

Draft Decision

Aurizon 2014 Draft Access Undertaking — Draft Decision VOLUME III – Pricing & Tariffs

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15 PRICING FRAMEWORKS FOR RAIL ACCESS

15.1 Introduction

In September 2014, we released our Draft Decision on Aurizon Network's proposed costs and maximum allowable revenue (MAR). This Draft Decision responds to the remaining 2014 DAU matters, including policy matters and the pricing principles used as a basis for Aurizon Network's proposed reference tariffs.

The pricing of access to the declared service is an important aspect of the 2014 DAU. The pricing of access to the CQCN is determined subject to the MAR which acts as an overall revenue constraint. The MAR forms the basis for calculating reference tariffs and determining system allowable revenues, both of which are contained in Schedule F of the 2014 DAU. This information is used to formulate annual access charges, including their adjustments.

Aurizon Network has not proposed to alter the reference tariff structure in its 2014 DAU.⁷⁶⁸ However, Aurizon Network has proposed a number of changes to existing pricing arrangements in the 2014 DAU including:

- a major rebalancing of its tariff arrangements through significant increases in the incremental capacity charge (AT2 reference tariff) in various systems
- changes to the arrangements for the incremental maintenance charge (AT1) to minimise the variability in its overall annual revenue
- changes to the capping mechanisms for take-or-pay arrangements
- new approaches to the pricing of new train services, including expansions and new spur lines connected to the CQCN.

In having regard to any other issues that we consider relevant in section 138(2)(h) of the QCA Act, we consider the appropriate pricing arrangements should also be considered in the context of medium- and longer-term objectives to increase productivity, system flexibility and innovation within the CQCN. Such matters are consistent with the object of Part 5 of the QCA Act, as identified in further detail below. Within this context, we need to consider whether the changes proposed by Aurizon Network will facilitate the ongoing development of the CQCN. We consider that some of these changes appear to add further complexity to existing pricing arrangements.

The existing tariff arrangements have been in place since UT1 and have been adapted through time as new issues arise, progressively becoming more complex. We are of the view that the existing pricing structure is overdue for review and potential simplification. However, we consider that prior to any major changes to existing pricing arrangements there needs to be a more transparent and rigorous review of the future structure of reference tariffs and the role of take-or-pay. We consider this more strategic approach, supported by full stakeholder consultation, should be pursued for UT5.

⁷⁶⁸ 2014 DAU, Schedule F, Clause 2.2

15.2 Existing pricing arrangements

Part 6 of Aurizon Network's 2014 DAU sets out the pricing principles Aurizon Network proposes to apply when setting access charges for train services operating in the CQCN. Consistent with previous access undertakings, this framework provides for access charges to be calculated by Aurizon Network between a floor (incremental cost) and a ceiling (stand-alone cost).

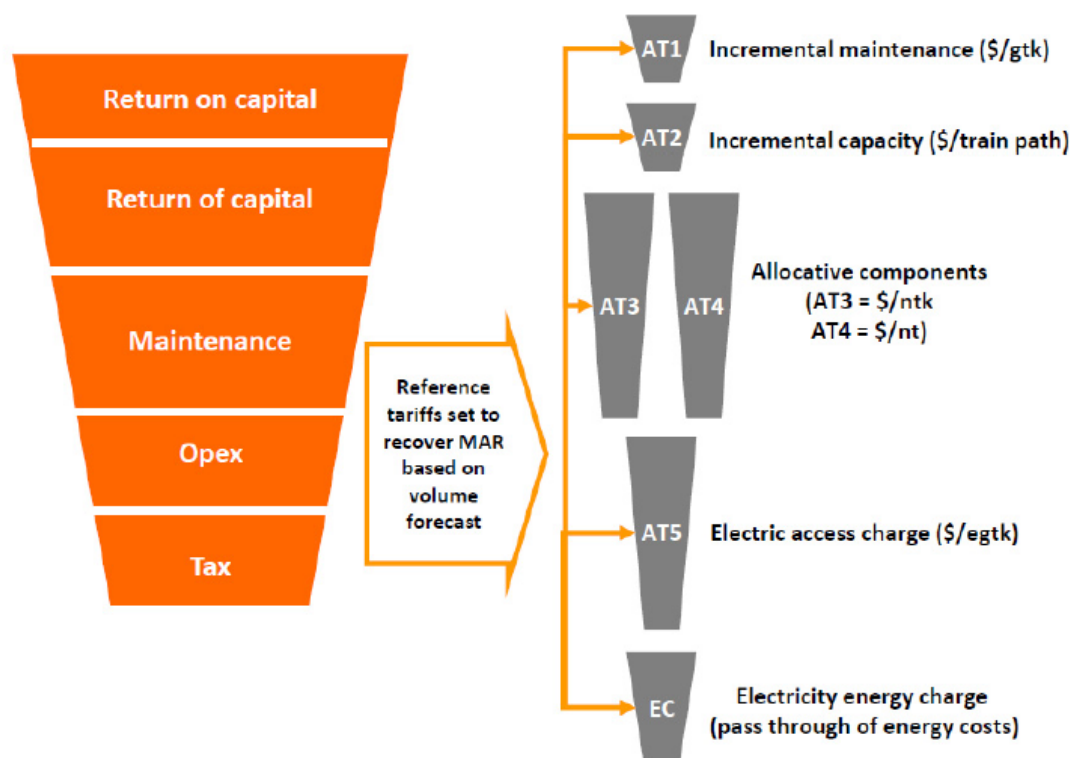
In order to provide access seekers with greater transparency about how Aurizon Network will set and negotiate prices for access, reference tariffs are developed for a model train service, known as the reference train service. The access charge for a particular train service may be higher or lower than the relevant reference tariff where the particular train service characteristics differ in cost or risk from the reference train service characteristics.

Reference tariff structure

Aurizon Network's proposed multi-part reference tariff structure in its 2014 DAU largely reflects the tariff structure developed for the 2001 AU (UT1). This five-part tariff structure seeks to reflect the incremental or marginal costs of operating a reference train as well as allocative components that ensure that Aurizon Network recovers its allowable revenues.

Figure 10 below shows the components of the existing multi-part reference tariff structure.

Figure 10 Translation of building blocks revenue into reference tariffs



Source: Aurizon Network, 2013 DAU, sub. no. 3: 9.

While the existing reference tariff structure has remained relatively unchanged since UT1, other aspects of the regulatory framework have been modified to reflect changes to the external environment. Key changes to the regulatory framework include more stringent take-or-pay

arrangements from UT2 onwards⁷⁶⁹, the move from a price cap to a revenue cap regulatory framework in 2007⁷⁷⁰, and a move from cluster based pricing to system reference tariffs in UT3.⁷⁷¹

The existing pricing structure was introduced in UT1 to achieve a number of objectives, including to:

- link charges explicitly to specific cost drivers, ensuring that users pay access charges according to costs they impose on the system⁷⁷²
- provide signals for efficient use of capacity⁷⁷³
- ensure that Aurizon Network recovered its efficient costs⁷⁷⁴
- encourage development of the Queensland mining industry.⁷⁷⁵

The existing multi-part reference tariff structure aims to provide a mechanism for adjusting access charges to reflect the different costs that each user imposes on the rail network through operational arrangements. Consequently, the pricing structure aims to separately link tariff components to causative factors in the form of marginal costs of maintenance (AT1 tariff) and incremental costs of providing capacity (AT2 tariff).

Table 79 below outlines the cost components associated with each of the tariff inputs in the existing multi-part reference tariff structure.

Table 79 Reference tariff components

<i>Tariff input</i>	<i>Pricing unit</i>	<i>Cost component</i>
AT1	Gross tonne kilometre (gtk)	<p>The incremental maintenance tariff component (AT1) aims to signal the increase in maintenance costs that would result from an increase in volume.</p> <p>It is levied on a gtk basis, recognising that additional maintenance costs arise from the 'wear and tear' of below-rail assets associated with a train service, in terms of train weight (i.e. tare weight of train plus weight of coal hauled) and distance travelled.</p>
AT2	Reference train path	<p>The incremental capacity tariff (AT2) aims to signal the capital costs required to add an extra train path to a system where the system is at full capacity (i.e. the long-run marginal costs of providing access). The AT2 tariff is adjusted by the reference train path multiplier to signal the opportunity cost imposed on the system by a train which consumes more than one reference train path (e.g. a coal train that is slower than the reference train may consume more capacity).</p> <p>The AT2 is levied in terms of train paths, recognising this measure as a typical indicator of capacity of railway infrastructure.</p> <p>Since the AT2 is the only tariff component that does not vary in proportion to tonnes carried, this component reflects the opportunity cost of running a short train, or a partially loaded train, using a path that could have been used by a fully-loaded reference train.</p>

⁷⁶⁹ QCA 2006: 29–30

⁷⁷⁰ QCA 2007(a)

⁷⁷¹ QCA 2009: 158–160

⁷⁷² QCA 2000(b): 53

⁷⁷³ QCA 2000(b): 50

⁷⁷⁴ QCA 2000(b): 57

⁷⁷⁵ QCA 2000(b): 58–59

<i>Tariff input</i>	<i>Pricing unit</i>	<i>Cost component</i>
AT3	Net tonne kilometre (ntk)	In addition to ensuring revenue adequacy, the AT3 and AT4 incremental tariff components include a distance taper (or distance discount) in the pricing structure by separately recovering equal amounts (i.e. 50 per cent) of the residual revenue on a net tonne kilometre (AT3) and net tonne basis (AT4).
AT4	Net tonne (nt)	Under this distance taper, everything else being equal, access charges decline on a \$/net tonne or \$/gross tonne basis as distance increases. This methodology is unchanged from UT1, and was implemented to encourage development of the Queensland coal industry by providing a lower \$/net tonne unit cost for longer distances. ⁷⁷⁶
AT5	Electric gross tonne kilometre (egtk)	The electric access tariff (AT5) signals the costs of using electric assets and is only applicable for electrical train services operating in Goonyella and Blackwater systems where electric infrastructure is available.
EC	Electric gross tonne kilometre (egtk)	The electric energy charge (EC) is a function of distance travelled and tonnes and is only applicable for electrical train services.

The existing regime is a hybrid form of regulation since the revenue cap is only applied to a part of the MAR. Specifically, a revenue cap is applied to the incremental capacity and allocative tariff components (i.e. AT2, AT3 and AT4), as well as the electric access tariff (i.e. AT5). The portion of the MAR outside of the cap (i.e. the incremental maintenance tariff AT1) is still subject to volume changes.

Take-or-pay arrangements

Take-or-pay arrangements are also a component of existing reference tariff arrangements that aim to:

- encourage consistent network use by above-rail operators, and in turn by mines, to achieve efficient use of infrastructure
- discourage above-rail operators and mines from systematically overestimating their capacity requirements.

The existing take-or-pay arrangements differ substantially between UT1⁷⁷⁷ and post-UT1⁷⁷⁸ access holders. In addition, the various 'vintages' of take-or-pay arrangements are all subject to a system trigger test which prevents full accountability of individual users for use of their contracted capacity. The system test will only trigger take-or-pay obligations in a particular year if users do not achieve forecast volumes assessed in aggregate (in gross tonne kilometre terms) for a particular system reference tariff.

Expansion, private infrastructure and new loading point tariffs

Aurizon Network and the industry have collaborated with the QRC to present a new expansion pricing process in Part 6 of the 2014 DAU. Chapter 16 on pricing principles provides further details on our assessment of the proposed approach to pricing expansions including the 'socialisation' test and the appropriate allocation of costs to existing users.

⁷⁷⁶ QCA 2000(b): 58–59

⁷⁷⁷ UT1 agreements refer to access agreements executed or renewed prior to 30 June 2006.

⁷⁷⁸ Post-UT1 agreements refer to access agreements executed or renewed on or after 30 June 2006.

The proposed new calculation of reference tariffs for coal-carrying train services that use new loading points or private infrastructure (as a result of new mine-specific spurs) seeks to provide a discount to new users to:

- adjust the contribution to common costs applicable to a particular access seeker on the basis of its capacity to pay
- reflect that the existing system reference tariff will be recovering costs associated with socialised spur lines.

This proposed treatment removes the requirement for users to disclose the costs of their privately funded spur lines, with the calculation of an applicable reference tariff based on the length of the spur line and mainline haul length, rather than by reference to private incremental costs. This aims to preserve the distance taper for private spur lines, while removing the requirement that owners of private spurs disclose their costs to Aurizon Network.

Further, the proposed approach recognises that since the MAR includes the costs associated with existing spur lines privately funded under Access Facilitation Deeds (AFDs), it may seem unreasonable for new users with private infrastructure to pay the full reference tariff (as the costs of private infrastructure will not be included into the RAB).

The future treatment of spur lines included in the RAB will have implications for the simplicity and transparency of any future tariff arrangements in the CQCN.

15.3 Legislative framework and QCA assessment approach

15.3.1 Legislative framework

As set out in Chapter 2, we are required to assess Aurizon Network's 2014 DAU, having regard to the criteria in section 138(2) of the QCA Act. Section 138(2) describes matters we are required to have regard to. However, the QCA Act does not prescribe the weightings for each matter. Section 138(2)(h) also provides that we can have regard to any other issue(s) we consider relevant.

For the pricing and tariff issues—Chapters 15 to 18—we have considered the application of section 138(2) as set out below.

Efficient costs

We undertook a detailed analysis of the pricing principles applicable to the 2014 DAU in the context of our Draft Decision for the MAR. As part of that decision, we considered the concept of 'efficient costs'. We refer to our earlier reasoning as set out in section 2.1.2 of the Draft Decision relating to the MAR and note that we hold the same view and have applied the same analysis and conclusions in relation to this Draft Decision.

Our MAR Draft Decision also said for pricing and tariffs for the 2014 DAU, the access undertaking should ensure Aurizon Network is able to recover no more than, and no less than, its efficient costs. We previously identified that this balances the legitimate business interests of Aurizon Network against the interests of access seekers and access holders (ss. 138(2)(b), (d) and (h) of the QCA Act).

Allocation of costs

When considering the pricing principles, sub-sections 168A(b) and (c) deal with cost allocation. In respect of cost allocation we must also have regard to section 137(1A)(b) of the QCA Act. Section 137(1A)(b) applies to Aurizon Network as a 'related access provider', namely an access

provider that not only owns or operates the declared service, but also provides, or proposes to provide, access to the service to itself or a related body corporate.

Section 168A(b) allows for multi-part pricing and price discrimination, when it aids efficiency. In this context, we must consider whether the proposed tariff arrangements for the 2014 DAU provide appropriate price signals to access seekers and holders for the efficient use of infrastructure in the CQCN and whether there is a clear case for price discrimination. The appropriate allocation of costs is a key consideration in developing the system allowable revenue for each rail system in the CQCN to ensure equitable allocation of costs between systems and our consideration of the proposed expansion tariff.

Sections 137(1A)(b) and 168A(c) require that Aurizon Network's access undertaking include provisions to prevent Aurizon Network from recovering, via the access price, costs that are not reasonably attributable to the provision of the service. We therefore need to be satisfied that the 2014 DAU pricing and tariff arrangements provide neither a competitive advantage nor a competitive disadvantage for Aurizon Network's related parties.

Other issues

We have taken into account some additional considerations in section 138(2)(h), including:

- predictability—the regulatory arrangements should be as stable and predictable as possible, given other objectives. Stability and predictability are likely to promote confidence in the regulatory arrangements and economic efficiency by reducing uncertainty associated with long-term investment decisions
- simplicity—as set out in Chapter 1, we consider that the 2014 DAU will meet the objectives of Part 5 of the QCA Act through a degree of simplification, including in concepts, processes and drafting style. However, we are mindful of the need to retain those concepts, processes and drafting with which all stakeholders are broadly familiar. Our approach to the review of the 2014 DAU has therefore sought to achieve simplification, yet maintain stability and predictability.

15.3.2 QCA assessment approach

Our assessment approach for considering the 2014 DAU pricing and tariff arrangements is summarised in Table 80 below, and discussed in the following sections of this chapter.

Table 80 QCA approach to assessing pricing and tariff arrangements

<i>Assessment criterion</i>	<i>Rationale</i>
Does the 2014 DAU allow Aurizon Network to recover its efficient costs?	<p>In developing our Draft Decision, we have considered whether the 2014 DAU arrangements will allow Aurizon Network to recover its efficient costs, as provided for in section 138(2)(b) and 168A(a) of the QCA Act. This includes consideration of the process for making adjustments to MAR to reflect changes through time to allow for revenue recovery. It is also important to ensure that pricing obligations are credible and effective, by setting out clear boundaries for, and the conditions of, how access charges are negotiated. This includes developing effective mechanisms to enforce these boundaries and conditions.</p> <p>In making this assessment we considered whether the pricing and tariff arrangements provide appropriate incentives for Aurizon Network to deliver costs efficiently. This includes considering whether annual cost adjustments, for example, should be treated as cost pass through items or whether costs should be managed by Aurizon Network as part of the MAR allowance.</p>

<i>Assessment criterion</i>	<i>Rationale</i>
	<p>We also considered that the MAR should reflect the estimate of the efficient cost of operating the CQCN, and any additional changes should only occur where there is an identifiable additional cost or risk associated with the provision of these services.</p> <p>We consider that this is necessary to ensure that the pricing and tariff arrangements meet the legitimate business interests of Aurizon Network, as well as being in the interests of access seekers and access holders.</p>
Are the pricing and tariff arrangements cost-reflective?	<p>We consider the pricing principles and tariffs for the 2014 DAU should support access holders paying a cost reflective price for access to the CQCN. This will ensure that all parties have effective price signals about contracting for capacity and to reflect use of the CQCN.</p> <p>If the price for access is not cost reflective, access seekers and holders may have the incentive to over contract (if they are not paying the full cost of access to that part of the network) or may pay more than their efficient costs. This is not in the interests of access seekers and is not consistent with the objectives of Part 5 of the QCA Act.</p> <p>The view that prices and tariffs should reflect the costs of supply is reflected in our consideration of the tariff and take-or-pay arrangements.</p>
Do the pricing arrangements provide the right signals for investment in infrastructure?	<p>We consider the 2014 DAU should provide a pricing framework which supports efficient investment across the supply chain.</p> <p>This includes Aurizon Network being able to recover its efficient investment in the CQCN infrastructure through tariff arrangements and access seekers and holders having predictability in the pricing and tariff arrangements, given the wider investment in mining and port infrastructure.</p>

15.4 Issues with the existing approach

As part of our approach to assessing the 2014 DAU tariff proposals, we have taken into account the effectiveness of the existing tariff arrangements. This has been used to inform our consideration of the changes Aurizon Network has proposed to the tariffs arrangements for the UT4 period.

15.4.1 Complexity of existing tariff arrangements

We consider the existing five-part tariff arrangements and different generations of take-or-pay arrangements have the effect of making pricing in the CQCN complex. The existing reference tariff structure, which was developed in UT1 when a price cap was in place, has a level of complexity that appears no longer necessary, with implications for a range of pricing and policy arrangements.

Cost reflectivity and efficient pricing signals

The existing five-part tariff structure introduces an additional level of complexity as compared with a single or two-part tariff approach. This is particularly the case in the current context when incremental tariff components (AT1 and AT2) have been largely escalated by CPI since their introduction in UT1.⁷⁷⁹ We consider this makes it difficult to assess whether the existing tariff structure is providing effective price signals.

⁷⁷⁹ The exception to this is the 10 per cent uplift to AT1 that occurred in 2007 as part of the approval of Aurizon Network Maintenance Cost Draft Amending Access Undertaking (QCA 2007).

Under the current pricing arrangements, a key objective is to ensure that users are subject to the costs they impose on the system. If tariff components are not cost reflective, this may result in pricing signals that deliver adverse outcomes to users. The multi-part tariff structure may not be consistent with economic efficiency if incremental charges are not cost reflective. This may also result in unintended equity and fairness implications.

In this respect, SKM found the structure of Aurizon Network's cost curve is likely to have changed since 2001—and provided revised estimates for the AT1 tariffs.⁷⁸⁰

Cost allocation and common cost contribution

Costs not attributable to incremental tariff components are split between two tariff components (AT3 and AT4) to effect a distance taper or discount in access charges. Specifically, equal shares of the revenue shortfall from incremental tariff components are allocated to AT3 and AT4, the latter component not varying with distance as it is levied in terms of net tonnes. The distance taper results in the average cost per net tonne kilometre declining as haul length increases.

The distance taper was implemented with the objective of compensating longer haul mines which may have a lower capacity to contribute to the common costs. This was considered to potentially encourage development of the Queensland mining industry, resulting in greater use of capacity and potentially lower charges for all users.⁷⁸¹ In its 2013 DAU submission, Aurizon Network stated that:⁷⁸²

The distance taper assumes that all other things being equal, a mine with a shorter haul distance has a greater capacity to pay than a mine with a longer haul distance and is therefore able to make a higher contribution to common costs.

A similar 'capacity to pay' principle has also been applied in the treatment of mine specific infrastructure, with a lower contribution to common costs for mines with higher private infrastructure costs (under the 2010 AU treatment) or longer spur lines (via the distance discount in Aurizon Network's proposed 2014 DAU). This proposed 2014 DAU treatment reflects a lower capacity to contribute to the common costs for mines with longer spurs relative to mines with shorter spurs.

We consider that the ongoing application of this principle and its alignment with medium- and longer-term objectives of the CQCN needs to be assessed.

In the context of the regulatory framework for the CQCN, an additional consideration is the historical treatment of customer-specific access lines (spur lines) for regulatory pricing purposes.

15.4.2 Incentives for capacity use

In addition to complexities with the reference tariff structure, there is a complex set of take-or-pay arrangements included within access agreements. There are various take-or-pay vintages that apply to access holders depending on when particular access agreements were executed. This leads to potential inequities between different access holders, in particular between UT1 and post-UT1 access holders.

⁷⁸⁰ SKM 2014(a), Attachment B: 19

⁷⁸¹ QCA 2000(b): 58–59

⁷⁸² Aurizon Network, 2013 DAU, sub. no. 2: 222

Take-or-pay is a contractual mechanism that aims to mitigate revenue risk for Aurizon Network. In addition, take-or-pay arrangements aim to encourage accurate contracting by access holders by making them accountable if they use less capacity than they contract. We consider this is important to encourage efficient use of existing network infrastructure.

However, we are concerned that existing take-or-pay arrangements do not make all individual users fully accountable for use of their capacity entitlements. This is because under existing pricing arrangements:

- all reference tariff components are calculated on the basis of forecast rather than contracted volumes, and forecasts continue to be below contract⁷⁸³
- application of the system trigger test means an individual user that rails below contract in a particular year will not be required to pay take-or-pay if the total actual usage relating to a particular system reference tariff exceeds the annual forecast
- the tariff capping mechanism will also limit the take-or-pay liabilities of individual users to the proportional amount required to meet the revenue cap.

Aurizon Network also raised similar concerns with respect to the accountability of individual users for capacity consumption under existing take-or-pay arrangements:

While Aurizon Network remains concerned about the accountability of individual users for capacity consumption via the system test on take or pay, it has not proposed any major changes for UT4, given the complexities that this would create with multiple 'generations' of take or pay. This issue will likely be revisited in future undertakings, when all UT1 access agreements have expired.⁷⁸⁴

Aurizon Network has also proposed the application of various capping mechanisms (mine, operator and system) for take-or-pay arrangements. The adoption of operator capping in particular appears to be an attempt to provide some flexibility in managing take-or-pay liabilities while not addressing underlying issues with respect to allocation of capacity between competing uses. We discuss this issue further in Chapter 18 on take-or-pay arrangements.

15.5 Consideration of appropriate pricing arrangements

Taking into account regulatory principles and medium term objectives for the CQCN, we consider there is a strong case for simplification of the reference tariff structure for the CQCN. We consider that the tariff structure should aim to:

- provide appropriate signals to users regarding the cost of holding capacity and therefore contribute to the efficient use of infrastructure
- recover costs in a way that minimises distortions upon the production decisions of mines
- ensure that customers face the full economic costs of their decisions.

We note that as an alternative to the existing multi-part tariff structure, a two-part tariff structure is a common arrangement used in many regulatory contexts in Australia. A two-part tariff structure is a tariff which is made up of a fixed charge and a variable charge, with the relative magnitude of these dependent on the objectives for the pricing approach.

⁷⁸³ Aurizon Network, 2013 DAU, sub. no. 3: 11

⁷⁸⁴ Aurizon Network, 2013 DAU, sub. no. 2: 18

A two-part tariff structure is used by rail access providers in other jurisdictions including HVCN. The approaches adopted in the setting of tariff structures for two different rail access regimes are outlined in Appendix C.

In a typical two-part tariff, the variable charge is set to the marginal cost of supply. Depending on the context, this could either be with reference to the short-run or long-run marginal cost of supply. While the variable charge will typically be set based on those costs which vary with usage (i.e. variable costs), if network capacity is constrained it may be appropriate to provide a signal about the scarcity of available capacity. This means the variable charge may also include:

- costs associated with congestion
- capital costs associated with expanding capacity.⁷⁸⁵

Typically, the fixed charge is set to recover the remainder of the costs that cannot be attributed, in such a way as to minimise the distortion of customers' capacity decisions (and typically also having regard to fairness between customers). This fixed component could be based on contracted capacity (e.g. charged on a contracted train path basis) and, as a result, would not vary with actual usage. This is effectively a more stringent form of take-or-pay arrangement, providing greater accountability for access holders for the use of their contracted capacity.

We consider the take-or-pay arrangements must provide an effective price signal to all access holders regarding their consumption of supply chain capacity. Removing the take-or-pay trigger test would ensure that individual users are made fully accountable for railings below contract in a particular year. However, given users that hold capacity entitlements under UT1 and UT2 access agreements retain associated take-or-pay arrangements irrespective of the terms of the prevailing access undertaking, removal of the take-or-pay trigger test in the short-term may result in further inequities between access holders.

We believe that there may be some longer term merit in considering the simplification of pricing structures and take-or-pay for the CQCN. In assessing the most appropriate pricing arrangements to be used in future access undertakings, relevant issues requiring further consideration include:

- supporting productive use of existing infrastructure and providing appropriate signals for expansion
- recovery of efficient costs
- transparency and simplicity (without inducing distortions)
- users paying a cost reflective price for access to the CQCN.

Supporting productive use of existing infrastructure

We consider that tariff arrangements with a fixed charge that is applied to contracted capacity and removing the take-or-pay trigger test would ensure that individual users are made fully accountable for railings below contract in a particular year.

However, if users are to be made fully accountable for the use of their contracted capacity, then it may be necessary for there to be flexible trading mechanisms in place to allow users to efficiently manage risk. We are supportive of the further development of a capacity trading mechanism for access rights. A simple, transparent and flexible trading mechanism combined with a clear holding cost for the right to capacity would provide an incentive for access holders

⁷⁸⁵ Variable costs that include this capital component are generally referred to as long run marginal costs.

to continually review their access requirements to ensure that they are maximising trading opportunities.

Effective use of existing capacity can defer the requirement for capacity expansions. This issue is of particular importance given the recent demand growth followed by a subsequent slowdown in an environment where high cost expansions have been commissioned.

Recovery of efficient costs

As outlined above, in a typical regulated two-part tariff the variable price is set to the marginal cost of supply. We consider that a well designed two-part tariff structure can include a fixed charge set to recover the remainder of the efficient costs that cannot be attributed, in such a way as to minimise the distortion of customers' capacity decisions.

Transparency and simplicity

A two-part tariff structure can improve the transparency of access pricing compared with the existing multi-part tariff approach. The existing five-part tariff structure is based on five different pricing units which creates additional complexity that may not outweigh the benefits. In addition, it may be useful to reassess the price signal each tariff component is seeking to achieve, and whether this aligns with medium- and longer-term objectives for the CQCN.

A key benefit of a cost reflective two part tariff structure is that prices reflect underlying costs. A two-part tariff structure provides a transparent methodology for allocating costs between each tariff component and should improve efficiency by reflecting the costs that each user imposes on the system in a clear and transparent way. Such a structure also makes it easier to build other complementary systems around the pricing structure such as a flexible trading mechanism.

A fixed charge based on contracted capacity will complement a flexible trading mechanism by providing a proxy for the holding cost of capacity. Effectively under a two-part tariff arrangement, users will be required to pay the fixed charge irrespective of whether they actually use their contracted capacity. The fixed charge will provide an indication of the holding costs associated with unused capacity entitlements.

We consider more closely aligning the costs of holding capacity will better meet the objective of Part 5 of the QCA Act.

Cost reflective price for access to the CQCN

A key objective in the development of the existing reference tariff structure in UT1 was to encourage development of the Queensland coal industry. Implicit in the existing pricing arrangements are mechanisms that reduce the contribution to common costs (on a ntk basis) for customers with a longer haul length.

In the 2014 DAU, Aurizon Network has proposed a new approach to reducing the required common cost contribution for those new train services having a longer spur line or mainline haul through the application of a distance discount applied to the reference tariff. This mechanism is similar in intent to the UT3 approach to contribution to common costs as well as the distance taper provided by the two allocative components of the existing reference tariff structure.

