



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

6 June 2023

Dear George,

Review of Rebate Mechanism – Response to QCA Draft Decision

Aurizon Network welcomes the opportunity to respond to the Queensland Competition Authority's (QCA) draft decision dated 23 March 2023 (**Draft Decision**) following its review of the Rebate mechanism.

Unless otherwise defined, capitalised terms in this submission have the meaning given to those terms in the 2017 Access Undertaking (**UT5**).

The Rebate mechanism was established under clause 7A.6 of UT5 and Aurizon Network's response to the Draft Decision is focused on the following key themes:

- whether amendments to UT5 are necessary to promote the Rebate Objectives; and
- Aurizon Network's considerations with regard to how the Performance Rebate Amount reflects the requirements, policy objectives and intent of UT5.

UT5 Amendments

In relation to the first theme, Aurizon Network agrees with the QCA's Draft Decision that:

- *no changes be made to the Rebate mechanism;*¹ and
- *it does not appear that the drafting of UT5 is proving a barrier to the Rebate mechanism achieving its objectives in a material way.*²

Following publication of the Draft Decision, Aurizon Network engaged with End User mining customers to discuss the issues raised in stakeholder submissions, and in particular, the information that may be required to identify the reasons why Train Service Entitlements (**TSE**) are 'unable to be ordered'.

¹ QCA (2023). Draft Decision Notice - Review of Aurizon Network's rebate mechanism, 23 March. Page 1.

² QCA (2023). Draft Decision Notice - Review of Aurizon Network's rebate mechanism, 23 March. Page 6.

Aurizon Network confirms that while it does not always know or have the reasons why an End User's order may vary from their contracted TSE, it is developing additional reporting to improve transparency of this stage of the train ordering process. Further information about this additional reporting is outlined in section 1.0 below.

As part of the Draft Decision engagement, Aurizon Network received the following proposed drafting amendments to UT5:

- on 10 May 2023, from the Queensland Resources Council (**QRC**), which sought to clarify Aurizon Network's obligations regarding its cooperation with the Independent Expert (**IE**) and the collection of information; and
- on 16 May 2023, from the IE, which sought to clarify the IE's ability to assess an 'AN Performance Shortfall' at a Coal System level.

Aurizon Network does not consider that UT5 requires amendment and has worked diligently to fulfil each of its obligations and commitments made under UT5, including the Rebate Objectives outlined in clause 7A.6(g). Furthermore, Aurizon Network believes that its actions to date and level of engagement with the IE and other Supply Chain Participants demonstrate that it is already giving effect to the information and collaboration requirements outlined in the QRC's proposed drafting.

Nevertheless, Aurizon Network has engaged collaboratively with the QRC to refine their proposed amendments and does not have an objection in-principle to incorporating the agreed additions within clause 10.8.2(a)(xx). Aurizon Network has agreed this drafting with the QRC and voluntarily agrees to include it within UT5.

The IE proposed drafting for clause 7A.6 was discussed throughout the stakeholder consultation period. Aurizon Network engaged with the IE with regard to their concerns on system level assessments of the rebate, and they have withdrawn their requirement for amendments to UT5.

Rebate calculations must reflect the overarching UT5 policy objectives

In relation to the second theme, UT5 outlines the intent of the Rebate mechanism and the relevant definitions and objectives that must be considered when determining the Performance Rebate Amount for a given year. Importantly, for a rebate to be payable to an End User, the IE must first establish whether 'AN Performance Shortfall' exists, and if so, the extent to which that shortfall was the direct result of an 'AN Performance Breach'.

UT5 does not prescribe a specific calculation methodology through which an AN Performance Shortfall and AN Performance Breach must be determined. When calculating the Performance Rebate Amount for FY22, Aurizon Network and the IE identified several complexities and challenges during the process. One such challenge was the fact that Aurizon Network does not always know the reasons why a TSE (for each Origin / Destination) was unable to be ordered from an End-User.

Aurizon Network considers that the FY22 calculation methodology was a pragmatic solution to the circumstances prevailing at the time and that the methodology applied by the IE for the purpose of calculating any Performance Rebate Amount will continue to be improved for FY23 and beyond. To this end, Aurizon Network and the IE have continued to engage constructively, with both parties giving consideration towards whether it would be appropriate to assess performance at a 'system-level' where it is appropriate and reasonable to do so.

