



**PEABODY ENERGY
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Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Malcolm

Peabody Energy Australia Pty Ltd (“Peabody”) Submission to the Queensland Competition Authority (“QCA”) - Aurizon Networks FY2014 Revenue Adjustment and increments.

Introduction

Peabody welcomes the opportunity to respond to Aurizon Networks FY2014 Revenue Adjustment and Increments paper submitted on 30 September 2014. Aurizon network has outlined various adjustment mechanisms that would form part of the Reference Tariffs FY2016. Peabody provides the following comments on the submission;

Increments

Peabody rejects the mechanism of an increment of 2% of Total AT2-4 System Allowable Revenue for the Goonyella system. Peabody submits that it should be demonstrated that contracts can be exceeded through efficiency based measures prior to a forecast of supply in order to gain an increment. Efficiency is the ability of an asset to exceed contract (assuming the asset is capable of delivering the contract) through a change in operational performance without an increase in long term capital and operational costs of the asset.

In relation to the application of an increment in reference to Clause 3.3.1 of the undertaking, while the system forecast is presently the prevailing hurdle to claiming an increment, it is noted that the increment is based on increased efficiency. From the information that has been provided, the projects and initiatives put forward do not appear to be sufficiently clear to have provided the direct efficiency enhancements that have enabled the increase above forecast with some projects and initiatives appearing for purposes other than efficiency, i.e. the Gracemere overpass is likely a safety related initiative while the overhead asset renewal appears a contractual service obligation.

Given the lack of clarity with the requirements of the initiatives and noting that some are related to other issues and excluding those with a capital cost that are without a commensurate operational cost reduction, Peabody does not believe that the efficiency of the Network has been increased, albeit it is recognised that the utilisation of the installed contracted capacity has increased.

Electric Traction

Peabody supports the Aurizon network submission to rebate excess AT5 Electric Traction costs in the FY2016 period. We note that electric supply costs are generally a pass through arrangement with true-up in subsequent periods.

Rebate Adjustments

Peabody proposes that rebate adjustments for Access Facilitation Deed holders (and any associated agreements) should be removed from any subsequent year review of revenue and that Aurizon Network should undertake reviews directly with holders of applicable agreements to maintain an accurate, agreeable and transparent position. As an Access Facilitation Deed holder, we do support these rebate adjustments being part of the process put forward and would seek to understand this position in a separate process.

Summary

Peabody rejects the proposed increment based on the lack of evidence of efficiency measures in exceeding the forecast. Peabody supports the AT5 true-up in a subsequent period but have concerns over the transparency and engagement with Aurizon Network on a suitable process for the annual review of rebate adjustments.

Please contact +61 7 3333 5628 should you have any further queries on this submission.