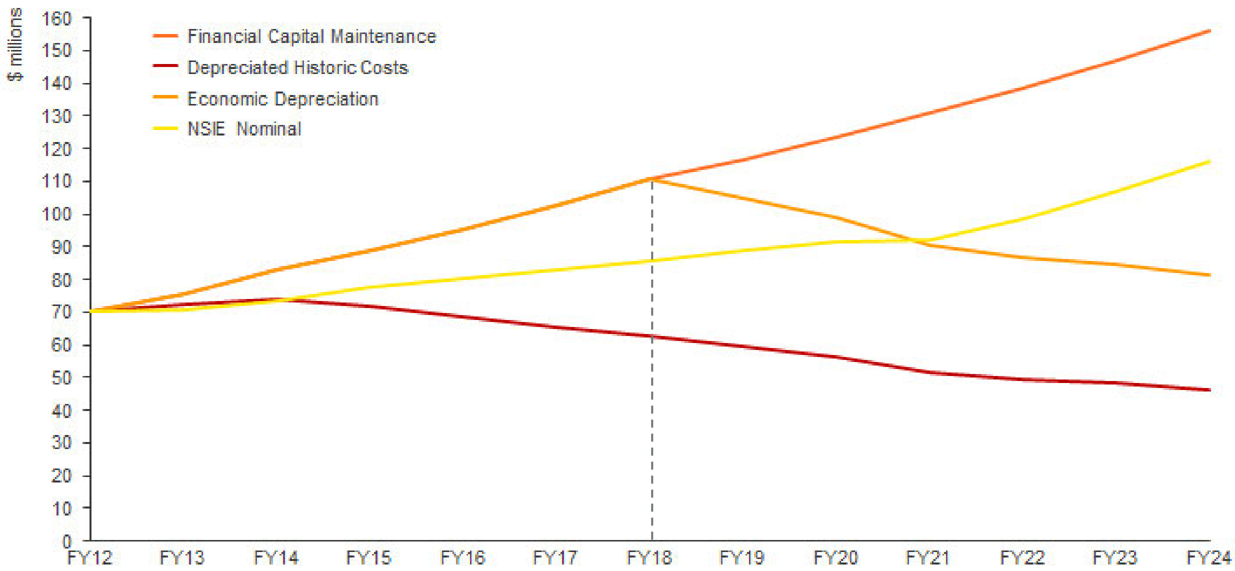
The QCA's acknowledgement that it would be appropriate for Aurizon Network to recover the full value of the deferred capital component of the NSIE is consistent with the principle of financial capital maintenance which underpins the regulatory financial model. The projected value of the deferred capital component of the NSIE as of 1 July 2023 is approximately $156 million as shown in Figure 2. This amount can be contrasted with:

> the DHC of $46.2 million;

> a real value of the GAPE Project cost allocations of $115.8 million; and

> a value of $81.4 million commensurate with the capitalisation of the deferred capital component for the NSIE until the commencement of UT5.

Figure 2. Deferred Capital Component of the NSIE under Various Scenarios



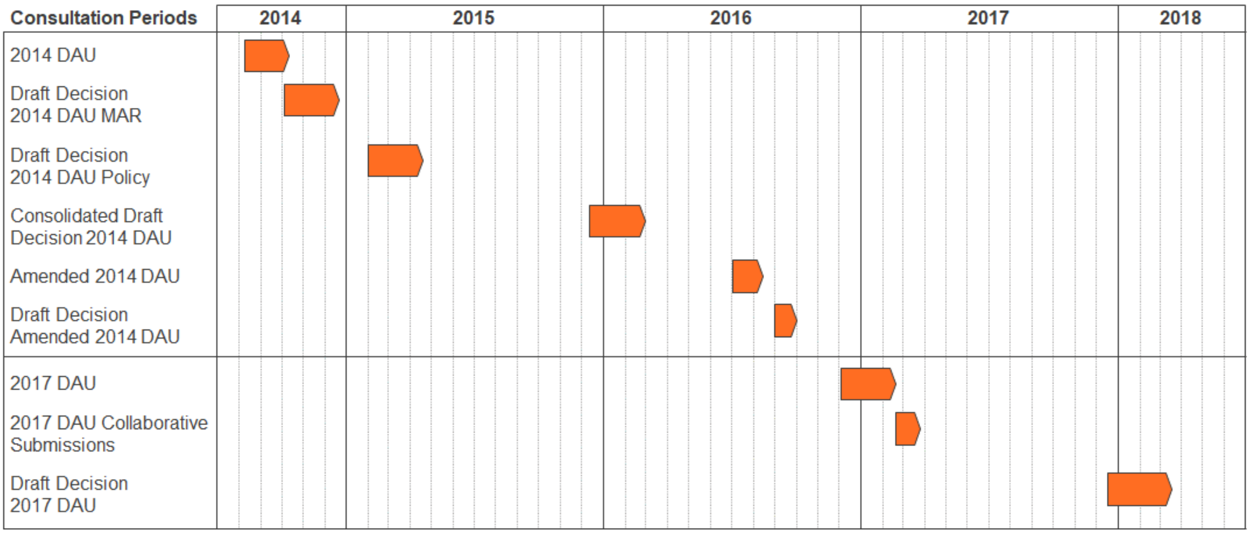
6.1 NSIE Amounts to be Included in Newlands System Reference Tariff

Aurizon Network considers it appropriate and reasonable for the amount to be included in the Newlands Reference Tariff to be at least the value of the DHC. The difference between the carried forward value of the deferred capital component of the NSIE and the DHC as of 1 July 2023 is $109.8 million. This DAAU addresses how this amount should be allocated and recovered from future Access Charges.

Having regard to the QCA's Preliminary Considerations, for this April 2023 DAAU to be consistent with the statutory criteria and independent of the commercially negotiated arrangements, Aurizon Network considers an amount of $81.4 million could be included in Newlands Reference Tariffs from 1 July 2023. Aurizon Network considers this amount corresponds to the earliest practical date the deferred capital component of the NSIE could have been reflected in a Newlands Reference Tariff.

The timeline graph in Figure 3 shows the various regulatory consultation processes that have occurred since 2014. Aurizon Network notes that these regulatory consultation processes reflect only those processes where relevant stakeholder submissions could have raised the matter of the deferred capital component of the NSIE and its exclusion from a Newlands Reference Tariff. Given the delays in the finalisation and approval of UT4 in October 2016 and the timing of the QCA's Final Decision on the 2017 Draft Access Undertaking, the earliest practical commencement date for recovery of the deferred capital component of the NSIE would have been a retrospective adjustment to the Newlands System Reference Tariff from 1 July 2017, being the Commencing Date of UT5.

Figure 3. UT4 and UT5 Revenue and Pricing Consultation Processes



Aurizon Network considers the inclusion of an amount of $81.4 million and the consequential Allowable Revenue and Reference Tariff outcomes would not be contrary to the interests of current Access Holders or future Access Seekers in the Newlands System as that amount:

- is less than the 2023 value of the initial GAPE capital allocation and therefore includes real depreciation of $34.4 million;
- is indicative of a DHC approach with a backloaded depreciation profile representative of the long-term demand and utilisation profile of Newlands Train Services;
- is consistent with the rate of physical capital depreciation with the Shared Rail Corridor volumes materially underperforming against the uniform contract demand assumptions associated with accelerated regulatory depreciation profile embedded in the DHC approach;
- does not exceed the amount that would be reflected in the current Newlands Pricing RAB had those amounts been included in a Newlands Reference Tariff from the earliest practical date for that inclusion; and
- corresponds to a material increase in the observed demand for Newlands Train Services.

Aurizon Network also acknowledges customer concerns regarding an increase in the Allowable Revenue without a corresponding increase in Deliverable Network Capacity. Therefore, Aurizon Network has proposed a staged approach to the inclusion of amounts relating to the deferred capital component of the NSIE into Newlands Reference Tariffs:

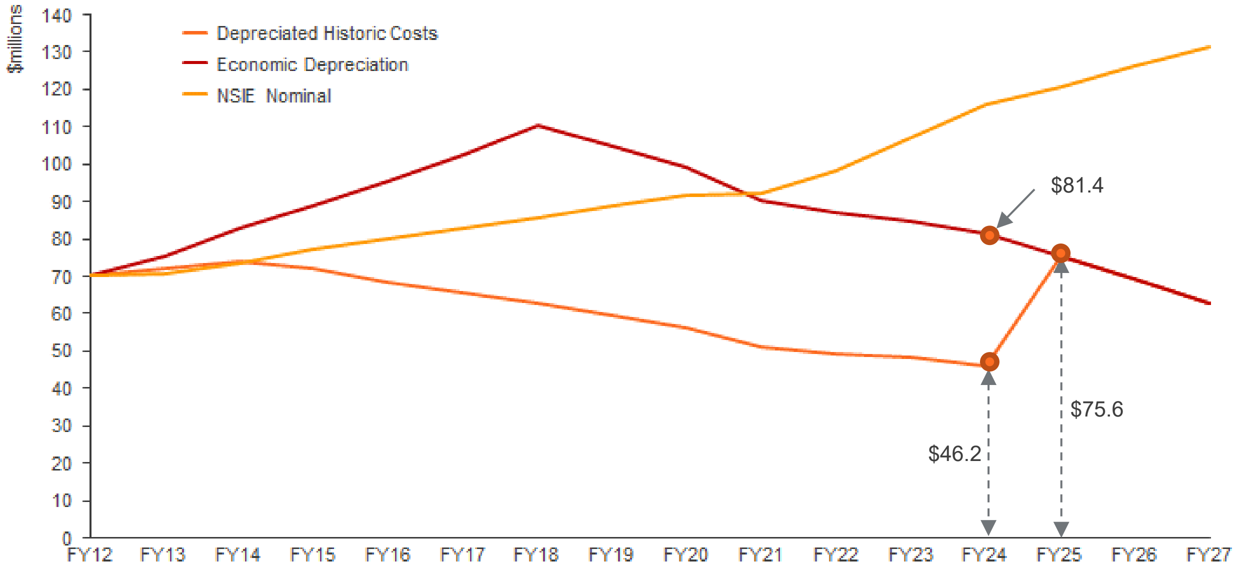
- an initial amount consistent with the DHC value of the initial allocated NAPE costs of $46.2 million to be included from 1 July 2023; and

> a subsequent amount of $32.7 million from 1 July 2024.

