

Submission to the Queensland Competition Authority

**Submission in response to
Aurizon Network's extension DAAU**

Anglo American Metallurgical Coal Pty Ltd

May 2014

1. Executive summary

- 1.1 Anglo American Metallurgical Coal Pty Ltd (**Anglo American**) welcomes this opportunity to make a submission to the Queensland Competition Authority (**QCA**) on the application by Aurizon Network Pty Ltd (**Aurizon Network**) extension of the 2010 Access Undertaking (**UT3**).
- 1.2 Anglo American supports the submission made by the Queensland Resources Council (**QRC**) in respect of the Draft Amending Access Undertaking (**DAAU**). In addition, Anglo American is particularly concerned with two aspects of the application, being:
- (a) the volume assumptions for the Moura System may not reflect the likely volumes; and
 - (b) the inclusion of the costs claimed in respect of the review event, being the flood costs for 2013 (**Review Event**).
- 1.3 Anglo requests that the costs claimed for the Review Event are excluded.

2. Volume Assumptions

- 2.1 The Explanatory Memorandum for the DAAU (**Explanatory Memo**) sets out Aurizon Network's approach to setting final reference tariffs for FY2014 and also transitional reference tariffs for FY2015.
- 2.2 Section 3.3 of the Explanatory Memo sets out a table containing the volume forecasts for the various systems. Relevantly in respect of the Moura System, that table provides:

	FY2014 Transitional mt	FY2015 UT4 Submission mt	FY2015 Proposed mt
Moura	13.5	11.0	13.1

- 2.3 Although it is not clear what the basis is for the estimate of 13.1 mt, it would seem to Anglo American that this may assume that the Baralaba mine expansion project for railings to Wiggins Island Coal Terminal will become operational during FY2015.
- 2.4 Anglo American believes that the QCA should make its own assessment of the forecast volumes or should at least request Aurizon Network to provide the QCA with a basis for its forecasts.

3. Inclusion of the Review Event Costs

- 3.1 Anglo American submits that the QCA should not accept Aurizon Network's inclusion of the costs of the Review Event, being the flood costs of 2013.
- 3.2 Primarily this is because those costs have not been approved by the QCA and therefore the existing concerns raised by stakeholders in respect of the initial flood claim and in the report by Sinclair Knight Merz (**SKM**) commissioned by the QCA have not been addressed. This includes the following concerns which were raised by Anglo American in the submissions on the flood event dated September 2013 and April 2014:
- (a) the quantum of costs for the repair of the Moura System seems high and the SKM report did not accept a significant amount of the claimed costs;

- (b) before making a decision on the 2013 Review Event the QCA should be entirely satisfied that Aurizon Network has thoroughly exhausted all avenues of insurance claims;
 - (c) although previously accepted by the QCA, Anglo American does not believe that Aurizon Network should obtain a margin of 5.75% on labour costs as costs recovered for a Review Event should be on a cost-pass through basis;
 - (d) Aurizon Network should clearly explain (and provide supporting documentation for) the significant 34% increase in costs from September 2013 (when it was estimated that there was \$4,251,000 of future costs) to March 2014 (where the actual further costs incurred were \$5,698,187);
 - (e) Aurizon Network should not be entitled to a full Weighted Average Cost of Capital (WACC) on the costs but should be entitled to escalation at a rate equivalent to its costs of holding the amount payable and reflecting the delay in repayment. Anglo American believes that this is circa 5% as opposed to WACC at 9.96%; and
 - (f) To the extent that works undertaken as a result of the Review Event which would otherwise have been undertaken by Aurizon Network as part of planned activities during the course of UT3 or UT4 regulatory periods (eg capital renewals/upgrades or maintenance), then Aurizon Network has already been, or will be, compensated in accordance with the regulatory regime and therefore should not be allowed to "double dip" by recovering these costs from the Review Event.
- 3.3 Until those matters are addressed the costs should not be recoverable. An extraordinary event adjustment charge should not, as a matter of principle, be recovered under interim tariff arrangements.
- 3.4 In circumstances where there are significant issues raised in respect of the quantum of the acceptable costs of the Review Event, Anglo American submits that it is inappropriate to include those costs in the DAAU.
- 3.5 In respect of the recovery of the adjustment, Anglo American believes that it should be smoothed over the FY2015-2017 years for the reasons identified in the submission of the QRC, in particular, that this Option A ensures certainty on the quantum of tariffs for FY2014 and avoids complexities in respect of take or pay calculations. In addition, on the Moura System, if the entirety of the adjustment charge is recovered in FY2015 then Anglo American will have to pay nearly all of the adjustment whereas if it is smoothed over 3 years then the costs will be more appropriately balance between Anglo American's Dawson Mine and the Baralaba Mine (which is currently expanding). An outcome which balances the responsibility for payment between Dawson and Baralaba based upon future usage is more economically efficient and fair.