We acknowledge that these types of mechanisms may encourage the development of coal resources which is in the public interest. However, whilst it is in the public interest to develop the Queensland coal industry, it is not in the public interest to do so in an unsustainable or

inefficient manner. We consider the ongoing application of these principles should be assessed in terms of their alignment with medium- and longer-term objectives of the CQCN.

Section 168A(b) allows for multi-part pricing and price discrimination, when it aids efficiency. In this context, we must consider whether the proposed tariff arrangements for the 2014 DAU provide appropriate price signals to access seekers and holders for the efficient use of infrastructure in the CQCN and whether there is a clear case for price discrimination. We also consider that, unless there is a clear case otherwise, it is in the interests of access seekers and holders that the price for access should be reflective of the costs that they impose on the system.

15.6 Longer-term review of pricing arrangements

We consider there is merit in simplifying the pricing arrangements and making individual users more accountable for their use of contracted capacity. This would also complement the implementation of more flexible trading mechanisms for access rights.

We consider that simplification of the existing pricing structures and take-or-pay will need further development and consultation. In this context, we consider a more strategic approach, supported by full stakeholder consultation, should be pursued for UT5. This will allow for a clear understanding of customer impacts of any proposed changes and the development of transitional arrangements to deal with potential impacts.

This longer-term timeframe should also coincide with the majority of users moving to post-UT2 access agreements.

For these reasons, many of the changes proposed by Aurizon Network for UT4 we do not propose to approve. We consider the overall effect of the proposed changes would be to make the pricing arrangements even more complex, resulting in adverse consequences for some customers that are not clearly understood.

In this regard, consistent with our views on the application of section 138(2)(h), we have carefully considered whether making changes for the 2014 DAU which add to the complexity of the pricing arrangements is necessary, or whether it is preferable to make changes in a more considered manner for the next access undertaking.

We consider this approach is consistent with Aurizon Network's legitimate business interests. The Draft Decision continues to ensure Aurizon Network is able to recover its efficient costs throughout the 2014 DAU period. It is also in the interests of access seekers and holders as it should minimise the level of tariff re-balances which may be needed to transition to a longer-term pricing arrangement.

16 PRICING PRINCIPLES

Part 6 of Aurizon Network's 2014 DAU sets out the pricing principles Aurizon Network proposes to apply when developing access charges. These principles seek to protect users of the CQCN from unfair price discrimination, provide access seekers with some certainty about how Aurizon Network will set and negotiate access charges, facilitate access charges that reflect Aurizon Network's efficient costs, and provide an appropriate return on investment.

Part 6 of the 2014 DAU also sets out the processes to identify or develop reference tariffs for new train services, including those involving expansions; and/or new spur lines connected to the CQCN.

Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU. Our key concerns with respect to Aurizon Network's proposal are:

- the redrafting of the high-level pricing principles may result in a less credible and effective pricing regime—we have proposed to clarify and strengthen the boundaries for, and the conditions of, how access charges are negotiated, and to set out effective mechanisms to ensure compliance with these obligations*
- the application of Aurizon Network's proposed expansion pricing framework requires clarification and may unintentionally cause existing users to bear a significant part of expansion financial risks—we have proposed to apply a separate tariff with a 'fixed cost' regime to expanding users if an expansion is triggered*
- the revised approach to pricing train services that use new spur lines substantially increases the complexity of the pricing regime but with limited benefits—we have refined Aurizon Network's proposed Minimum Revenue Contribution (MRC) concept to address issues of the UT3 approach, but not approve the Distance Discount concept*
- the revised provisions significantly reduce regulatory oversight with respect to the negotiation of commercial terms—we have proposed to reinstate and refine the UT3 access condition provisions to strengthen regulatory oversight.*

Overall, we require amendments to Part 6 of the 2014 DAU to ensure that the pricing obligations are credible and effective, and the pricing regime facilitates efficient and equitable outcomes. The detailed drafting of Part 6 attached to this Draft Decision is consistent with our approach and shows all of the amendments required.

16.1 Introduction

The pricing principles in the access undertaking are a set of general rules Aurizon Network proposes to apply when setting access charges for train services operating on the CQCN.

The setting of access charges is a critical issue, given Aurizon Network owns and operates the monopoly below-rail infrastructure and is part of a vertically integrated entity that competes in the provision of above-rail haulage services. Traditionally then, the pricing principles in the access undertaking have sought to:

- facilitate access charges reflective of Aurizon Network's efficient costs and provide Aurizon Network with an appropriate return on investment
- provide access seekers with some certainty about how Aurizon Network will set and negotiate prices for access to the network

- allow third-party train operators to compete with Aurizon Network's related above-rail operator on a level playing field.

However, Aurizon Network has noted that the CQCN is becoming increasingly capacity-constrained, and mines are being developed in areas requiring expansions to the network.⁷⁸⁶ The industry has expressed a desire to establish a consistent approach to the way expansions are priced. An appropriate expansion pricing framework in the access undertaking can reduce uncertainty amongst users of the CQCN and send proper investment signals.

16.2 Overview

16.2.1 Aurizon Network proposal

Part 6 of the 2014 DAU specifies a set of pricing principles Aurizon Network proposes to apply when establishing access charges.

At a high level, the 2014 DAU pricing principles are generally unchanged from UT3. In its 2013 DAU supporting material, Aurizon Network said its overarching pricing objective was to provide appropriate signals to optimise efficient network use and investment.⁷⁸⁷ Aurizon Network also emphasised the importance of having sufficient pricing flexibility to adapt to the growth and development of the CQCN, and to other relevant changes that may occur.

The 2014 DAU has four pricing principles as shown in Figure 11—in the event they conflict with one another, Aurizon Network will apply them in the order of precedence from top to bottom as identified below (cl. 6.1(b)).

⁷⁸⁶ Aurizon Network, 2013 DAU, sub. no. 2: 31

⁷⁸⁷ Aurizon Network, 2013 DAU, sub. no. 2: 189–190

Figure 11 Pricing principles in the 2014 DAU

<p>Price differentiation</p> <ul style="list-style-type: none"> • defines the limits on price differentiation between users
<p>Pricing limits</p> <ul style="list-style-type: none"> • sets ceiling and floor prices for access to the CQCN
<p>Rail infrastructure utilisation</p> <ul style="list-style-type: none"> • provides for Aurizon Network to vary access charges when available capacity is limited (only applies to non-coal carrying train services)
<p>Revenue adequacy</p> <ul style="list-style-type: none"> • provides for Aurizon Network to set prices at a level reflective of its efficient costs and an appropriate return on investment

The main differences between the 2014 DAU and UT3 lie in the redrafting of these high-level pricing obligations, which potentially affect their application. Key issues, as we set out in detail later, relate to:

- the ability to price differentiate between users based on the cost or risk differences of providing access
- the setting of pricing limits for individual train services based on DORC asset values
- the negotiation of commercial terms.

Part 6 of the 2014 DAU also sets out the processes to identify or develop reference tariffs for new coal-carrying train services, including those that involve:

- expansion to the CQCN; and/or
- new mine-specific spur lines connected to the CQCN.

Aurizon Network's proposed approach to pricing expansions is a new. The issue of expansion pricing has previously been addressed on a case-by-case basis as it was not covered in previous access undertakings. The socialisation issue—that is, whether the costs of existing and new capacity should be pooled together to establish an average access price—is highly relevant for pricing of expansions.

Further, for pricing coal-carrying train services utilising new spur lines, Aurizon Network has proposed to revise the assessment and application of the minimum contribution to common costs (CCC) (cl. 6.2.5).⁷⁸⁸ Under the 2014 DAU, the access charges for such train services will be based on the higher of:

⁷⁸⁸ Common costs are costs incurred by Aurizon Network that cannot be assigned directly to a particular train service.

- a Minimum Revenue Contribution
- the relevant existing reference tariff less a Distance Discount.

16.2.2 Stakeholders' position

Stakeholders said that while Aurizon Network had made some positive changes in the 2014 DAU with respect to pricing principles, they did not consider Aurizon Network had addressed all major issues raised in their submissions on the 2013 DAU. Their concerns included:

- the reduced restrictions on price differentiation
- the application of the proposed expansion pricing approach
- the use of DORC-based asset values for pricing
- the negotiation of commercial terms with limited regulatory oversight.

Stakeholders acknowledged the complexity associated with pricing, and asked for more time to review Aurizon Network's proposal.⁷⁸⁹ The QRC said it did not provide proposed drafting for the 2014 DAU as it was yet to have a firm view on a number of issues.⁷⁹⁰ The QRC suggested that a workshop on Part 6 of the 2014 DAU should be held, involving Aurizon Network and the stakeholders (including the QRC), to improve understanding of the issues for all parties.

16.2.3 Key issues for consideration

This chapter applies the assessment approach, as set out in section 15.3.2, to deal with the key issues arising from Part 6 of Aurizon Network's 2014 DAU. These issues are addressed in the following order: price differentiation; pricing limits; expansion pricing; pricing for train services that utilise new spur lines; and commercial terms.

We have also proposed amendments that are not discussed in detail in this chapter, but are nonetheless consistent with our broad approach and meet our assessment criteria. These amendments are largely made to improve the clarity and certainty of arrangements.

Our more detailed consideration is reflected in the attached marked-up draft of Part 6 of the 2014 DAU.

16.3 Price differentiation

16.3.1 Aurizon Network proposal

Part 6 of the 2014 DAU sets out Aurizon Network's rights and obligations with respect to price differentiation. Aurizon Network said that while these rights and obligations are drafted in a more positive language, the intent remains unchanged from UT3.⁷⁹¹

Coal-carrying train services

Under the 2014 DAU, reference tariffs are intended to apply to all coal-carrying train services (cl. 6.4.1(c)). The 2014 DAU provides for Aurizon Network to price differentiate between coal-carrying train services—by setting access charges different from the applicable reference tariffs—to reflect any differences in costs or risks to Aurizon Network relative to providing access for the reference trains (cl. 6.2.2(b)). These differences can arise from:

⁷⁸⁹ QRC, 2014 DAU, sub. no. 42: 29

⁷⁹⁰ QRC, 2014 DAU, sub. no. 42: 29

⁷⁹¹ Aurizon Network, 2014 DAU, sub. no. 3: 94

- the particular train services having different operating characteristics to the reference train services (section 17.6 of this Draft Decision addresses these characteristics); and/or
- the agreed terms and conditions of access differing from the SAA terms (cl. 6.2.2(b)).⁷⁹²

Aurizon Network said the drafting amendments in the 2014 DAU were intended to clarify an existing arrangement provided for under UT3, which allowed Aurizon Network and an access seeker to negotiate an alternative to the SAA. To the extent non-standard terms in an access agreement gave rise to additional (or lower) costs or risks compared with the reference train, an access charge different from the reference tariff would be permissible.⁷⁹³

Aurizon Network said price differentiation had previously been limited to train services that consumed more network capacity than the reference train (through a capacity multiplier applied to an AT2 tariff component).^{794,795} It planned to expand the application to other areas, including non-compliance with coal dust mitigation requirements and non-standard terms of access (e.g. more lenient take-or-pay arrangements). Aurizon Network emphasised that no party could be compelled to agree an alternative to the SAAs.⁷⁹⁶

These provisions in the 2014 DAU have implications for the revenue cap regime. In cases where a user was not charged the applicable reference tariff (as a result of agreed non-standard terms), Aurizon Network said we should assess the revenue cap adjustments as if the SAA terms had been contracted.⁷⁹⁷ According to Aurizon Network, this would ensure it retained the additional revenue it should be entitled to (or not earn the revenue it was not entitled to) resulting from any cost and risk differences, while other users not involved in the agreement were not affected. Aurizon Network provided the following example:

If Aurizon Network and the access holder agreed to 50% take-or-pay (instead of 100%), Aurizon Network should be entitled to collect additional revenue to compensate it for the additional risk for the purpose of assessing annual revenue cap adjustments, it would be assumed that full take-or-pay is collected under this agreement, rather than 50%. This ensures that Aurizon Network could not otherwise recover foregone under this access agreement from access holders.⁷⁹⁸

Aurizon Network said the 2014 DAU drafting was intended to give effect to the above. The Expected Access Revenue is defined to refer the revenue Aurizon Network is entitled to earn for the provision of access for reference train services.⁷⁹⁹ In addition, Aurizon Network has retained the take-or-pay provisions in UT3, which required take-or-pay to be calculated on the basis that Aurizon Network was deemed to have contracted on the relevant SAA terms.⁸⁰⁰

⁷⁹² Under the 2014 DAU, if an access seeker proposed to operate a train service with the same operational characteristics as the relevant reference train service but agreed terms different to the SAA terms, it would be classified as a non-reference train service.

⁷⁹³ Aurizon Network, 2013 DAU, sub. no. 2: 204

⁷⁹⁴ Aurizon Network, 2013 DAU, sub. no. 2: 202

⁷⁹⁵ Train services that consume more network capacity than the reference train are effectively charged a higher AT2 tariff component per train path.

⁷⁹⁶ Aurizon Network, 2013 DAU, sub. no. 2: 203

⁷⁹⁷ Aurizon Network, 2013 DAU, sub. no. 2: 204

⁷⁹⁸ Aurizon Network, 2013 DAU, sub. no. 2: 204

⁷⁹⁹ Aurizon Network, 2013 DAU, sub. no. 2: 205

⁸⁰⁰ Aurizon Network, 2013 DAU, sub. no. 2: 205

Non-coal-carrying train services

In contrast to coal-carrying train services, there is no reference tariff for non-coal traffic. Aurizon Network said reference tariffs were not necessary for non-coal-carrying train services because:

- it would not be in the public interest as revenues are immaterial
- Aurizon Network must still negotiate access charges in accordance with Part 6, hence we would continue to have oversight.⁸⁰¹

For non-coal traffic, the application of the price differentiation principle needs to be considered alongside the rail infrastructure utilisation principle.

Rail infrastructure utilisation principle

The 2014 DAU provides for Aurizon Network to vary access charges for non-coal-carrying train services that serve different markets (for example, transporting a particular commodity type) to maximise commercially viable use of the CQCN (subject to other requirements) (cl. 6.4.1(a)).

If Aurizon Network considers that available capacity is limited, the 2014 DAU provides for it to quote the Maximum Access Charge to non-coal access seekers (cl. 6.4.1(b)).⁸⁰² If the access applications are mutually exclusive, Aurizon Network has discretion as to whom it allocates that available capacity to; it can choose not to allocate the capacity to the access seeker willing to pay the Maximum Access Charge.

Under UT3, the ability to quote the Maximum Access Charge was subject to an assessment by Aurizon Network that an expansion would not be commercially viable. This obligation has been removed in the 2014 DAU.

Price differentiation principle

The 2014 DAU provides for Aurizon Network to apply an access charge to a non-coal access seeker that varies from those of other access seekers or access holders of a similar nature (for example, transporting the same commodity type), to reflect:

- changes or differences in the cost or risk of providing access
- changes in market circumstances; or
- limitations on available capacity in accordance with the rail infrastructure utilisation principle (cl. 6.2.3).

While the drafting above is largely similar to UT3, the definition of a 'change in market circumstances' under the 2014 DAU has been altered to include Aurizon Network's assessment (cl. 12.1). Previously, the definition was based on an objective assessment.

Other changes relating to price differentiation

In the 2014 DAU, Aurizon Network has not included the following provisions that were previously in UT3 (applied generally to coal- and non-coal-carrying train services):

- the express prohibition for Aurizon Network to set access charges for the purpose of preventing or hindering access by a third party in competition with its related operator

⁸⁰¹ Aurizon Network, 2014 DAU, sub. no. 3: 112

⁸⁰² The Maximum Access Charge is the relevant reference tariff (adjusted for risk and cost differences) that would have been applied if those particular train services had been coal carrying trains (cl. 6.4.1(b)(i)).

- the ability for an access holder to have its agreed access charge amended in the event of a breach of the price differentiation obligations by Aurizon Network.

Aurizon Network stated while the above UT3 provisions have been removed, it has added non-discrimination provisions in Part 2 of the 2014 DAU (cl. 2.2(g)).⁸⁰³

With respect to access holder grievances, Aurizon Network considered this a matter between it and the access holder. Aurizon Network noted that the SAAs have a 'most favoured nation' clause to address this type of issue.⁸⁰⁴

16.3.2 Stakeholders' position

Stakeholders were concerned that the drafting of the 2014 DAU would reduce the protection from unfair price discrimination for the CQCN users. Similar concerns had been expressed in the previous submissions on the 2013 DAU.

These concerns were based on the following factors:

- The assessment of differences in the cost or risk of providing access is potentially highly subjective and lacks transparency.⁸⁰⁵
- The assumption (embedded in Aurizon Network's proposal) that additional costs and risks associated with non-standard terms can be insulated from other users.⁸⁰⁶
- Aurizon Network has too much discretion on how it establishes access charges for non-coal traffic.⁸⁰⁷
- the removal of an express prohibition for Aurizon Network to set access charges to hinder access by a third party.⁸⁰⁸

Asciano said the inequitable treatment of non-coal-carrying train services is inconsistent with the Queensland Government's strategic plan to prioritise rail freight over road, and added that we should examine the long-term impact of the 2014 DAU pricing principles on the wider economy.⁸⁰⁹

16.3.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision is to refuse to approve Aurizon Network's drafting of the price differentiation principle and its related provisions. Our key concern is that Aurizon Network's proposal does not provide sufficient protection for the CQCN access seekers and holders from unfair price discrimination, including Aurizon Network establishing access charges for the purpose of preventing or hindering access by a third party that is in competition with its related operator.

We recognise Aurizon Network has included non-discrimination provisions in Part 2 of the 2014 DAU (Intent and Scope). Nevertheless, we consider that it will better clarify Aurizon Network's obligations in relation to access pricing if an express prohibition on unfair price discrimination is

⁸⁰³ Aurizon Network, 2014 DAU, sub. no. 3: 94

⁸⁰⁴ Aurizon Network, 2014 DAU, sub. no. 3: 94

⁸⁰⁵ Asciano, 2014 DAU, sub. no. 22: 35; RTCA, 2013 DAU, sub. no. 73: 83–84

⁸⁰⁶ RTCA, 2013 DAU, sub. no. 73: 83

⁸⁰⁷ Asciano, 2014 DAU, sub. no. 22: 35–36; Asciano, 2013 DAU, sub. no. 43: 71–72; Anglo American, 2014 DAU, sub. no. 7: 39–40

⁸⁰⁸ Asciano, 2013 DAU, sub. no. 43: 71; Anglo American, 2013 DAU, sub. no. 78: 21

⁸⁰⁹ Asciano, 2014 DAU, sub. no. 22: 36

also included in Part 6 of the 2014 DAU. Aurizon Network should be prohibited from leveraging its unique position as the sole operator of the CQCN to provide its related parties (including any related operator) a commercial advantage over their respective competitors (see cl. 6.2.1(b) of our marked-up draft).

We also propose that Aurizon Network reinstate in the 2014 DAU the ability for an access holder to have its access charge amended in the event of a breach of the price differentiation principle by Aurizon Network (see cl. 6.2.5 of our marked-up draft). This is one of the provisions that we consider would be better addressed in the access undertaking, rather than in the SAAs (see Chapter 8). Price differentiation is a significant issue as it is relevant to all access seekers and holders. We consider it important that this provision be dealt with in the access undertaking, as it will provide a way in which to rectify a breach of the price differentiation principle consistently and uniformly across all access seekers and access holders.

We consider our proposed amendments set out clear boundaries for, and the conditions of, the negotiation of access charges, and establish effective enforcement mechanisms. These amendments are vital in ensuring Aurizon Network's pricing obligations are credible and effective. We consider this is consistent with the object of Part 5 of the QCA Act, and appropriately balances the legitimate business interests of Aurizon Network with the interests of access seekers, access holders, and train operators.

Draft Decision

16.1 Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make the following adjustments:

- (a) include an express prohibition of Aurizon Network establishing access charges for train services that discriminate in favour of any Related Operator, Related Competitor or Third Party that has commercial arrangements with a Related Competitor**
- (b) enable an access holder to have its access charge amended in the event that Aurizon Network breached the price differentiation principle in the 2014 DAU when developing access charges for an access seeker.**

Coal-carrying train services

We consider it efficient for Aurizon Network and an access seeker to negotiate an alternative to the SAA if the access seeker has specific requirements associated with its access to the CQCN. To the extent this gives rise to measurable differences in costs or risk to Aurizon Network, an access charge reflective of such risk and cost differences is reasonable if both parties agree. As pointed out by Aurizon Network, this was already provided for under UT3.

We acknowledge Aurizon Network has largely retained the provisions in UT3 with respect to price differentiation for coal-carrying train services, which prohibited price differentiation other than for cost or risk differences. This allows Aurizon Network and an access seeker to negotiate non-standard terms, but at the same time provides some protection for the CQCN users from unfair price discrimination.

However, we are concerned that the non-standard terms agreed between Aurizon Network and an access seeker may have implications for other users as well as the MAR:

- It is possible that the additional risks and costs associated with the non-standard terms could distort Aurizon Network's behaviour beyond pricing. As pointed out by RTCA, Aurizon

Network might be incentivised to provide preferential train schedules for a particular user if it stood to lose more from any failure to deliver contracted train paths.⁸¹⁰

- The MAR should not include the additional costs arising from non-standard terms agreed between Aurizon Network and an access seeker. Double counting when assessing Aurizon Network's proposed MAR should be avoided.

To address these concerns, as part of this Draft Decision, we are proposing the following amendments to the 2014 DAU:

- Reinstate the UT3 access condition provisions (with appropriate refinements to better balance the interests of various stakeholders) and expand their application to non-standard access agreements—any non-standard terms agreed between Aurizon Network and an access seeker that have cost and risk implications will be subject to our approval (see s. 16.7 of this Draft Decision—we have proposed to remove commercial terms).
- Require Aurizon Network to provide us with a copy of any non-standard agreement within five business days of signing (see s. 5.4).

We consider our proposed amendments address the concern about the lack of transparency with regard to non-standard access agreements. With these amendments, we can assess if a negotiated agreement is consistent with the approved access undertaking, identify any implications for the MAR to avoid double counting, and prevent other users from being affected by additional risk or costs arising from non-standard terms.

We are of the view that including these mechanisms enhances the credibility and effectiveness of the pricing obligations in the access undertaking. It provides for access seekers to negotiate with Aurizon Network, while requiring Aurizon Network to apply the pricing obligations in the access undertaking. We consider this promotes the object of Part 5 of the QCA Act, and appropriately balances Aurizon Network's legitimate business interests with the interests of access seekers, access holders and train operators.

Draft Decision

16.2 Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make the following adjustments:

- (a) reinstate and expand the UT3 access condition provisions (with appropriate refinements to better balance the interests of various stakeholders) to require non-standard terms that have cost and risk implications to Aurizon Network to be subject to our approval**
- (b) require Aurizon Network to provide us with a copy of any non-standard agreement within five business days of signing.**

Non-coal-carrying train services

We consider that establishing reference tariffs for non-coal-carrying train services remains impractical given the wide range of train services involved (e.g. geographical location, commodity type, etc.) and that they represent only a relatively small portion of the CQCN total traffic.

⁸¹⁰ RTCA, 2013 DAU, sub. no. 73: 83

However, our Draft Decision requires that the 2014 DAU should provide at least as much protection for non-coal users from unfair price discrimination as provided under UT3:

- The definition of a 'change in market circumstances' should be based on an objective assessment that could be proved or disputed.
- Aurizon Network needs to first demonstrate the available capacity on the CQCN is limited, and any expansion is commercially infeasible, before it can quote the Maximum Access Charge to non-coal access seekers (see cl. 6.7.1(b) of our marked-up draft).

Non-coal access seekers and holders will have the ability to use the dispute process provided in the 2014 DAU if they are concerned the pricing principles in the 2014 DAU have been breached.

We acknowledge that, while Aurizon Network's discretion in setting access charges for non-coal traffic is limited by the pricing obligations under the 2014 DAU, these obligations are only credible if there are effective enforcement mechanisms in place. For non-coal traffic, enforcement is difficult due to the lack of information, particularly in relation to costs.

Accordingly, we are in the process of reviewing the Costing Manual applicable to Aurizon Network. The Costing Manual should require Aurizon Network to clearly identify the costs associated with provision of access for non-coal-carrying train services and to make such information public. This will enhance the information available for all users of the CQCN. We seek stakeholders' views on ways to further improve the transparency of non-coal access pricing.

We consider our proposed amendments improve the credibility and effectiveness of Aurizon Network's pricing obligations with respect to price differentiation. This is consistent with the object of Part 5 of the QCA Act and appropriately balances Aurizon Network's legitimate business interests with the interests of access seekers, access holders and train operators.

Draft Decision

16.3 Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make the following adjustments:

- remove the reference to Aurizon Network's assessment from the definition of a 'change in market circumstances'**
- require Aurizon Network to demonstrate the available capacity on the CQCN is limited, and any expansion is commercially infeasible, before it can quote the Maximum Access Charge to non-coal access seekers.**

16.4 Pricing limits

16.4.1 Aurizon Network proposal

Pricing limits refer to the ceiling and floor prices for access to the CQCN. For pricing limits, Aurizon Network said the intent of the related UT3 provisions has been retained in the 2014 DAU, with the exception of pricing limits for individual train services and combination of train services.⁸¹¹

⁸¹¹ Aurizon Network, 2013 DAU, sub. no. 2: 199–200

Similar to UT3, the 2014 DAU proposes the access charges for individual train services or combination of train services to be capped between:

- the incremental costs of providing access for the relevant train services
- the stand-alone costs of providing access for the relevant train services (cl. 6.3.2(a)).

The key difference between UT3 and the 2014 DAU lies in Aurizon Network's proposed assessment of stand-alone costs (or the MAR). The 2014 DAU proposes the asset value used to calculate the MAR be based on the DORC methodology in all circumstances, other than where the MAR relates to the aggregate revenue Aurizon Network is entitled to earn across all coal systems (which will remain to be based on the approval RAB value) (cl. 6.3.3 (e)).

In contrast, UT3 required the use of the approved RAB value in all circumstances unless the RAB value was unavailable, in which case the DORC value of assets could be adopted.

Aurizon Network said this proposed change would provide flexibility in pricing individual train services in the future, as under some special circumstances, DORC-based pricing could enhance efficiency. Aurizon Network provided two examples where the DORC methodology would be appropriate:

- An expansion occurs on a highly depreciated system, which could result in a material price disparity between expanding and existing users, although both types of users utilise the same rail infrastructure and the nature of the services is similar.
- Volumes materially decline on a particular branch line and Aurizon Network recovers revenue from users of the system who do not use that branch line.⁸¹²

Aurizon Network emphasised the use of DORC asset values for pricing individual services would be subject to QCA approval. Aurizon Network added that its proposed approach does not have any implications for the total revenue that it will earn across all systems (which is still constrained by the RAB value).⁸¹³

Price differentiation and pricing limits

Aurizon Network's 2014 DAU includes clarification about how the price differentiation and pricing limits principles may interact with each other.

The 2014 DAU provides that, in the event Aurizon Network charges an access seeker below the relevant incremental costs, it will still be deemed compliant with the pricing limit principle as long as it complies with the price differentiation principle when setting charges for future access seekers that share the same characteristics as the initial access seeker (e.g. transporting the same specified commodity in the same specified geographic area) (cl. 6.3.2(b)).

The 2014 DAU also proposes that Aurizon Network will be considered to have complied with both principles if it has formulated an access charge 'based on a reference tariff' (cl. 6.5.1(b)).

16.4.2 Stakeholders' position

Stakeholders did not support Aurizon Network's proposal to adopt DORC-based asset values in establishing ceiling prices for individual train services. This concern featured in stakeholders'

⁸¹² Aurizon Network, 2013 DAU, sub. no. 2: 200

⁸¹³ Aurizon Network, 2013 DAU, sub. no. 2: 199

submissions on the 2013 DAU, but Aurizon Network has not changed its position in the 2014 DAU.⁸¹⁴

BMA said the proposed DORC approach would further reduce Aurizon Network's risk profile by transferring asset stranding risk to existing users.⁸¹⁵ BMA considered it inequitable and inefficient to force existing users to pay for expansions in cases where they do not gain from the new capacity. Further, BMA said as the 2014 DAU does not clearly specify when the DORC approach will be used, it creates uncertainty for users of the CQCN and could be potentially applied in an unfair manner.

Anglo American said it did not understand why Aurizon Network should be allowed to avoid compliance with the pricing limits (setting access charges below the relevant incremental costs) on the basis that it complies with the price differentiation arrangements for future access seekers that have the same characteristics.⁸¹⁶

16.4.3 QCA analysis and Draft Decision

Our Draft Decision is to refuse to approve Aurizon Network's proposal to use a DORC value of assets for establishing the ceiling prices for individual train services or combination of train services. We propose that Aurizon Network reinstate the relevant UT3 provisions: the RAB value is to be used for all circumstances, except where it is unavailable, in which case the DORC value can be adopted.