The subsequent amount represents a 10.7% increase in the FY25 opening asset value from the projected FY24 Closing Asset Value. The approved Transitional Arrangement NG1 (Installation of Remote Control Signalling) is expected to be installed by FY25 and based on the Independent Expert's expected capacity uplift of 5.6mtpa, this Expansion will increase the DNC by 17.3%[7]. Therefore, the magnitude of the expected capacity increase exceeds the increase in the Newlands Coal System asset values used for pricing purposes.

The projected asset values of the NSIE in the Newlands System used for pricing purposes as of 1 July 2024 is $75.6 million, which corresponds to the roll-forward value of $81.4 million as of 1 July 2023 as discussed above and shown graphically in Figure 4.

Figure 4. Derivation of NSIE Amounts to be included in Newlands Reference Tariffs



6.2 Allocating the Residual Value of the Deferred Capital Component of the NSIE

The Initial GAPE-Newlands Pricing DAAU included proposed arrangements which sought to address matters relevant to the commercially negotiated access arrangements. The QCA's Preliminary Considerations indicated that in the absence of Stakeholder agreement to give effect to those proposed arrangements, it was minded not to approve them, with the QCA noting[8]:

> *In general, we do not consider it appropriate to give weight to the potential outcomes occurring under commercially negotiated arrangements in our assessment of the DAAU. We consider that doing so could harm certainty and predictability, both in relation to commercial arrangements and the regulatory framework:*
>
> - *It may have the practical effect of reopening commercially negotiated arrangements, which we were not party to. This could risk negating the intended commercial effect of the arrangements.*

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[7] Coal Network Capacity Company (2022) Independent Expert Recommendations to the QCA, 23 June, p. 22

[8] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, p. 5

- *It could require us to adopt different positions to those previously considered appropriate, in the absence of compelling evidence*

Aurizon Network agrees with the QCA's reasoning and concerns regarding the unintended consequences of seeking to address commercially negotiated arrangements through variations to the regulatory arrangements. The practical consequence of the interplay between the commercially negotiated arrangements and the regulatory arrangements is that there is a range of circumstances which may prevail over the life of those commercial arrangements which are unforeseen or differ from prior expectations. For example, regulatory asset values and commercially determined asset values may materially misalign due to differences between the two arrangements from:

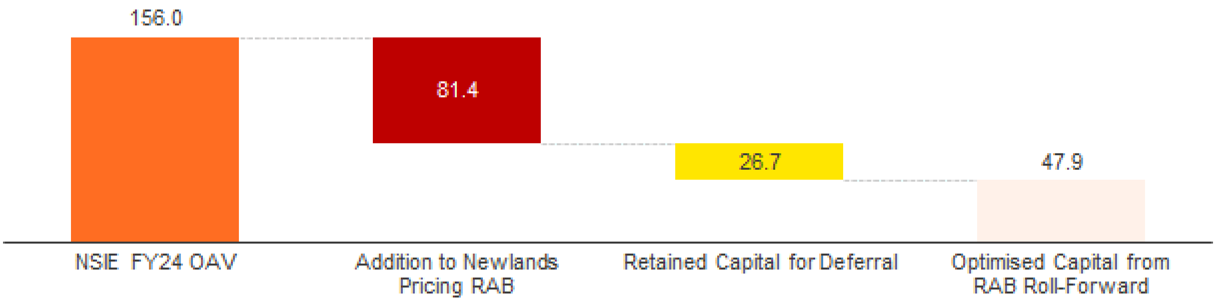
> Different economic life assumptions;
> Different depreciation profiles; and
> Differences in both the treatment of inflation and inflation outcomes.

Aurizon Network notes that a true and full assessment of these differences can only be considered at the expiry of the commercial arrangements. However, retaining the remaining amount of the deferred capital component of the NSIE in the RAB roll-forward until the end of the term of the commercial arrangements increases the regulatory and commercial uncertainty for both Aurizon Network and Access Holders/Access Seekers. The importance of promoting regulatory and commercial certainty through a DAAU was also discussed in the QCA's Preliminary Considerations[9]:

We consider an approach that supports certainty is in the legitimate business interests of Aurizon Network and the interests of access seekers, access holders and the public interest. It is important in promoting future efficient use of, and investment in, the network and competition in dependent markets.

While noting the QCA's view that it would be appropriate for Aurizon Network to recover the full amount of the deferred capital component of the NSIE, having regard to the preference to promote commercial and regulatory certainty, Aurizon Network proposes a 'line in the sand' approach to the allocation of the $156 million value of deferred capital component of the NSIE as of 1 July 2023. This amount is to be allocated as summarised in Figure 5.

Figure 5. Distribution of the Deferred Capital Component of the NSIE



Based on the preliminary reset value for the Approved WACC (8.18%), the projected value of the retained amounts of the deferred capital component of the NSIE in the RAB Roll-forward as of 1 July 2027 will be $36.6 million. The relevant Reference Tariff for the future recovery of this amount will be dependent on the relevant circumstances of the Shared Rail Corridor from that date. This will be largely dependent on the contract profile as of 1 July 2027, which is currently uncertain beyond the term of the GAPE Deeds.

The remaining $47.9 million balance of the deferred capital component of the NSIE not included in a Newlands Reference Tariff or retained in the Newlands RAB Roll-forward will be voluntarily removed from

[9] Ibid. p.5

the RAB from 1 July 2027 by Aurizon Network (and reflected in the opening asset value for the FY24 RAB Roll-forward Report) for the reasons set out below.

6.3 Derivation of the NSIE Amounts Remaining Deferred in the Newlands RAB Roll-Forward

As discussed in the prior section, Aurizon Network proposes to:

- Retain an amount of $26.7 million of the deferred capital component of the Newlands System RAB Roll-forward; and
- Voluntarily exclude an amount of $47.9 million from the RAB from 1 July 2023.

[Begin C-I-C]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

10 [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[end C-I-C]

This value is further adjusted by $14.5 million to reflect the retention of the NSIE capitalised interest amounts in the GAPE Pricing RAB as of 1 July 2023. This adjustment obtains a final value of the deferred capital component of the NSIE to be retained in the RAB Roll-forward of $26.7 million.

Aurizon Network considers the projected terminal value of $36.6 million does not represent a material impact to future Access Holders or Access Seekers, as it represents less than 4% of the projected combined Newlands and GAPE RAB Roll-forward values as of 1 July 2027. This amount will effectively remain unallocated between the Newlands and GAPE Systems with the allocation to be determined as part of the overall consideration of the GAPE and Newlands Systems Reference Tariffs commencing 1 July 2027.

6.4 Summary of Variations to the Newlands Regulatory Asset Base

The following tables summarise the movement in the Newlands RAB Roll-forward, the values of the Newlands RAB used for pricing purposes and the remaining deferred capital component of the NSIE. These tables show the impact of the proposed April 2023 DAAU changes discussed in this section and compares them with the updated Reset Schedule F Preliminary Values of February 2023.

Table 1 Newlands RAB Roll Forward ($millions)

	Schedule F Preliminary Reset Values					April 2023 DAAU			
	FY24	**FY25**	**FY26**	**FY27**		**FY24**	**FY25**	**FY26**	**FY27**
Opening	412.7	439.2	474.7	508.9		364.8	367.5	376.7	384.0
Capex	22.2	29.4	28.7	29.7		14.6	20.1	19.9	20.2
Inflation	21.3	23.0	24.7	26.6		14.7	13.3	13.7	14.1
Depreciation	17.0	16.9	19.2	21.6		21.2	24.3	26.2	26.1
Closing	**439.2**	**474.7**	**508.9**	**543.5**		**372.9**	**376.7**	**384.0**	**392.1**

Table 2 Newlands RAB Value for Pricing Purposes ($millions)

	Schedule F Preliminary Reset Values					April 2023 DAAU			
	FY24	**FY25**	**FY26**	**FY27**		**FY24**	**FY25**	**FY26**	**FY27**
Opening	256.7	270.4	292.1	311.4		302.8	338.6	345.4	350.2
Capex	22.2	29.4	28.7	29.7		14.6	20.1	19.9	20.2
Inflation	8.5	9.1	9.8	10.4		9.7	10.9	11.1	11.3
Depreciation	17.0	16.9	19.2	21.6		21.2	24.3	26.2	26.1
Closing	**270.4**	**292.1**	**311.4**	**329.8**		**305.9**	**345.4**	**350.2**	**355.6**

Table 3 Newlands Deferred Capital Component ($millions)

	Schedule F Preliminary Reset Values					April 2023 DAAU			
	FY24	**FY25**	**FY26**	**FY27**		**FY24**	**FY25**	**FY26**	**FY27**
Opening	156.0	168.8	182.6	197.5		61.9	28.9	31.3	33.8
Capex	--	--	--	--		--	--	--	--
Inflation	12.8	13.9	14.9	16.2		5.1	2.4	2.6	2.8
Depreciation	--	--	--	--		--	--	--	--
Closing	**168.8**	**182.6**	**197.5**	**213.7**		**67.0**	**31.3**	**33.9**	**36.6**

7.0 Socialised Newlands Pricing on Contracted Volumes

The Initial GAPE-Newlands Pricing DAAU proposed to determine the Newlands Reference Tariffs with reference to the contracted Train Service Entitlements. In addition, that DAAU proposed to:

> Socialise the deferred capital component of the NSIE included in the Newlands System commensurate with the DHC in the common Newlands System Reference Tariff;

> Apply a system premium for the amounts of the deferred capital component of the NSIE included in the Newlands System above the DHC levels in a NAPE System Premium; and

> Make an adjustment to the contract volumes to account for expected revenue shortfalls from Aurizon Network Cause.

