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28 March 2024

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

Dear George,

Aurizon Network – Review of Reference Tariffs FY 2025

We refer to the Queensland Competition Authority's ("QCA's") Stakeholder Notice published 29 February 2024 regarding Aurizon Networks 2024-25 proposed reference tariff variations ("FY25ARRT"). Glencore appreciate the opportunity to make a submission.

Our submission relates to the treatment of infrastructure rebates and approved Private Incremental Costs for both privately owned and Aurizon Network owned infrastructure, as they relate to Revenue Adjustment Amounts and the calculation of reference tariffs for particular loading facilities.

Background:

[REDACTED] is party to a Rebate Deed dated [REDACTED]. This deed sets out the method by which Aurizon Network will compensate the parties who funded rail infrastructure connecting the [REDACTED] to the wider [REDACTED] under an Access Facilitation Deed (AFD) given the assets are included in the Regulated Asset Base (RAB) and as such priced into the [REDACTED] Reference Tariff.

[REDACTED]

[REDACTED]

Issue:

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

Glencore note that AFD / Rebate Deeds were established during UT1, where the regulatory model applied was a price cap and collar – that is, the reference tariffs were established based on forecast volume, and AN was subject to volume risk with an entitlement to review reference tariffs if actual volume varied from forecast by +/-10%. Whilst the Rebate Deed arrangements for take or pay may have been appropriate in the UT1 environment (when Aurizon Network were subject to some volume risk), they are no longer appropriate under UT5.

[REDACTED]

[REDACTED]

Glencore Recommendation:

Glencore strongly believe that, given the changes in revenue provisions and the introduction of PIC provisions between UT1 and UT5, the rebate mechanism under the Rebate Deed requires review. The anticipated methods to resolve this issue include redrafting of the Rebate Deed [REDACTED], or amending the Rebate Deed to provide that the rebate will be provided by way of discount on the System Tariff consistent with PIC arrangements.

Whilst Private Infrastructure Owners and parties to AFD's / Rebate Deeds both assume volume risk on mine specific infrastructure, a key difference between a Private Infrastructure Owner and an AFD Holder is that the Private Infrastructure Owner's take or pay is calculated with reference to its discounted access charge whereas the AFD Holder's take or pay is calculated with reference to the System Reference Tariff and then subject to take or pay provisions under the relevant Rebate Deed.

Glencore propose that the most efficient way to address this issue is to align the methodology with the PIC provisions by way of upfront discount. This methodology provides transparency to all Aurizon Network customers and would provide consistency between customers who have funded either privately owned or network owned infrastructure, past and present and future. This methodology also decreases the administrative burden on both Aurizon Network and parties to rebate deeds who currently prepare, review and make payments monthly and annually for take or pay (when triggered).

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The impending application of a PIC discount for Olive Downs as highlighted in the FY25ARRT Network submission seems an appropriate opportunity for the Rebate Deed (and potentially others under similar arrangements) to be reviewed. We note that this is unable to be achieved without QCA endorsement.

Glencore have notified Aurizon Network of this issue and are seeking the QCA's endorsement of the proposed change from rebate to upfront discount, to progress a change to the Rebate Deed.

Glencore propose that Aurizon Network, with the support of the QCA:

- **reduce the System Allowable Revenue by an amount equivalent to the Allowable Revenue attributable to the Rebate Assets used to calculate the Rebate payment; and**
- **applied a discount to the System Reference Tariff equivalent to the Rebate.**

Glencore believe that the application of a discounted access charge in lieu of rebate for AFD holders is consistent with the following regulatory principles:

- for the purpose of the determination of Access Charges in clause 6.3.1 of the Undertaking there is no practical distinction between Private Incremental Costs and the AFD Funded Incremental Costs other than ownership;
- the annual maximum allowable revenue for Rebate Assets is determined in the same manners as the 'annual maximum allowable revenue (calculated in the same manner as for the relevant Reference Tariff) derived from the Approved PIC';
- for the purpose of 6.2.3(a) the discounted access charge varies from the applicable Reference Tariff solely on the basis of the costs and risks associated with the AFD Holder funded Rebate Assets where 6.2.3(a) states:

Subject to clause 6.13, Aurizon Network may seek to commercially negotiate and agree a reasonable Access Charge with an Access Seeker at any time that varies from the applicable Reference Tariff to recognise a difference in cost or risk associated with the provision of Access to a Train Service that has different characteristics to the Reference Train Service.

- The economic characteristics of mine specific Rebate Assets are no different from the economic characteristics of Private Infrastructure;
- AFDs are a form of "Access Conditions" which were implemented under the terms of the access undertaking at that time, for the purpose of clause 6.13;
- If Aurizon Network entered into a new AFD in the future, then 6.2.3(b) would require Aurizon Network to exclude the costs components relating to those AFD funded assets from the Asset Base and the cost base used to determine the Access Charge and Reference Tariff for that Access Holder and as such necessitate a system discount;
- The definition of Private Incremental Costs includes the ability for the costs associated with connecting infrastructure (owned by Aurizon Network) to be included in Private Incremental Costs. Therefore, it is not inconsistent with the Undertaking principles to apply a discounted access charge to other AFD funded mine specific infrastructure owned by Aurizon Network.

Conclusion:

█ have the right to request a review of the Rebate Deed given changes the changes in the Undertaking since UT1. The changes to revenue provisions and the introduction of PIC discounts support the proposal that █. The application of a discount akin to the PIC provisions is consistent with regulatory principles and provides consistency, transparency and equitable treatment between users who have funded assets.

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Glencore kindly request the QCA provide appropriate guidance in its consideration of the FY25ARRT that the provision of an upfront discount on System Reference Tariffs is not only consistent with the principles contained in the Undertaking, but also the most efficient, equitable and transparent mechanism to compensate parties to AFD's / Rebate Deeds for their previous substantial investments. Indication of the QCA's support for this approach will allow Glencore and Aurizon Network to progress changes to the Rebate Deed and require Aurizon Network to submit a DAAU which allows for a discount on the System Reference Tariff for [REDACTED].

We thank you for your consideration of our proposed recommendation and for the opportunity to comment on the Aurizon Network Annual Review of Reference Tariffs for FY2025.

Yours Sincerely

Megan Chapman
Glencore