We have previously rejected Aurizon Network's proposals for asset revaluation on the basis of a DORC methodology. Specifically, in the Draft Decision on UT2, we said:

If the Authority were to adopt the new DORC valuation in such circumstances, the business would face the prospect of either under- or over-recovering its initial asset valuation; that is, it faces the regulatory risk of either benefiting from windfall gains or suffering from windfall losses.

As this would breach the principle that the business should expect to fully recover its initial asset base, it is not a course of action that the Authority believes is in the best interests of either the regulated business, in this case QR, or access seekers and end users of the service.⁸¹⁷

In our view, the DORC approach represents a fundamental change to the pricing regime, and should be justified from a practical evidence-based standpoint that reflects the circumstances of the CQCN. Aurizon Network also needs to justify this approach in light of the requirements of the QCA Act which we must have regard to. In this respect, we do not consider Aurizon Network has sufficiently justified the use of the DORC approach. Particularly, Aurizon Network has not provided sufficient analysis regarding how the DORC methodology would be used practically and the potential implications that this approach could have for the distribution of the aggregate MAR between the CQCN users.

Further, we are of the view that the examples provided by Aurizon Network may be inconsistent with other parts of Aurizon Network's pricing proposal. For example, while Aurizon Network supported the principle that existing users should not bear a significant increase in their access charges due to an expansion triggered by other users, Aurizon Network's example for pricing limits seems to suggest that it intended to use the DORC approach to allow it to raise access charges for existing users not involved in an expansion.

⁸¹⁴ RTCA, 2013 DAU, sub. no. 73: 79

⁸¹⁵ BMA, 2014 DAU, sub. no. 23: 2

⁸¹⁶ Anglo American, 2013 DAU, sub. no. 78: 22

⁸¹⁷ QCA, 2005(a): 6

Notwithstanding Aurizon Network's intent, we have concerns over the drafting of the pricing limits principles because:

- They may provide Aurizon Network with the ability to rebalance access charges across coal systems, subject to an overarching MAR constraint across the CQCN.
- It is unclear if the use of the DORC approach requires our approval under the 2014 DAU.

Overall, we consider the 2014 DAU provides Aurizon Network with an inappropriate level of discretion over the setting of access charges and reduces accountability and transparency. Such an approach is not consistent with the requirements of the QCA Act. We do not consider that the examples provided by Aurizon Network are sufficient for us to adopt the DORC methodology. Hence, we propose that Aurizon Network reinstate the relevant provisions of UT3.

We consider our proposed amendments clarify the boundaries of how access charges are negotiated. This is an important part in ensuring that pricing obligations in the 2014 DAU are credible and effective. We consider this is consistent with the object of Part 5 of the QCA Act, and appropriately balances Aurizon Network's legitimate business interests with the interests of access seekers, access holders and train operators.

Draft Decision

16.4 Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU so that the RAB value is used for all circumstances, except where it is unavailable, in which case the DORC value can be adopted.

Price differentiation and pricing limits

In our view, Aurizon Network should comply with all pricing principles in the access undertaking, to the extent they do not conflict with each other.

In the event Aurizon Network charges an access seeker below the relevant incremental costs, we do not consider it should be deemed compliant with the pricing limits principle on the basis that it complies with the price differentiation principle when setting access charges for future access seekers that have similar characteristics. While this was provided for under UT3, we no longer consider it appropriate.

We view that charging a user (or a group of users) less than the incremental costs gives rise to cross-subsidisation between users. This is inconsistent with the pricing limits principle in the access undertaking. We do not see a situation where charging a user or a group of users below the incremental costs could be considered efficient. We have proposed to reinstate the aggrieved access holder provision to address a breach of the price differentiation (see Draft Decision 16.1(b)).

We are also concerned by the language used in the 2014 DAU, that Aurizon Network will be considered to have complied with the price differentiation and pricing limits principles if it has formulated an access charge 'based on a reference tariff'. We consider these two principles have broad application beyond the reference tariffs. Hence, for the purpose of providing clarity, we propose that Aurizon Network remove this provision.

We consider our proposed amendments improve the clarity of pricing obligations under the 2014 DAU, and hence make these obligations effective and credible. This is consistent with the

object of Part 5 of the QCA Act, and appropriately balances Aurizon Network's legitimate business interests with the interests of access seekers, access holders and train operators.

Draft Decision

16.5 Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU to require it to apply both price differentiation and pricing limits principles when establishing access charges, as long as they do not contradict each other.

16.5 Expansion pricing

16.5.1 Aurizon Network proposal

The 2014 DAU proposes a new framework for pricing expansion. Under the 2014 DAU, an expansion is defined as (cl. 12.1):

An extension, enhancement, expansion, augmentation, duplication or replacement of all or part of the Rail Infrastructure that on completion forms part of the Rail Infrastructure, excluding:

- (a) *Customer Specific Branch Lines;*
- (b) *Connecting Infrastructure; and*
- (c) *any capital expenditure project to the extent that it involves Asset Replacement and Renewal Expenditure.*

Aurizon Network said its intent is to set out a simple, fair and transparent pricing framework that could be applied consistently to future expansion.⁸¹⁸ Aurizon Network has proposed that all expansions it funds at the regulatory WACC be exempted from this expansion pricing framework.

Expansions funded by Aurizon Network at the regulatory WACC

The 2014 DAU proposes that, in cases where a party seeks access rights for train services requiring an expansion and Aurizon Network agrees to fund it at the regulatory WACC, the expansion will be socialised into the system (cl. 6.2.4(a)). Effectively, this means Aurizon Network will apply an updated system reference tariff—incorporating the expansion costs and new forecast volumes—to the access seeker (who triggers the expansion) as well as the existing users. This socialisation is undertaken regardless of its pricing impacts on existing users.

Expansions not funded by Aurizon Network at the regulatory WACC

The expansion pricing framework in the 2014 DAU applies to all expansions not funded by Aurizon Network at the regulatory WACC. Aurizon Network said its proposed framework is underpinned by the following principles:

- The user(s) requiring the expansion should generally pay an access charge that reflects at least the full incremental costs (capital and operating) of access.
- If new/expanding users face a higher cost than existing users, a zero contribution to common costs from expanding users is generally acceptable.
- An allocation of expansion costs to existing users may be appropriate where an expansion has clear benefits to those users.

⁸¹⁸ Aurizon Network, 2014 DAU, sub. no. 3: 98.

- Existing users should not experience a material increase in tariffs due to an expansion triggered by access seekers.⁸¹⁹

The proposed expansion pricing framework features a socialisation test to determine if an expansion is socialised with an existing reference tariff. This test will form part of the Pricing Proposal that Aurizon Network is required to submit to the QCA under the 2014 DAU.

Process for approval of expansion pricing

The purpose of a Pricing Proposal is to obtain pre-approval of the pricing methodology applicable to an expansion (based on forecast information), prior to entering construction and funding arrangements. This enables potential investors to make an informed decision, and provides more certainty in relation to the pricing outcome.

The 2014 DAU proposes that Aurizon Network be required to submit a Pricing Proposal to the QCA for approval within 80 business days after the Feasibility SFA becomes unconditional (cl. 6.2.4(b)). No party is obliged to enter any arrangements with respect to construction or funding of the expansion prior to the QCA's approval of the Pricing Proposal (cl. 6.2.4(h)(i)).

A Pricing Proposal should address the cost allocation issue (between the involved access seekers, or in some cases, allocation to existing users), apply the socialisation test, and determine if the expansion should be socialised (cl. 6.2.4(b)). The Pricing Proposal can also include indicative reference tariffs that are consistent with the socialisation test results, but an application for approval for new or varied reference tariffs must be made separately (cl. 6.2.4(c)).

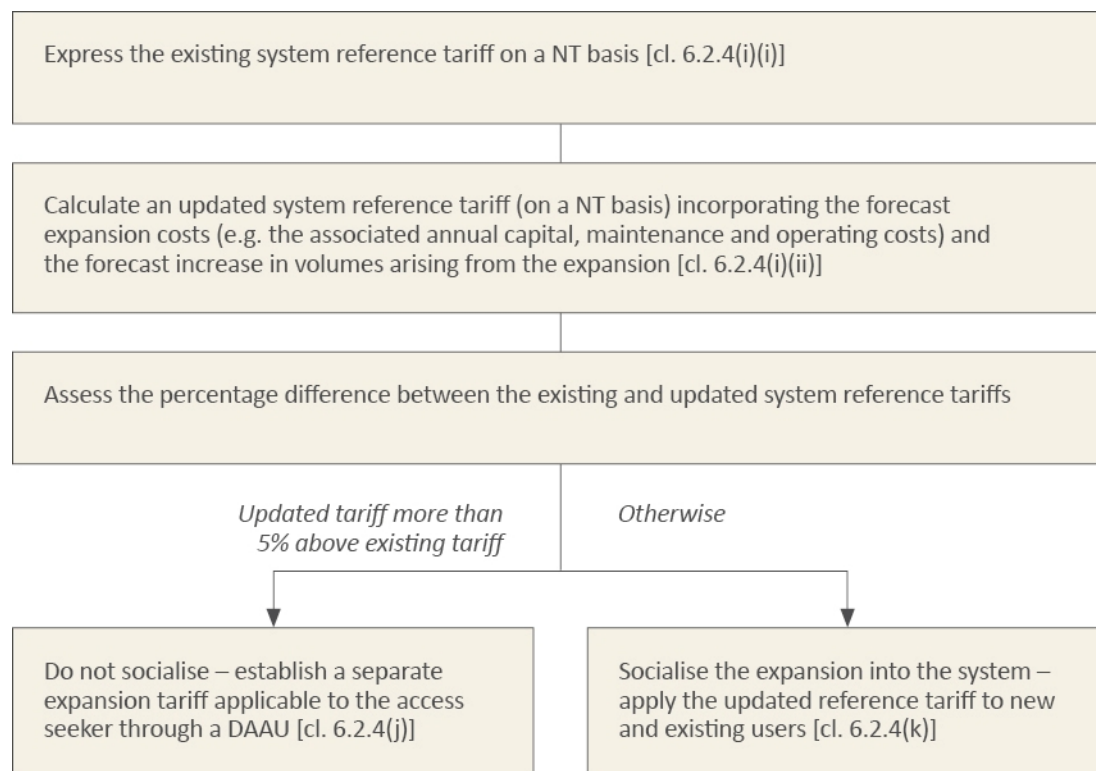
Stakeholders will be given the opportunity to comment on the Pricing Proposal (cl. 6.2.4(d)). The 2014 DAU proposes that the time taken up by the QCA's approval of the Pricing Proposal will not be considered as a delay on the part of Aurizon Network to trigger any rights or remedies in favour of the access seekers or their customers (cl. 6.2.4(h)(ii)).

Aurizon Network has also proposed that if the Feasibility SFA becomes unconditional 12 months before the current access undertaking expires, and the expansion will not be used until the next regulatory period, Aurizon Network may address the expansion pricing as part of the next access undertaking (cl. 6.2.4(n)).

Socialisation test

The proposed socialisation test in the 2014 DAU is presented in Figure 12, assuming the relevant coal system has only one reference tariff, which is the system reference tariff, and the expansion is not expected to benefit existing users of the system (i.e. no cost allocation to existing users is required).

⁸¹⁹ Aurizon Network, 2014 DAU, sub. no. 3: 98–99

Figure 12 Aurizon Network's proposed socialisation test in the 2014 DAU

Aurizon Network has proposed a five per cent threshold in the socialisation test. If an expansion is expected to raise the existing system reference tariff by more than five per cent (on a NT basis), it will not be socialised and only new expanding users will bear the expansion costs by paying a separate expansion tariff; otherwise new and existing users will pay an updated system reference tariff including the expansion costs.

Aurizon Network said an expansion tariff does not include a contribution to common costs of the system—meaning, in cases where an expansion tariff is established, expanding users will not be required to pay more than the full incremental costs arising from their access to the CQCN.⁸²⁰

Evaluation period

The 2014 DAU proposes the socialisation test will be undertaken on a forward-looking basis, where the test results for each quarter, beginning from the commencement of the service until the peak point for contracted access of the expansion, are considered (cl. 6.2.4(i)(ii)(E)).

The 2014 DAU also proposes that, if pricing for a particular expansion is being determined as part of a new access undertaking, and the expansion meets the socialisation test on average over the undertaking period, then a separate expansion tariff would not be required (cl. 6.2.4(n)).

When there is more than one existing reference tariff

Under Aurizon Network's proposed approach, it is possible for a system to have more than one reference tariff. When the test has not resulted in socialisation of previous expansions, there could be multiple expansion tariffs in addition to the system reference tariff.

⁸²⁰ Aurizon Network, 2014 DAU, sub. no. 3: 99

For the purpose of the socialisation test, the 2014 DAU requires the benchmark to be the existing reference tariff that is highest on a NT basis (referred to as the Highest Reference Tariff in the 2014 DAU):

- where there is no existing expansion tariff, the system reference tariff is the Highest Reference Tariff (as is the case in the example above)
- where the system has more than one reference tariff, the tariff that is highest on a NT basis will be used as the benchmark.

Note that an expansion tariff is always higher than the system reference tariff on a NT basis (by definition that the expansion failed the socialisation test).

If the test establishes socialisation as appropriate, the expansion costs will be socialised with the costs associated with the Highest Reference Tariff. This new socialised tariff will be applicable to the new expanding users as well as the users that have been paying this Highest Reference Tariff prior to socialisation.

Aurizon Network said this approach ensures the reference tariff applicable to the new expanding users will not be below those of the existing users (including users already paying the expansion tariffs).

Under the 2014 DAU, where a system has multiple reference tariffs (due to previous expansions), the reference tariff used to establishing access charges for new access seekers (who have not triggered an expansion) will be the existing reference tariff that is highest on a NT basis (cl. 6.2.4(s)).

Allocation of costs

The example above assumes existing users of the system do not benefit from the expansion. In cases where existing users gain a clear benefit from the expansion, Aurizon Network will allocate part of the expansion costs to existing users (cl. 6.2.4(b)(i)). The existing reference tariffs (the system reference tariff and other existing expansion tariffs) will be adjusted accordingly prior to the socialisation test. This proposed allocation of costs will be featured in the Pricing Proposal.

Expiration of expansion tariff

The 2014 DAU proposes that an expansion tariff has a maximum life of 10 years (cl. 6.2.4(o)). This implies all expansion will be eventually socialised with the system reference tariff.

Within its 10-year life, the 2014 DAU provides for the expansion tariff to socialise with the next Highest Reference Tariff (by definition the tariff associated with the most recent expansion is the Highest Reference Tariff) if this socialisation does not lead to the next Highest Reference Tariff increasing by more than five per cent (on a NT basis)—that is, if it passes the socialisation test (cl. 6.2.4(g)). However, the 2014 DAU does not specify how often this assessment should be undertaken.

Aurizon Network said that once an expansion tariff has been socialised with another tariff (or if the expansion passed the socialisation test at the outset), the costs associated with these two tariffs cannot be separated in the future—that is, once socialised, always socialised.⁸²¹

⁸²¹ Aurizon Network, 2014 DAU, sub. no. 3: 100

16.5.2 Stakeholders' position

Stakeholders generally supported the principles underpinning Aurizon Network's proposed framework. The QRC considered the expansion pricing framework under the 2014 DAU represents a substantial improvement over the 2013 DAU proposal, and acknowledged Aurizon Network has adopted many of its suggestions.⁸²² Stakeholders have provided the following comments:

Table 81 Stakeholders' comments on the 2014 DAU expansion pricing approach

<i>Issue</i>	<i>Comments</i>
Expansion funded by Aurizon Network at the regulatory WACC	Stakeholders disagreed that expansion funded by Aurizon Network at the regulatory WACC should be exempted from a materiality test to determine if socialisation is appropriate. ⁸²³ The QRC noted Aurizon Network's intention is to limit the asset stranding risk associated with projects it is obliged to fund under the access undertaking (by socialising the expansion costs), however, the QRC did not consider it appropriate to bypass the pricing principles designed to protect stakeholders.
Forward-looking analysis	The QRC stated that Aurizon Network's intention is to have a series of discrete quarterly socialisation tests, such that an expansion tariff would be established if the test indicated socialisation was appropriate for the first quarter, so on until such a tariff was no longer required. The QRC considered that the assessment period should be applied over a longer timeframe (rather than quarterly), such that if a socialised tariff would make existing users no worse off in NPV terms over a period of 'x' years (e.g. the undertaking period), then the tariff could be avoided, even if it might raise the existing reference tariff initially.
10-year expiration of expansion tariffs	Asciano considered Aurizon Network had not explained why all expansion tariffs are socialised in 10 years, stating that such a provision would lead to existing users paying for expansions that did not benefit them. ⁸²⁴
Five per cent criterion for socialisation	Asciano considered Aurizon Network had not provided sufficient justification for the five per cent benchmark used in the socialisation test. ⁸²⁵
Broad definition of expansion	Anglo American stated the 2014 DAU expansion pricing framework does not differentiate between expansion of the shared mainlines and extension to new geographic areas. While Anglo American considered there might be circumstances where socialisation of the former is justified, it disagreed that existing users should bear the costs of extension to the CQCN.
Cost allocation principles	A number of stakeholders expressed the need for a clear cost allocation framework. Anglo American considered the Cost Allocation Manual under UT3 should be expanded to deal with expansion, as this would encourage greater transparency. ⁸²⁶ BMA expressed a similar view. ⁸²⁷
Delay caused by Aurizon Network	<ul style="list-style-type: none"> Anglo American viewed any delay to the QCA's approval of the Pricing Proposal caused by Aurizon Network's delay in the provision of information should constitute a delay on the part of Aurizon Network.⁸²⁸

⁸²² QRC, 2014 DAU, sub. no. 42: 29

⁸²³ QRC, 2014 DAU, sub. no. 42: 29

⁸²⁴ Asciano, 2014 DAU, sub. no. 22: 35–36

⁸²⁵ Asciano, 2014 DAU, sub. no. 22: 35

⁸²⁶ Anglo American, 2014 DAU, sub. no. 7: 36

⁸²⁷ BMA, 2014 DAU, sub. no. 23: 2–3

⁸²⁸ Anglo American, 2014 DAU, sub. no. 7: 37–38

<i>Issue</i>	<i>Comments</i>
	<ul style="list-style-type: none"> The QRC was concerned that if the Pricing Proposal is addressed as part of the next access undertaking, this would leave customers in a position of lacking information which is critical for planning and decision making.
Indicative reference tariffs	Asciano submitted that Aurizon Network should be obliged to formally submit the indicative reference tariffs to the QCA for approval before they can apply these tariffs. ⁸²⁹

16.5.3 QCA analysis and Draft Decision

Our Draft Decision is to refuse to approve Aurizon Network's proposed approach to pricing expansion in the 2014 DAU as a whole; however, we have accepted components of Aurizon Network's proposal.

Our preliminary view is to support the inclusion of an expansion pricing framework in the 2014 DAU, but with significant amendments to Aurizon Network's proposal. We consider that providing an expansion pricing approach in the access undertaking will help to reduce uncertainty and enhance transparency with respect to access pricing. This is important for access holders and future access seekers considering expansion, including potential future SUFA funders.

Our analysis of Aurizon Network's proposed approach to pricing expansion under the 2014 DAU is set out below. We have considered the following issues:

- principles underpinning the expansion pricing framework
- the application of the socialisation test
- timing of the assessment of an expansion tariff
- expansions funded by Aurizon Network at the regulatory WACC.

Principles underpinning the expansion pricing framework

The characteristics of natural monopoly infrastructure, such as rail, port and water infrastructure, are likely to lead to situations where 'lumpy' investment—and in some situations expensive infrastructure investment—is needed to provide an additional unit of capacity. New expansions, particularly those which lead to considerably increased costs of providing access, invariably lead to issues about who should bear the associated costs and risk.

Our analysis of the principles of Aurizon Network's proposed expansion pricing framework is presented in the following table:

Table 82 QCA analysis of expansion pricing principles

<i>Principles proposed by Aurizon Network</i>	<i>QCA analysis</i>
The user(s) requiring the expansion should generally pay an access charge that reflects at least the full incremental costs (capital and operating) of access.	<p>The incremental cost approach is commonly applied for establishing floor prices in the context of access to a shared network—a user should bear at least all additional costs associated with its access. This is cost-reflective and is consistent with the pricing limits principle in the 2014 DAU.</p> <p>In our view, expanding users should be the parties bearing the costs (which by definition are the incremental costs) and volume risk associated with an</p>

⁸²⁹ Asciano, 2014 DAU, sub. no. 22: 35

<i>Principles proposed by Aurizon Network</i>	<i>QCA analysis</i>
	<p>expansion. We consider this creates an incentive for expanding users to trigger an expansion only if their incremental earnings (arising from the expansion) are more than needed to cover the associated expansion costs.</p> <p>We consider this allocation of risks and costs is consistent with the objective of promoting efficient infrastructure investment in the CQCN.</p>
<p>Existing users should not experience a material increase in tariffs due to an expansion triggered by access seekers.</p>	<p>Our preference is for existing users not to be exposed to a material increase in tariffs due to an expansion triggered by access seekers. We consider this as an efficient and equitable outcome that appropriately balances the interests of existing and expanding users.</p> <p>We consider it unreasonable for the economic viability of a mine that is already operating to be materially negatively impacted by an expansion triggered by other users. Otherwise, it would add another level of uncertainty to mine development decisions and would discourage mine development in the CQCN in the long run. It is in the interests of all CQCN users to have a stable profile of access charges over time to reduce uncertainties. This is consistent with the object of Part 5 of the QCA Act, as it provides an environment that is conducive to mine development in the CQCN.</p> <p>Further, we note that it would create an incentive for existing users to oppose expansion projects if they perceived expansions as a threat to the commercial viability of their mines. This could lead to efficient expansions not being undertaken, which is inconsistent with the object of Part 5 of the QCA Act.</p>
<p>If new/expanding users face a higher cost than existing users, a zero contribution to common costs from expanding users is generally acceptable.</p>	<p>We consider existing users will not be made worse off (financially) as long as the expanding users cover at least the incremental costs associated with their access.</p> <p>In cases where incremental costs associated with providing access for expanding users are higher than the access charges facing existing users, we consider a zero contribution to common costs from expanding users reasonable. This helps to encourage expansions and mine development in the CQCN (as it lessens the financial burden of expanding users who are bearing the full expansion costs) without making existing users worse off. This is a view supported by stakeholders.</p> <p>Likewise, we consider expanding users should make a positive common cost contribution if the incremental costs associated with their access are less than the existing reference tariff. This reflects the benefits which expanding users may receive from previous investment (which was underwritten by existing users).</p> <p>We consider our position with respect to common cost contribution is equitable, that it appropriately balances the interests of existing and expanding users, and is consistent with the object of Part 5 of the QCA Act.</p>
<p>An allocation of expansion costs to existing users may be appropriate where an expansion has clear benefits to those users.</p>	<p>We consider if there is genuine benefit to existing users, then an allocation to these parties will be appropriate. This is consistent with the notion that users pay a price reflective of the service they receive.</p> <p>Our view is Aurizon Network and expanding users should bear the onus of demonstrating that an expansion has clear benefit to existing users to justify a positive allocation of costs to these users. Existing users should also be allowed to comment on any proposed cost allocations.</p> <p>We consider this promotes efficient infrastructure investment and appropriately balances the interests of existing and expanding users.</p>

We have previously considered the proposition of 'averaging down/incremental up' introduced in the discussion paper Capacity Expansion and Access Pricing for Rail and Ports we released in April 2013. 'Averaging down' refers to:

If average costs are decreasing substantially with capacity, adding the expansion costs to the cost base of the established capacity will usually provide an acceptably efficient and fair outcome.⁸³⁰

In cases where the average cost of providing access decreases as capacity expands, applying a uniform access price to both existing and expanding users ('averaging down') in theory ensures expanding users make a positive common cost contribution, and existing users benefit from a lower tariff.

Likewise, 'incremental up' refers to:

If average costs are increasing substantially with capacity, a separate access price should normally be calculated and charged to those whose capacity underwrites the new tranche of capacity that reflects the average cost of that new capacity.⁸³¹

When the average cost of providing access is increasing with capacity expansion, applying a separate access price to expanding users ('incremental up') in theory ensures existing users are not made worse off (financially) by this expansion. The common cost contribution from expanding users is zero if the separate access price is just sufficient to cover the incremental costs of providing access for these users.

We consider that the 'averaging down/incremental up' approach is consistent with the object of Part 5 of the QCA Act and appropriately balances the interests of all parties, including Aurizon Network's legitimate business interests. As set out in Table 82, requiring expanding users to bear the incremental costs of access and protecting established users from material increase in their access charges ('incremental up') are economically efficient and equitable. Similarly, socialisation of tariffs when average costs are decreasing ('averaging down') rewards established users for their prior contribution to financing capacity, and reflects the benefits which expanding users may receive from previous investment (which was underwritten by existing users).

Aurizon Network's proposed expansion pricing framework is an application of the 'averaging down/incremental up' concept. The socialisation test proposed by Aurizon Network is intended to distinguish between expansions that reduce the average cost of providing access (or lead to a small increase) and those that materially increase it. Under the 2014 DAU, if an expansion (after any allocation of expansion costs to existing users) is expected to raise the existing reference tariff by more than five per cent, it will not be socialised and hence only new expanding users bear the expansion costs by paying a separate expansion tariff. Otherwise, both new and existing users will pay a uniform reference tariff inclusive of the expansion costs.

Nevertheless, as we discuss in the next section, in practice Aurizon Network's proposed expansion pricing approach does not necessarily lead to outcomes satisfying the principles presented above, particularly the first two principles. These relate to the use of forecast costs and volumes, as well as the revenue cap regime and take-or-pay arrangements that are in place for existing users.

⁸³⁰ QCA, 2013(c): iv

⁸³¹ QCA, 2013(c): iv

Draft Decision

16.6 Our preliminary view, as set out in this Draft Decision is to accept Aurizon Network's proposal that:

- (a) the user(s) requiring the expansion should generally pay an access charge that reflects at least the full incremental costs (capital and operating) of access**
- (b) existing users should not experience a material increase in tariffs due to an expansion triggered by access seekers**
- (c) if new/expanding users face a higher cost than existing users, a zero contribution to common costs from expanding users is generally acceptable**
- (d) an allocation of expansion costs to existing users may be appropriate where an expansion has clear benefits to those users.**

Application of the socialisation test in the 2014 DAU

While we generally accept the general principles with respect to expansion pricing as proposed by Aurizon Network, our Draft Decision is to refuse to approve the drafting for implementation of these principles set out in the 2014 DAU. Particularly, we are concerned Aurizon Network's proposed expansion pricing approach does not sufficiently take into account uncertainties associated with an expansion and may unintentionally cause existing users to bear a significant part of an expansion's financial risks.

For example, under the current drafting of the 2014 DAU, if the final expansion costs were significantly higher than forecast or volumes failed to materialise, and we had pre-approved socialisation of the expansion, existing users could end up paying higher access charges than had been expected when the socialisation test was undertaken. Depending on the accuracy of the initial forecasts, the pricing impacts on existing users could be significant.

Further, this issue is not entirely resolved even if we use contracted volumes of expanding users and actual expansion costs in the socialisation test as well as in subsequent pricing calculations. Given the way reference tariffs and take-or-pay liabilities are calculated under the 2014 DAU, existing users could ultimately bear significantly higher access charges over time in the case of a socialised tariff if the expanding users failed to fully utilise the new capacity. A simple example is provided in Box 6.

While the intent of the socialisation test is consistent with the principles, it does not necessarily lead to outcomes that satisfy these principles in practice.

Box 6: Socialisation of expansion

This simple example shows that using contracted volumes of expanding users in the socialisation test, as well as in subsequent pricing calculations, will not completely isolate existing users from the volume risk associated with an expansion when the expansion is socialised with the system tariff. This is because:

- the reference tariff is calculated on the basis of forecast volumes of existing users, rather than contracted volumes, under the existing pricing approach; and
- an access holder's take-or-pay liability depends on the system forecast volume and its individual contracted volume (see cl. 2.4 of Schedule F).

Suppose the rail network has one existing user (User A) and it pays a reference tariff of \$10 per NT. A new user (User B) applies for access and triggers an expansion.

Consider the following assumptions:

	<i>Existing user A</i>	<i>New user B</i>	<i>Combined</i>
Incremental cost (\$)	100,000	80,000 (including expansion costs)	180,000
Contracted volume (NT)	12,000	10,000	22,000
Forecast volume for pricing (NT)	10,000	10,000	20,000
Reference tariff (\$ per NT)	10.00	8.00	9.00

As we understand, applying Aurizon Network's proposed socialisation test (based on User B's contracted volume) would result in socialisation of the expansion. Both users pay a uniform tariff of \$9 per NT, which is lower than User A's initial reference tariff of \$10 per NT.