This April 2023 DAAU retains the core elements of the Initial GAPE-Newlands Pricing DAAU except for the application of NAPE System Premium and with adjustment to the allowance for Aurizon Network Cause.

7.1 Socialisation of the Included NSIE Amounts

The QCA's Preliminary Considerations on the Initial GAPE-Newlands Pricing DAAU did not support the application of a NAPE System Premium noting[11]:

We understand that all Newlands users utilise and benefit from the NSIE, such that there is no differentiation in the service offering or level of service between GAPE, NAPE and Newlands users;

We see merit in Aurizon Network's proposed approach to socialise deferred NSIE expenditure, in that it accounts for the benefits received by all Newlands users and reflects the level of service provided to users; and

We do not consider the NAPE system premium appropriate on the basis that it deals with outcomes occurring under commercial arrangements, by transferring expenditure from the GAPE pricing RAB into a NAPE system premium, to account for the recovery of deferred NSIE expenditure through the GAPE deed.

Aurizon Network agrees with the underlying premise of the QCA's Preliminary Consideration that in circumstances where users are obtaining the same or a comparable service, then those users should pay the same price for that service other than for differences in cost or risk. In addition, Aurizon Network maintains its view that where new coal carrying train services commence after an Expansion has been completed, then the participants in that Expansion should not be subject to unfair price differentiation where that new coal carrying Train Service is granted Access Rights using capacity which becomes available after, and has the benefit of that Expansion.

As the amount of the deferred capital component of the NSIE to be included in the Newlands System Reference Tariffs has been assessed and determined independently of the commercially negotiated access arrangements, it is appropriate that amounts relating to the NSIE is included in the common Newlands System Reference Tariff.

[11] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, pp. 7-8

7.2 Determining the Newlands System Reference Tariff with Reference to Contract Volumes

The QCA succinctly summarised Aurizon Network's proposed objectives of using contracted Train Service Entitlements for the purpose of setting Newlands System Reference Tariff as[12]:

1. ensuring there are incremental contract tonnes attributable to the incremental revenue associated with the inclusion of the deferred NSIE expenditure;
2. avoiding incentives for users to shift or rail tonnes between access agreements to obtain more favourable outcomes; and
3. noting the risk diversification benefits associated with forecast volume-based pricing are less in smaller systems (such as Newlands) and systematic underperformance can alter the relative contribution users make to the costs of providing the service.

As this April 2023 DAAU does not propose to apply a NAPE System Premium, objective 2 listed above is not relevant to the use of contract volume for determining the Newlands System Reference Tariff. Nevertheless, Aurizon Network continues to support the application of contract volume pricing for the Newlands System Reference Tariffs based on the remaining objectives. In this regard, the QCA Preliminary Considerations noted[13]:

> *In general, we consider that a shift to contract volume-based pricing would reflect a move to more contract accountability, improving price signals to users regarding their consumption of below rail capacity. However, we seek further information from stakeholders on this matter to better understand the implications*

Aurizon Network maintains that determining the Newlands System Reference Tariff based on contracted volumes remains appropriate to support an appropriate contribution to the recovery of the inclusion of amounts relating to the deferred capital component of the NSIE from the Access Holder who contracted Access Rights associated with those investments.

There were two contrary positions advanced in submissions to the Initial GAPE-Newlands Pricing DAAU:

> QCoal did not support the use of contract volumes as the application of contract volume-based pricing is inappropriate where there is an existing capacity deficit on the Newlands System. It stated that Access Seekers should not have to pay for contracted capacity where this capacity cannot be delivered[14]; and

> The Queensland Resources Council supported the consideration of setting reference tariffs based on contract volumes being given wider consideration to application in the CQCN more broadly, stating[15]:

> *The proposed reforms in the Newlands system, involving setting the Forecast Gtk based on contracted train service entitlements, is consistent with the QRC's view on the direction which take or pay in the CQCN should be taking. For the remainder of the CQCN, we consider that additional options should be considered, such as removing the system trigger test entirely, and eliminating system capping.*

[12] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, p. 9

[13] Ibid. p. 9

[14] QCoal (2022) Submission to the Newlands-GAPE Pricing DAAU, November, p. 6.

[15] Queensland Resources Council (2022) Submission to the Newlands-GAPE Pricing DAAU, November, p. 3.

Aurizon Network considers the concerns of QCoal are largely addressed by the staged inclusion of the NSIE amounts in the Newlands System Reference Tariff. In addition, the QCA noted[16]:

> *access holders can manage their risk arising from contract volume-based pricing through short-term transfers or the opportunity to relinquish access rights on a fee-free basis.*

Aurizon Network agrees with the QCA's Preliminary Consideration.

In addition, Aurizon Network does not consider QCoal's position to be particularly relevant where it is necessary to include amounts of the deferred capital component of the NSIE in Newlands Reference Tariffs. Once those amounts are included, the problem becomes one of how those amounts should be recovered. Whether or not the contracted capacity is greater than the DNC does not obviate the need for those amounts to be recovered through Access Charges. Further, to the extent all Stakeholders have demand commensurate with their contracted entitlements, then these amounts should be recovered from all Access Holders in proportion to their contracted Train Service Entitlements. Setting Reference Tariffs based on contract volumes would only have a disproportionate impact on an Access Holder where that Access Holder holds excess Access Rights, rather than arising from an inability to utilise those rights (i.e. another Access Holder should only use a greater proportion of their contracted Train Service Entitlements where other Access Holders do not present demand capable of being railed).

In response to the submission by the QRC, it is not clear the extent to which those views are held by all CQCN Customers. Aurizon Network notes that implementation of contract volume pricing without complementary changes to the timing of take-or-pay fees would impose material working capital costs on Aurizon Network which precludes its broader consideration outside of the Newlands System. The application of contract volume pricing in the Newlands System also provides an effective trial of contract volume pricing to inform engagement with CQCN Customers on how any potential future changes to the Take-or-Pay (**ToP**) framework could be considered.

7.3 Adjusting the Contract Volumes to Account for Expected Revenue Leakage from Aurizon Network Cause

The QCA Preliminary Considerations on the Initial GAPE-Newlands Pricing DAAU did not support the proposed reduction in the contract volumes to account for Aurizon Network Cause noting[17]:

> *The proposed allowance is based on historic averages and may not be relevant to, or reflective of, any given year within the duration of UT5.*
>
> *We note that 'Aurizon Network cause' impact have varied from 1.6 to 7 per cent of contracted services over the 2017–21 period. Impacts arising from 'Aurizon Network cause' or force majeure are accounted for through other aspects of UT5, including take-or-pay arrangements*

In addition, in respect of the adjustment to make allowances for Aurizon Network Cause, the QCA also notes Stakeholders expressed views on:

- reduced incentives to deliver contracted tonnage; and
- the possibility that actual railings may exceed contract volumes in certain circumstances.

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[16] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, p. 9

[17] Ibid. pp. 9-10.

Aurizon Network considers it has strong incentives through the performance rebate mechanism to deliver contracted Train Service Entitlements and that its maintenance and renewals strategy and budget does not fund a level of reliability that would avoid below rail cancellations or the impacts from force majeure events. It also erroneously assumes that avoidance of force majeure events is within Aurizon Network's control where Customers have not indicated a willingness to fund climate adaptation expenditure needed to achieve that outcome (noting other coal infrastructure providers do not provide ToP relief from force majeure events).

Objectives of the Volume Forecast

The current Reference Tariff setting process seeks to align the forecast volumes with the expected demand such that on an expectation basis, the System Allowable Revenue will be recovered from access revenue collected from the Reference Tariff components. That is, Access Holders anticipate the System Allowable Revenue (**SAR**) will be recovered through Access Charges and the ToP amounts for that year will be 0.

$$E(Total\ Actual\ Revenue) = System\ Allowable\ Revenue$$
$$E(Access\ Charges) = System\ Allowable\ Revenue$$
$$s.t.\ Take\ or\ Pay = 0$$

Importantly, the objective is expressed as an unbiased expectation in that the expected outcome is Total Actual Revenue (**TAR**) will equal SAR. However, the ex-post outcome may differ from those expectations. Under the current forecast volumes approach, where ToP is triggered, in most circumstances the TAR will equal the SAR due to the capping of ToP arising from the tariffs being determined on forecast volumes and ToP being payable on contract volumes.

