

SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY

FLOOD EVENT 2015 – DRAFT DECISION

11 NOVEMBER 2016

Anglo American Coal Australia (**Anglo American**) welcomes the opportunity to make a submission to the Queensland Competition Authority (**QCA**) in relation to the draft decision on the Flood Event 2015.

Comments on draft decision

Section 3.2 Capitalisation

Anglo American is still of the opinion the works set out in the 2015 Review Event are not incremental maintenance activities and can be considered capital in nature. This belief is heightened by the vagueness in Aurizon Network's approach to classifying capital works as shown from the Jacobs' statement in their assessment of Aurizon Network's claim:

Aurizon Network uses the term maintenance costs to differentiate certain costs from capital costs. Maintenance costs may be considered as a proxy for operating costs. Aurizon Network differentiates between maintenance costs and capital expenditure costs on quantum not type of expenditure. For example if during a track repair 20 sleepers required to be replaced, this is considered a maintenance cost. However, if 21 or more sleepers require to be replaced, this is considered a capital cost. The document that Aurizon Network uses to define these quantum for various cost categories is not definitive and still in draft form. As such, there is a lack of absolute definition of which costs should be treated as maintenance costs and which capital costs. Incremental maintenance costs is the term used by Aurizon Network to define maintenance costs that are beyond 'business as usual' operating costs such as, in this case, costs related to flood repairs.

Anglo American believes that it is time for a different and more practical approach to the treatment of what has become a seemingly recurring event. It is believed that due to the scale of expenditure associated with the flood rectification works and the arbitrary decision of whether these costs are claimed as incremental maintenance or capital, any prudent expenditure claimed should be rolled into the RAB and then recovered by Aurizon Network through the regulatory regime over the life of the asset.

Section 3.3 Self Insurance

Anglo American supports the QCA's view that Aurizon Network should provide further information to demonstrate that the claimed flood costs are not covered in the self-insurance allowance in the QCA final decision on the 2014 DAU.

Section 3.4 Escalation

Anglo American supports the mid-point approach to determining the appropriate escalation, noting this removes the double counting and windfall concerns that arise from Aurizon Network's current escalation calculations.

Section 4.1 Recovery period

Should recovery of any amounts not be capitalised into the RAB, then Anglo American seeks a recovery period for those amounts which will incorporate FY17 and FY18, in order to reduce price shocks.