Suppose, Users A and B's actual volumes are 10,000 NTs and 5,000 NTs respectively. The take-or-pay trigger is expected to be breached, as the total actual volume is 15,000 NTs while the reference tariff was based on a system forecast of 20,000 NTs.

The calculation of each user's take-or-pay liability under the 2014 DAU (simplified) is as follows:

	<i>Existing user A</i>	<i>New user B</i>	<i>Total</i>
Actual volume railed (NT)	10,000	5,000	15,000
Access revenues based on actual volume (\$)	90,000	45,000	135,000
Total revenue shortfall at a system level (\$)	N/A	N/A	45,000
Take-or-pay prior to capping adjustments (\$)	18,000 (29%)	45,000 (71%)	63,000
Actual take-or-pay after tariff capping adjustments (\$)	13,050 (29%)	31,950 (71%)	45,000
Total access charge inclusive of take-or-pay (\$)	103,050	76,950	180,000

As shown in the table above, User A ends up paying \$103,050 in total for its access, while User B pays \$76,950. Despite the socialisation test, the take-or-pay arrangements result in User A paying \$10.30 per NT of coal railed (against its pre-socialisation tariff of \$10 per NT), and User B paying less than the incremental cost associated with its access (\$80,000).

The outcome above contradicts with two principles we have discussed previously:

- The user(s) requiring the expansion should generally pay an access charge that reflects at least the full incremental costs (capital and operating) of access.
- Existing users should not experience a material increase in tariffs due to an expansion triggered by access seekers.

Note that this example assumes that the take-or-pay arrangements under the 2014 DAU fully cover all shortfall of revenue. Under the 2014 DAU, where part of this revenue shortfall is not recovered through take-or-pay, the revenue cap (where every user contributes to) for subsequent years will be raised to cover the remaining under-recovery of revenue. This creates a similar outcome where, if expanding users fail to fully utilise the new capacity, existing users will bear part of the expansion costs as a result.

'Fixed cost' arrangements for expanding users

As discussed in Table 82, we consider allocating the costs and risk associated with an expansion to expanding users is consistent with the object of Part 5 of the QCA Act, and appropriately balances the interests of access seekers and access holders.

We consider one of the more practical ways to ensure expanding users bear the costs and risk associated with an expansion, is to implement 'fixed cost' arrangements for expanding users. This means each expanding user effectively pays an access charge with a fixed component (defined as AT2 to AT4 tariffs, and AT5 if an expansion involves electric infrastructure) that does not vary with its actual usage, except in the event of Aurizon Network Cause. AT1 tariff will remain outside of the take-or-pay arrangements.

A 'fixed cost' regime is effectively a more stringent form of the existing take-or-pay arrangements. First, the 'fixed cost' regime is implemented on the basis of contracted volumes. Under a 'fixed cost' regime, the take-or-pay trigger will be on an individual user level (against their individual contracted volumes) rather than on a system level (against the system GTK forecast) as proposed under the 2014 DAU. There will also be no adjustments arising from capping mechanisms. The 2014 DAU take-or-pay provisions do not cover the AT5 revenue.

Coupling a 'fixed cost' regime with a socialisation test based on contracted volumes eliminates the scenario where expanding users under-use the new capacity and cause existing users to pay a higher than expected access charge. Further, it means in cases where a separate expansion tariff is established, each expanding user's volume risk is largely confined to its own contracted volume, and not to those of other expanding users.

Nevertheless, the implementation of a 'fixed cost' regime has to be considered alongside the revenue cap regime and take-or-pay arrangements that are in place for existing users. As illustrated in Box 6, for existing users:

- the reference tariff is calculated on the basis of forecast volumes, rather than contracted volumes, under the existing pricing approach; and

- an access holder's take-or-pay liability depends on the system forecast volume and its individual contracted volume.

We consider it unsustainable and overly complex for two groups of users to pay the same tariff (in the case where an expansion is socialised), but with one group (expanding users) bearing a more stringent take-or-pay regime than the other (existing users). It creates an asymmetric transfer of risk that further disadvantages the expanding users who, under a 'fixed cost' regime, will be bearing most of the costs and risk associated with the expansion.

Given we are not proposing to move existing users to a 'fixed cost' regime as part of this Draft Decision, this precludes the socialisation of an expansion with the system reference tariff. If in the future a 'fixed cost' regime is applied generally to all users, we will consider the socialisation with expansions with the system reference tariff.

Accordingly, for the 2014 DAU, we have proposed the following:

- A separate expansion tariff, based on contracted volumes, will be established in the event that an expansion is triggered (see cl. 6.4.3(c) of our marked-up draft).
- Aurizon Network is required to implement a 'fixed cost' regime, based on contracted volumes, for users paying an expansion tariff—each user will pay an access charge with a fixed component (defined as AT2 to AT4 tariffs, and AT5 if an expansion involves electric infrastructure) that does not vary with its actual usage, except in the event of Aurizon Network Cause (see cl. 6.4.3(b) of our marked-up draft; we have proposed amendments to Schedule F of the 2014 DAU to give effect to this).
- If the incremental costs associated with providing access for expanding users are lower on a NT basis than the system reference tariff, a positive common cost contribution will be included in the expansion tariff to ensure that the expansion tariff aligns with the system reference tariff on a NT basis (see cl. 6.4.3(f) of our marked-up draft). Otherwise, users paying an expansion tariff will not be required to make any contribution to common cost. To be clear, our position is that the reference tariff applicable to an expanding user should not be lower than an existing reference tariff on a unit basis.
- In the event where there is an existing expansion tariff in the system, and another expansion is triggered, socialisation between the two expansions (with a 'fixed cost' regime applied to all expanding users) is appropriate if it complies with the approved form of socialisation test (see cl. 6.4.3(d) of our marked-up draft). We have proposed amendments to Aurizon Network's proposed socialisation test, which will be used to determine if the costs of two expansions should be pooled together to create a socialised expansion tariff.

We consider our proposed amendments are consistent with the principles we have approved in Draft Decision 1.6, and they facilitate efficient and equitable outcomes. This is consistent with the object of Part 5 of the QCA Act and appropriately balances Aurizon Network's legitimate business interests with the interests of access seekers, access holders and train operators.

Draft Decision

16.7 Our preliminary view, as set out in this Draft Decision is to refuse to approve Aurizon Network's proposed expansion pricing framework. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make the following adjustments:

- (a) A separate expansion tariff, based on contracted volumes, will be established in the event that an expansion is triggered.**
- (b) Aurizon Network is required to implement a 'fixed cost' regime, based on contracted volumes, for users paying an expansion tariff—each user will pay an access charge with a fixed component (defined as AT2 to AT4 tariffs, and AT5 if an expansion involves electric infrastructure) that does not vary with its actual usage, except in the event of Aurizon Network Cause.**
- (c) If the incremental costs associated with providing access for expanding users are lower on a NT basis than the system reference tariff, a positive common cost contribution will be included in the expansion tariff, to ensure that the expansion tariff aligns with the system reference tariff on a NT basis. Otherwise, users paying an expansion tariff will not be required to make any contribution to common cost.**
- (d) In the event where there is an existing expansion tariff and another expansion is triggered, socialisation between the two expansions is appropriate if it complies with the approved form of socialisation test.**

Further amendments to the proposed expansion pricing framework

As mentioned above, we consider socialisation between expansions should be permitted (if it passes the approved form of socialisation test) as long as a 'fixed cost' regime is applied to the users involved. We have proposed further amendments to Aurizon Network's proposed expansion pricing framework (note that the socialisation test will only be applied if there is an existing expansion tariff).

Five per cent criterion for socialisation

Our Draft Decision is to refuse to accept Aurizon Network's proposed materiality threshold of five percent in the socialisation test.

While we acknowledge the intention of a meaningful materiality threshold, we consider the five per cent threshold proposed by Aurizon Network arbitrary, and that it may be preferable to allow for some level of judgement to be applied in assessing the need for a new expansion tariff.

When the expansion is expected to result in a decline of an existing expansion tariff, we consider there is a clear case for socialisation because:

- it provides users that are already paying an expansion tariff with a potential decrease of access charges over time, and accelerate the merging of reference tariffs
- it ensures new expanding users, where their own expansion costs are relatively small, make a contribution to paying off old expansions to reflect the benefits these new users may receive from previous investment.
- it has the administrative benefit of minimising the number of tariffs to be developed.

On the other hand, in the case where socialisation is expected to raise an existing expansion reference tariff, we consider it is best dealt with on a case-by-case basis (whether to socialise or

not socialise) and recognise that the onus should be on the expanding users and Aurizon Network to justify the merit of socialisation. We will ensure that existing users are given the opportunity to make submissions on a Pricing Proposal. This is appropriate given the broad definition of expansion in the access undertaking.

Draft Decision

16.8 Our Draft Decision is refuse to approve Aurizon Network's proposed five per cent criterion for socialisation. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make the following adjustments:

- (a) If socialisation of a new expansion with the 'Highest Expansion Tariff' (the existing expansion tariff that is highest on the NT basis) leads to lower tariff on a unit basis, these costs will be socialised.**
- (b) If socialisation leads to an increase in the 'Highest Expansion Tariff', the QCA will consider on a case-by-case basis whether to socialise or to establish a separate expansion tariff for this new expansion.**

10-year expiration of expansion tariffs

Our Draft Decision is to refuse to approve the 10-year expiration of expansion tariffs.

We acknowledge that for the ease of administration there may be a benefit to Aurizon Network in having expansion tariffs expire after 10 years, and it is in Aurizon Network's interest to socialise to avoid asset stranding risk.

Nevertheless, given that as part of this Draft Decision we propose to establish a separate expansion tariff (alongside a 'fixed cost' regime) for any expansion triggered in the 2014 DAU period, we do not consider Aurizon Network has made a strong case from an efficiency or fairness perspective for why an expansion should be automatically socialised after 10 years. We consider that an automatic expiry of an expansion tariff does not have sufficient regard to the potential pricing impacts on the existing access holders and could lead to an inefficient or inequitable pricing arrangement. We consider that there are sufficient other mechanisms in the regulatory framework to deal with issues of asset stranding risk to ensure that Aurizon Network's legitimate business interests are met.

For this reason, we reject that an expansion tariff should have a maximum life of 10 years. As mentioned previously, if in the future a 'fixed cost' regime is applied to all users, we will consider socialising expansions with the system reference tariff.

In the event that a system has more than one existing tariff, we consider an annual review—re-running the socialisation test based on latest information—is more appropriate to determine if two expansion tariffs should be socialised (see cl. 6.4.3(i) of our marked-up draft).

Draft Decision

16.9 Our Draft Decision is to refuse to approve the 10-year expiration of expansion tariffs as proposed in the 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU to require it to undertake an annual review, by re-running the socialisation test based on latest information, to determine if expansion tariffs should be socialised where more than one expansion tariff exists for a system.

Post-expansion access seekers

Our Draft Decision is to accept that where a system has multiple reference tariffs (due to previous expansions), the reference tariff used to establish access charges for new access seekers should be the existing reference tariff that is highest on a NT basis (see cl. 6.3.1(d) of our marked-up draft).

Our view is driven by these two factors:

- It prevents access seekers from inefficiently seeking to delay their entry into the market to 'free-ride' on expansions triggered and underwritten by existing users.
- It provides users that are already paying an expansion tariff with a potential decrease of access charges over time.

We consider this facilitates efficient and equitable outcomes for all users of the CQCN. This is consistent with the object of Part 5 of the QCA Act and appropriately balances the interests of all parties.

Draft Decision

16.10 Our Draft Decision is to approve Aurizon Network's proposal that, where a system has multiple reference tariffs (due to previous expansions), the reference tariff used to establish access charges for new access seekers should be the existing reference tariff that is highest on a NT basis.

Timing of a Pricing Proposal and approval of expansion tariffs

The 2014 DAU proposes that Aurizon Network submit a Pricing Proposal to us for approval within 80 business days after a Feasibility SFA—for that expansion—becomes unconditional (cl. 6.2.4(b)).

While we appreciate the preference for Aurizon Network, existing access holders and access seekers to have information about the potential pricing arrangement that would apply for a proposed expansion, we are concerned that there will be insufficient reliable information at a Feasibility SFA stage to allow for any party, including ourselves, to make a meaningful decision.

We consider a Pricing Proposal for an expansion would be better provided at the conclusion of the feasibility study when there is a significantly higher level of certainty about what costs and volumes would be. For a SUFA project, this is likely to coincide with an application for pre-approval of an expansion project. Accordingly, we have proposed amendments to the 2014 DAU, to require the Pricing Proposal to be submitted to us as part of the feasibility study report (see cl. 6.4.2(a) of our marked-up draft).

We also consider that a Pricing Proposal should contain information regarding the allocation of the expansion costs between existing and expanding users, the results of the socialisation test (in the event that there is an existing expansion tariff), the proposed pricing arrangements for

the expansion, as well as indicative tariffs consistent with the proposed pricing arrangements. This set of information is highly useful for all parties involved.

For the Pricing Proposal, the socialisation test (if applicable) will be calculated based on forecast costs and forecast volumes as set out in the feasibility study (see cl. 6.4.3(d) of our marked-up draft). We have proposed amendments to the 2014 DAU, to allow us to revise our decisions, subject to section 150F of the QCA Act, with respect to pricing arrangements for an expansion if there is a material change in circumstances to recognise that the Pricing Proposal will be based on forecast information (see cl. 6.4.2(e) of our marked-up draft).

Further, once we approve a Pricing Proposal, we require Aurizon Network, where feasible, to submit to us a DAAU, based on contracted volumes, to apply for approval of new or varied reference tariffs (see cl. 6.4.2(b) and 6.4.3(h) of our marked-up draft). This is consistent with our Draft Decision to apply a 'fixed cost' regime to expanding users.

We consider that our proposed amendments appropriately balance Aurizon Network's legitimate business interests with the interests of access seekers, access holders and other relevant parties.

Draft Decision

16.11 Our Draft Decision is to refuse to approve the provisions with respect to Pricing Proposal. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make adjustments, for:

- (a) Aurizon Network to provide Pricing Proposal as part of the feasibility study report for an expansion.**
- (b) a Pricing Proposal to contain information regarding the allocation of the expansion costs between existing and expanding users, the results of the socialisation test (in the event that there is an existing expansion tariff), the proposed pricing arrangements for the expansion, as well as indicative tariffs consistent with the proposed pricing arrangements.**
- (c) the Pricing Proposal, the socialisation test (if applicable) to be calculated based on forecast costs and forecast volumes as set out in the feasibility study. The QCA is allowed to revise any decisions with respect to pricing arrangements for an expansion if there is a material change in circumstances.**
- (d) upon the QCA's approval of a Pricing Proposal, Aurizon Network, where feasible, be required to submit to the QCA a DAAU, based on contracted volumes, to apply for approval of a new or varied reference tariffs.**

Expansion funded by Aurizon Network at regulatory WACC

Our preliminary view, as set out in this Draft Decision, is to refuse to approve Aurizon Network's proposal to exclude any capital expenditure it funds at the regulated WACC from consideration of an expansion tariff (cl. 6.2.4).

We consider socialisation of all new investment is in Aurizon Network's interest, as it potentially broadens the customer base for the recovery of capital expenditure (and other related costs) and has the administrative benefit of minimising the number of tariffs to be developed. On the other hand, we also note that stakeholders have expressed concerns regarding socialisation of expansions.

While we acknowledge Aurizon Network's preference is generally to socialise new capital expenditure, we do not consider that this will always be in the interests of existing access

holders. We note that significant and unanticipated cost increases for existing access holders, regardless of the source of funding (Aurizon Network at the regulated WACC, a SUFA funded asset or asset funded with access conditions), may have commercial implications for existing miners. We have discussed this in the assessment of principles underpinning Aurizon Network's proposed expansion pricing framework.

For this reason, we consider it appropriate to subject all expansions to the expansion pricing treatment we have proposed above, regardless of its funding source. This results in equal treatment of all expansions, and increases transparency with respect to pricing. This is consistent with the object of Part 5 and appropriately balances Aurizon Network's legitimate business interests with the interests of access seekers, access holders and train operators.

Draft Decision

16.12 Our Draft Decision is to refuse to approve the 2014 DAU providing an exception to the consideration of an expansion tariff for expansions funded by Aurizon Network at the regulatory WACC. We consider it appropriate for Aurizon Network to amend its 2014 DAU so that this exception is omitted, as set out in the marked changes to Part 6 of the 2014 DAU attached to this Draft Decision.

16.6 New mine-specific spur lines

16.6.1 Aurizon Network proposal

Part 6 of the 2014 DAU proposes that, for new coal-carrying train services involving a spur line (either funded privately or by Aurizon Network) connected to the CQCN in the 2014 DAU period or beyond, the access charge for the access seeker be based on, either (see next section for the relevant definitions):

- the applicable existing reference tariff (e.g. a system reference tariff or an existing expansion tariff) less a Distance Discount (which may be zero), in cases where the existing reference tariff is above the access seeker's Minimum Revenue Contribution (MRC) on a NT basis; or
- a varied reference tariff based on the access seeker's MRC.

The exception is where a new expansion tariff is being proposed as part of the access application, the 2014 DAU proposes the reference tariff applicable to the access seeker be the new expansion tariff (cl. 6.2.5(a)(iii)).

The key principle underpinning Aurizon Network's proposal is that customers should pay an access charge that at least covers the incremental costs of providing them access to the CQCN.⁸³² In cases where an expansion is triggered by an access seeker, an access charge based on a new expansion tariff is consistent with this principle. Likewise, where an expansion is not required, the MRC concept is meant to ensure a reference tariff that at least covers the incremental costs of providing the new access rights is applied.

Minimum Revenue Contribution and Distance Discount

Under the 2014 DAU, the MRC of an access seeker is calculated on the basis of the applicable existing AT1 reference tariff input plus the higher of:

⁸³² Aurizon Network, 2013 DAU, sub. no. 2: 217

- (a) other incremental costs (to the extent not covered by the AT1 tariff input) incurred by Aurizon Network as a consequence of providing access to the access seeker; or
- (b) the AT₂ input plus 25 per cent of both the AT3 and AT4 inputs of the relevant existing reference tariff (cl. 6.2.5(c)).

Effectively, the MRC forms the floor price for an access seeker.⁸³³ In cases where the applicable existing reference tariff is above the MRC, the access seeker pays the existing reference tariff less a Distance Discount. Aurizon Network said its intent is that, given an access seeker paying at least the MRC is already covering the incremental costs associated with its access, any additional contribution to the recovery of the MAR (also known as the CCC) should depend on that party's capacity to pay.⁸³⁴

Aurizon Network considered a user's capacity to pay is negatively related to:

- the length of the mine-specific spur line
- the mainline haul length from the loading facility to the unloading facility.⁸³⁵

The Distance Discount formula is presented in Box 7.

⁸³³ Aurizon Network, 2013 DAU, sub. no. 2: 226

⁸³⁴ Aurizon Network, 2013 DAU, sub. no. 2: 227–228

⁸³⁵ Aurizon Network, 2013 DAU, sub. no. 2: 227–228

Box 7: Distance Discount

The Distance Discount formula in the 2014 DAU is a product of three components, taking into account each of the factors above (cl. 6.2.5(b)):

$$\{ART - MRC\} * \left\{ \text{Min} \left(1, \frac{\text{Max}[SL_{lower}, SL_{actual}] - SL_{lower}}{SL_{upper} - SL_{lower}} \right) \right\} * \left\{ \text{Min} \left(1, \frac{ML_{actual}}{ML_{ave}} \right) \right\}$$

- $\{ART - MRC\}$
 - The total discount is capped at the difference between the applicable existing reference tariff (ART) and the MRC (meaning all access seekers pay at least their MRCs).
- $\left\{ \text{Min} \left(1, \frac{\text{Max}[SL_{lower}, SL_{actual}] - SL_{lower}}{SL_{upper} - SL_{lower}} \right) \right\}$
 - This bracket varies between 0 and 1. A mine that has a spur line shorter or equal to 25km obtains no discount (the bracket equals 0 if $SL_{actual} \leq SL_{lower} = 25\text{km}$). The discount increases with spur length, up to a maximum of 100km (the bracket equals 1 if $SL_{actual} \geq SL_{upper} = 100\text{km}$).
- $\left\{ \text{Min} \left(1, \frac{ML_{actual}}{ML_{ave}} \right) \right\}$
 - This bracket varies between 0 and 1. The discount increases with the mainline haul length of the mine, up to a maximum of the system average (the bracket equals 1 if $ML_{actual} \geq ML_{ave}$).⁸³⁶

UT3 pricing approach

UT3 specified the reference tariff for new coal-carrying train services would be the higher of (2010 AU, Schedule F, cl. 4.1.2):

- (a) *The Reference Tariff for the relevant Individual Coal System Infrastructure; or*
- (b) *The sum of ... Private Incremental Costs (if any), the Incremental Costs of using any Rail Infrastructure specifically related to the new coal carrying Train Service and the required minimum Common Cost contribution ...*
- (c) *provided that the Access Charge payable to QR Network for the operation of that new coal carrying Train Service is calculated as the applicable Reference Tariff less the Private Incremental costs (if any).*

The minimum CCC was defined as the sum of the system reference tariff's AT2 plus 50 per cent of AT3 inputs (2010 AU, Schedule F, Part B, cl. 4.1.3).

Aurizon Network said one of the key problems with regard to the UT3 approach is that it required the disclosure of private infrastructure costs (see limb (b)).⁸³⁷ Information disclosure had not been an issue previously, given Aurizon Network had built mine-specific infrastructure on behalf of customers under Access Facilitation Deeds (AFDs). However, Aurizon Network said it no longer offers AFDs (mines are typically required to fund and own their mine-specific infrastructure) and it has had problems obtaining information about private incremental costs

⁸³⁶ Aurizon Network, 2013 DAU, sub. no. 2: 227–228

⁸³⁷ Aurizon Network, 2013 DAU, sub. no. 2: 223

from miners who funded their own spur lines.⁸³⁸ The 2014 DAU addresses this issue because the assessment of an access seeker's MRC does not require such information.

16.6.2 Stakeholders' position

Asciano said there is a need to ensure Aurizon Network's proposal is equitable.⁸³⁹ Asciano considered the spur length limits in the Distance Discount formula arbitrary and do not appear to be based on costs.

The QRC stated while it understood the mine-specific spur line costs would not be included in the MRC calculation, the drafting is unclear in this respect.⁸⁴⁰ Anglo American considered, in cases where Aurizon Network and an access seeker enter into a mine-specific spur line agreement, which provides Aurizon Network additional revenue (e.g. an upfront contribution), Aurizon Network must exclude this additional revenue from the RAB.⁸⁴¹

16.6.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to refuse to approve Aurizon Network's proposed pricing approach for new train services utilising a mine-specific spur line connected to the CQCN in the 2014 DAU period or beyond. We propose the following amendments to Part 6 of the 2014 DAU:

- define the MRC as the AT1 tariff plus other incremental costs (to the extent not covered by the AT1 tariff and other agreements between Aurizon Network and an access seeker) of providing access (calculated on the basis of forecast NT), but excluding any mine-specific spur line costs irrespective of infrastructure ownership (see cl. 6.3.1(c) of our marked-up draft)
- remove the Distance Discount—if an access seeker's MRC is above the applicable existing reference tariff, the reference tariff applicable to this access seeker will be based on its MRC. Otherwise, this access seeker pays the existing reference tariff (see cl. 6.3.1(b) of our marked-up draft).

Our analysis is set out below.

UT3 pricing approach

It is our view that the access charge for a user should not be determined on the basis of how its spur line has been funded. This position was reflected in our UT2 Draft Decision:

The Authority considers that the access undertaking must provide equitable treatment of private infrastructure to avoid distorting competition in other markets. In this respect, the Authority has proposed measures to ensure that total access charges are not determined on the basis of infrastructure ownership.⁸⁴²

This was the intent of the UT3 approach. Under UT3 (see limb (b) of cl. 4.1.2, Part B, Schedule F reproduced above), the dollar amount compared to the system reference tariff should be the same regardless of the infrastructure ownership—mine-specific spur line costs would either be classified as private incremental costs or incremental costs borne by Aurizon Network. This

⁸³⁸ Aurizon Network, 2013 DAU, sub. no. 2: 223

⁸³⁹ Asciano, 2014 DAU, sub. no. 22: 36

⁸⁴⁰ QRC, 2014 DAU, sub. no. 42: 30

⁸⁴¹ Anglo American, 2014 DAU, sub. no. 7: 38

⁸⁴² QCA, 2005(a): 133

meant the decision to apply the system reference tariff (if limb (a) was higher) or a new reference tariff (if limb (b) was higher) would be independent of how a spur line was funded.

Nevertheless, in practice, the UT3 approach has not resulted in equal pricing treatments. This is because, by definition, private infrastructure is not part of the declared service and the associated costs cannot be included in the RAB and the MAR. In contrast, the costs of spur lines funded under AFDs (hence owned by Aurizon Network) have been included in the regulatory accounts to form part of system reference tariffs.

Further, there was the issue of information disclosure (due to the reference to private incremental costs) associated with the UT3 approach, as pointed out by Aurizon Network. We note that Aurizon Network has had difficulties obtaining information with regard to private incremental costs from users.

Moreover, private incremental costs were also not subject to an independent assessment of prudence. Given that paying the minimum CCC lowers a mine's production costs relative to paying the system reference tariff (holding everything else constant), the UT3 approach might create a perverse incentive for mines with private infrastructure to inflate their reported private incremental costs, so that limb (b) would exceed the system reference tariff.

Minimum Revenue Contribution

We consider a viable alternative to the UT3 approach is to set out a pricing approach that disregards the value (and its related operating and maintenance costs) of a mine-specific spur line, irrespective of how it has been funded. This means that instead of treating a private spur line as if it had been owned by Aurizon Network (hence taking such costs into account when establishing reference tariffs), this alternative approach treats all spur lines as privately owned (hence disregarding the associated costs).

This has the advantage of ensuring equal pricing outcomes and not requiring information about private infrastructure costs. Given Aurizon Network no longer offers AFDs, it is important to set out a pricing approach that does not rely on information regarding private incremental costs.

We consider the MRC concept proposed by Aurizon Network largely aligns with this. However, we are concerned that the drafting of the 2014 DAU is unclear whether the MRC should include the costs of a mine-specific spur line where it has been funded by Aurizon Network. We consider that for clarity purposes the drafting should be amended to exclude mine-specific spur line costs in all circumstances for new train services. If Aurizon Network decides to fund a spur line in the future, it should recover the associated costs through a separate agreement between it and the relevant mine, rather than through the access charges.

We also no longer consider it necessary to establish a minimum level of CCC (under the 2014 DAU, the minimum CCC is effectively AT2 plus 25 percent of AT3 and AT4). Our view is that:

- in cases where incremental costs associated with providing access for an access seeker are higher than the access charges facing existing users (as calculated on the basis of existing reference tariffs), it is reasonable for this party to make no CCC. The reference tariff applicable to this access seeker will be a varied reference tariff based on the party's MRC.
- if the applicable existing reference tariff is higher than the incremental costs, the existing reference tariff will be applied to this access seeker.

We consider existing users will not be made worse off (financially) as long as an access seeker covers at least the incremental costs associated with its access. This is consistent with our proposed approach to expansion pricing.

Reflecting this, we consider it appropriate to define the MRC as 'the AT1 tariff of the applicable reference tariff plus other incremental costs (to the extent not covered by the AT1 tariff and other agreements between Aurizon Network and the access seeker) of providing access (calculated on the basis of forecast NT), excluding any reference to mine-specific spur line costs irrespective of infrastructure ownership.

Distance Discount

Our interim position is we do not consider Aurizon Network has provided sufficient analysis to justify applying a Distance Discount for new train services involving spur lines connected in the 2014 DAU period or beyond. We consider applying a Distance Discount for new train services will substantially increase the complexity of the pricing regime.

Aurizon Network said its intent is to calibrate the level of CCC applicable to an access seeker on the basis of its capacity to pay. Aurizon Network considered a mine's capacity to pay would depend on the length of the mine's spur line and its usage of the mainline.

In our view, the current structure of reference tariffs already gives rise to a distance taper effect. This is because AT1, AT3 and AT5 are levied on gtk, ntk and egtk respectively. A user with a longer mainline haul length will pay a lower tariff (on a NTK basis) relative to users that use less mainline. We are not convinced there is a need to strengthen the distance taper effect by applying a Distance Discount for new train services.

We recognise that since the MAR includes the costs associated with existing spur lines funded under AFDs, it may seem unreasonable for new users with private infrastructure to pay the full reference tariffs. This has previously been raised by Aurizon Network.⁸⁴³ Nevertheless, based on the information available to us, the proportion of the MAR attributable to mine-specific spur lines is less than 10 per cent and is even expected to fall over time. We do not consider it sufficiently substantial to justify the inclusion of a Distance Discount. We seek stakeholders' view on this issue.

Our interim position is to remove the Distance Discount in the 2014 DAU. We consider if an access seeker's MRC is below the applicable existing reference tariff, the existing reference tariff should be applied to that party without a distance discount. We also consider this approach should be applied to all new coal-carrying train services as long as they do not trigger a new expansion to the network. We have proposed amendments to the 2014 DAU to give effect to this.