Figure 7 shows the distribution of access and ToP revenue against the SAR for each of the five coal systems in the CQCN over the period of FY16-FY22 (35 possible outcomes, 7 years x 5 Coal Systems). The distribution of these historical results under the forecast volume approach is unbiased with an equal likelihood that the Total Actual Revenue (**TAR**) will either be:

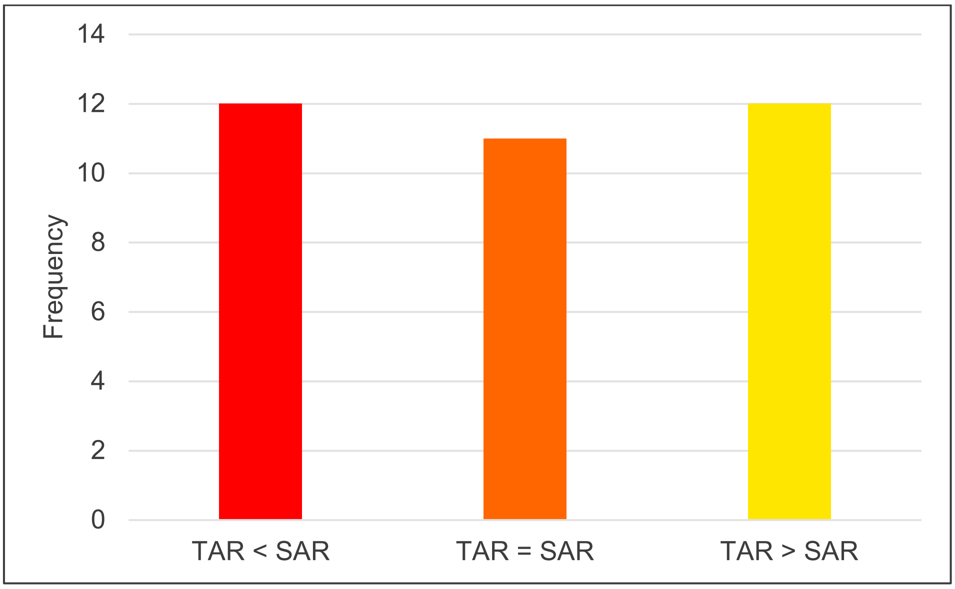
> less than;

> equal to; or

> greater than,

the SAR.

Figure 7. Distribution of Total Actual Revenue and System Allowable Revenue outcomes



Implications of Setting Volumes on Contract Volumes

The April 2023 DAAU does not modify the current ToP arrangements regarding system capping and revenue cap. The practical effect of the April 2023 DAAU is to apply a system forecast which approximates the contracted Access Rights such that the Reference Tariff is lower, and the Allowable Revenue is expected to be recovered from a combination of both Access Charges and ToP.

If the System Forecast Gtk is set with reference to the Contract Gtk, then the most probable outcome in the Newlands System is that Actual Gtk will be less than Contract Gtk and ToP will be triggered. As the rail corridor between Newlands Junction and Abbot Point is shared between the Newlands and GAPE Systems, it is conceptually feasible the Newlands System could rail above the aggregate contracted levels. However, given the DNC of the Shared Rail Corridor, this should only occur through material underutilisation of contracted GAPE Access Rights.

Notwithstanding, and consistent with realised outcomes under the current approach to setting the System Forecasts based on expected railings, the most probable outcomes are:

- all Access Holders underutilise against their contractual entitlements and the TAR will be less than SAR even if ToP is triggered due to the lower contract volume-based tariff and ToP relief being applied to unused contract volumes due to Aurizon Network Cause; or
- one or more Access Holders operate more than the contracted Train Service Entitlements but the system rails less than contract volumes and the TAR will then equal the SAR due to system capping.

While in the latter scenario, longer haul services might outperform against the contracted volumes, the outcome is that Actual Gtk is less then Contract Gtk and the additional gtk from the longer haul has not been sufficient to offset the under-railing from the short hauls. Due to the additional gtk associated with the longer hauls, ToP is not assumed to trigger. However, as the additional incremental revenue from the longer hauls is not sufficient to offset the avoided ToP from the shorter hauls, the TAR will generally not achieve the SAR.

Typically, for Actual Gtk to exceed Contract Gtk, it is necessary for the system to operate above the contracted Train Service Entitlements. However, as discussed earlier, this outcome is assumed to have an extremely low probability of being realised as the outperformance needed within the Newlands System can only arise where GAPE Customers materially underorder against their own Train Service Entitlements. While this situation could occur in practice, Aurizon Network does not envisage a circumstance where this scenario would represent the expected outcome.

In summary, the use of contract volumes for determining the Reference Tariffs and the System Trigger Test does not involve complementary variations to system capping and the exclusion of Aurizon Network Cause from the calculation of ToP. As such, the most probable outcomes are that the TAR will be equal to or less than the SAR. The adjustment to the contract volumes to account for Aurizon Network Cause is therefore necessary to ensure the expected Access Revenue from Access Charges and ToP will equate to the SAR.

Impact of Aurizon Network Cause

Aurizon Network acknowledges the QCA Preliminary Considerations that historical outcomes for Aurizon Network Cause are not a reliable predictor of future Aurizon Network Cause outcomes. However, as noted above, Access Charges do not adequately fund the scope of maintenance and renewals required to fully mitigate the risk of below rail cancellations or force majeure events. Nevertheless, Aurizon Network recognises that the frequency and duration of force majeure events is inherently volatile and not reliably predictable.

To mitigate the impact of a historical period of large or frequent force majeure events, Aurizon Network has adopted the average of the lowest three values of Gtk due to Aurizon Network Cause/Contract Gtk over the last five years as this provides a reliable benchmark of Aurizon Network Cause consistent with normal operating conditions. As shown in Table 4, this approach would have consistently adopted an allowance of 2.2% if applied to the FY22 and FY23 periods.

Table 4 Historic Aurizon Network Cause as a % Contract in Newlands System[18]

Forecast Year	FY17	FY18	FY19	FY20	FY21	FY22F	Average (Min 3 of last 5)
FY22	7.00%	1.60%	7.60%	2.8%	2.3%		2.2%
FY23		1.60%	7.60%	2.8%	2.3%	5.90%	2.2%

Aurizon Network also notes the System Operating Parameters for Newlands/GAPE include a specific allowance for below rail cancellations of 1.3%[19] and this represents a reasonable and consistent benchmark commensurate with the agreed and funded levels of asset reliability and availability for the purpose of adjusting contract volumes to account for expected ToP relief.

In summary, Aurizon Network considers that the most probable outcome from setting prices based on contract volumes without adjustment for Aurizon Network Cause in the Newlands System, is that the TAR will not achieve the SAR as:

> Aurizon Network Cause will always be a positive value; and

> Either:

  – all Customers would underutilise their contracted Train Service Entitlements and SAR is less than TAR; or

  – Where Customers do outperform against contractual entitlements this would involve longer hauls outperforming relative to shorter hauls and SAR is less than TAR.

[18] Note. The FY22 value is the forecast value included in the Initial Newlands GAPE-Pricing DAAU Explanatory Document for consistency

[19] Coal Network Capacity Company (2022) Annual Capacity Assessment: CQCN System Operating Parameters, 16 June, p. 44.

Therefore, to satisfy the objective that prices should be set so that expected access revenue from both Access Charges and ToP will be sufficient to achieve the SAR, provision needs to be made for Aurizon Network Cause.

The implementation of contract volume pricing in the Newlands System should therefore be inclusive of an adjustment for Aurizon Network Cause, set on the *higher of*:

- the [assumed rate/allowance] of below rail cancellations in the System Operating Parameters; or
- the average of the lowest three values of Gtk due to Aurizon Network Cause/Contract Gtk over the last five years.

Finally, Aurizon Network also notes that forecast demand will continue to be required for the Newlands System to determine cost allocations for the Shared Rail Corridor. Where that forecast demand would result in the TAR expecting to exceed the SAR, then the adjustment for Aurizon Network Cause can be lowered to account for those circumstances. The adjustment to contract volumes to make provision for Aurizon Network Cause would be updated as part of the ARRT process.

8.0 Relinquishment of Surplus or Excess Access Rights

Complementary to determining Newlands System Reference Tariffs based on the level of contracted Train Service Entitlements, the Initial GAPE-Newlands Pricing DAAU also included the ability for Newlands Access Holders to relinquish surplus or excess Access Rights without incurring a Relinquishment Fee.

The QCA's Preliminary Considerations notes[20]:

> We are minded to support one-off fee-free relinquishments, to complement the move to contract *volume-based pricing. This recognises that there may be a change in financial risk to users with the change from forecast to contract volume-based pricing.*

The April 2023 DAAU retains this aspect of the Initial GAPE-Newlands Pricing DAAU.

Aurizon Network reiterates that there is a substantive distinction between the ability for Newlands Access Holders to relinquish Access Rights under the 2023 April DAAU and the exclusion of further relinquishments without incurring a relinquishment fee under the Concept Study DAAU. The purpose of the relinquishments under this DAAU is not to reduce the ECD, as in the absence of setting prices based on contracted volumes, those Access Rights would likely have remained Committed Capacity.

As the intention is not to reduce the ECD, this raises the question as to whether the Access Rights should remain Committed Capacity by permitting an Access Seeker to contract new or additional Access Rights where this would not impact the ECD or the required Transitional Arrangements, and it would not adversely affect the interests of Access Holders if they were in no different position than they were prior to the approval of this DAAU.

There are two potentially competing interests in respect of this issue.

First, where an Access Holder does relinquish Access Rights, it will be doing so because they are in excess to its own requirements and therefore are not associated with a real demand for those Access Rights.

[20] Queensland Competition Authority (2022) GAPE and Newlands Pricing DAAU: Preliminary Considerations, 15 December, p. 10.

Granting those Access Rights to an Access Seeker would be subject to an expectation that the Access Seeker has a real demand for those Access Rights.

A cornerstone principle of the UT5 customer agreement is that Access Holders will have confidence the DNC matches the Committed Capacity before additional Access Rights are granted to an Access Seeker. As granting relinquished Access Rights to an Access Seeker without any reduction in the ECD would have the effect of increasing real demand, this would adversely affect an Access Holder's ability to utilise its Access Rights. Therefore, it would not be appropriate to grant relinquished Access Rights to an Access Seeker.

Second, the full Transitional Arrangements required to remedy the ECD for the Newlands and GAPE System have not yet been recommended by the Independent Expert or approved by the QCA. In this context, the relinquishment of Access Rights might further increase the uncertainty to Access Seekers about the timing and scope of any Expansion required to grant Access Rights being sought. Consequently, an Access Seeker may be adversely affected by a Newlands System Access Holder's decision to relinquish its Access Rights in response to this DAAU.

