

GLENCORE

6 October 2023

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 – GAPE Newlands pricing DAAU April 2023 – Draft Decision

We refer to the Queensland Competition Authority's ("QCA's") Draft Decision published 24 August 2023 regarding Aurizon Network's GAPE Newlands pricing DAAU April 2023 ("DAAU"). Glencore appreciates the opportunity to comment on the Draft Decision on behalf of mines located in both the Newlands system (Existing Newlands Access Holders) and GAPE system (GAPE Access Holder). Our response to each of the DAAU's key items are discussed below:

1. Asset Replacement and Renewals Expenditure

Glencore supports the QCA's Draft Decision regarding the allocation of renewals based on Gtk Forecast between the Newlands and GAPE systems. Glencore is unsure why a DAAU is required to implement this method of allocation and is disappointed that Aurizon Network has perpetuated the current inequitable process for the last few years despite consistent consensus support for this aspect of the DAAU. Glencore notes that there are commercial incentives for Aurizon Network to continue to delay this implementation and as such we request that the QCA insist the methodology be applied from FY2024 pricing at a minimum, and for the QCA to consider retrospective application given the unreasonable length of time that it has taken for this issue to be resolved.

2. Newlands System Infrastructure Enhancements (NSIE) Amounts

Glencore is encouraged by the QCA's position that there should be no further deferral of NSIE, together with recognition of the competing incentives that Aurizon have between commercial arrangements and the regulated framework.

Glencore is, however, extremely disappointed that the QCA has enabled the double recovery of part of the NSIE capital included in the \$81.4M to be included in the Newlands Pricing RAB. The previously agreed position between Aurizon Network and its customers was unanimous and addressed this potential double recovery, whilst the QCA's views expressed in the preliminary considerations of the initial DAAU served as permission for this double recovery to occur.

Glencore are perplexed as to why the QCA would encourage such behaviour, allowing Aurizon Network recovery of an additional \$34.5M (plus WACC return). The agreed position between Aurizon Network and its customers appears to Glencore to be within the range of acceptable regulatory outcomes and we do not believe there was any appropriate regulatory basis for the QCA to reject this approach and recommend the higher amount be added to the RAB.

The Draft Decision states that \$81.4M appears to be the appropriate amount of NSIE capital to be included in the Newlands Pricing RAB as it reflects the value of the capital had it been included in the Newlands pricing RAB at the earliest possible opportunity. Whilst Aurizon contends that the earliest possible opportunity for capitalization was from the commencement of UT5, Glencore notes that publicly available information indicates that railings from the NAPE expansion customer may have occurred as early as 2014, the year Drake Mine reported first coal. This coal was, we understand, transported via mine infrastructure (a coal haul road) to the Sonoma load point where it accessed the CQCN and enjoyed the benefits of the additional capacity created via the NSIE. Glencore believes that Aurizon Network should have been aware of the commencement of railings by the NAPE expansion customer, as reasonable enquiries would have revealed this to be the case.

Glencore is concerned that competing commercial incentives may have influenced Aurizon Network's decision to defer the NSIE capital at the time. Aurizon Network could have submitted a DAAU for NAPE pricing at the time of or prior to the NAPE customers' first railings. There are other instances where this has occurred, such as for Meteor Downs South where a DAAU was submitted for pricing prior to the expansion works being completed. Glencore would appreciate the QCA investigating why Aurizon Network did not seek to commence recovery of the NSIE at this earlier point and seek to recalculate the appropriate amount of NSIE to be included in the Newlands Pricing RAB once all relevant information has been made available and assessed accordingly

3. Contract-volume-based pricing in the Newlands System

Glencore supports the QCA's Draft Decision to retain the current pricing arrangements at this time in the Newlands system which utilise forecast volumes to determine tariffs.

4. GAPE Reference Tariff Service Criteria

Glencore supports the position adopted by the Draft Decision regarding the GAPE Reference Tariff Service Criteria and reiterate its willingness to reconsider amending the criteria to allow for capacity transfers between the GAPE and Newlands systems once the ECD has been extinguished.

It should be noted the changing of the GAPE Reference Tariff Service Criteria would, in our view, result in the GAPE System Tariff becoming the highest reference tariff applicable in the Newlands System and would therefore require any PIC discounts to be applied to the GAPE tariff.

5. Application of PIC Discounts to GAPE and Newlands Reference Tariffs

Glencore acknowledges the views of the QCA regarding retrospectivity and certainty of changes to the PIC rules. Glencore is concerned, however, that the current recovery mechanisms for PIC may result in Bravus recovering significantly more than intended, at the cost of other Newlands customers.

It is understood that Bravus is currently raiiling far in excess of both what Aurizon Network had forecast for FY24 pricing purposes and its contracted capacity. We suggest the QCA requests this information from Aurizon Network to verify whether this is the case. Glencore's view is that either Aurizon Network should more appropriately reflect Bravus's intended railings in the forecast volumes, or that the PIC discount should be limited to the volumes used (forecast or contract) to derive the relevant tariff to avoid the unintended outcome where other Newlands customers are subsidising the additional PIC recovery.

We thank you for your consideration and for the opportunity to comment on this DAAU.

Yours Sincerely



Frank Coldwell
Coal Assets, Glencore