We consider our proposed amendments keep the pricing regime simple and transparent, and ensure the regime facilitates efficient pricing outcomes. We also consider our position with respect to the common cost contribution is equitable as it appropriately balances the interests of the CQCN users.

⁸⁴³ Aurizon Network, 2014(a): 5

Draft Decision

16.13 Our Draft Decision is to refuse to approve Part 6 of Aurizon Network's 2014 DAU.. We consider it appropriate for Aurizon Network to amend its 2014 DAU to make amendments to:

- (a) define the MRC as 'the AT1 tariff of the applicable reference tariff plus other incremental costs (to the extent not covered by the AT1 tariff and other agreements between Aurizon Network and the access seeker) of providing access (calculated on the basis of forecast NT), excluding any reference to mine-specific spur line costs irrespective of infrastructure ownership**
- (b) remove the Distance Discount—if an access seeker's MRC is above the applicable existing reference tariff, the reference tariff applicable to this access seeker will be based on its MRC. Otherwise, the existing reference tariff will be applied to this access seeker**
- (c) expand the application of the MRC to all new train services as long as they do not trigger an expansion to the CQCN.**

16.7 Commercial terms

16.7.1 Aurizon Network's proposal

The 2014 DAU provides for Aurizon Network to negotiate non-standard arrangements (commercial terms) in relation to access rights requiring an expansion or a mine-specific spur line to be funded by Aurizon Network (cl. 6.9).

These provisions were already provided for under UT3, however, they were more restrictive. Under UT3, Aurizon Network was required to demonstrate access conditions were necessary to mitigate its exposure to additional financial risks associated with the development of an expansion or a mine-specific line, and any non-standard arrangements were subject to our approval.

16.7.2 Stakeholders' position

Stakeholders did not support greater flexibility for Aurizon Network to establish commercial terms with access seekers.⁸⁴⁴

Stakeholders said the 2014 DAU would potentially allow Aurizon Network to set terms and conditions that discriminate in favour of certain access seekers, as commercial terms do not require our approval. Stakeholders said the related requirements in UT3 should be reinstated.

The QRC proposed that commercial terms should be prohibited in cases where Aurizon Network is obliged to fund an expansion or any related studies (e.g. pre-feasibility and feasibility).⁸⁴⁵ The QRC also said commercial terms should be prohibited from requiring an access seeker to sign a haulage agreement or a port agreement with Aurizon Network's related parties. These additional restrictions were supported by Anglo American.⁸⁴⁶

⁸⁴⁴ Asciano, 2013 DAU, sub. no. 43: 73; Anglo American, 2013 DAU, sub. no. 78: 23; RTCA, 2013 DAU, sub. no. 73: 79–86; QRC, sub. no. 53: 14

⁸⁴⁵ QRC, 2013 DAU, sub. no. 53: 14

⁸⁴⁶ Anglo American, 2013 DAU, sub. no. 78: 23

16.7.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision is to refuse to approve Aurizon Network's proposed commercial term provisions in the 2014 DAU. We have serious concerns that the proposed provisions, as they are much more relaxed than the UT3 access condition provisions, could potentially be misused to allow Aurizon Network to engage in monopoly rent-seeking behaviour.

Under section 119(2)(c) of the QCA Act, Aurizon Network cannot be obliged to fund an expansion. However, the QCA Act does not prohibit Aurizon Network from including a voluntary funding obligation in the access undertaking, which will be enforceable once the undertaking is approved by the QCA. Expansion funding can be sourced externally through a SUFA. However, given the transaction costs associated with a SUFA—especially as it is generally untested—there will be expansions of the CQCN that Aurizon Network is in the best position to fund. In such circumstances, Aurizon Network has significant bargaining power when negotiating with access seekers that require those expansions. We consider this will distort the negotiation and result in outcomes that inordinately favour Aurizon Network.

Moreover, as pointed out by stakeholders, the commercial term provisions could potentially be misused to set terms and conditions that discriminate in favour of certain access seekers. We consider regulatory oversight plays a pivotal role in ensuring Aurizon Network does not leverage its unique position to provide its related parties an unfair commercial advantage over their respective competitors.

In our view, given Aurizon Network's unique position as the sole operator of the CQCN, commercial terms should only be permitted if the intent is to mitigate its exposure to financial risks associated with funding an expansion. The onus should be on Aurizon Network to demonstrate the financial risks are legitimate and the proposed commercial terms are necessary to mitigate these risks.

Reflecting this, we propose amendments to the 2014 DAU to reinstate the UT3 access condition provisions, with further amendments to:

- simplify the drafting
- expand its application to all non-standard terms that have cost and risk implications for Aurizon Network—our approval will be required if Aurizon Network intends to charge an access charge that varies from the applicable reference tariff (see cl. 6.13.1 of our marked-up draft)
- provide that if the QCA refuses to approve some or all access conditions, Aurizon Network can enter into negotiations for a separate arrangement with access seekers that will be regarded as entirely outside of the scope of the access undertaking, and will be subject to Division 5 of Part 5 of the QCA Act (see cl. 6.13.2(g) of our marked-up draft).

We consider our proposed amendments strengthen the credibility of the pricing obligations in the 2014 DAU, by setting out the boundaries for negotiation of commercial terms, as well as mechanisms to prevent misuse. This is consistent with the object of Part 5 of the QCA Act, and appropriately balances the interest of access seekers, access holders and train operators, with Aurizon Network's legitimate business interests.

We acknowledge the access condition provisions do not fully address the concerns with respect to expansion funding, which remains given the lack of a funding obligation in the 2014 DAU. Nevertheless, we would welcome stakeholders' views on the usability of the access condition

provisions. Further, in Section 12.5.3, we recommended that Aurizon Network include a voluntary funding obligation.

Draft Decision

16.14 Our Draft Decision is to refuse to approve the commercial term provisions in Aurizon Network's 2014 DAU. We consider it appropriate for Aurizon Network to amend its 2014 DAU to reinstate the UT3 access condition provisions, with further amendments, to:

- (a) simplify the drafting**
- (b) expand its application to all non-standard terms that have cost and risk implications**
- (c) provide that if the QCA refuses to approve some or all access conditions, Aurizon Network can enter into negotiations for a separate arrangement with access seekers that will be regarded as entirely outside of the scope of the access undertaking, and will be subject to Division 5 of Part 5 of the QCA Act.**

17 REFERENCE TARIFFS

Reference tariffs and related provisions in Schedule F of Aurizon Network's 2014 DAU provide the basis for which access charges are determined and recovered. These tariffs are relevant to Aurizon Network, access seekers (and holders) and other stakeholders.

Our Draft Decision is to refuse to approve Aurizon Network's proposed reference tariff arrangements. We require amendments to Schedule F and related reference tariff calculations to:

- *remove the proposed rebalancing of the tariff structure and instead derive the incremental AT1 and AT2 tariffs on a consistent basis to previous access undertakings*
- *modify tariff calculations for specific train services based on the appropriate application of pricing principles*
- *modify selected general reference train service characteristics*
- *remove proposed revenue adjustments in relation to the AT1 tariff component that seek to minimise its variability and incorporate this tariff component in the revenue cap.*

The detailed drafting of Schedule F attached to this Draft Decision is consistent with our approach and shows all of the amendments required.

Appendix D provides a summary of our proposed changes to modelling assumptions and methodologies. Appendix E sets out our proposed reference tariffs in detail (i.e. the tariff components AT1–AT5 for each system) and, based on these, our proposed revenue caps for non-electric and electric access charges.

17.1 Introduction

Aurizon Network's proposed 2014 DAU reference tariffs are comprised of:

- charges calculated for reference and cross-system train services derived from reference tariff inputs⁸⁴⁷ which may be subject to system discounts
- take-or-pay charges.

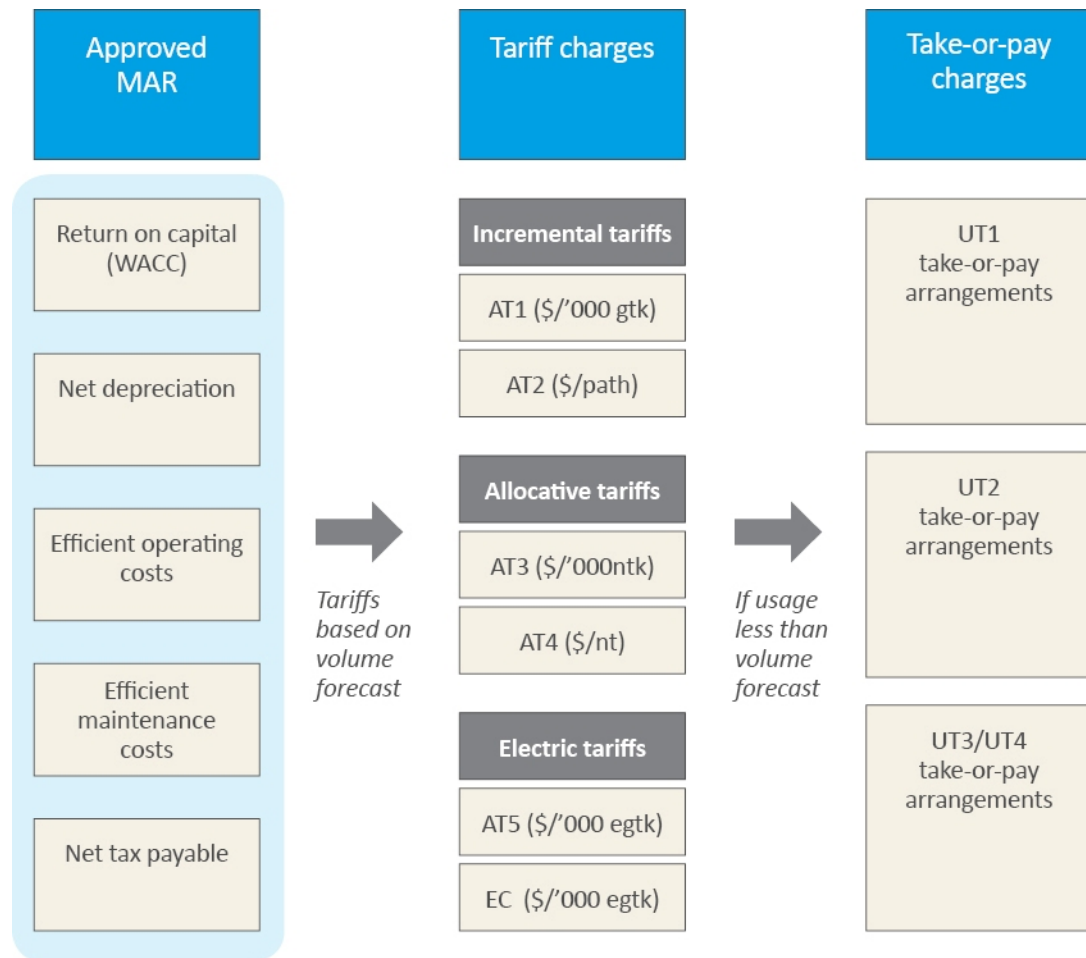
As discussed in Chapter 15, the existing multi-part reference tariff structure largely reflects the tariff structure initially developed for UT1. The tariff structure has five different reference tariff inputs.

Take-or-pay charges are intended to provide a price signal to customers about contracting for the capacity they will most likely use. The proposed 2014 DAU take-or-pay arrangements are discussed in further detail in Chapter 18.

Figure 13 outlines the reference tariff arrangements for access to the CQC as proposed by Aurizon Network in the 2014 DAU. Figure 13 also shows the take-or-pay arrangement for a particular access holder will depend on the access undertaking in place when the access agreement was executed.

⁸⁴⁷ Reference tariff inputs relate to AT1, AT2, AT3, AT4, AT5, electric energy charge (EC) and the QCA Levy inputs.

Figure 13 Reference tariff arrangements in the QCN



Provisions in the 2014 DAU relating to reference train service characteristics are important for determining whether an access holder would be paying access charges based on a reference tariff. The reference train service characteristics concept is intended to:

- provide certainty to an access holder that it will pay the reference tariff if it meets the reference train service characteristics
- facilitate the contracting of access rights for an access seeker.

Also of importance are 2014 DAU provisions that provide for Aurizon Network to recover its maximum allowable revenue (MAR) under a revenue cap arrangement. These provisions provide greater transparency to access holders and enable the anticipation of variations to annual reference tariffs to reflect revenue cap adjustment outcomes. This provides access holders with greater certainty and enables informed operating decisions. It also provides certainty to Aurizon Network's recovery of its allowable revenue under a revenue cap arrangement.

17.2 Overview

17.2.1 Aurizon Network proposal

Reference tariff structure

Aurizon Network has not proposed changing the reference tariff structure in Schedule F of the 2014 DAU (cl. 2.2) from the structure in place since UT1.

However, Aurizon Network has proposed a major rebalancing of its tariff structure. Specifically, Aurizon Network has proposed significant increases to the AT2 reference tariff in various systems. Aurizon Network said that the CQC is capacity constrained and the AT2 tariff for each system should better reflect the cost of the next expansion on each system. The increase in the AT2 tariff component results in largely offsetting reductions in the allocative tariff components (AT3 and AT4).

Consistent with pricing arrangements in UT3, Aurizon Network has applied a capacity (diesel) multiplier to adjust the AT2 charge for the incremental capacity consumption of a diesel train service where applicable.

Aurizon Network has proposed to address potential adverse implications of the significant increase in the AT2 tariff through measures including:

- changing the calculation of charges for cross-system train services
- changing the calculation of minimum CCC
- setting the AT4 for the Newlands system to \$0 for all years in the UT4 regulatory period.

Aurizon Network has also proposed the use of discounted reference tariffs in place of rebate arrangements for a number of existing spur line users who have signed access facilitation deeds (AFD) with Aurizon Network in previous regulatory periods.⁸⁴⁸ The system discount applied reflects contributed capital on a particular single user spur.

Wiggins Island Rail Project (WIRP) Stage 1

In August 2014, Aurizon Network provided us with a submission, as part of the 2014 DAU process, outlining its proposed revenue and pricing treatment of WIRP Stage 1. This submission outlined:

- proposed allocations of capital expenditure, maintenance and operating costs by customer group (including to existing customers)
- revenue smoothing applied from 2015–16 when the WIRP infrastructure is included in the capital indicator
- WIRP volumes set at 90 per cent of contracts for pricing purposes.

This submission proposed that the incremental costs associated with WIRP Stage 1 should be socialised within the Moura and Blackwater systems. This would result in all users of the Moura and Blackwater systems sharing the costs and risks of the WIRP infrastructure, rather than just the users who wanted the expansion. Submissions from stakeholders on Aurizon Network's proposal have provided opposing views as to whether the incremental costs of WIRP should be socialised.

⁸⁴⁸ Aurizon Network, 2013 DAU, sub. no. 2: 238

In December 2014, Aurizon Network subsequently provided a WIRP pricing proposal based on the 2010 AU pricing principles.

Given the significance and materiality of the issues associated with Aurizon Network's August 2014 WIRP proposal, we have decided to treat WIRP separately from the overarching 2014 DAU Draft Decision. As a result, reference tariff calculations in this Draft Decision exclude costs and volumes associated with the WIRP Stage 1 project.⁸⁴⁹

Goonyella to Abbot Point Expansion (GAPE) project

During the term of UT3, we approved Aurizon Network's draft amending access undertaking (DAAU) submission to establish the Goonyella to Abbot Point (GAP) system and applicable reference tariffs. Our approval of the GAPE DAAU in September 2013 was based on our acceptance of:

- the establishment of GAP as a new rail system within the CQCR
- the setting of new reference tariffs for the GAP system for the remaining years of the 2010 AU regulatory period (2011–12 and 2012–13)
- the setting of a transitional reference tariff for the GAP system for 2013–14.

There were related pricing arrangements outlined in the 2013 GAPE DAAU that were deferred to the 2014 DAU approval process including:

- the proposed allocation of GAPE costs to the Newlands system and resultant pricing arrangements
- recovery of equity raising costs (considered in Chapter 14)
- cost recovery principles for future new customers connecting to the GAPE infrastructure.

Cost recovery principles for new customers connecting to an existing system are discussed further in Chapter 16. The remaining aspects are evaluated further in section 17.4.

New reference tariffs

Since the beginning of 2013–14, Aurizon Network has sought approval for new reference tariffs for the following new train services:

- the train service between the Middlemount mine and the Dalrymple Bay Coal Terminal
- the train service between the Caval Ridge mine and the Hay Point Services Coal Terminal.

These pricing arrangements may need to be reassessed in light of our Draft Decision on the 2014 DAU framework.

In addition, Aurizon Network has proposed its electric investments in the Rolleston branch line should be recovered from the Blackwater AT5 tariff, since the forecast incremental cost is lower than the Blackwater AT5 charge.⁸⁵⁰

⁸⁴⁹ Note that our MAR Draft Decision included the cost and volume estimates associated with WIRP. These estimates were separately identified from the Moura and Blackwater systems.

⁸⁵⁰ Aurizon Network, 2013 DAU, sub. no. 3: 158–159

Other Schedule F provisions

Schedule F of the 2014 DAU contains provisions associated with the specification of reference train service characteristics. These provisions are similar to those in the 2010 AU, with some modifications to clarify specific characteristics and exclude unnecessary ones.⁸⁵¹

Schedule F of the 2014 DAU also contains processes for amending access charges, similar to the provisions in the 2010 AU. These processes are based on modified 2010 AU processes to consider factors outside Aurizon Network's direct control (including demand).⁸⁵²

Aurizon Network has proposed revenue adjustments in relation to the AT1 tariff that seek to minimise its variability and incorporate this tariff component in the revenue cap. Aurizon Network considers the exclusion of AT1 revenue from the revenue cap exposes it to volume risk because a significant proportion of its maintenance costs are not sensitive to volume changes in the short run.⁸⁵³

17.2.2 Stakeholders' position

Some stakeholders were concerned with the significant increase in the AT2 tariff component, and the subsequent rebalancing of reference tariff components. Stakeholders believed that the proposed reference tariff structure no longer reflects the underlying cost structure.⁸⁵⁴

Stakeholders did not support some of the changes to general reference train service characteristics proposed by Aurizon Network on the basis of lack of clarity or relevance.⁸⁵⁵

Stakeholders did not accept Aurizon Network's proposed short run variable maintenance cost adjustment to the allowable revenue for each reference tariff.⁸⁵⁶ Stakeholders also had concerns with the proposed adjustment for differences between the approved AT1 revenue and actual AT1 revenue received (to allowable revenue as part of the annual revenue cap adjustment process).⁸⁵⁷

17.2.3 Scope of the QCA assessment

For the reasons outlined in Chapter 15, we are concerned that many of the proposed changes in the 2014 DAU will make pricing arrangements even more complex in circumstances where the pricing is already excessively complex, with the impact of changes across different users (i.e. 'winners' and 'losers') not clear.

We consider that there should be a specific focus on simplification of the existing pricing structures. We consider a more strategic approach, supported by full customer consultation, should be pursued for UT5. For this reason, we do not propose to approve the more material changes that would result in the rebalancing of the tariff structure.

⁸⁵¹ Aurizon Network, 2013 DAU, sub. no. 2: 201

⁸⁵² Aurizon Network, 2013 DAU, sub. no. 2: 246

⁸⁵³ Aurizon Network, 2013 DAU, sub. no. 2: 246

⁸⁵⁴ Asciano, 2013 DAU, sub. no. 43: 41, 42, 108; Stanwell, 2013 DAU, sub. no. 38: 2

⁸⁵⁵ Anglo American, 2013 DAU, sub. no. 78: 24; Anglo American, 2014 DAU, sub. no. 7: 41–42; Asciano, 2014 DAU, sub. no. 43: 45, 48; QRC, 2014 DAU, sub. no. 42: 63; RTCA, 2013 DAU, sub. no. 73: 67

⁸⁵⁶ Anglo American, 2013 DAU, sub. no. 39: 9; Asciano, 2013 DAU, sub. no. 44: 46; QRC, 2014 DAU, sub. no. 42: 64–65; RTCA, 2013 DAU, sub. no. 73: 101

⁸⁵⁷ Anglo American, 2013 DAU, sub. no. 39: 9; QRC, 2014 DAU, sub. no. 42: 64–65; RTCA, 2013 DAU, sub. no. 73: 101

Against this background, this chapter provides our assessment of Aurizon Network's 2014 DAU in relation to reference tariffs calculations, reference train service characteristics, revenue cap adjustments and reference tariff variation events.

We have also addressed issues that require resolution for the pricing of new coal carrying train services.

Our detailed consideration of these amendments is reflected in the marked-up drafting of Schedule F of the 2014 DAU. Appendix D provides a summary of our proposed changes to modelling assumptions and methodologies. Appendix E outlines updated reference tariffs and allowable revenues based on our proposed changes in the MAR Draft Decision⁸⁵⁸ and this Draft Decision on other aspects of the 2014 DAU.

17.3 Reference tariff structure and derivation

17.3.1 Aurizon Network proposal

Aurizon Network has not proposed to alter the reference tariff structure in Schedule F of the 2014 DAU (cl. 2.2). However, Aurizon Network has proposed a major rebalancing of its tariff arrangements.

Incremental maintenance charge (AT1)

Aurizon Network said the AT1 maintenance component (which is levied on a dollar per gtk basis), should signal the long-run change in maintenance costs that result from an increase in volume, recognising that some of these costs are fixed in the short run.⁸⁵⁹

Aurizon Network's proposed AT1 tariff component for the UT4 period is:

- based on the AT1 tariff rate approved (as part of the 2010 AU) as at 1 July 2009
- escalated yearly by the maintenance cost index (MCI) to the beginning of the 2014 DAU period as at 1 July 2013 (equal to a cumulative rate of 19.5 per cent over the period).

Aurizon Network proposed that, for pricing purposes, the AT1 rate be escalated by forecast CPI (2.5%) each year over the 2014 DAU period (up until 2016–17).

Aurizon Network also proposed changes to reduce its volume risk attributable to AT1 being excluded from the revenue cap (as it is under the 2010 AU), which has the effect of substantially bringing AT1 into the revenue cap (see section 17.7 for further discussion of this particular proposal).⁸⁶⁰

Incremental capacity charge (AT2)

A common theme in Aurizon Network's 2014 DAU proposal is that the CQCN is capacity constrained. To provide more effective pricing signals for incremental capacity costs, Aurizon Network said the AT2 tariff for each system should better reflect the cost of the next expansion on each system.⁸⁶¹

Aurizon Network said the existing AT2 tariff was based on the prevailing cost of a forward-looking medium term investment path at the beginning of UT1. It said expansion costs were

⁸⁵⁸ With the exception of WIRP which will be treated separately for pricing purposes from this Draft Decision.

⁸⁵⁹ Aurizon Network, 2013 DAU, sub no. 2: 239

⁸⁶⁰ Aurizon Network, 2013 DAU, sub. no. 2: 256–258

⁸⁶¹ Aurizon Network, 2013 DAU, sub. no. 2: 241

now considerably higher, and the nature of the forward-looking investment path has materially changed. For example, the Blackwater system's investment path had focused on duplication, which would be completed with the WIRP upgrade.⁸⁶²

Aurizon Network said the AT2 tariff depended on the scope, scale and timing of the expansions considered. Accordingly, Aurizon Network considered the following common corridor expansions for calculating the relevant system-specific AT2 charge:

- Blackwater: Rocklands to Stanwell and Dingo to Bluff duplication projects
- Goonyella: Goonyella rail expansion project (HPX3) and an additional 30 mtpa to Dudgeon Point (excluding any port-specific investment)
- GAPE and Newlands: a 25 million tonne expansion to Abbot Point (only considering the expansion costs in line sections common to both systems).⁸⁶³

For the Moura System, Aurizon Network proposed escalating the existing AT2 tariff by CPI. It said the AT2 charge based on expanding that system to support WIRP Stage 2 would materially exceed the MAR, which would make the long-run marginal cost exceed the historical total actual cost.⁸⁶⁴

Table 83 summarises Aurizon Network's proposed AT2 tariffs for the different coal systems.

Table 83 AT2 Incremental Capacity Charge (\$ per train path, nominal)

<i>System</i>	<i>2014 DAU Proposed (2013–14)</i>	<i>2010 AU (2012–13)</i>	<i>% Variation</i>
Blackwater	5,030	1,970	155%
Goonyella	2,488	1,248	99%
Moura	612	590	4%
Newlands	6,976	264	2,544%
GAPE (June 2013 GAPE DAAU)	6,976	12,249	–43%

Source: 2014 DAU, 2010 AU, June 2013 GAPE DAAU

Consistent with pricing under the 2010 AU, Aurizon Network has included a capacity (diesel) multiplier, which estimates the incremental capacity consumption of a diesel train service in each of the Blackwater and Goonyella systems. The proposed increase in the AT2 tariffs amplifies the signal from this capacity (diesel) multiplier.

Proposed changes to mitigate AT2 impact

Aurizon Network has proposed to address potential adverse implications of the significant increase in the AT2 tariffs through measures including:

⁸⁶² Aurizon Network, 2013 DAU, sub. no. 2: 239-240; sub. no. 77: 81

⁸⁶³ Aurizon Network, 2013 DAU, sub. no. 2: 241; sub. no. 3: 155, 157

⁸⁶⁴ Aurizon Network, 2013 DAU, sub. no. 2: 241

- calculating the minimum CCC for existing mines at Minerva, Lake Vermont (to RG Tanna), Rolleston and Middlemount using a 5 per cent per annum escalation factor over 2014 DAU regulatory period, calculating the base CCC using 2012–13 reference tariffs
- reducing the AT4 rate for the Newlands system to \$0 for all years in the 2014 DAU regulatory period to offset the reduction in the distance taper resulting from the increase in the AT2 charge (since both AT2 and AT4 have a pricing unit which is not distance related)^{865,866}
- changes to the 2010 AU treatment of tariff components AT3 and AT4 in the calculation of cross-system train services to ensure that the proposed AT2 increase to the Blackwater and Goonyella systems does not unreasonably disadvantage cross system train services.⁸⁶⁷

System discount

In addition to reference tariff derivation, Aurizon Network proposed discounted reference tariffs in place of rebate arrangements for a number of existing spur users who have signed access facilitation deeds (AFDs) with Aurizon Network in previous regulatory periods.⁸⁶⁸

An AFD is a financial agreement stating that a spur user pays upfront capital and interest costs for the construction of mine specific infrastructure (MSI) (in order to connect to a rail mainline for coal export), in which a rebate (with a value equivalent to the return on and return of capital for that MSI) is then returned to that spur user.

Where a single-user spur (or part thereof) subsequently becomes a multi-user spur, Aurizon Network proposed to have the relevant portion of those assets included in the system reference tariff with the discount reduced accordingly. Aurizon Network would then reimburse the return on and return of capital associated with that portion of assets to the original spur user via a rebate arrangement.

Aurizon Network said its proposal eliminates the need to rebate revenue that should not have been collected and avoids the complexity of calculating individual allowable revenues for each spur line.⁸⁶⁹

17.3.2 Stakeholders' position

A summary of the major issues raised by stakeholders in response to Aurizon Network's proposed calculation of reference tariff inputs is provided in Table 84.

Table 84 Industry comments on reference tariff structure

<i>Issue</i>	<i>Comments</i>
Incremental maintenance charge (AT1)	Asciano said it supports a process where the incremental tariff components are periodically examined by the QCA to ensure they are a true reflection of the incremental cost of providing a train service. In addition, it considered that Aurizon Network had shifted costs from AT1 into AT2, AT3 and AT4, which is reflected by a reduction in the proportion of revenue represented by the AT1

⁸⁶⁵ This adjustment offsets the increase in costs in the AT2 rate with a reduction in costs allocated to the AT4 rate (and an increase in costs allocated to the distance related AT3 rate).