Aurizon Network proposes to reconcile the interests of both existing Access Holders and Access Seekers in respect of Newlands Access Holders having the ability to relinquish excess or surplus Access Rights to manage the financial risk of contract volume pricing by granting conditional Access Rights to Access Seekers where:

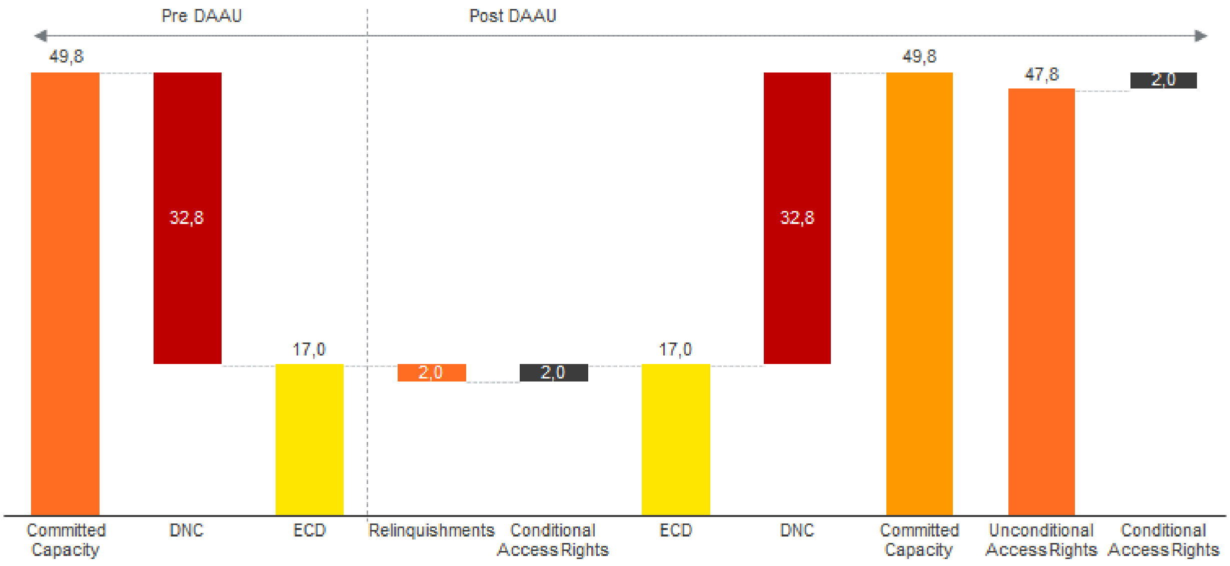
> The granting of those Access Rights is subject to not adversely changing the DNC, the ECD or the likely Transitional Arrangements as recommended by the Independent Expert; and

> The right to utilise those Access Rights is conditional on the Independent Expert determining that the ECD in respect of the Newlands System has been resolved.

In summary, Access Seekers in the Newlands System will have improved clarity of the pathway to obtaining Access Rights, but they will not be able to utilise those conditional Access Rights until the Independent Expert is satisfied the DNC can be achieved if the unconditional Access Rights are utilised.

This is summarised graphically in Figure 8 which depicts total relinquishments of 2 mtpa, reducing the Committed Capacity from 49.8 mtpa to 47.8 mpta. This Capacity is then contracted to an Access Seeker on a conditional basis such that there is no change in either DNC or ECD. While the Committed Capacity is returned to 49.8 mpta, only 47.8 mpta is usable with the 2 mpta in conditional Access Rights not capable of being utilised until the ECD is remedied.

Figure 8. Indicative Example of Relinquishment and Contracting for Conditional Access Rights



9.0 GAPE Reference Train Service Criteria

The GAPE Reference Train Service criteria in clause 11.1(a) of Schedule F of UT5 requires the GAPE Reference Train Services to operate in the Goonyella to Abbot Point System which explicitly comprises the Goonyella to Newlands Connection. Therefore, for a Train Service to operate as a GAPE Reference Train Service that train must utilise the Goonyella to Newlands Connection.

In a circumstance where a GAPE Customer seeks to transfer Access Rights to an Access Seeker/Access Holder whose origin or connection is located in the Newlands System, it is not possible to apply the GAPE Reference Tariff to those transferred services, even where the transferee is willing to pay a GAPE Reference Tariff, if those Train Service do not use part, or all, of the Goonyella to Newlands Connection as noted in Bravus' submission to the Initial GAPE-Newlands Pricing DAAU[21]:

> *Bravus notes that the underutilisation of GAPE project contracted capacity has been an ongoing legacy of the GAPE project. Bravus notes that the current and future GAPE tariffs would be substantially less if Newlands users were able to utilise unwanted GAPE expansion contracted capacity.*

This restriction on the application of the GAPE Reference Tariff to those Train Services which use part, or all, of the Goonyella to Newlands Connection creates incentives for a transferee in the Newlands System to implement inefficient operational practices to meet the Reference Train Service Criteria. These operational practices do not promote the efficient use of the GAPE or Newlands Systems.

The alternate scenario of transferring GAPE Access Rights to NAPE Access Rights would require complementary redistribution of costs from the GAPE System to the NAPE System. This process involves additional layers of both commercial and regulatory risk for Aurizon Network and other Access Holders and would require a subsequent and consequential DAAU to give effect to the concept. [Begin C-I-C] [redacted]

[21] Bravus (2022) Submission to the Newlands-GAPE Pricing DAAU, November, p. 3.

[redacted] [End C-I-C]

The DAAU seeks to overcome these complexities by deeming Access Rights for Train Services which operate in the Newlands System that previously operated in the GAPE System to be GAPE Reference Train Services. This change does not adversely affect the interests of GAPE Access Holders as:

> there is no change in total contracted GAPE volumes;

> the transferred GAPE Access Rights will continue to pay the GAPE Reference Tariff; and

> the transferred GAPE Access Rights will partially contribute to the recovery of the Goonyella System Enhancements through potential payment of a transfer fee but would otherwise not have been contributing to that recovery if not for the transfer (where the Access Rights were previously underutilised).

This proposed change addresses only those issues associated with the application of Reference Tariffs to Reference Services under the terms of UT5. It should not be interpreted as confirmation of the ability to transfer or assign the GAPE Deed to a party that does not operate Train Services in the GAPE System. In other words, the proposed variations to the DAAU are a necessary, but not on their own a sufficient condition for GAPE Access Holders to transfer Access Rights to an Access Holder/Seeker who operates Train Services solely within the Newlands System.

10.0 Application of PIC Discounts to GAPE and Newlands Reference Tariffs

This DAAU amends the definition of Private Infrastructure to promote the objectives for application of Private Incremental Costs (**PIC**) Discounts and align it with the definition of CSBL.

The Initial GAPE-Newlands Pricing DAAU did not explicitly address the issue of application of PIC Discounts to Access Charges for Train Services operating in the Newlands System. In addition, at the time of submitting the Initial GAPE-Newlands Pricing DAAU, the QCA was yet to decide on the application by Bravus for approval of the PIC associated with the Carmichael Rail Loop and Connecting Infrastructure.

On 15 December 2022, the QCA approved an application of $44 million in respect of infrastructure related to the operation of the Carmichael mine. In approving the PIC Amount, the QCA's Final Decision noted[22]:

> *that Bravus' application and the infrastructure that is the subject of the claim satisfy the requirements for consideration under the PIC provisions. The provisions specify the scope of our decision to be the prudent and efficient value of the assets included in the PIC claim, and do not allow for the QCA to adjust the manner in which the application should be considered, given the potential impacts on other users.*
>
> *In this context, we note that the confidential submission also raised issues around the tariff(s) to which any approved PIC amount should be applied. However, this issue is beyond the scope of this decision being made under clause 6.3.2, which relates specifically to the prudent and efficient value of the assets included in the PIC claim.*

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[22] Queensland Competition Authority (2022) Decision Notice: Private Incremental Cost Carmichael Rail Loop and Connecting Infrastructure, December, pp. 2-3.

It is therefore appropriate that this April 2023 DAAU assesses the issues regarding the application of a PIC Discount in determining Access Charges for new coal carrying Train Services operating in the Newlands System.

10.1 Relevant Reference Tariff for New Coal Carrying Train Services

Aurizon Network's Initial GAPE-Newlands Pricing DAAU noted that in determining the Access Charge to apply to new coal carrying Train Services, clause 6.3.1(e) states:

> *Where an Access Seeker has requested Access Rights (other than as a Renewal) that do not require an Expansion and two or more Reference Tariffs are expressed to apply in relation to the Access Rights in the relevant Coal System, then the Reference Tariff used to formulate the relevant Access Charges is that Reference Tariff which is the highest on a $/ntk basis.*

While a new coal carrying Train Service which connects Private Infrastructure to a point on the Newlands System will operate Train Services in the Newlands System, the Rail Infrastructure which comprises the Newlands System is also utilised by GAPE Train Services. This commonality is expressly acknowledged by Bravus' response to the Concept Study DAAU which states[23]:

> *The QCA should not approve any new Newland Relinquishments that would solve for a combined GAPE / Newlands ECD unless GAPE contracted capacity is also able to be freely transferred to Newlands i.e.* ***capacity between the two systems is fungible*** *in terms of both transfers and relinquishments.*

Furthermore, the definition of the Goonyella to Abbot Point System includes the Rail Infrastructure comprising:

1. the Goonyella Newlands Connection; and
2. that part of any other Coal System which is used by a Train Service that also uses or connects to any part of the Goonyella Newlands Connection, except where that Train Service originates or terminates south of Gregory.

As the Train Services operating in the GAPE System utilise the Newlands System for the entirety of the common use corridor, it can be inferred from clause 6.3.1(e) of UT5 that there are two Reference Tariffs applying in respect of Access Rights in the Newlands System:

> the Newlands System Reference Tariff; and

> the GAPE System Reference Tariff.