Aurizon Network maintains that the process for the development of the Performance Rebate Amount must give effect to the overarching policy objective which is to:

1. assess whether an Access Holder could have utilised their TSEs over the whole of the relevant Year, and where it was unable to do so;
2. ensure that the determination of the Performance Rebate Amount reflects a Performance Breach by Aurizon Network in respect of those TSE.

1.0 Transparency of Data and Root Cause Analysis

In its Draft Decision, the QCA indicated that the second Rebate Objective (clause 7A.6(g)(ii)), being the “*accurate, reliable and timely root cause analysis of the reasons why an End User’s Train Service Entitlements are unable to be ordered, are ordered but not provided, or are not utilised*” had not been met in a material way, stating that:

It is clear that undertaking a comprehensive root cause analysis is an inherently complex task due to the systems involved, and there may be multiple reasons why an end user’s TSE is unable to be ordered, provided, or is not utilised.

All stakeholders identified a key information gap in understanding why end user demand is not able to be presented to Aurizon Network and/or fully captured by Aurizon Network.³

Aurizon Network is of the view that it has met the second Rebate Objective for the following reasons.

Aurizon Network collates detailed root cause analysis from the time an order is placed for inclusion within the Intermediate Train Plan (ITP) and provides significant information to the IE from this point through to execution.

Each month, Aurizon Network provides the IE with four individual Power BI reports that totals a material amount of data (equating to approximately 600MB). This includes:

- information about the train orders received as part of the ITP process and the reasons why an order may not have been scheduled;
- information about the level of planned and actual asset activity on the network; and
- information relating to the causes of delays and cancellations.

In relation to the root cause analysis of the reasons why an End User’s TSE was ‘unable to be ordered’, Aurizon Network does not consider that the inclusion of ‘unable to be ordered’ was intended to require Aurizon Network to perform root cause analysis on ordering behaviour, which itself is subject to commercial arrangements between other parties within the supply chain. The QCA supported this position within their Draft Decision:

The QRC and IE both considered that having more information on the interactions between rail operators end users—for example, user requests to above-rail operators—could assist considerations under the rebate mechanism. We do not consider it appropriate to make amendments to UT5 that are intended to resolve matters arising under other commercial arrangements.⁴

³ QCA (2023). Draft Decision Notice - Review of Aurizon Network’s rebate mechanism, 23 March. Page 3.

⁴ QCA (2023). Draft Decision Notice - Review of Aurizon Network’s rebate mechanism, 23 March. Page 6.

Rather, Aurizon Network's interpretation (noting the context and intent of the overarching policy objectives above) is that Aurizon Network must demonstrate the extent to which TSE were unable to be ordered as a direct result of *below rail* activities. In other words, whether below rail activities in the planning and scheduling environment constrained network availability to the extent that Committed Capacity (or in the current circumstances where an Existing Capacity Deficit exists, Deliverable Network Capacity) could not be provided. Where below rail activities do not impose such a constraint, it follows that Aurizon Network has met its obligation to provide Committed Capacity (or Deliverable Network Capacity) and a shortfall at this stage of the train ordering process cannot be the result of an AN Performance Breach.

In FY22, Aurizon Network and the IE sought to demonstrate this and Aurizon Network undertook significant analysis using its RACE model. The RACE model is currently used by Aurizon Network to produce the Integrated Rail Plan (IRP). RACE was configured to produce a retrospective model to determine whether customers were unable to place orders due to below rail constraints. Whilst this analysis was insightful, Aurizon Network acknowledges the significant amount of time and computational resources required to process such a large volume of information through RACE.

For the purpose of the FY23 Rebate calculation, Aurizon Network has suggested that the IE models the actual below rail asset activity to determine whether Deliverable Network Capacity could have been achieved within the planning environment.

With this in mind, Aurizon Network has difficulty understanding how it has not materially met the second Rebate Objective given the significant amount of information provided to the IE in support of the process to date.

1.1 Additional information resulting from the System Rules engagement

Aurizon Network notes that at the time of negotiation and approval of UT5, the additional information now collected through the Integrated Rail Planning (IRP) process did not exist. The IRP process was trialled and then ultimately approved within the calendar year 2022 Central Queensland Coal Network (CQCN) System Rules amendments, for the purpose of improving the planning and scheduling of Train Services.

During the calendar year 2022 System Rules consultation period, customers specifically requested that the IRP remain a voluntary process to provide flexibility between demand submitted for the IRP and orders submitted for the ITP.