⁸⁶⁶ Aurizon Network, 2013 DAU, sub. no. 2: 241–242; sub. no. 77: 81

⁸⁶⁷ Aurizon Network, 2013 DAU, sub. no. 2: 194

⁸⁶⁸ Aurizon Network, 2013 DAU, sub. no. 2: 238

⁸⁶⁹ Aurizon Network, 2013 DAU, sub. no. 2: 238

<i>Issue</i>	<i>Comments</i>
	<p>tariff. Asciano said that this has the effect of shifting incremental maintenance into the revenue cap and so affected take-or-pay.⁸⁷⁰</p> <p>The QRC said it did not consider AT1 as an important signal in relation to long run maintenance costs and supported AT1 being set at a level which reflects Aurizon Network's short run variable costs (not limited to maintenance) plus a small amount above this to provide Aurizon Network with a limited incentive to maximise volumes – the latter of which could be replaced once an effective incentive arrangement is implemented.⁸⁷¹</p> <p>Stakeholders did not support Aurizon Network's proposal to amend Schedule F of the 2014 DAU to have the effect of bringing AT1 into the revenue cap.⁸⁷²</p>
Incremental capacity charge (AT2)	<p>Asciano and Stanwell were concerned with the proposed increase in the AT2 tariffs.</p> <p>Asciano said the significant increases in the AT2 tariffs were a result of Aurizon Network's modified approach to including a price signal for future expansion investment requirements. Asciano said the AT2 tariff was intended to reflect the cost of incremental capacity increases – i.e. increases linked to the investment required to add an extra train path, and not the costs of major expansions. It said the pricing signal for a future expansion should be provided through a separate tariff component, linked to that expansion.⁸⁷³</p> <p>Asciano said the 2014 DAU proposal increased the proportion of the AT2 tariff in the total tariff, and decreased the incremental maintenance AT1.</p> <p>Stanwell said the proposal changed the tariff structure and the cost allocation across network users. It anticipated a significant increase in its costs with no commensurate direct benefits from associated network expansions.⁸⁷⁴</p> <p>The Department of State Development, Infrastructure and Planning were concerned that the higher take-or-pay exposure resulting from the significant increase in the AT2 charge would have a negative impact on both existing mines and potential future investments.⁸⁷⁵</p> <p>The QRC noted that Aurizon Network's proposal to shift a greater proportion of its revenue to AT2 will partially mitigate take-or-pay exposures for UT1 access holders.⁸⁷⁶</p>
Calculation of charge for cross system train services	<p>The QRC agreed with Aurizon Network's proposal and said the pricing of cross system traffic has been amended in the 2014 DAU based on the QRC's suggestions.⁸⁷⁷</p> <p>Asciano said Aurizon Network's proposed cross system train service calculations should:</p> <ul style="list-style-type: none"> • provide for a service that crosses three or more systems • prevent cross-subsidisation • take account of proportion of distance travelled on a particular system.⁸⁷⁸

⁸⁷⁰ Asciano, 2013 DAU, sub no. 43: 43–44

⁸⁷¹ QRC, 2013 DAU, sub no. 46: 94

⁸⁷² Anglo American, 2013 DAU, sub. no. 39:9; RTCA, 2013 DAU, sub. no. 73: 10, 100; QRC, 2013 DAU sub. no. 46: 11, 94–95

⁸⁷³ Asciano, 2013 DAU, sub. no. 43: 41, 42, 108

⁸⁷⁴ Stanwell, 2013 DAU, sub. no. 38: 2

⁸⁷⁵ DSDIP, 2014 DAU, sub no. 47: 2

⁸⁷⁶ QRC, 2013 DAU sub. no. 46: 89

⁸⁷⁷ QRC, 2014 DAU, sub no. 42: 63

⁸⁷⁸ Asciano, 2013 DAU, sub. no. 44: 45–46

<i>Issue</i>	<i>Comments</i>
	Asciano also said it is concerned with the application of the cross system train service tariff calculations, particularly, the AT2 and AT4 charges. For AT2, Asciano said trains should not be paying for infrastructure that they do not use. For AT4, Asciano said it is more reasonable to adopt the AT4 tariff of the system that the train service predominantly operates on to minimise any cross subsidies that may occur by applying the originating system's AT4. ⁸⁷⁹

17.3.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to refuse to approve Aurizon Network's proposed rebalancing of its tariff arrangements. We propose to require amendments to Schedule F of the 2014 DAU and Aurizon Network's pricing model to reverse the range of changes outlined and generally retain the existing 2010 AU arrangements.

For the reasons outlined in Chapter 15, we consider that Aurizon Network's proposed changes make the pricing arrangements even more complex and excessively so. Furthermore, they result in 'winners and losers' that are difficult at this time to clearly ascertain. We consider it is preferable to instead take a more strategic approach, supported by full customer consultation, for UT5.

Rebalancing of tariff structure

Incremental capacity charge (AT2)

Our interim position as set out in this Draft Decision is to refuse to accept Aurizon Network's proposed changes to the AT2 reference tariffs and related changes that seek to address the consequential impact.

As outlined in Chapter 15, our view is that the current approach to reference tariffs is overly complex. Prior to any changes that will have a diverse impact on different users, we believe a more transparent and rigorous review of the future structure of reference tariffs should occur.

Moreover, it is not clear that the AT2 tariffs are set at the most efficient level in relation to future expansions. The AT2 tariffs appear to be based on large rather than small capacity increments (e.g. Dudgeon Point for Goonyella). We also note that a number of port expansion projects identified by Aurizon Network (for example, Dudgeon Point⁸⁸⁰) are no longer being considered for development.

As a result, we are not persuaded that the proposed AT2 tariff rates are consistent with the requirements of section 168A of the QCA Act. We also acknowledge the concerns expressed by stakeholders in submissions, as identified above.

We consider our proposed amendments are in the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act) as they will contribute to a relatively stable profile of access charges which reduces uncertainty. We consider that any future major changes should be subject to full stakeholder consultation. Our proposed amendments also recognise Aurizon Network's legitimate business interests, since they do not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

⁸⁷⁹ Asciano, 2014 DAU, sub. no. 22: 49–50

⁸⁸⁰ NQBP Media release: <http://www.nqbp.com.au/media-statement-cancellation-of-declaration-for-dudgeon-point-coal-terminals-project>: Cancellation of Declaration for Dudgeon Point Coal Terminals Project

Draft Decision

17.1 Our Draft Decision is to refuse to approve Aurizon Network's proposed pricing matters relating to the AT2 tariffs. We would approve amendments to the 2014 DAU, to:

- (a) escalate the 2012–13 AT2 tariffs from the 2010 AU by CPI over the 2014 DAU regulatory period**
- (b) remove the adjustments that were made to address the impact of the increase in AT2 tariffs as follows:**
 - (i) revert the calculation of the charge for cross-system train services to the 2010 AU approved approach for AT3 and AT4 tariffs**
 - (ii) revert the calculation of minimum contribution to common costs (CCC) to the 2010 AU approved approach**
 - (iii) reset the AT4 tariffs for the Newlands system to the standard calculation approach used in other systems for all years in the 2014 DAU regulatory period.**

Capacity (diesel) multiplier

We have also considered the application of the 'diesel' multiplier to the AT2 charge for diesel trains in Blackwater and Goonyella systems. This diesel multiplier is intended to provide a price signal about the opportunity cost of operating a train that varies substantially from the standard train, and consumes more network capacity than the reference train. However, no evidence has been provided that operating a diesel train varies substantially from an electric train, and consumes more network capacity.

Indeed, the capacity multiplier was set in UT1, and reflected the relative performance of electric versus diesel trains at that time. However, we are aware that there has been considerable change in the train fleet since UT1 and understand that the relative performance of the two forms of locomotive is now similar. In the absence of evidence on differing performance levels, we are not persuaded that the proposed multiplier rates are consistent with the requirements of sections 138 and 168A of the QCA Act.

For the purpose of this Draft Decision, we have decided to remove the diesel multiplier from our calculations of reference tariffs. We consider that Aurizon Network should be able to provide evidence of the differing performance levels in order to justify the retention of the capacity multiplier.

Draft Decision

17.2 Our Draft Decision is to refuse to approve Aurizon Network's proposed capacity 'diesel' multiplier. We would approve an amendment to the 2014 DAU to remove the capacity 'diesel' multiplier. We will reconsider this issue if there is evidence to support the continued use of the capacity 'diesel' multiplier multiplier.

Incremental maintenance charge (AT1)

In terms of Aurizon Network's proposed AT1 tariffs, we note that Jacobs SKM (formerly SKM) reviewed the reasonableness of the AT1 rates to determine whether they were a true reflection of Aurizon Network's incremental costs. Jacobs found the structure of Aurizon Network's cost

curve is likely to have changed since 2001. Jacobs found substantially higher AT1 rates using Aurizon Network's forecast maintenance costs and volumes.⁸⁸¹

Consistent with our approach to AT2, our view is that the AT1 reference tariff should remain unchanged from the approach used in previous access undertakings since UT1. As a result, we accept the base-year AT1 rate that has been calculated by Aurizon Network by escalating the UT3 rate using the MCI. However, we believe that should continue to be escalated throughout the 2014 DAU regulatory period using the approved MCI from our MAR Draft Decision.

Draft Decision

17.3 Our Draft Decision is to refuse to approve Aurizon Network's proposed AT1 calculation approach. We would approve an amendment to the 2014 DAU, to escalate the AT1 according to the MCI over the 2014 DAU regulatory period.

System discount

We consider that there is not a strong justification for moving from rebate arrangements to a system discount applicable to the system reference tariff for mines with contributed capital on a single user spur. The rebate arrangements provide a transparent approach to refunding the capital charge associated with the contributed assets. We are not convinced that the proposed discount leads to an equivalent outcome to the existing rebate arrangements. In addition, maintaining rebates allows a consistent approach for single user and multi-user spurs.

We consider that a clear and transparent approach to refunding the capital charge is in the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act), and also recognises Aurizon Network's legitimate business interests since it does not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

Draft Decision

17.4 Our Draft Decision is to refuse to approve Aurizon Network's proposed system discounts. We would approve an amendment to the 2014 DAU, to:

(a) remove the system discount and revert to the rebate arrangements in place under the 2010 AU

as set out in the marked changes to Schedule F attached to this Draft Decision.

17.4 Impact of the GAPE project on pricing arrangements

17.4.1 Aurizon Network proposal

Aurizon Network has proposed pricing arrangements associated with the GAPE project for the 2014 DAU that are broadly consistent with its 2013 GAPE DAAU proposal. These proposed pricing arrangements impact on the reference tariffs and allowable revenues for the Newlands system (cl. 8) and GAP system (cl. 11) in Schedule F of the 2014 DAU.

Key aspects of the pricing arrangements for the GAPE project proposed in the 2014 DAU price modelling include:

⁸⁸¹ SKM 2014(a), Attachment B: 19

- creating a new coal system (the GAP system) which includes the rail infrastructure connecting the Goonyella and Newlands systems⁸⁸² and infrastructure enhancements required in the Goonyella and Newland systems
- allocating GAPE capital costs in accordance with customer type, aiming to ensure that customers who benefit from capital works will be the ones who pay for them, in particular:
 - applying the GAP system reference tariff to customers who utilise the Goonyella Newlands Connection (GAPE Deed customers), reflecting all project costs associated with the Goonyella Newlands Connection and Goonyella system enhancements and a proportion⁸⁸³ of new investment for Newlands enhancements
 - applying a Newlands reference tariff to all existing Newlands customers and new NAPE Deed customers, reflecting the socialisation of a proportion⁸⁸⁴ of GAPE project costs for Newlands enhancements
 - not changing the Goonyella system reference tariff applying to customers located in the Goonyella system that do not utilise the Goonyella Newlands Connection.
- recovering equity raising costs (considered in Chapter 14 on Schedule E Regulatory Asset Base)
- introducing cost recovery principles for new customers connecting to the GAPE infrastructure.

Aurizon Network said the socialisation of NAPE costs within the Newlands system was justified, as part of this expenditure would have been required in the Newlands system in the absence of the GAPE project. Aurizon Network also said that existing Newlands users derive a benefit from the GAPE project, including the ability to operate longer and heavier trains.⁸⁸⁵

17.4.2 Stakeholders' position

Stakeholders did not provide any substantive comments with regards to the proposed GAPE pricing arrangements as part of the 2013 DAU and 2014 DAU consultation processes. However, submissions were provided as part of the GAPE 2013 DAAU process on the key issues outlined above that were deferred to the DAU approval process for UT4.

The QRC said that costs incurred for NAPE customers should only be allocated to the Newlands system if they result in a decrease in tariffs for Newlands customers. If the result is higher tariffs, then there may be a case for a system premium to be applied to new expanding customers.⁸⁸⁶

The QRC also said that we should assess whether any of the allocated costs would have been incurred in the absence of the GAPE project. In particular, the QRC said the capital expenditure incurred in 2011–12 included in the UT3 capital indicator for the Newlands system should be assessed further.⁸⁸⁷

⁸⁸² Defined as the Goonyella Newlands Connection in Part 12 Definitions of the 2014 DAU.

⁸⁸³ Based on GAPE Deed contract tonnages as a proportion of total GAPE and NAPE Deed contract tonnages (Aurizon Network, 2013(a): 21).

⁸⁸⁴ Based on NAPE Deed contract tonnages as a proportion of total GAPE and NAPE Deed contract tonnages (Aurizon Network, 2013(a): 21).

⁸⁸⁵ Aurizon Network, 2013(a): 21

⁸⁸⁶ QRC 2013(a): 5

⁸⁸⁷ QRC 2013(a): 4–6

Further, the QRC said that a zero contribution to common costs is acceptable in the case that new expanding users pay full incremental cost and this is higher than the relevant system reference tariff. Given the proposed tariff for the GAP system in the 2013 GAPE DAAU was significantly higher than both the Goonyella and Newlands system reference tariffs, the QRC agreed with Aurizon Network's proposal that GAPE train services should not contribute to Goonyella and Newlands systems' common costs.⁸⁸⁸

17.4.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to refuse to accept Aurizon Network's proposed arrangements for the GAPE project costs. We require more detailed information to justify the socialisation of NAPE costs within the Newlands system, including evidence that non-expanding users will not be made worse off under the proposed pricing arrangements. We consider that there needs to be greater transparency of the potential economic benefits to existing users resulting from an expansion, especially if these purported benefits are to be used as a justification for allocating expansion costs to existing users.

We consider it reasonable that a separate GAP system for pricing purposes be retained in the 2014 DAU. The reference tariff is largely based on the incremental costs of the GAPE infrastructure, and does not allocate costs or risks to existing users that do not benefit from the GAPE infrastructure. This type of approach is broadly consistent with our preliminary views on pricing expansions outlined in Chapter 16.

GAP system tariff

Cost allocation and common cost contribution

We consider the proposed approach to allocating capital costs to the GAP system in 2014 DAU price modelling is consistent with the requirements of Part 5 of the QCA Act. The proposed approach allocates capital costs to the GAP system based on the proportion of total contracted volumes attributable to GAPE customers, including:

- 100 per cent of the costs of the Goonyella Newlands Connection, as only GAPE customers use this infrastructure
- 100 per cent of the costs of the Goonyella system enhancements, as these enhancements are only required due to the construction of the Goonyella Newlands Connection
- 81 per cent of the costs of the Newlands system enhancements, reflecting the proportion of contract tonnes relating to GAPE, rather than NAPE, customers.^{889 890}

Consistent with its GAPE 2013 DAAU proposal, Aurizon Network has not proposed an allocation to the GAP system of common costs from the Goonyella and Newlands systems. We consider that if expanding users face an incremental cost that is higher than the access charges facing existing users, a zero contribution to common costs from expanding users is generally acceptable. In such circumstances, expanding users will already be paying higher access charges and hence a requirement to pay common costs will impose an additional burden that could dissuade investment. In addition, a zero contribution to common costs from expanding users will not make existing users worse off. This is consistent with Aurizon Network's proposed

⁸⁸⁸ QRC 2013(a): 4–5

⁸⁸⁹ This proportion is consistent with the GAPE customer share of contract tonnages as a proportion of total GAPE and NAPE Deed contract tonnages (Aurizon Network, 2013(a): 21).

⁸⁹⁰ The remaining 19 per cent of costs relating to NAPE customers were allocated by Aurizon Network to the Newlands system. The allocation of NAPE costs to the Newlands system is discussed further below.

expansion pricing principles in the 2014 DAU that we accepted in section 16.5.3 of this Draft Decision.

We consider a zero contribution to common costs from expanding users to be consistent with the object of Part 5 of the QCA Act, as it is consistent with the objective of promoting efficient investment in the CQCN, and appropriately balances the interests of access seekers and access holders (ss. 138(2)(e) and (h) of the QCA Act). It also recognises Aurizon Network's legitimate business interests since it does not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

Recovery of Goonyella system enhancements

In reviewing Aurizon Network's proposed tariff for GAP system train services, we have established that the AT3 and AT4 tariff components are calculated in a manner that differs from other CQCN reference tariffs. Aurizon Network has set the GAP system AT3 tariff to solely recover Goonyella system enhancements (including electric costs associated with additional passing loops).⁸⁹¹ This leaves the AT4 tariff to recover the remainder of the GAP costs not recovered from the AT1, AT2 and AT3 tariff components.

We understand that this alternative tariff calculation was proposed to provide different pricing arrangements for customers that do not use the Goonyella system enhancements. In particular, customers that connect directly to the Goonyella Newlands Connection would not pay the AT3 tariff.

We do not consider that Aurizon Network has provided sufficient justification for this modified approach. We consider that a transparent and consistent approach to calculating reference tariffs in the CQCN is in the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act). This also recognises Aurizon Network's legitimate business interests since it does not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

As a result, our proposed reference tariffs have calculated the AT3 and AT4 tariffs for the GAP system on a basis consistent to other system reference tariffs in the CQCN.

Tariff for NAPE users

We are not satisfied with Aurizon Network's proposed allocation of GAPE project costs to the Newlands system.⁸⁹² Based on our analysis, the inclusion of the proposed allocation of Newlands system enhancements, and associated new volumes, will have the net result of an increase in the Newlands system reference tariff. While Aurizon Network said that existing Newlands users derive a benefit from infrastructure enhancements, it has not provided evidence to justify this claim. In addition, no evidence has been provided to substantiate the claim that part of the renewal works would have been required in the Newlands system in the event that the GAPE project did not proceed.

Consistent with the pricing limits principle in the 2010 AU and our proposed 2014 DAU, we consider that NAPE users should be charged at least the incremental cost of their access. Given expanding NAPE users face an incremental cost that is higher than the access charges faced by existing Newlands system users, we consider it reasonable that expanding NAPE users not make

⁸⁹¹ Aurizon Network, 2013(a): 22

⁸⁹² Note that while some NAPE assets may have been included in the Newlands system RAB as part of the roll-forward process in 2011–12, this was for reporting purposes only. The appropriate allocation of these assets for the purpose of deriving reference tariffs is being considered as part of this 2014 DAU approval process.

a contribution towards common costs. We also consider this appropriately balances the interests of expanding and existing users (ss. 138(2)(e) and (h) of the QCA Act), and is consistent with the object of Part 5 of the QCA Act.

Potential approaches to setting prices for NAPE users based on incremental cost include:

- applying a system premium in addition to the Newlands system reference tariff, or
- allocating NAPE assets to a new coal system for the purposes of pricing (consistent with the pricing approach for the GAP system).

While each of these options has a similar outcome in terms of the derived reference tariff, they differ in the allocation of costs and risks between existing and expanding users.

We consider the application of a system premium will not always ensure expanding users bear all of the costs and risks associated with an expansion. Existing users will be exposed to the risk of under-railings by expanding users, potentially resulting in higher take-or-pay liabilities or greater revenue shortfalls to be recovered from all users through the revenue cap adjustment process.

Since the existing access undertaking arrangements at the time of the GAPE project did not adequately address potential costs and risks to existing users of an expansion, our proposed approach is to allocate the NAPE assets to a new coal system (the Newlands to Abbot Point (NAP) system) for pricing purposes.⁸⁹³

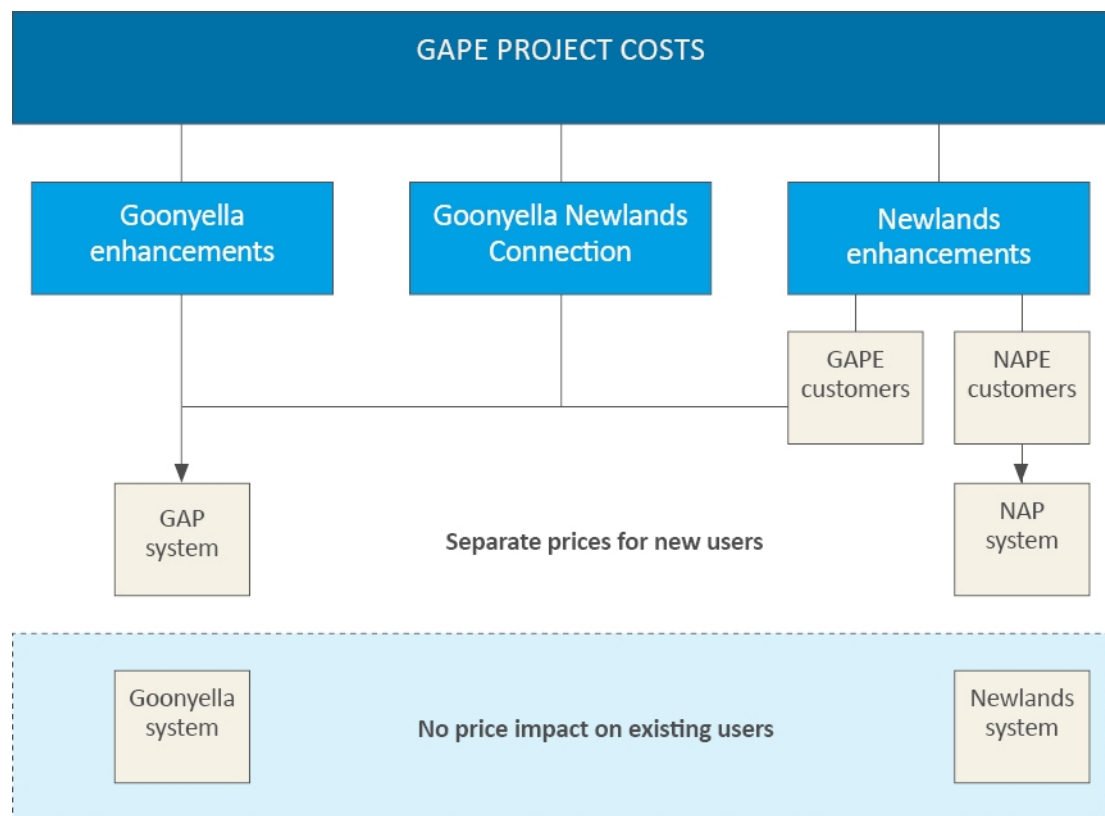
Given the low initial volumes attributable to NAPE customers, we propose to set prices in the initial year of operation (2014–15) to be equivalent in real terms to those in the first full year of operation (2015–16). The associated revenue shortfall will be capitalised into the RAB for the NAP system at the end of the 2014 DAU regulatory period.

We consider these proposed pricing arrangements appropriately balance the interests of expanding and existing users (ss. 138(2)(e) and (h) of the QCA Act), and are consistent with the object of Part 5 of the QCA Act. They also recognise Aurizon Network's legitimate business interests since they do not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

Confidentiality restrictions prevent us from publishing separate NAP reference tariffs, allowable revenues and volumes in our amended 2014 DAU. For the purposes of the Draft Decision, we have provided a blended price for Newlands and NAP system customers. We will provide separate system reference tariffs, allowable revenues and volumes at the Newlands and NAP system level to affected customers.

Figure 14 below summarises our proposed allocation of GAPE project costs and consequential impact on system reference tariffs.

⁸⁹³ We are also considering the pricing treatment of expansions in the context of WIRP. Stakeholder comments on our proposed approach, and decisions relating to the treatment of the WIRP expansion, may further influence our proposed treatment of NAPE.

Figure 14 Allocation of GAPE project costs

Draft Decision

17.5 Our Draft Decision is to refuse to approve Aurizon Network's proposed pricing matters outlined in this section. We would approve amendments to the 2014 DAU, to:

- (a) remove NAPE costs from the Newlands system**
- (b) create an independent NAP system with a separate reference tariff and the required access undertaking amendments to recover the tariff revenue**
- (c) revise the GAP system tariff so that the AT3 and AT4 tariff components are calculated in a manner consistent with other CQCN reference tariffs in order to recoup the remainder of costs not recovered via the AT1 and AT2 tariffs.**

17.5 New reference tariffs

17.5.1 Aurizon Network proposal

Aurizon Network has recently sought approval for new reference tariffs for the following new train services:

- Aurizon Network's proposal in April 2014 for new reference tariffs for the train service between the Middlemount mine and the Dalrymple Bay Coal Terminal (DBCT)
- Aurizon Network's proposal in August 2014 for new reference tariffs for the train service between the Caval Ridge mine and the Hay Point Services Coal Terminal (HPSCT).

We approved Aurizon Network's proposals to establish new reference tariffs for the train service from Middlemount mine to DBCT for 2011–12 and 2012–13, with transitional tariffs also approved for 2013–14 and 2014–15. Based on the 2010 AU pricing principles in place at the time of our decision, we accepted reference tariffs that provided discounts to the Goonyella system reference tariffs to reflect Middlemount's investment in its own private rail infrastructure.

We also approved Aurizon Network's proposal to establish a new transitional reference tariff for 2014–15 for the Caval Ridge to HPSCT train service. The approved 2014–15 transitional reference tariff was also consistent with 2010 AU pricing principles in place at the time of our decision, with discounts provided to the Goonyella system reference tariffs to reflect the investment in private rail infrastructure by BHP Billiton Mitsubishi Alliance (BMA).

Aurizon Network did not propose discounted reference tariffs for Middlemount and Caval Ridge loading points as part of either its 2013 DAU or 2014 DAU submissions. Clause 7.2(b) of Schedule F in Aurizon Network's proposed 2014 DAU presented the loading points in the Goonyella system for which discounted reference tariffs were proposed.

The transitional pricing arrangements approved by the QCA for 2013–14 and 2014–15 for both new train services will need to be reassessed as part of developing reference tariffs that apply in the 2014 DAU regulatory period in the light of our Draft Decision on pricing principles in our proposed 2014 DAU framework.

In addition, Aurizon Network has proposed a single AT5 electric access charge for all users of electric train services in the Blackwater system that included costs associated with new investment for electrification of the Rolleston branch line.

Aurizon Network said there are incremental benefits in the Rolleston electrification investment, with electric train services from the Rolleston branch line expected to make a positive contribution to common system costs.⁸⁹⁴ In conducting this incremental cost test, Aurizon Network assumed long-run system railings of 85 per cent of contracted volumes.

17.5.2 Stakeholders' position

Stakeholders provided limited comments about these tariff arrangements as part of the 2013 DAU and 2014 DAU consultation processes. While submissions on these issues were provided as part of other consultation processes including alternative access charge applications and the Blackwater AT5 DAAU variation proposal, these were based on stakeholders' assessment of 2010 AU rather than 2014 DAU pricing principles which were not approved at the time of relevant submissions.

In response to Aurizon Network's 2013 DAU submission, RTCA said Aurizon Network's investment in Rolleston electric assets should not be included in the RAB, as this:

...would expose Blackwater users to substantial "single mine" risk and would be directly inconsistent with Aurizon Network's own position in relation to the costs of other customer specific infrastructure under UT4.⁸⁹⁵

17.5.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to calculate the relevant reference tariff for each of the new train services based on the pricing principles in force at the commencement

⁸⁹⁴ Aurizon Network, 2013 DAU, sub. no. 3: 158–159

⁸⁹⁵ RTCA, 2013 DAU, sub. no. 73: 56

of operations for each train service. This will result in the reference tariff for the Middlemount to DBCT train service being based on 2010 AU pricing principles.

In particular, the 2014 DAU pricing principles seek to apply an incremental cost test to ensure that existing users are not made worse off by the entry of new train services.

Reference tariffs for new train services

Middlemount to DBCT

Since the Middlemount to DBCT train service commenced operations in November 2011 prior to the start of the 2014 DAU regulatory period, we consider the reference tariffs for this train service should be calculated with reference to 2010 AU pricing principles.

In our June 2014 Final Decision with respect to new reference tariffs for the Middlemount to DBCT train service, we said that:

We agree with BMA's view that it is appropriate to apply the UT3 pricing principles to the proposal, which the owners of the Middlemount mine would have relied on in costing rail access requirements, given that changes to the pricing principles proposed in UT4 have not as yet been approved. However, future proposals will need to be considered in the context of the timing and nature of the particular application, and how that might relate to the pricing principles in an approved undertaking in force at the time.⁸⁹⁶

With respect to conducting a prudency assessment of private incremental costs, we noted that:

Given the non-material impact of the proposal on other Goonyella system users, we do not consider a full prudency assessment is warranted, and are prepared to accept the costs reported by Middlemount as being prudent.⁸⁹⁷

However, we consider that any future application for additional train services from Middlemount to DBCT should be considered based on 2014 DAU pricing principles.

We consider that a transparent and consistent approach to calculating reference tariffs in the CQCN is in the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act), and also recognises Aurizon Network's legitimate business interests since it does not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

Caval Ridge to HPSCT

The Caval Ridge to HPSCT train service qualifies as a new loading point under clause 6.3.1 of our proposed amendments to the 2014 DAU. Specifically, this train service commenced operations in the 2014 DAU regulatory period. Under our proposed clause 6.3.1, the applicable access charge is the higher of the relevant existing reference tariff and the minimum revenue contribution derived as the incremental costs of providing access (excluding mine-specific spur line costs).

Under this test, the applicable access charge for the Caval Ridge to HPSCT train service is the Goonyella system reference tariff over the 2014 DAU regulatory period.

We consider the 2014 DAU pricing principles explicitly deal with issues relating to the interpretation, and prudency and efficiency assessment, of private incremental costs. We also consider our proposed approach is simple and transparent, and facilitates efficient pricing outcomes.