Where the GAPE Reference Tariff had been implemented as an Expansion Tariff, as opposed to be being established as an independent revenue and pricing system to quarantine costs and risks from Newlands System users, then clause 6.3.1(e) would have expressly required the Access Charges for new coal carrying Train Services operating in the Newlands System to be calculated based on the GAPE Reference Tariff. Aurizon Network noted in the Initial GAPE-Newlands Pricing DAAU that it was '*not proposing that the new coal carrying trains services operating solely on the Newlands Coal System and using Capacity which was previously contracted by a legacy Newlands mine be required to pay the GAPE Reference Tariff*[24]'. Notwithstanding, Aurizon Network considers that the intention of clause 6.3.1(e) should be

[23] Bravus (2022) Submission to Aurizon Networks Revised Concept Study DAAU, 4 November, p. 2.

[24] Aurizon Network (2022) Newlands-GAPE Pricing DAAU Explanatory Paper, September, p. 19

considered in the context of whether a PIC Discount should be applied to new coal carrying Train Services operating in the Newlands System where services operating in that coal system are subject to the GAPE Reference Tariff.

10.2 Treatment of GAPE Private Infrastructure

Currently there are two GAPE Access Holders whose loading facilities are connected to Rail Infrastructure by way of Private Infrastructure:

- Byerwen, which is physically connected to the Goonyella to Newlands Connection (see Figure 9); and
- Middlemount, which is physically connected to the South Goonyella Branchline (see Figure 10).

Figure 9. Goonyella to Newlands Connection

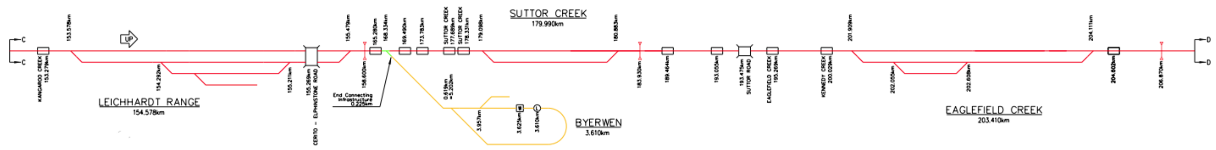


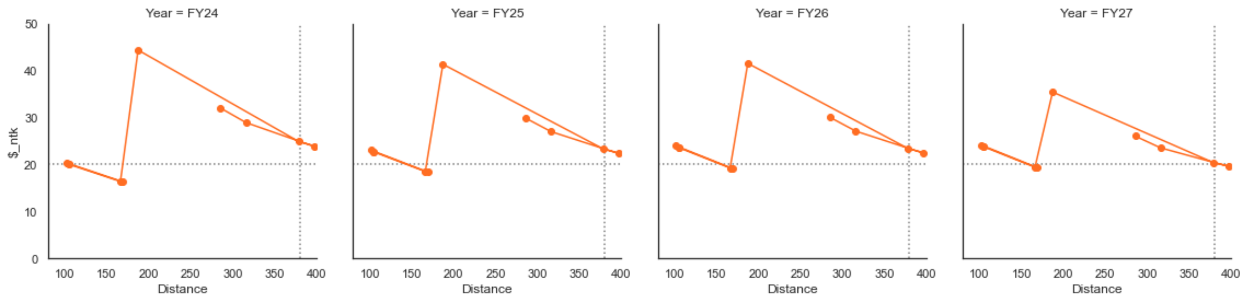
Figure 10. South Goonyella Branchline

In the calculation of Access Charges for these Access Rights using the GAPE System, no adjustment is made for the value of Private Infrastructure. This is because the GAPE Reference Tariff is effectively an Expansion Tariff largely comprising the Expansion Costs and incremental operating and maintenance costs. Having regard to clause 6.3.1(e), the GAPE Reference Tariff represents the Minimum Revenue Contribution for each GAPE Train Service and consequently, any value for the Private Infrastructure is redundant as the Minimum Revenue Contribution should not be less than the System Reference Tariff.

In assessing whether the Access Charges for a new coal carrying Train Service should be adjusted to account for a PIC Amount, regard should be had to the extent to which those services are obtaining an effective discount through the application of the Newlands System Reference Tariff (as opposed to the GAPE Reference Tariff). The following graphs in Figure 11 show the Access Charges (expressed in $/ntk) for the application of this DAAU. Aurizon Network notes that both Bravus and Middlemount have comparable Mine to Port haulage distances. This is represented by the vertical reference line at a distance of 380 kms. It is evident from these graphs that Bravus' cost of access without a PIC Discount for the use of the Newlands System is less than an equivalent GAPE Train Service when expressed on a $/ntk basis, and are therefore obtaining an effective discount on the highest relevant Reference Tariff applicable to the use of the Newlands System[25].

[25] The GAPE Reference Tariff is exclusive of Expansion Costs associated with Transitional Arrangements and therefore the $/ntk of GAPE Services will be understated from FY25.

Figure 11. $/ntk Unit Rates for Use of the Newlands and GAPE Systems



The overarching intention of determining an Access Charge with respect to the highest relevant Reference Tariff application to the operation of Train Services using the same Rail Infrastructure, is to avoid discriminatory pricing effects based on the timing of an Access Seeker's entry into the market. Similarly, where the calculation of Access Charges for a service of comparable haulage distance is exclusive of the application of a PIC Discount to those services, then the application of a PIC Discount to new coal carrying Train Services which commenced after the completion of the NSIE would also have a discriminatory price effect. In summary, the exclusion of a PIC Discount to new coal carrying Train Services in the Newlands System promotes tariff equivalence for the use of the same common infrastructure, with GAPE Train Services having a comparable haulage distance and having also invested in Private Infrastructure.

10.3 Objectives for application of PIC Discounts

The genesis for the consideration of the value of Private Infrastructure, in the determination of Access Charges for new coal carrying Train Services, was the promotion of competitive neutrality in the market for construction and ownership of Rail Transport Infrastructure which directly and solely connected a new mine to the Central Queensland Coal Network. This point was noted in the expert determination by Sofronoff KC[26] who stated:

> *[Begin C-I-C]* [redacted] *End C-I-C]*

The competitive neutrality principle was given effect in the 2010 Access Undertaking (UT3) by ensuring that the total costs of access to the developer of a new mine connecting to the CQCN would be similar between:

> Aurizon Network constructing and owning a CSBL and including the costs of that CSBL in the RAB and relevant or new Reference Tariff; and

> The Customer constructing and owning the CSBL and paying an access charge commensurate with the relevant or new Reference Tariff, less the costs associated with the Private Incremental Costs calculated on the same basis if those costs would be included in that relevant or new Reference Tariff.

Aurizon Network notes there is an unintended consequence in how Private Infrastructure is currently defined which does not give effect to this intent. The definition of CSBL must satisfy the requirement that

[26] Sofronoff. W. (2006) Expert Determination in relation to the matter of Queensland Rail v Queensland Competition Authority, p. 5

it is ‘*to be constructed solely to connect an Access Holder’s or a Customer’s loading facility to Rail Infrastructure*’. The drafting of CSBL is intentionally limited to this circumstance as the construction of Rail Infrastructure by Aurizon Network which is intended for use by multiple Customers would represent an Expansion, and be subject to a specific pricing proposal. The equivalent regulatory arrangement for a party other than Aurizon Network seeking to own and operate that same infrastructure, would be to obtain a Ruling under Division 7A of the QCA Act.

The April 2023 DAAU corrects this inconsistency by aligning the definition of Private Infrastructure with the requirement for a CSBL to solely connect an Access Holder’s or a Customer’s loading facility to Rail Infrastructure.

Aurizon Network notes the CRN railway was constructed by Carmichael Rail Network Pty Ltd as part of a broader vertically integrated mining project and therefore was not a contestable service for the purpose of the competitive neutrality objective. In addition, the CRN has been developed as an open access, multi-user railway between the Galilee Basin and the connection to Aurizon Network’s Newlands and Goonyella open access rail network. The CRN is subject to an Access Policy approved by the State of Queensland. Consequently, it has not been constructed solely to connect the loading facility for the Carmichael mine to Rail Infrastructure and under the proposed change to the definition to Private Infrastructure, a PIC Amount would not be applicable to the calculation of Access Charges for Train Services entering and exiting Rail Infrastructure to access the CRN railway.

10.4 Application of a PIC Discount to Train Services operating on a Third-Party Railway

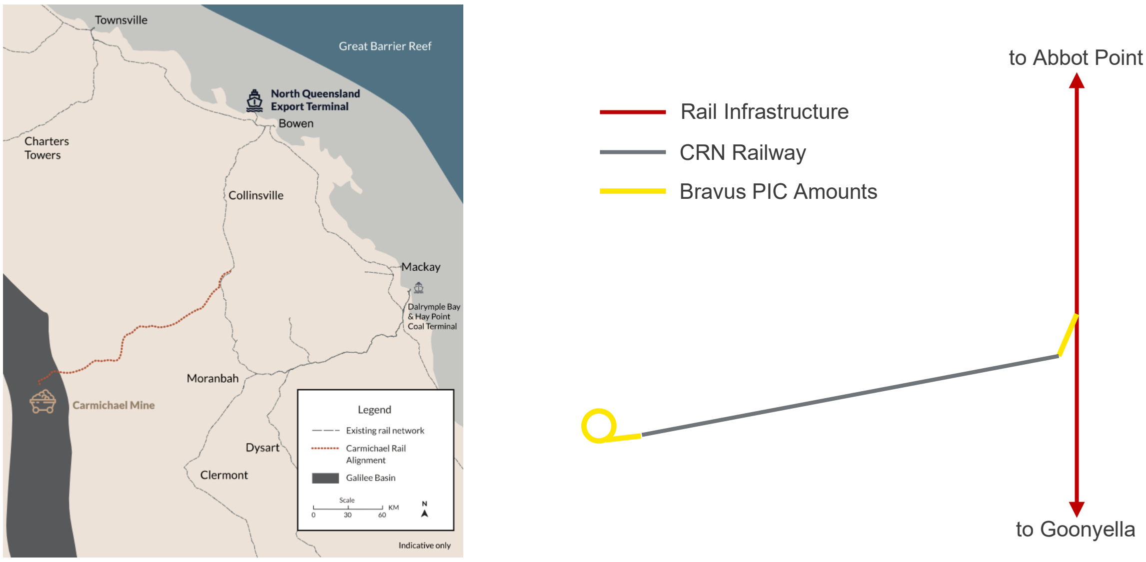
The Bravus application for the PIC approved by the QCA did not include all the Rail Transport Infrastructure comprising the CRN railway and was limited to:

> the connection to the Newlands system and the section for which Aurizon is the rail infrastructure manager; and

> the Carmichael rail loop.