Aurizon Network is working with End Users and Train Operators to meet the additional reporting commitments within the System Rules. Specific reporting is currently being finalised, and will see Aurizon Network provide:

- visibility to End Users of IRP demand inputs, including the relevant tiers applied by Train Operators; and
- visibility of how Aurizon Network and other supply chain constraints impact IRP results through corridor-level aggregated supply chain reporting.

Since the System Rules were approved, Aurizon Network has been refining its processes and developing additional reporting that will allow for the provision of historical ordering information. Aurizon Network expects to commence publication of the IRP reports to Operators and End Users by the end of FY23.

Aurizon Network confirms that it has also engaged with the IE to provide a demonstration of the IRP and data collection processes and has commenced providing additional data to the IE.

2.0 Proposed Amendments to UT5

Consistent with the QCA's Draft Decision⁵, Aurizon Network considers that the drafting of UT5 is not proving a barrier to the Rebate mechanism achieving its objectives in a material way. Noting the actions undertaken by Aurizon Network to date to give effect to the Rebate Objectives, Aurizon Network would strongly oppose any suggestion that a Reset WACC Reduction Event should be triggered.

During its engagement with End Users and the IE, Aurizon Network made a commitment to consider proposed drafting that would provide additional clarity with respect to:

- Aurizon Network's commitment to providing transparent information; and
- the ability to allow for a system view of specific parameters in the methodology of calculating the rebate.

Aurizon Network received preliminary drafting from both the QRC and the IE on 10 May 2023 and 16 May 2023 respectively. Aurizon Network has voluntarily agreed to amend UT5 as follows:

2.1 Amendment to clause 10.8.2(a)(xx)

Aurizon Network believes the current drafting of clause 10.8.2(a)(xx) provides an appropriate obligation on Aurizon Network to respond to any reasonable request of the IE in relation to the provision of information to the extent that it is known and can be provided as soon as reasonably practical. Complying with this clause and ongoing engagement with the IE has seen Aurizon Network provide information to the IE that is not specifically outlined in 10.8.2(a)(i) to (xix). Aurizon Network understands the concerns of industry and has included agreed drafting in the Access Undertaking to address these concerns.

The agreed drafting outlines a practical approach for the provision of information not specifically outlined in 10.8.2(a). It is intended that:

- Aurizon Network and the IE will consult on the specific information request;
- following consultation, Aurizon Network will make a recommendation to the IE; and
- Aurizon Network will provide the requested information in the agreed form.

For example, in the circumstances where the IE has requested a specific data set that is not known or available to Aurizon Network, Aurizon Network would consult with the IE to understand what it is seeking to achieve with the data and will discuss alternate data options may be available. Once Aurizon Network and the IE have agreed the data that can be provided, Aurizon Network will consult with the IE on the form the data is to be provided and subject to system or other changes, provide the data as soon as reasonably practical.

In addition to the consultation and engagement with the IE, the new drafting allows for Aurizon Network to request information from other Supply Chain Participants for information that it might not currently have. Aurizon Network notes that any information will be voluntarily provided by those other supply chain participants, and to the extent that the Other Supply Chain participants are unable to provide the request information, Aurizon Network will not be deemed to be in breach of its obligations under UT5.

⁵ QCA (2023). Draft Decision Notice - Review of Aurizon Network's rebate mechanism, 23 March. Page 6.

The agreed drafting for Clause 10.8.2(a)(xx) is contained within Appendix 1

2.2 Amendment to clause 7A.6(b)

In their submission to the QCA, the IE noted that they believed the drafting of UT5 does not provide them with the flexibility to assess the AN Performance Shortfall and AN Performance Breach at a Coal System level prior to allocating any rebate to an origin/destination pair.

Aurizon Network agrees that the IE can assess outcomes at a Coal System and branchline level as part of its assessment. As outlined in section 3.0, Aurizon Network believes this is consistent with the Rebate Objectives.

Throughout the consultation period for responding to the Draft Decision, Aurizon Network has been engaging to establish the necessary drafting required within UT5. Aurizon Network has engaged the IE with regard to their concerns on system level assessments of the rebate and the IE has withdrawn their requirement for amendments to UT5.

2.3 Other matters

The IRP process has been designed to give effect to the hierarchical scheduling objectives in clause 8.1 of Schedule G with particular emphasis on 'ensuring Aurizon Network meets its contractual obligations with Access Holders'. The scheduling process, including the IRP, is an essential component of Aurizon Network's ability to align the accountability objectives of the Performance Rebate with its financial risk of payment of a Rebate. Where the scheduling process is not sufficiently robust to:

- support Aurizon Network meeting its contractual obligations to Access Holders; or
- ensure Access Holders are not unfairly differentiated between in respect of the use of their TSE;

then it may be necessary to amend either or both the System Rules and Schedule G of UT5 to align the scheduling processes with access liabilities and obligations. These issues will be subject to review and consultation through the calendar year 2023 System Rules review.