⁸⁹⁶ QCA, 2014(e): 5

⁸⁹⁷ QCA, 2014(e): 5

Rolleston electric assets

As part of our MAR Draft Decision, we included the Rolleston electric investment in our proposed 2014 DAU capital indicator. This investment will be assessed for inclusion in the RAB as part of our annual assessment of Aurizon Network's capital expenditure as set out in Schedule E of the 2014 DAU. As per our 2014 DAU Draft Decision, this involves assessing projects to ensure they are prudent and efficient in scope, standard of works and cost.

Consistent with the approach followed for Rolleston non-electric assets, the AT5 electric tariff for the Rolleston loading point will need to cover incremental costs. However, rather than using Aurizon Network's assumption of 85 per cent of contracted volumes for electric train services on the Rolleston branch line, we consider it more appropriate to use forecast volumes consistent with our MAR Draft Decision.

For those years in which the incremental cost of the new electric investment results in a higher tariff than the Blackwater AT5 electric tariff, users of this new investment will pay a system premium reflecting their higher incremental cost. This results in Rolleston electric users paying a system premium in 2014–15, with a socialised Blackwater AT5 electric tariff in 2015–16 and 2016–17.

We consider that a transparent and consistent approach to calculating reference tariffs in the CQCN is in the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act). This also recognises Aurizon Network's legitimate business interests since it does not adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

Draft Decision

- 17.6 Our Draft Decision is to refuse to approve Aurizon Network's proposed new reference tariff arrangements. We would approve amendments to the 2014 DAU, to:**
- (a) derive an alternative reference tariff for the Middlemount to DBCT train service based on the 2010 AU pricing principles**
 - (b) derive the reference tariff for the Caval Ridge to HPST train service based on 2014 DAU pricing principles**
 - (c) apply an incremental cost test to Rolleston electric assets using forecast volumes rather than with reference to 85 per cent of contract volumes.**

17.6 Reference train service characteristics

17.6.1 Aurizon Network proposal

General train service characteristics

Aurizon Network has proposed general train service characteristics that are broadly similar to the 2010 AU. However, Aurizon Network's 2014 DAU has proposed some additions and amendments to the criteria for a reference train service as outlined in Table 85.

Table 85 Aurizon Network's proposed general train service characteristics

<i>Issue</i>	<i>Aurizon Network Proposal</i>
Direct operating route (cl. 1.3(b)(vii))	New provision proposed by Aurizon Network in its 2014 DAU requiring a reference train service to operate from its origin directly to its destination using the most direct route.
Capital costs (cl. 1.3(b)(viii))	Initially added in Aurizon Network's proposed 2013 DAU with amendments in its 2014 DAU, this operational characteristic requires that the capital costs incurred in relation to providing access rights for the train service be included in the calculation of reference tariffs, other than: <ul style="list-style-type: none"> (a) capital costs that the QCA refused to accept (b) capital costs for which the QCA's acceptance will not be sought (c) capital costs that the QCA has accepted but has not allocated in relation to the provision of access rights for the relevant train service.
Coal loss management standard (cl. 1.3(b)(x))	Modified requirement for reference train service to comply with Aurizon Network's coal loss management standard (as published by Aurizon Network from time to time) in using measures to minimise coal spillage and leakage and coal dust emissions en route.
Commercial terms of access (cl. 1.3(d))	Proposed requirement for reference train service to operate in accordance with an access agreement on the same terms as a standard access agreement applicable to coal carrying train services.
Train service entitlement (cl. 1.3(e))	Proposed requirement for reference train service to have a train service entitlement (TSE): <ul style="list-style-type: none"> (A) based on trains being available for operation 24 hours per day and 360 days per year (b) specified in terms of cyclic traffic which will: <ul style="list-style-type: none"> (c) operate in accordance with the distribution set out in the master train plan (d) have regard to planned possessions and any other matters agreed between Aurizon Network and other service providers in the coal supply chain (e) comply with the applicable scheduling procedures as set out in the NMP.

System-specific train service characteristics

The system-specific train service characteristics are similar to those in the 2010 AU and include criteria such as maximum train length, maximum axle load, traction type, separation time and below-rail transit time.

17.6.2 Stakeholders' position

Stakeholders did not accept certain reference train service characteristics proposed by Aurizon Network on the basis of lack of clarity and soundness. This is shown in Table 86.

Table 86 Stakeholders' issues regarding reference train service characteristics

<i>Issue</i>	<i>Stakeholders' comments</i>
Direct operating route (cl. 1.3(b)(vii))	The QRC said the purpose and effect of this requirement is unclear, which could create uncertainty. ⁸⁹⁸
Capital costs (cl. 1.3(b)(viii))	The QRC said Aurizon Network's proposed 2014 DAU changes addressed its concerns with 2013 DAU drafting that there are exceptions where a service qualifies as a reference train service even though some of the associated capital costs are not included in the relevant reference tariff calculation. ⁸⁹⁹
Coal loss management standard (cl. 1.3(b)(x))	Anglo American said this requirement is better addressed in a broad manner by the appropriate regulatory bodies and authorities, and sought deletion of it. ⁹⁰⁰
Commercial terms of access (cl. 1.3(d))	Anglo American said this requirement should either be removed or redrafted to recognise an instance where there is only a small deviation from the standard terms, and be limited to changes to the standard access agreement which impact on the nature and characteristics of the train service. ⁹⁰¹ Asciano said Aurizon Network could use this requirement to negotiate away from the SAA terms in a manner which can either be more or less favourable to an access seeker or access holder. ⁹⁰²
Train service entitlement (cl. 1.3(e))	Asciano and Anglo American said train availability for operation should account for maintenance shutdowns when determining TSEs. ⁹⁰³ Anglo American and RTCA said the determination of TSEs should be based on monthly railings. ⁹⁰⁴
Newlands below-rail transit time (cl. 9.1(c))	Asciano and the QRC sought justification on the Newlands below-rail transit time. ⁹⁰⁵

17.6.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to approve Aurizon Network's proposed system-specific train service characteristics but refuse to approve its proposed general reference train service characteristics.

We consider the role of the reference train to be significant as it is the benchmark for estimating access charges and establishes the circumstances when forms of price differentiation are permissible in the 2014 DAU.

For this reason, we consider that variations in the reference train service should only occur where they reflect clear issues of service (and cost) difference.

Our assessment of the proposed characteristics is outlined below.

⁸⁹⁸ QRC, 2014 DAU, sub. no. 42: 63

⁸⁹⁹ QRC, 2014 DAU, sub. no. 42: 63; QRC, 2013 DAU sub. no. 46: 87

⁹⁰⁰ Anglo American, 2013 DAU, sub. no. 78: 24; Anglo American, 2014 DAU, sub. no. 7: 41

⁹⁰¹ Anglo American, 2014 DAU, sub. no. 7: 41–42

⁹⁰² Asciano, 2014 DAU, sub. no. 43: 48

⁹⁰³ Anglo American, 2014 DAU, sub. no. 7: 42; Asciano, 2013 DAU, sub. no. 44: 45; 2014 DAU, sub. no. 43: 49

⁹⁰⁴ Anglo American, 2013 DAU, sub. no. 78: 24; RTCA, 2013 DAU, sub. no. 73: 67

⁹⁰⁵ Asciano, 2013 DAU, sub. no. 44: 48; QRC, 2013 DAU, sub. no. 85: 82

General reference train service characteristics

While we consider most characteristics appropriate for application, we have concerns with some of the proposed characteristics. We consider these characteristics to be either lacking in clarity or are not a relevant characteristic in terms of defining a reference train service.

We provide our discussion below.

Direct operating route

We agree with the QRC that Aurizon Network's proposal for a reference train service to operate using the most direct route is unclear. We also note Aurizon Network did not provide any explanation regarding its proposal.

In the absence of any explanation, we do not consider it appropriate to accept this proposal. We will, however, reassess our position upon receipt of further information. We consider that a clear and transparent approach to specifying reference train services will appropriately balance Aurizon Network's and users' rights and interests (ss. 138(2)(b), (e) and (h) of the QCA Act).

Capital Costs

We are not convinced that this provision is an operational characteristic for a reference train. In the absence of any explanation, we do not consider it appropriate to accept this proposal. We consider that a clear and transparent approach to specifying reference train services will appropriately balance Aurizon Network's and users' rights and interests (ss. 138(2)(b), (e) and (h) of the QCA Act).

We will, however, reassess our position upon receipt of further information.

Coal loss management standard

We do not consider the current form of this provision appropriate for application.

Compliance with the coal loss management standard is interlinked with Aurizon Network's proposed coal loss mitigation provisions (CLMPs). We have made an interim decision to include the CLMPs in the access undertaking rather than in the standard rail connection agreement. In this regard, there is no need to have a reference train service comply with Aurizon Network's coal loss management standard (as published from time to time) when there are CLMPs in place.

Instead, we consider this proposal should be amended to align with the CLMPs in our marked-up drafting of Schedule F of the 2014 DAU.

Commercial terms of access

We consider this provision relevant for application given it encourages alignment between access agreements and the standard access agreements.

The standard access agreement is a model document that is used as a 'safe harbour' access agreement. Access agreements are the actual executed contracts, which may deviate from the model document.

We consider access charges that deviate from a particular reference tariff should only occur where differences between an access agreement and the standard access agreement have a material impact on cost or risk. To reflect this, we have amended the wording of this provision in our marked-up drafting of Schedule F of the 2014 DAU.

The use of the wording 'commercial terms' without capitalisation as a defined term may create some confusion in relation to the application of Commercial Terms as defined in Aurizon

Network's proposed 2014 DAU. We have reverted to 2010 AU terminology 'conditions of access' to remove any potential misunderstanding.

We consider these changes will appropriately balance Aurizon Network's and users' rights and interests (ss. 138(2)(b), (e) and (h) of the QCA Act).

Train service entitlement

We consider this provision appropriate for application as a reference train service characteristic. A reference train service should have its TSEs clearly specified.

That said, we note stakeholders have raised issues regarding the determination of TSEs under this provision. We consider this to be an issue of TSE allocation and use, both of which are covered in Aurizon Network's proposed NMP in Schedule G of the 2014 DAU. Stakeholders should consider whether their concerns have been addressed in our Draft Decision on Schedule G of the 2014 DAU.

System-specific reference train service characteristics

We consider these characteristics appropriate for application on the basis that they relate to rail operation within the rail systems and are similar to the characteristics in the 2010 AU.

Clearly defined requirements for a train service that pays a reference tariff can reduce the transaction costs associated with negotiating an access price and help address the information asymmetry between an access seeker or holder and Aurizon Network. We consider this will appropriately balance the legitimate business interests of Aurizon Network with the interests of access seekers and access holders (ss. 138(2)(b), (e) and (h) of the QCA Act).

With regards to Newlands' below-rail transit time, we have approved this in our final decision on Aurizon Network's GAPE DAAU application in September 2013. We will review its relevance within the existing Newlands operating conditions prior to our release of the 2014 DAU Final Decision.

Draft Decision

17.7 Our Draft Decision is to refuse to approve Aurizon Network's proposed reference train service characteristics in Schedule F of the 2014 DAU. We would approve amendments to the 2014 DAU, to:

- (a) remove the requirement for a reference train service to operate using the most direct route or provide justification for retaining this requirement**
- (b) remove the requirement relating to capital costs or provide justification for retaining this requirement**
- (c) amend the requirement relating to conditions of access as set out in the marked changes to Schedule F attached to this Draft Decision.**

17.7 Revenue cap adjustments

17.7.1 Aurizon Network proposal

Schedule F of the 2014 DAU contains provisions that set out the calculation of Aurizon Network's adjusted allowable revenues and total actual revenues as part of the annual revenue cap adjustment process. Any over- or under-recovery of Aurizon Network's adjusted allowable revenues leads to tariff adjustments as part of a separate process (i.e. the annual review of reference tariffs).

Aurizon Network proposed the following revenue adjustments in relation to the AT1 tariff that seek to minimise its variability and incorporate this tariff component in the revenue cap:

- an adjustment to allowable revenue as part of the annual review of reference tariffs at the beginning of each year to account for any changes in short run variable maintenance costs based on the difference between approved volume forecast and revised volume forecast
- an adjustment to allowable revenue as part of the revenue cap adjustment process to account for the difference between approved AT1 revenue and actual AT1 revenue received.⁹⁰⁶

Other provisions relating to the calculation of adjusted allowable revenue are similar to the 2010 AU other than the additional inclusion of adjustments to account for:

- the difference between forecast audit costs and actual audit costs incurred
- the difference between forecast and actual rebates paid by Aurizon Network.

Aurizon Network proposed to move the adjustment for its over or underpayment of rebates to AFD holders from the calculation of total actual revenue (2010 AU, Schedule F, cl. 3.2.3(c)) to the calculation of adjusted allowable revenue (2014 DAU, Schedule F, cl. 3.3(b)(v)).⁹⁰⁷ Aurizon Network said this change results in its under- or over-payment of rebates being recovered as part of the revenue cap adjustment process, rather than through take-or-pay charges which were limited to UT3 access holders as this adjustment was introduced in the 2010 AU.⁹⁰⁸ Aurizon Network also said this change aims to shift the volume risk associated with the payment of rebates from UT3 access holders to all users of the particular system.⁹⁰⁹

Other provisions relating to the calculation of total actual revenue are similar to the 2010 AU, with the intent and purpose seemingly unchanged.

Aurizon Network also proposed an additional circumstance in which it can earn an increment, as compared to the 2010 AU terms, to align with an additional element of its proposed incentive mechanism that was submitted to us in April 2012 (2014 DAU, Schedule F, cl. 3.4(a)(i)).

17.7.2 Stakeholders' position

Stakeholders did not accept the additional provisions proposed by Aurizon Network for the calculation of its allowable revenues and total actual revenues (see Table 87).

Table 87 Stakeholders' issues regarding allowable revenues and total actual revenues

<i>Issue</i>	<i>Stakeholders' comments</i>
Short-run variable maintenance cost and AT1 revenue cap adjustments	Anglo American and RTCA said the short-run variable maintenance cost adjustment should be rejected while Asciano and the QRC had concerns with its application. ⁹¹⁰ The QRC did not agree with the proposed AT1 revenue cap adjustments as they effectively make AT1 part of the revenue cap. The QRC said the AT1 should reflect variable costs and should therefore vary with actual volumes. ⁹¹¹

⁹⁰⁶ Aurizon Network, 2013 DAU, sub. no. 2: 246

⁹⁰⁷ Aurizon Network, 2013 DAU, sub. no. 2: 239

⁹⁰⁸ Aurizon Network, 2013 DAU, sub. no. 2: 239

⁹⁰⁹ Aurizon Network, 2013 DAU, sub. no. 2: 239

⁹¹⁰ Anglo American, 2013 DAU, sub. no. 39: 9; Asciano, 2013 DAU, sub. no. 44: 46; QRC, 2014 DAU, sub. no. 42: 64–65; RTCA, 2013 DAU, sub. no. 73: 101

<i>Issue</i>	<i>Stakeholders' comments</i>
	Anglo American said the risk reduction associated with Aurizon Network's proposal should be rejected or reflected in the beta. ⁹¹² RTCA said Aurizon Network's proposal to include AT1 in the revenue cap should be rejected given the lack of evidence to support or justify it. RTCA also said Aurizon Network's proposal would substantially transfer volume risk to users as Aurizon Network has consistently overstated volume forecast (which increases maintenance allowance). ⁹¹³
Audit costs	The QRC said audit costs should be incurred by the QCA and recovered through the QCA levy. ⁹¹⁴
Rebate adjustment	The QRC agreed with Aurizon Network's proposed change to the calculation of adjusted allowable revenues to include the rebate adjustment. ⁹¹⁵
Overload charges and ancillary revenues	Stakeholders sought an inclusion of overload charges and ancillary revenues into total actual revenue. ⁹¹⁶ The QRC said it is not clear that costs related to these services are excluded from maintenance and operating costs forecasts incorporated in the approved MAR. ⁹¹⁷
Waiving of relinquishment fees	Aurizon Operations proposed a provision that allows the exclusion of relinquishment fees from the calculation of total actual revenue under circumstance where Aurizon Network waives relinquishment fees (provided it does so non-discriminatorily) for access holders in order to implement productivity initiatives without penalty. ⁹¹⁸ In its response to stakeholders' submissions on the 2014 DAU, Aurizon Network supported the proposal by Aurizon Operations but said that the proposed drafting needed to be clarified. ⁹¹⁹
Performance incentives (i.e. increments)	The QRC sought removal of clauses relating to increments and proposed a commitment from Aurizon Network to develop and submit for approval, a draft incentive mechanism based on the requirements stated in UT3. The QRC also said Aurizon Network should not be in a position to claim an increment until a balanced package of incentive mechanisms is introduced into the access undertaking. ⁹²⁰ Asciano sought justification (from Aurizon Network) on the 110% trigger for a performance increment. ⁹²¹

17.7.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to accept ancillary revenues as part of total actual revenue. However, we refuse to approve the proposed adjustments for short-run variable maintenance costs, AT1 revenue and audit costs, as well as the proposed approach to calculating and applying performance increments.

Each of these issues is discussed below.

⁹¹¹ QRC, 2014 DAU, sub. no. 42: 64–65

⁹¹² Anglo American, 2013 DAU, sub. no. 39: 9

⁹¹³ RTCA, 2013 DAU, sub. no. 73: 101

⁹¹⁴ QRC, 2013 DAU, sub. no. 85: 75

⁹¹⁵ QRC, 2013 DAU, sub. no. 46: 97

⁹¹⁶ Asciano, 2013 DAU, sub. no. 44: 47; QRC, 2013 DAU, sub. no. 85: 76; QRC, 2014 DAU, sub. no. 42: 66

⁹¹⁷ QRC, 2013 DAU, sub. no. 85: 76

⁹¹⁸ Aurizon Operations, 2014 DAU, sub. no. 26: 4

⁹¹⁹ Aurizon Network, 2014 DAU, sub. no. 48: 18

⁹²⁰ QRC, 2014 DAU, sub. no. 42: 66

⁹²¹ Asciano, 2013 DAU, sub. no. 44: 47

Short-run variable maintenance cost and AT1 revenue cap adjustments

We are not convinced by Aurizon Network's analysis on its proportion of fixed versus variable maintenance costs. Consequently, we are not confident that these adjustment provisions would serve their intended purpose.

If the maintenance cost proportions turn out to be significantly inaccurate, it will result in the arbitrary creation of 'winners and losers' under a revenue cap arrangement. On this basis, we would like to see a more detailed build-up (bottom-up approach) of the short-run variable costs before these adjustment provisions can be considered for inclusion.

We share stakeholders' concerns over Aurizon Network's proposal to include AT1 revenue in the revenue cap.

While Aurizon Network is exposed to volume risk under existing arrangements with AT1 excluded from the revenue cap, we consider such risk to be minimal. It is therefore difficult to see how this risk would be significant for Aurizon Network unless there is considerable shock to Aurizon Network's rail system (which has a low probability). In this regard, we note Aurizon Network said the probability of actual volumes falling below eight percentage points or more against forecast volumes is negligible without a material exogenous shock.⁹²²

We consider this change will appropriately balance Aurizon Network's and users' rights and interests (ss. 138(2)(b), (e) and (h) of the QCA Act).

Audit costs

We noted Aurizon Network's concerns with regard to unplanned audits in our MAR Draft Decision.⁹²³ We accepted that any unplanned audit costs that Aurizon Network incurs could be treated as a cost pass-through and reflected in adjustments to allowable revenue. We said we would need to review this on a case-by-case basis to ensure that such costs have been efficiently incurred.

We consider this change will appropriately balance Aurizon Network's and users' rights and interests (ss. 138(2)(b), (e) and (h) of the QCA Act).

Treatment of rebate adjustments

We are not convinced that all users should be subject to volume risk with respect to possible under- or over-payment of rebates resulting from an AFD arrangement between Aurizon Network and a particular AFD holder.

An AFD is an agreement between Aurizon Network and a particular customer, and the volume risk for associated payments should be limited to these two parties. Our interim position is to exclude this adjustment from the calculation of both adjusted allowable revenue and total actual revenue.

We consider this change will appropriately balance Aurizon Network's and users' rights and interests (ss. 138(2)(b), (e) and (h) of the QCA Act).

Overload charges and ancillary revenues

We consider it difficult to assess whether Aurizon Network's costs associated with overhead charges and ancillary revenues are included in cost forecasts due to insufficient information

⁹²² Aurizon Network, 2013 DAU, sub. no. 2: 267

⁹²³ QCA, 2014(h): 86

being provided by Aurizon Network. This could potentially result in these costs being recovered both through reference tariffs and through mechanisms outside of reference tariffs.

We are in the process of reviewing the Costing Manual applicable to Aurizon Network. The Costing Manual should require Aurizon Network to clearly identify the costs associated with provision of access and to make such information public. This will enable the clear and transparent allocation of costs associated with the provision of access to the CQCN.

We consider it appropriate to include overload charges and ancillary revenues in the total actual revenue, whether material or not, given it is not clear whether associated costs are excluded from cost forecasts used to calculate MAR and reference tariffs. We require more detailed information to justify the exclusion of these revenues from the calculation of total actual revenue.

Waiver of relinquishment fees

Under Aurizon Operations' proposed provision, the waiving of relinquishment fees by Aurizon Network for an access holder in a particular system will transfer costs to other access holders in that system. We consider such a provision to be inconsistent with the interests of access holders as they should not be penalised for reasons (including a waiver of relinquishment fees) unrelated to them.

We considered Aurizon Operations' proposed provision in section 11.6.3 of this Draft Decision. As outlined in section 11.6.3, we do not consider that a cost shift from a rail operator to the remainder of the network would necessarily promote the efficient use of and investment in significant infrastructure.

For these reasons, we have not addressed this matter in our proposed 2014 DAU.

Performance incentives

We consider an incentive arrangement should be considered as part of the development of a more comprehensive incentive mechanism as outlined in section 3.8 of this Draft Decision.

Draft Decision

17.8 Our Draft Decision is to refuse to approve Aurizon Network's proposed revenue cap adjustments in Schedule F of the 2014 DAU. We would approve amendments to the 2014 DAU to:

- (a) remove proposed revenue adjustments in relation to:**
 - (i) short-run variable maintenance costs**
 - (ii) AT1 revenue**
- (b) reflect in the calculation of adjusted allowable revenue the cost of audits required under this undertaking by the QCA, but only to the extent that the QCA has approved these costs as being efficient incurred and these costs are not recoverable elsewhere in this undertaking.**
- (c) remove rebate adjustments from the calculation of adjusted allowable revenue**
- (d) include overload charges and ancillary revenues in the calculation of total actual revenue**
- (e) remove the increment calculation and application.**

17.8 Reference tariff variation events

17.8.1 Aurizon Network proposal

Schedule F of the 2014 DAU contains provisions that require Aurizon Network submit a reference tariff variation application within 60 days after it becomes aware of an endorsed variation event or a review event. In the event that Aurizon Network fails to do so, the QCA may require Aurizon Network to submit a reference tariff variation application. The variation events are discussed below.

Endorsed variation events

The endorsed variation events are the same as the 2010 AU except for the removal of the variation in the electric energy charge (defined in the 2014 DAU as "EC") as a result of a change in the pricing by an electricity retailer. Aurizon Network has instead proposed in its 2014 DAU to seek QCA's approval for updates to the EC by the end of the May preceding the particular financial year (cl. 2.2(a)).

Review events

The review events are different to the 2010 AU and include, among other things:

- maintenance costs that have been prudently and efficiently incurred, but are greater than the maintenance cost allowance, including maintenance costs that relate to:
 - a change in maintenance practices as reasonably requested by an access holder or customer subsequent to the commencing date
 - a competitive process, engaging or otherwise appointing a third party, or an Aurizon party (on arms-length terms), to perform any maintenance activities
- force majeure that has a similar definition to the 2010 AU and further includes storm surge, cyclone, tornado, severe weather conditions and natural calamity.

17.8.2 Stakeholders' position

Anglo American said the maintenance cost review event should be rejected or reflected in the beta while the QRC said it should include a 2.5 per cent materiality threshold.⁹²⁴

The QRC also suggested amendments to the force majeure review event, in particular, remove reference to Acts of God and risk of losses over \$1 million, as well as reviewing the use of 'incremental costs'.⁹²⁵ In response, Aurizon Network said it will discuss this issue with stakeholders and the QCA before proposing drafting changes to the review event.⁹²⁶

17.8.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to refuse to approve Aurizon Network's proposed suite of reference tariff variation events.

In particular, we have adopted the principle that reference tariff variation events be limited to events that are not foreseeable and not within the control of Aurizon Network. We consider this is consistent with our approach to distribute financial risks between parties that can effectively mitigate them, and appropriately balances the interests of Aurizon Network and access holders (ss. 138(2)(b) and (h) of the QCA Act).

In applying this principle, we consider the 2014 DAU should include reference tariff variation events that comprise:

- a change in law or relevant taxes with a 2.5 per cent materiality threshold
- a review of the QCA levy
- force majeure.

Draft Decision

17.9 Our Draft Decision is to refuse to approve Aurizon Network's proposed suite of reference tariff variation events. We would approve reference tariff variation events in the 2014 DAU that comprise:

- (a) a change in law or relevant taxes with a 2.5 per cent materiality threshold**
- (b) a review of the QCA levy**
- (c) force majeure.**

⁹²⁴ Anglo American, 2013 DAU, sub. no. 39: 9; QRC, 2014 DAU, sub. no. 42: 64

⁹²⁵ QRC, 2013 DAU, sub. no. 85: 79–80

⁹²⁶ Aurizon Network, 2014 DAU, sub. no. 4: 153

18 TAKE-OR-PAY ARRANGEMENTS

Clause 2.4 of Schedule F outlines the take-or-pay arrangements that will apply for contracted train services. These arrangements aim to encourage efficient use of infrastructure.

Our Draft Decision is to refuse to approve Aurizon Network's proposed take-or-pay arrangements. We require amendments to clause 2.4 of Schedule F to:

- remove proposed operator capping arrangements
- remove special arrangements for access holders with UT1 access agreements for the purposes of calculating take-or-pay charges.

The detailed drafting of our proposed clause 3 of Schedule F attached to this Draft Decision is consistent with our approach and shows all of the amendments required.

18.1 Introduction

Access holders contract with Aurizon Network to receive train service entitlements (TSEs), which are rights to operate a number of train services from an origin to a destination over a year.

When an access holder chooses not to run a train service, Aurizon Network is unable to obtain revenue from that service unless there are alternative arrangements to recover the foregone revenue. In effect, access holders are using scarce capacity without paying revenue for the reservation of that capacity. Take-or-pay charges are one avenue for Aurizon Network to recover this revenue.

Take-or-pay charges also provide a price signal to customers about efficient contracting. These arrangements can reduce the incentive to over-contract. Over-contracting could potentially reduce access for other access seekers or require new capacity to be met by costly new expansions.

Since UT1, all access undertakings have provided for Aurizon Network to levy take-or-pay charges. However, there are differences in take-or-pay arrangements across access holders depending on when particular access agreements were executed. This introduces a number of inequities across different access holders, including differences in the holding cost for access.

Capping mechanisms provide users with some flexibility in managing take-or-pay liabilities. The proposed 2014 DAU take-or-pay arrangements include a wider range of capping mechanisms with the proposed introduction of operator capping. This could have further implications for the distribution of risk between Aurizon Network and the holders of specific access agreements.

18.2 Overview

18.2.1 Aurizon Network proposal

Aurizon Network's take-or-pay mechanism seeks to achieve two objectives:⁹²⁷

First, it provides some protection to Aurizon Network's revenue stream where an access holder does not rail its contracted services (unless this is due to an Aurizon Network Cause). Second, it

⁹²⁷ Aurizon Network, 2013 DAU, sub. no. 2: 263

makes users accountable for their capacity entitlements and discourages capacity hoarding, which can unfairly disadvantage other access seekers or holders.

Aurizon Network said that the lack of capping provisions in UT1 access agreements⁹²⁸ resulted in greater take-or-pay costs and risks for UT1 compared with post-UT1 access holders.⁹²⁹ Aurizon Network proposed the following special arrangements for UT1 access arrangements for the purpose of calculating take-or-pay charges:

- Exclude any volumes for train services where Wiggins Island Coal Export Terminal (WICET) is a destination.
- Where an access holder has a UT1 access agreement and a post-UT1⁹³⁰ access agreement for a specific origin–destination pair, then any Aurizon Network Cause paths would be allocated to the UT1 agreement before other agreements.