The geographical location of these components and their interface with the Rail Infrastructure and the CRN railway is shown in Figure 12. In this regard, the Carmichael rail loop does not directly connect to Rail Infrastructure to allow Trains to enter or exit from Rail Infrastructure for the purpose of Access.

Figure 12. Components of the Bravus PIC Application



Aurizon Network considers that if the QCA was to refuse to approve the April 2023 DAAU variation to the definition of Private Infrastructure, the PIC Discount applicable to Bravus Train Services should be limited only to those components associated with the connection to the Newlands System and the section for which Aurizon Network is the rail infrastructure manager to:

- be consistent with the UT5 definition of Private Infrastructure Owner; and
- avoid the consideration of Private Infrastructure under multiple rail access regimes.

UT5 defines Private Infrastructure Owner as:

> *'A person who owns, or proposes to construct and own, Private Infrastructure which will connect to the Rail Infrastructure in order to allow Trains operating on that Private Infrastructure to enter or exit from the Rail Infrastructure for the purposes of Access'.*

In respect of the Carmichael Mine Rail Loop, this infrastructure does not connect to the Rail Infrastructure and is not associated with Trains entering or exiting Rail Infrastructure. Once a Train exits the Rail Infrastructure, it is operating on the multi-user open access CRN railway. The physical separation of the Carmichael Mine Rail Loop from the Rail Infrastructure due to the CRN railway means Train Services operating on the Carmichael Mine Rail Loop are entering and exiting the CRN railway. Therefore, the PIC associated with the Carmichael Mine Rail Loop should be addressed in the pricing principles under the CRN Access Policy.

This issue can also be considered against the hypothetical scenario of a third party directly connecting a mine rail loop to the CRN railway. Section 11.3 of the CRN Access Policy addresses the circumstance of a Private Infrastructure Owner seeking to connect Private Infrastructure to the CRN. Aurizon Network notes a Private Infrastructure Owner is defined in the CRN Access Policy consistent with that in UT5[27]:

> *a person who owns, or proposes to construct and own, Private Infrastructure which will connect to the CRN in order to allow Trains operating on that Private Infrastructure to enter or exit from the rail infrastructure for the purposes of Access Rights*

In this regard, it is not feasible for that party to be the owner of Private Infrastructure which is connecting to both the Newlands System and the CRN in the same manner that the Carmichael Mine Rail Loop also does not connect to Rail Infrastructure.

Consequently, Aurizon Network contends that rail transport infrastructure associated with a customer's loading facility which connects to the CRN Railway is not Private Infrastructure for the purpose of clause 6.3.1. Applying a PIC Discount to Bravus Train Services inclusive of the Carmichael Mine Rail Loop would therefore result in differential price outcomes between Bravus Train Services and owners of rail transport infrastructure connecting to the CRN railway for the use of the Newlands System. Aurizon Network considers these matters should be addressed in the pricing of access to the unregulated CRN railway and not the pricing of access to the Newlands System.

11.0 Summary of Variations to the 2017 Access Undertaking

A summary of the substantive amendments to the 2017 Access Undertaking associated with the April 2023 DAAU is summarised in Table 5. The consequential changes to Reference Tariffs, Gtk Forecasts and Allowable Revenues are summarised in section 12.

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[27] Carmichael Rail Network Trust (2021) Carmichael Rail Network Access Policy, December, p.33

Table 5 Summary of Substantive Amendments to the 2017 Access Undertaking

DAAU Amendment	Amendment Description
New clause 7.4.8(m)	Allow Newlands Access Holders the opportunity to relinquish excess or surplus Access Rights without the payment of a Relinquishment Fee associated with the introduction of contract volume pricing in Newlands. Notification of intention to relinquish must be made on or before the nominated date which will reflect the due date on submissions in response to the QCA Draft Decision on the April 2023 DAAU. References to the new clause 7.4.8(m) are also included in: • clause 7.4.8(d); and • Schedule F clause 4.3(h).
New clauses 7.4.8(n)-(q)	Allow the contracting of Access Rights relinquished under 7.4.8(m) on the condition that the Independent Expert confirms: • the Access Rights, including any Ancillary Access Rights do not exceed the Capacity created by the relinquishment; and • the Existing Capacity Deficit for the Newlands System has been resolved for those Access Rights to become unconditional. Where those relinquished Access Rights are contracted as conditional Access Rights pursuant to clause 7.4.8(n) then those Access Rights must be considered Committed Capacity by the Independent Expert for the purpose of assessing: Deliverable Network Capacity, Existing Capacity Deficits and Transitional Arrangements. Consequential references to clause 7.4.8(n) are added to clause 8.9.1(b).
New Definition April 2023 GAPE Newlands Pricing DAAU	Required for the application of the Asset Replacement and Renewals Expenditure allocation methodology for the Shared Rail Corridor described in the April 2023 DAAU.
New Definition Newlands Shared Rail Corridor Replacement Assets	Required to define the assets subject to the Asset Replacement and Renewals Expenditure allocation methodology for the Shared Rail Corridor described in the April 2023 DAAU.
Modify Definition Private Infrastructure	Add requirement for private infrastructure to be constructed solely to connect an Access Holder's or Customer's loading facility to Rail Infrastructure and align to the definition of Customer Specific Branch Line.
New clause Schedule E, 1.3(c)	Modification of the RAB Roll-forward reporting requirements to reflect the approved Asset Replacement and Renewals Expenditure allocation methodology in the RAB Roll-forward report.

DAAU Amendment	Amendment Description
New clause Schedule F, 4.1(b)(vii)(G)	Modification to the Annual Tariff Review Process to distribute the Allowable Revenue attributable to prior Newlands Shared Rail Corridor Replacement Assets on the basis the relative Gtk Forecasts for the Newlands and Goonyella to Abbot Point Systems.
New clause Schedule F, 10.3(a)	Inclusion of requirement for the Newlands Gtk Forecast to be determined with reference to the aggregate gtk for all relevant Train Service Entitlements.
Modify clause Schedule F, 11.1(a)	Modify the definition of Coal System in the Reference Train Service Criteria to allow the application of the GAPE Reference Tariff to transferred Goonyella to Abbot Point System Access Rights which may not use the Goonyella to Newlands Connection.

12.0 Amended Schedule F Allowable Revenues and Reference Tariffs

All table numbers in this section refer to the table numbers being replaced in Aurizon Network's February 2023 Submission to the QCA on *'2017 Access Undertaking: Updates to Reset Schedule F Preliminary Values'*.

Table 1 Net Tonnes – Updated Preliminary System Forecasts – FY2024 to FY2027

System	FY2024	FY2025	FY2026	FY2027
Blackwater	54.3	54.3	54.3	54.3
Goonyella	108.0	108.0	108.0	108.0
Moura	11.8	11.8	11.8	11.8
Newlands	20.7	20.7	20.7	20.7
GAPE	17.2	17.2	17.2	17.2
Total	**212.1**	**212.1**	**212.1**	**212.1**

Table 2 GTK '000 – Updated Preliminary System Forecasts – FY2024 to FY2027

System	FY2024	FY2025	FY2026	FY2027
Blackwater	31,564,059	31,564,059	31,564,059	31,564,059
Goonyella	34,710,988	34,710,988	34,710,988	34,710,988
Moura	3,100,730	3,100,730	3,100,730	3,100,730
Newlands	4,379,224	4,374,238	4,374,238	4,374,238
GAPE	8,991,152	8,991,152	8,991,152	8,991,152
Total	**82,746,152**	**82,741,167**	**82,741,167**	**82,741,167**

Table 3 CQCN System - Updated Preliminary Allowable Revenues ($m)

CQCN ($m)	FY2024	FY2025	FY2026	FY2027
Return on Capital*	497.4	504.9	510.2	513.1
Return of Capital minus Inflation	252.7	271.8	304.0	315.7
Direct Maintenance Costs	164.1	174.9	175.8	179.5
Indirect Maintenance Cost Allowance	17.5	17.3	16.7	16.4
Electric Operating Expenditure Allowance	72.0	72.0	72.0	72.0
Non-Electric Operating Expenditure Allowance	135.1	135.1	135.1	135.1
Tax Allowance	49.8	51.9	56.4	56.7
Adjustments^	62.6	31.6	32.3	33.1
Allowable Revenue	**1,251.3**	**1,259.4**	**1,302.5**	**1,321.6**
Variance from 29 July 2022 Submission	**40.1**	**14.3**	**14.3**	**11.7**

** Working capital is added to Return on Capital.*

^ Adjustments are described in section 5.1 of this submission and include the UT4 Capital Carryover, Reconciliation of FY18 and FY19 transitional arrangements, and recovery of approved APS capital expenditure.