3.0 Reaffirming the Rebate Policy Objectives

Aurizon Network considers that the calculation methodology of the Performance Rebate Amount requires further development for the purpose of calculating any rebate for FY23 and beyond.

The intent of Part 7A of UT5 (which includes the Rebate provisions) is to:

Provide for the independent and realistic assessment of [Deliverable Network Capacity and System Capacity of each Coal System] having regard to the way in which that Coal System operates in practice (and in the context of the interfaces between each element of the Supply Chains within that Coal System) and making allowances that reflect operational parameters⁶.

As noted above, the methodology used to calculate the FY22 Performance Rebate Amount was a pragmatic solution to expediate the FY22 process due to timing, with a view to moving towards a more refined methodology that more accurately reflects the process for determining

⁶ Aurizon Network (2023). Aurizon Network 2017 Access Undertaking (UT5), 23 March. Page 140.

a Performance Rebate under UT5 for FY23. The QCA's Draft Decision recognised this and specifically called out the relative 'newness' of the Rebate calculation.

3.1 Variability is contemplated in the way each Coal System operates in practice

A key consideration of the exception in Clause 7A.11.2(q) is the need to have regard to the inherent 'system capacity variability' and 'latent capacity as a buffer for the variability.' This implicitly assumes that where additional asset activity has occurred which has resulted in additional possessions or cancellations, this needs to be considered in the context of whether Aurizon Network has met its obligations by providing the Deliverable Network Capacity (or Committed Capacity) over the entirety of the year.

In other words, it acknowledges that a cancelled TSE can be 'caught up' or rescheduled such that an End User can still achieve its throughput objectives over the relevant year. This must include where additional TSE's are delivered through an Ad-Hoc arrangement and not just through an Access Agreement. It follows that where Aurizon Network has provided the opportunity for all Origin / Destination pairs to achieve the Deliverable Network Capacity (Committed Capacity) after having regard to below rail impacts, then Aurizon Network has met its obligations to its customers over the year because there is no capacity shortfall.

In addition, whether a TSE was ordered but not provided, or not utilised in respect of a single planning period, is not independent of whether those services were unable to be ordered in other planning periods within the annual assessment. Consequently, the matter of whether a TSE is unable to be ordered is dependent on the extent to which Aurizon Network delivered the necessary capacity over all planning periods within the Year.

Accordingly, taking a Coal System view will allow consideration of the:

- Assessment of Delivered Capacity;
- Assessment of TSE utilisation;
- Assessment of Aurizon Network Performance Shortfall; and
- Assessment of Aurizon Network Performance Breach.

Aurizon Network welcomes the opportunity to continue working together with the Independent Expert and End Users .

Should you have any questions in relation to this submission please contact Mike Bray via email Michael.Bray@aurizon.com.au

Kind regards,



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Aurizon Network

Appendix 1: Drafting for Clause 10.8.2(a)(xx)

(xx) any other information reasonably requested by the Independent Expert in connection with its functions.

Including:

(A) where requested by the Independent Expert, make recommendations to the Independent Expert to improve the collation or collection of information relevant to the assessments undertaken by the Independent Expert under clause 7A.6 and the achievement of the Rebate Objective 7A.6(g)(ii);

(B) consult (including on a reasonably regular basis) with the Independent Expert on the collection, analysis and presentation of information relevant to the assessments undertaken (or to be undertaken) by the Independent Expert under clause 7A.6 and the achievement of the Rebate Objective 7A.6 (g)(ii);

(C) where reasonably possible, provide information to the Independent Expert in a form reasonably requested by the Independent Expert; and

~~(C)~~(D) where reasonably requested by the Independent Expert promptly request information from Access Holders, Customers and Railway Operators relevant to the assessments undertaken by the Independent Expert under clause 7A.6 and the achievement of the Rebate Objective 7A.6(g)(ii).

- (b) Aurizon Network's obligation to provide the information referred to in **clauses 10.8.2(a)(iii), 10.8.2(a)(v), 10.8.2(a)(vii)(A)** (in so far as it relates to the hours scheduled for that Maintenance Work), **10.8.2(a)(ix)** and **10.8.2(a)(xvi)** commences 3 Months after the Approval Date.