Tables 7 and 45 Newlands System - Preliminary Allowable Revenues ($m)

System	AT1	AT2-4	AT5
FY24	8.8	40.7	--
FY25	9.1	46.9	--
FY26	9.3	48.8	--
FY27	9.6	49.1	--

Tables 8 and 46 GAPE - Preliminary Allowable Revenues ($m)

System	AT1	AT2-4	AT5
FY24	14.5	142.3	--
FY25	15.0	131.5	--
FY26	15.4	131.6	--
FY27	15.9	111.8	--

Tables 12 and 50 Newlands System - Preliminary Reference Tariffs

Newlands	AT1	AT2	AT3	AT4	AT5	EC	QCA Levy	IE Pass Through Cost
FY2024	2.01	343.28	7.06	0.93	--	--	0.0061	0.0160
FY2025	2.07	353.75	8.18	1.08	--	--	0.0061	0.0160
FY2026	2.13	364.54	8.53	1.13	--	--	0.0061	0.0160
FY2027	2.20	375.66	8.56	1.13	--	--	0.0061	0.0160

Table 13 and 51 GAPE System - Preliminary Reference Tariffs

GAPE	AT1	AT2	AT3	AT4	AT5	EC	QCA Levy	IE Pass Through Cost
FY2024	1.62	15,464.32	1.55	3.28	--	--	0.0061	0.0160
FY2025	1.67	15,464.32	1.41	2.70	--	--	0.0061	0.0160
FY2026	1.72	15,464.32	1.35	2.72	--	--	0.0061	0.0160
FY2027	1.77	15,464.32	1.38	1.56	--	--	0.0061	0.0160

Table 17 Preliminary Volume Forecasts – Reset Period – FY2024 – FY2027

As the allocation of variable cost pool for replacement asset expenditure on the Shared Rail Corridor, maintenance and other system wide allocations is determined on the basis of forecast demand these allocations will be made using the forecasts in the existing Table 17.

The following replacement Table 17 is used for the determination of Reference Tariffs only.

System	FY2024	FY2025	FY2026	FY2027
Blackwater	54.3	54.3	54.3	54.3
Goonyella	108.0	108.0	108.0	108.0
Moura	11.8	11.8	11.8	11.8
Newlands	20.7	20.7	20.7	20.7
GAPE	17.2	17.2	17.2	17.2
Total	**212.1**	**212.1**	**212.1**	**212.1**

Table 21 Forecast RAB Roll-forward Values – Newlands System

Newlands RAB Roll-forward values	FY24	FY25	FY26	FY27
Opening	364.8	367.5	376.6	384.0
Capex	14.6	20.1	19.9	20.2
Inflation	14.7	13.3	13.7	14.1
Depreciation	21.2	24.3	26.2	26.1
Closing	**372.9**	**376.6**	**384.0**	**392.1**

Table 22 Forecast RAB Roll-forward Values – GAPE

GAPE RAB Roll-forward values	FY24	FY25	FY26	FY27
Opening	780.0	737.3	691.7	641.3
Capex	8.2	9.3	8.8	9.5
Inflation	25.2	24.0	22.7	21.3
Depreciation	76.1	78.9	81.9	66.5
Closing	**737.3**	**691.7**	**641.3**	**605.6**

Table 23 Forecast Capital Expenditure – Non-Electric (Mid-Year $)

Non-Electric Capex ($m)	FY2024	FY2025	FY2026	FY2027
Blackwater	139.9	145.9	153.6	148.8
Goonyella	102.9	118.1	125.9	125.4
Moura	18.8	21.1	21.3	18.3
Newlands	15.2	20.9	20.7	21.0
GAPE	8.6	9.7	9.1	9.8
Total	**285.3**	**315.7**	**330.7**	**323.3**

Table 25 Return of Capital minus Inflation – Non-Electric

Non-Electric Depreciation ($m)	FY2024	FY2025	FY2026	FY2027
Blackwater	88.2	89.3	101.5	115.1
Goonyella	62.4	70.4	79.7	87.1
Moura	12.0	13.6	15.4	16.3
Newlands	11.1	12.9	14.5	14.2
GAPE	50.6	54.7	58.9	45.6
Total	**224.4**	**240.8**	**270.0**	**278.4**

Table 31 Tax Allowance – Non-Electric

Non-Electric Tax ($m)	FY2024	FY2025	FY2026	FY2027
Blackwater	16.8	16.3	18.0	19.9
Goonyella	11.7	12.7	13.8	14.5
Moura	3.1	3.3	3.5	3.6
Newlands	2.3	2.9	3.1	3.0
GAPE	11.1	11.6	12.1	9.3
Total	**45.0**	**46.7**	**50.6**	**50.4**

Table 33 Working Capital – Non-Electric

Non-Electric Working Capital ($m)	FY2024	FY2025	FY2026	FY2027
Blackwater	1.2	1.2	1.3	1.3
Goonyella	1.0	1.0	1.1	1.1
Moura	0.2	0.2	0.2	0.2
Newlands	0.1	0.1	0.1	0.1
GAPE	0.4	0.4	0.4	0.4
Total	**2.9**	**3.0**	**3.1**	**3.1**

Appendix A Asset Renewals Proposed Cost Variability %

Discipline	Asset Type	Asset Type/Description	% Variability	WIK
Ballast	Ballast	Mainline Undercutting	75%	75%
Ballast	Ballast	Turnout Undercutting	75%	75%
Ballast	Ballast	Bridge Ballast	75%	75%
Civil	Formation	Formation	75%	0%
Civil	Formation	Design	75%	N/A
Civil	Turnout	Turnout	75%	75%
Civil	Turnout	Turnout Component Replacement - Civil	75%	75%
Civil	Turnout	Turnout Component Replacement - Points and Motors	75%	75%
Civil	Turnout	Design	75%	N/A
Track	GIJ	Glued Insulated Joint	90%	N/A
Track	Rail Curve	Rail Curve	90%	90%
Track	Rail Straight	Rail Straight	90%	90%
Track	Sleepers	Sleepers and jewelery	75%	75%
Civil	Level Crossing	Level Crossing Civil Works	25%	25%
Civil	Level Crossing	Design	25%	N/A
Control Systems	Signalling Interlocking	Signalling Interlocking, Relays to Processor Based Interlocking, Diagnostic Computers	25%[1]	50%
Structures	Bridge	Bridge Bearing	25%	25%
Structures	Bridge	Bridge Strengthening - Design	25%	25%
Structures	Bridge	Bridge Strengthening - Renewal	25%	25%
Structures	Bridge	Bridge Short Span - Design	25%	25%
Structures	Bridge	Bridge Short Span - Renewal [post 1982 install date]	25%	N/A
Structures	Culvert	Culvert Renewal [post 1982 install date] and < 600 mm formation depth	25%	0%

Discipline	Asset Type	Asset Type/Description	% Variability	WIK
Structures	Culvert	Culvert Renewal [post 1982 install date] and > 600 m formation depth	10%	0%
Track	Rail Lubricator	Rail Lubricator	50%	50%
Ballast	Ballast	Ground Penetrating Radar (GPR)	0%	N/A
Civil	Access Points	Access Points	0%	0%
Civil	Access Roads	Access Roads	0%	0%
Civil	Corridor Security & Fencing	Corridor Security & Fencing	0%	0%
Civil	Formation	Earthworks (Cutting / Embankments)	0%[2]	N/A
Control Systems	Asset Protection Equipment	Integrated Asset Monitoring and Protection System (IAMPS), Rail Bearing Acoustic Measurement, Virtual Server Host, Wheel Impact Load Detector	0%	0%
Control Systems	Control System Infrastructure	Telecoms Equipment, e.g. Tower, Generator, Batteries, Dehydrator, Radome	0%	0%
Control Systems	Data Network	Below Rail Data Network Equipment, Routers, Switches, Firewalls	0%	N/A
Control Systems	Field Equipment and Cable	Signal Post Renewal	0%	0%
Control Systems	Hot Box Detector	Hot Bearing/ Wheel Detector	0%	0%
Control Systems	Level Crossing	Level Crossing Signalling Equipment	0%	0%
Control Systems	Link/Network Equipment	Below Rail Data Coms Equipment, Digital Radio System	0%	0%
Control Systems	Monitoring Equipment	Asset Protection Equipment	0%	0%
Control Systems	Network Control System	Control Centre System Support	0%	N/A
Control Systems	Network Control System	UTC System	0%	N/A
Control Systems	Power Resilence	DIEF Controller, Signalling Equipment Room Inverter	0%	N/A

Discipline	Asset Type	Asset Type/Description	% Variability	WIK
Control Systems	Rail Temp Monitor	Rail Temp Monitors	0%	0%
Control Systems	Signalling Batteries	Signalling Battery Renewals	0%	N/A
Control Systems	Train Detection	AZS350U Replacement (Axle Counter)	0%	0%
Control Systems	Transmission	Transmission Power Supply, Transmission Systems, Tetra	0%	0%
Control Systems	Transmission	Transmission System DMR, ACOM, NMS, SDH, Batteries	0%	0%
Control Systems	UTC	UTC	0%	N/A
Control Systems	Weigher	Weighing Instrument System	0%	0%
Structures	Bridge	Bridge Renewal	10%	N/A
Structures	Bridge	Design	10%	N/A
Structures	Bridge	Bridge Short Span - Renewal [pre-1982 asset]	10%	N/A
Structures	Culvert	Culvert Renewal [pre-1982 asset]	10%	0%

Additional notes:

Range: 25% - 50%. Replacement is typically driven by obsolescence. Failure of these assets can reduce capacity, so Aurizon Network has conservatively assumed a level of usage-based degradation even with like for like replacement. WIK assumes the need for signalling system investments/upgrades is caused by both, time and volume likewise.

WIK did not distinguish between track, formation and other earthworks. For example, formation renewals between 2016 and 2020 were primarily embankment renewals works with limited relationship with network volumes.