Consistent with previous access undertakings⁹³¹, Aurizon Network proposed a take-or-pay trigger test to determine whether take-or-pay charges will be levied. In this regard, Aurizon Network proposed that take-or-pay obligations would be activated if the total gtk for all coal-carrying train services operated that are subject to a particular reference tariff are less than:

- 100 per cent of forecast gtk for that particular reference tariff, minus
- gtk not provided due to an Aurizon Network Cause.⁹³²

This take-or-pay trigger test is consistent with the 2010 AU.⁹³³

The 2014 DAU's capping provisions allow an access holder to offset revenue over-recoveries from over-railings in one access agreement against take-or-pay liabilities associated with under-railings in another access agreement. Aurizon Network proposed to implement operating capping in the 2014 DAU. The proposed 2014 DAU now includes three levels of capping—mine capping, applied first; then operator capping; and finally tariff capping.

18.2.2 Stakeholders' position

The QRC generally disagreed with Aurizon Network's take-or-pay proposals.⁹³⁴

QRC identified a number of potential inequities between different take-or-pay arrangements including:

- (a) *A forecast of low railings, potentially caused by a subset of access holders, will cause higher access charges for all access holders and, if the forecast is achieved, will result in zero collection of take-or-pay.*
- (b) *Where there is a substantial shortfall against forecast, UT2 and UT3 access holders will incur larger take-or-pay liabilities per tonne than UT1 access holders.*
- (c) *For less substantial shortfalls against forecast (which have a higher probability), UT1 access holders may incur take-or-pay liabilities, while UT2 and UT3 access holders may incur little, or no, liability.*

⁹²⁸ UT1 agreements refer to access agreements executed or renewed prior to 30 June 2006.

⁹²⁹ Aurizon Network, 2013 DAU, sub. no. 2: 265–267

⁹³⁰ Post-UT1 agreements refer to access agreements executed or renewed on or after 30 June 2006.

⁹³¹ For example, 2010 AU, Schedule F, Part B, Clause 2.2.4.

⁹³² 2014 DAU, Schedule F, Clause 2.4(g)

⁹³³ 2010 AU, Schedule F, Part B, Clause 2.2.4

⁹³⁴ QRC, 2014 DAU, sub. no. 42: 63

(d) *UT1 take-or-pay collection may result in an over-recovery of revenue, leading to a reduction in tariffs for all users in a subsequent year.*⁹³⁵

However, the QRC did not consider Aurizon Network should address the potential inequities for UT1 access holders (i.e. Aurizon Holdings) ahead of other inequities.⁹³⁶

In addition, many stakeholders said the 2014 DAU proposed operator capping provisions appeared to favour large operators.⁹³⁷ Stakeholders also said short-term trading of access rights would provide greater flexibility in managing take-or-pay liabilities on a shared basis amongst the various end users.⁹³⁸

18.2.3 Scope of assessment

This chapter deals with the key issues we have identified in relation to Aurizon Network's approach to take-or-pay arrangements.

As outlined in Chapter 15, we believe that many of Aurizon Network's proposed changes for tariffs in the 2014 DAU will make pricing arrangements even more complex, with the impact of changes across different users being unclear.

We also recognise there are various take-or-pay vintages depending on when particular access agreements were executed. This introduces a number of inequities across different access holders that are difficult to resolve while there are still UT1 and UT2 access agreements in place that provide take-or-pay arrangements as per the access agreement rather than the access undertaking in force.

We consider there are benefits to Aurizon Network developing proposals to streamline the pricing arrangements for UT5, including considering opportunities for the simplification and harmonisation of take-or-pay arrangements.

For this reason, we have been careful in developing our Draft Decision for the 2014 DAU by not introducing changes that further impact on the distribution of take-or-pay risk between users.

We consider that simplification of the existing pricing structures and take-or-pay arrangements will need further development and consultation. We consider a more strategic approach, supported by customer consultation, should be pursued for UT5 as part of a broader review of prices and tariffs.

18.3 Take-or-pay capping provisions

18.3.1 Aurizon Network proposal

Aurizon Network's proposed 2014 DAU provides three levels of capping—mine capping, applied first; then operator capping; and finally tariff capping (see Table 88).⁹³⁹

⁹³⁵ QRC, 2013 DAU, sub. no. 46: 88–89

⁹³⁶ QRC, 2013 DAU, sub. no. 46: 89

⁹³⁷ QRC, 2013 DAU, sub. no. 46: 92; RTCA, sub. no. 73: 70

⁹³⁸ QRC, 2013 DAU, sub. no. 46: 92; QRC, 2013 DAU, sub. no. 84: 34; RTCA, 2013 DAU, sub. no. 73: 70; RTCA, 2013 DAU, sub. no. 90: 2

⁹³⁹ 2014 DAU, Schedule F, Clause 2.4(l)–(q)

Table 88 Aurizon Network's proposed capping provisions

<i>Capping</i>	<i>Description</i>	<i>Schedule F Clause</i>
Mine capping	Take-or-pay offsets between access agreements with the same origin-destination pair (regardless of who the access holder is). Applies to UT3 and UT4 access agreements.	2.4(l)
Operator capping	Take-or-pay offsets between an operator's: <ul style="list-style-type: none"> • own access agreements or • train operations agreements related to relevant end user access agreements (under the alternative-form access agreements). Take-or-pay offsets between access agreements held by end users through access holder access agreements. Applies to UT3 and UT4 access agreements.	2.4(m)–(n)
Tariff capping	Take-or-pay reductions for access holders where total actual revenue exceeds the allowable revenue for a particular system reference tariff Applies to post-UT1 access agreements	2.4(o)–(q)

Source: Aurizon Network's 2014 DAU, Schedule F, clauses 2.4(l)–(q)

Mine capping

Aurizon Network said its mine capping provision is intended to provide flexibility to all access holders (and, where relevant, their customers) to offset revenue over-recoveries in one access agreement against take-or-pay liabilities of another access agreement with the *same* origin-destination pair.⁹⁴⁰ A simple example of mine capping under Aurizon Network's proposed 2014 DAU is provided in Box 8.

Box 8: Example of mine capping

An end user (or its operator) has two access agreements for Mine A to Port B, and each agreement has 100 train paths. If, for some reason, an end user elected to use a 90:110 path allocation rather than a 100:100 allocation, the end user can reduce take-or-pay liabilities in the first agreement by the extent of revenue over-recovery in the other agreement.

Aurizon Network said mine capping was introduced in UT3 to allow an end user who contracted via more than one operator (i.e. through a standard operator access agreement) to not be disadvantaged, compared with an end user who contracted directly with Aurizon Network (i.e. through an end user agreement).⁹⁴¹ However, Aurizon Network considered the mine capping provision in the 2010 AU⁹⁴² was unclear. To address this, Aurizon Network said the 2014 DAU has sought to retain the same intent as the 2010 AU but amend the relevant provision to improve interpretation.⁹⁴³

⁹⁴⁰ Aurizon Network, 2013 DAU, sub. no. 2: 270

⁹⁴¹ Aurizon Network, 2013 DAU, sub. no. 2: 270

⁹⁴² 2010 AU, Schedule F, Part B, Clause 2.2.5

⁹⁴³ Aurizon Network, 2013 DAU, sub. no. 2: 272

Operator capping

Aurizon Network has proposed a new operator capping arrangement to provide further take-or-pay offsets.⁹⁴⁴ Operator capping allows operators to nominate a group of TSEs for which take-or-pay offsets can be applied. The TSEs need not relate to the same origin–destination pair but must have access charges set by reference to the same reference tariff.⁹⁴⁵

A simple example of operator capping under Aurizon Network's proposed 2014 DAU is provided in Box 9.

Box 9: Example of operator capping

An operator could nominate its Company A and Company B mine–port combinations (in the Goonyella coal system) into a take-or-pay grouping for operator capping purposes. This approach⁹⁴⁶ would allow the offsetting of revenue over-recoveries in Company A's mine–port combinations against take-or-pay liabilities of Company B's mine–port combinations.

The operator capping arrangements only apply to access agreements negotiated (or renewed) under UT3 and UT4 provisions.⁹⁴⁷

Aurizon Network said operator capping would create efficiency benefits by providing operators with a higher degree of flexibility in managing take-or-pay risks for their customers.⁹⁴⁸ Aurizon Network said operator capping:

*... recognises that operators will distribute the revenue recovered from train services in excess of Train Service Entitlements commensurate with the commercial arrangements reflected in the haulage agreements. The operator may also nominate multiple groupings, which would allow it to provide a broader diversification benefit to coal producers with more than one mine or where the operator's customers are able to collectively agree how such diversification benefits should be allocated.*⁹⁴⁹

The 2014 DAU also proposed that operators would have up to 31 May in the particular contract year to nominate their take-or-pay groupings for operator capping.

In its November 2013 response submission to stakeholders, Aurizon Network acknowledged stakeholder concerns that operator capping would favour larger operators over operators with a smaller customer base which could create a barrier to entry and discourage competition.⁹⁵⁰

However, Aurizon Network said the primary benefit of operator capping is associated with mine production variability, not operator scale. Aurizon Network said an operator may be incentivised to keep the number of access agreements nominated in a take-or-pay grouping small, because:

*... the excess revenue collected from a particular haul that has over-railed is distributed over a smaller number of mines, which will be seen as more valuable.*⁹⁵¹

⁹⁴⁴ 2014 DAU, Schedule F, Clause 2.4(m)–(n)

⁹⁴⁵ For example, for a coal system with a system reference tariff and no expansion tariffs, the TSEs grouped for operator capping purposes should relate to the same coal system.

⁹⁴⁶ This would not extend to end users that only contract under the access holder access agreement. Those end users would only be able to group their access agreements across their own mines and ports, and could not benefit from using their operator(s)' groupings of access agreements.

⁹⁴⁷ 2014 DAU, Schedule F, Clause 2.4(n)

⁹⁴⁸ Aurizon Network, 2013 DAU, sub. no. 2: 270

⁹⁴⁹ Aurizon Network, 2013 DAU, sub. no. 2: 271

⁹⁵⁰ Aurizon Network, 2013 DAU, sub. no. 77: 29

Aurizon Network agreed with stakeholders that having short-term capacity transfers would be beneficial for managing variations of TSE usage and surge capacity, and, in turn, mitigate take-or-pay liabilities.⁹⁵² Aurizon Network said one way to effect this was through the system rules, and would require access holders to nominate any temporary capacity swaps as part of the weekly train ordering process. However, Aurizon Network said such a mechanism could only be endorsed if no existing access holders are made worse off from these proposed arrangements.⁹⁵³

Tariff capping

Aurizon Network's proposed tariff capping provisions have remained largely unchanged from the system capping provisions in the 2010 AU. The change in terminology to 'tariff capping' reflects the introduction of the expansion tariff concept, with these capping provisions applying at the reference tariff level (i.e. individual system reference tariff or expansion tariff) rather than the system level only.

18.3.2 Stakeholders' position

Mine capping

Anglo American and the QRC supported Aurizon Network's proposed mine capping provision, saying that allowing take-or-pay offsets between access agreements for the same origin–destination combination is reasonable.⁹⁵⁴ The QRC also noted the provision appeared similar to the corresponding provision in the 2010 AU.

Asciano and the QRC said that the mine capping arrangements could be extended to all of an end user's mine–port combinations in a system and the QRC provided drafting for consideration.⁹⁵⁵

Operator capping

Competition and operational flexibility

Stakeholders said the operator capping provisions appeared to favour large operators, particularly Aurizon Holdings (above-rail), over small operators with fewer customers, and, as a consequence, may create a barrier to competition.⁹⁵⁶

The QRC and RTCA said short-term trading of access rights would provide greater flexibility in managing take-or-pay liabilities on a shared basis amongst the various end users.⁹⁵⁷ The QRC said that flexible short-term transfer mechanisms promote the efficient use of infrastructure, while capping amounts simply to offsetting liabilities on paper. In doing so, the QRC commented that:

*ToP offsets may provide a ToP saving to a party which has hoarded capacity, while mitigation of ToP through transfers rewards only those who take steps to make their surplus capacity available to the system.*⁹⁵⁸

⁹⁵¹ Aurizon Network, 2013 DAU, sub. no. 77: 30

⁹⁵² Aurizon Network, 2013 DAU, sub. no. 77: 28

⁹⁵³ Aurizon Network, 2013 DAU, sub. no. 77: 29

⁹⁵⁴ QRC, 2013 DAU, sub. no. 46: 91–92; Anglo American, 2013 DAU, sub. no. 39: 20

⁹⁵⁵ Asciano, 2013 DAU, sub. no. 43: 56–57; QRC, 2013 DAU, sub. no. 46: 92

⁹⁵⁶ QRC, 2013 DAU, sub. no. 46: 92; RTCA, 2013 DAU, sub. no. 73: 70

⁹⁵⁷ QRC, 2013 DAU, sub. no. 46: 92; QRC, 2013 DAU, sub. no. 84: 34; RTCA, 2013 DAU, sub. no. 73: 70; RTCA, 2013 DAU, sub. no. 90: 2

⁹⁵⁸ QRC, 2013 DAU, sub. no. 46: 92

Other matters

The QRC said the proposed operator capping provisions would benefit operators only, because take-or-pay savings need not be passed on to end users.⁹⁵⁹

Anglo American said that allowing operators to determine the membership of nominated groups for operator capping would amount to Aurizon Network delegating a regulated activity into the hands of non-regulated entities. Anglo American was concerned that:

*... operators would then have the ability to charge fees for membership to train pools, exploit producers for over or under railing and discriminate between users without any ramifications under the regulation.*⁹⁶⁰

As an alternative, Anglo American suggested that end users should decide whether to join an operator's nominated group, and that each operator should only have one nominated group.

The QRC said that operators should not be able to nominate take-or-pay groupings as late as 31 May in the contract year, as this would translate to Aurizon Network applying operator capping on an almost backward-looking basis. The QRC considered Aurizon Network's proposal would amount to 'accounting creation' rather than genuinely promote operational flexibility in managing take-or-pay liabilities.⁹⁶¹

Tariff capping

Stakeholders did not provide any substantive comments with regards to tariff capping provisions for take-or-pay as part of the 2013 DAU and 2014 DAU consultation processes.

18.3.3 QCA analysis and Draft Decision

Our interim position, as set out in this Draft Decision, is to accept Aurizon Network's proposed mine and tariff capping provisions, and to refuse to accept the operator capping provisions. We propose to require amendments to Schedule F of the 2014 DAU to remove the operator capping provisions.

Mine capping

The 2010 AU already allows mine capping.⁹⁶² However, the mine capping provision in the 2010 AU is based on the number of train services being run across the relevant access agreements rather than on the associated revenue liabilities.

We propose to accept Aurizon Network's proposed clarification for mine capping on the basis that mine capping arrangements for take-or-pay are not intended to provide a mechanism for an access holder to adjust its contractual obligations; that is, favouring one agreement over another if there are better terms. Allowing such an arrangement would potentially increase the revenue to be recovered from other users under the revenue cap.

A simple example of the mine capping approach under the 2010 AU and Aurizon Network's proposed 2014 DAU is provided in Box 10.

⁹⁵⁹ QRC, 2013 DAU, sub. no. 46: 92

⁹⁶⁰ Anglo American, 2013 DAU, sub. no. 39: 20

⁹⁶¹ QRC, 2013 DAU, sub. no. 46: 92

⁹⁶² 2010 AU, Schedule F, Clause 2.2.5

Box 10: Example of mine capping, 2010 AU and 2014 DAU

An end user (or its operator) has two access agreements for Mine A to Port B, and each agreement has 100 train paths. If, for some reason, an end user elected to use a 90:110 path allocation rather than a 100:100 allocation, the take-or-pay liability would apply as follows:

- **2010 AU provisions would allow** an end user to eliminate its overall take-or pay liability by using a 90:110 path allocation, even if the revenue over-recovery for the second access agreement is lower than the take-or-pay liability for the first agreement. In this scenario, other access holders would be worse off because Aurizon Network can recoup this difference through the revenue cap arrangements.
- **2014 DAU** provisions mean that an end user could still use a 90:110 path allocation but only reduce its overall take-or-pay liability by the extent of the revenue over-recovery.

Our position is consistent with the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act) and recognises Aurizon Network's legitimate business interests, since Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return is not adversely affected (ss. 138(2)(b) and (g) of the QCA Act).

We do not accept the suggestion by Asciano and the QRC that mine capping should be extended to other origin-destinations under the ownership of the same end user. We consider that a capacity trading mechanism is likely to achieve the same outcome of enabling users to manage take-or-pay liabilities and promotes better use of existing capacity.

Operator capping

In considering Aurizon Network's proposal for operator capping, we must be satisfied that operating capping would not unfairly differentiate between users of the service in a way that has a material adverse effect on the ability of one or more of the users to compete with each other (s. 168C(1) of the QCA Act).

We have considered concerns of stakeholders (RTCA and QRC) that operator capping could favour a large, related-party access provider (i.e. Aurizon Holdings) over smaller operators (i.e. Pacific National and BMA Rail). We understand the concern that operator capping would allow Aurizon Holdings to provide better offerings to end users because of the greater scope to manage take-or-pay liabilities, and that this could translate to less incentive for end users to select smaller operators to discharge their access rights.

We are not convinced that operator capping as proposed in the 2014 DAU will not unfairly differentiate between access seekers or users in a material way (s. 168C(1) of the QCA Act) or act as a barrier to promoting effective above-rail competition (s. 138(2)(a) of the QCA Act).

More generally, we consider that stakeholders' overall concerns in respect of operator capping is that it appears to be a partial response to the broader issue of how to better manage available capacity in the supply chain. We share this view and consider that a capacity trading mechanism provides a more appropriate mechanism to both allow users to efficiently manage take-or-pay liabilities and promote the efficient use of infrastructure (s. 138(2)(a) of the QCA Act).

Aurizon Network has agreed to stakeholder requests about a mechanism to support short-term capacity swaps to supplement the capping arrangements. We are considering these arrangements separately.

We do not propose to accept Aurizon Network's proposed operator capping provisions for the reasons outlined above.

Tariff capping

We note that the tariff capping provisions are largely unchanged from the system capping provisions in UT2 and UT3. These provisions ensure that take-or-pay charges for post-UT1 access holders are capped to the extent necessary to ensure that Aurizon Network does not recover more than the allowable revenue in relation to a particular reference tariff.

We consider that the tariff capping arrangements are consistent with ensuring Aurizon Network generates revenue for a service that is sufficient to meet the efficient costs of providing access to the service (ss. 138(2)(g) and 168A(a) of the QCA Act).

Draft decision

18.1 Our Draft Decision is to refuse to approve Aurizon Network's proposed take-or-pay capping provisions in Schedule F of the 2014 DAU. We would approve these provisions with amendments, to:

- (a) provide greater clarity (without changing the intent)**
- (b) remove Aurizon Network's proposed operator capping arrangements.**

18.4 Inequities between different take-or-pay arrangements

Since 2001, all access undertakings have provided for Aurizon Network to levy take-or-pay charges, however the triggers and calculations for these charges have differed.

Take-or-pay conditions in the standard access agreements executed during the UT1 and UT2 regulatory periods are linked to the arrangements in the respective access undertakings. However, the UT3 standard access agreements include provisions in schedule 3 (Part 3) that take-or-pay conditions will be updated to be consistent with the take-or-pay arrangements in the current access undertaking.

There are a number of differences between the 2001 AU (UT1) and post-UT1 access undertakings, as summarised in Table 89.

Table 89 Take-or-pay arrangements across different access undertakings

<i>Access Undertaking</i>	<i>UT1</i>	<i>Post-UT1²</i>
Take-or-pay trigger ¹	Annual component: <ul style="list-style-type: none"> 100% of system forecast gtk less Aurizon Network Cause gtk Variable component: <ul style="list-style-type: none"> 90% of access holder's contracted gtk less Aurizon Network Cause gtk and For last 3 months the actual (mine-level) volume is less than or equal to 90% of contract volume less Aurizon Network Cause gtk 	Annual component: <ul style="list-style-type: none"> 100% of system forecast gtk less Aurizon Network Cause gtk
Applicable tariff components	<ul style="list-style-type: none"> 30% AT3 30% AT4 	<ul style="list-style-type: none"> 100% AT2 100% AT3 100% AT4
Take-or-pay volumes	Applicable to shortfall against 100% of contract volume for annual component, and shortfall against 90% of contracted volume for variable component.	Applicable to shortfall against 100% of contract volume
Capping provisions	None	<ul style="list-style-type: none"> Tariff capping Mine capping and proposed operator capping for post-UT2

Notes: (1) Under the proposed 2014 DAU, this trigger only applies to system reference tariffs and not to expansion tariffs. (2) Note that take-or-pay arrangements for UT2 access holders are fixed to the provisions in the access undertaking in force at the time that the relevant access agreement was entered into. In contrast, take-or-pay arrangements for post-UT2 access holders can vary over time depending on the access undertaking in force.

18.4.1 Aurizon Network proposal

Aurizon Network said that the lack of capping provisions in UT1 access agreements resulted in greater take-or-pay costs and risks for UT1 as compared with post-UT1 access holders.⁹⁶³ Aurizon Network proposed a number of special arrangements for UT1 access arrangements for the purpose of calculated take-or-pay charges:

- (a) Exclude any volumes for train services where Wiggins Island Coal Export Terminal (WICET) is a destination.
- (b) Where an access holder has a UT1 and post-UT1 access agreement for a specific origin-destination pair, then any Aurizon Network Cause paths would be allocated to the UT1 agreement before other agreements.

In producing the system forecast gtk for the Blackwater coal system from financial year 2015–16, Aurizon Network must prepare a forecast of the use of the three ports serving the system (i.e. RG Tanna, Barney Point Coal Terminal, and WICET).

⁹⁶³ Aurizon Network, 2013 DAU, sub. no. 2: 265–267

Aurizon Network said that RG Tanna and Barney Point traffics would be based on expected use, while WICET traffic would be based on 90 per cent of contracted tonnages through that terminal.⁹⁶⁴ Aurizon Network said the 90 per cent forecast relating to WICET is higher than expected use, and take-or-pay charges would definitely arise in the Blackwater system since its forecast has, overall, been set higher than expected use.⁹⁶⁵

Aurizon Network proposed that system gtps under UT1 would not include any gtps for train services where WICET is a destination.⁹⁶⁶ Aurizon Network reasoned that if this exclusion was not in place, the likelihood of UT1 access holders paying take-or-pay charges would be significantly higher than that of UT2–4 access holders, especially since the UT1 take-or-pay calculation does not benefit from any capping arrangements.⁹⁶⁷

In particular, Aurizon Network said:

Assuming that system forecasts are informed by current market conditions (that is, the likelihood that users will under-rail relative to contract), on the balance of probabilities take or pay liability is disproportionately allocated to UT1 access agreements.⁹⁶⁸

Aurizon Network also proposed that where an access holder has a UT1 access agreement and a post-UT1 access agreement for a specific origin–destination pair, any Aurizon Network Cause paths would be allocated to the UT1 agreement before other agreements.⁹⁶⁹

Aurizon Network also sought stakeholder views on alternative ways to address what it considered to be the material imbalance between take-or-pay risks for UT1 and post-UT1 access holders. One of these suggestions was to:

Cap UT1 to the extent necessary to achieve [system allowable revenue], noting that this still exposes a UT1 access holder to more risk than a post-UT1 access holder, as capping would only occur where take-or-pay is not payable under a post-UT1 access agreement.⁹⁷⁰

Aurizon Network said it recognised that an unintended consequence of the AT2 proposal is that, relative to UT3, an access holder's exposure to UT1 take-or-pay charges will be lower relative to other access holders.⁹⁷¹ However, Aurizon Network considered that any effect is insignificant, and likely negligible in future, as most UT1 access agreements will expire during the UT4 period.⁹⁷²

18.4.2 Stakeholders' position

Glencore said Aurizon Network's proposed changes to UT1 take-or-pay arrangements appear to favour the interests of Aurizon Holdings, and were not appropriate given Aurizon Network was also asking for lighter regulation and looser ring fencing requirements⁹⁷³.

⁹⁶⁴ Aurizon Network, 2013 DAU, sub. no. 2: 269

⁹⁶⁵ Aurizon Network said this volume measure was used due to the materiality of the capital investment and the preference of stakeholders to not assume incremental costs or risks for expansions.

⁹⁶⁶ 2014 DAU, Schedule F, cl. 2.4(b)(i)(A)

⁹⁶⁷ Aurizon Network, 2013 DAU, sub. no. 2: 269

⁹⁶⁸ Aurizon Network, 2013 DAU, sub. no. 2: 267

⁹⁶⁹ 2014 DAU, Schedule F, Clause 2.4(e)(ii)

⁹⁷⁰ Aurizon Network, 2013 DAU, sub. no. 2: 268

⁹⁷¹ This may occur since UT1 take or pay charges are calculated with reference to AT3 and AT4 reference tariff components only, while post-UT1 take or pay charges also include the AT2 reference tariff component (for which Aurizon Network proposed significant increases in some coal systems in its 2014 DAU submission).

⁹⁷² Aurizon Network, 2013 DAU, sub. no. 77: 81

⁹⁷³ Glencore, 2013 DAU, sub. no. 74: 4

The QRC identified a number of potential inequities between different take-or-pay arrangements including:⁹⁷⁴

- If there is a substantial shortfall against forecast for a particular reference tariff, post-UT1 access holders will incur larger take-or-pay liabilities per net tonne than UT1 access holders.
- For less substantial shortfalls against forecast for a particular reference tariffs, UT1 access holders may incur take-or-pay liabilities while post-UT1 access holders may incur no take-or-pay liability.
- UT1 take-or-pay collection may result in an over-recovery of revenue, in turn resulting in lower tariffs for all users in subsequent years.

While the QRC said that various generations of take-or-pay arrangements lead to inequities between access holders, it did not consider Aurizon Network should address the potential inequities for UT1 access holders (i.e. Aurizon Holdings) ahead of other inequities, given these access holders:

- are only likely to pay take-or-pay charges of (according to the QRC's calculations) around 24 per cent of its AT1–4 access charges, compared with UT2–3 access holders who pay 92 per cent of their access charges (assuming no capping)⁹⁷⁵
- can transit to the current standard access agreement any time.⁹⁷⁶

The QRC raised a number of concerns on the proposed differences between UT1 and post-UT1 take-or-pay arrangements, namely that:

- the use of 90 per cent contracted volumes for WICET, combined with reducing the likelihood that UT1 take-or-pay will trigger, is likely to increase the take-or-pay liabilities for post-UT1 access holders
- the proposed allocation of Aurizon Network Cause paths to UT1 access agreements will also reduce take-or-pay liabilities for UT1 access holders at the expense of post-UT1 access holders.⁹⁷⁷

18.4.3 QCA analysis and Draft Decision

Our Draft Decision is to refuse to approve Aurizon Network's proposed changes that seek to provide special arrangements for UT1 access arrangements for the purpose of calculating take-or-pay charges. We are not convinced of the need to provide separate take-or-pay arrangements for holders of UT1 access agreements. Further, it is noted that these access holders can transit to the current access agreements at any time.

Aurizon Network's proposal seeks to address its perceived greater cost and risk for UT1 access holders by including special conditions that will have the effect of shifting take-or-pay liabilities from UT1 to post-UT1 access holders:

⁹⁷⁴ QRC, 2013 DAU, sub. no. 46: 88–89

⁹⁷⁵ The QRC said this is due to the terms of UT1, for which take-or-pay charges are only 30% of AT3 and AT4, plus a variable take-or-pay charge which applies only where gtk's are 90% or less of forecast (QRC, 2013 DAU, sub. no. 46: 89).

⁹⁷⁶ QRC, 2013 DAU, sub. no. 46: 89

⁹⁷⁷ QRC, 2014 DAU, sub. no. 42: 65

- Aurizon Network has proposed to exclude WICET tonnes from the take-or-pay trigger test for UT1 access holders in Blackwater, which reduces the likelihood of a take-or-pay event for these access holders.
- Aurizon Network has proposed that, for an access holder with multiple access agreements for an origin-to-destination pair, it will allocate Aurizon Network Cause paths to the UT1 agreement before other agreements.

Given the tariff capping provisions in place for post-UT1 access holders, Aurizon Network's proposal is likely to have the effect of shifting UT1 take-or-pay liabilities to post-UT1 access holders. Effectively, post-UT1 access holders could be subsidising UT1 take-or-pay obligations.

This proposal appears to provide an advantage to UT1 access holders as reduced take-or-pay liabilities from these mechanisms may enable UT1 access holders to offer more competitive above-rail contracts to their customers. This is not consistent with the object of Part 5 of the QCA Act, which provides that upstream and downstream competition is an important factor in the our considerations.

In addition, to the extent that a related party to Aurizon Network is a UT1 access holder, these proposals appear to provide terms and conditions that are more favourable for a related-party operator relative to a third party operator (ss. 138(2)(g) and 168A(c) of the QCA Act). Aurizon Network has an obligation under the QCA Act not to offer a related party more favourable fees, tariffs or other payments compared with that provided to other access seekers/holders (ss. 104(1)–(3) of the QCA Act).

Therefore, we do not propose to accept these proposals from Aurizon Network.

Draft decision

18.2 Our Draft Decision is to refuse to approve Aurizon Network's proposed take-or-pay arrangements for UT1 access holders in Schedule F of the 2014 DAU. We would approve these provisions with amendments, to:

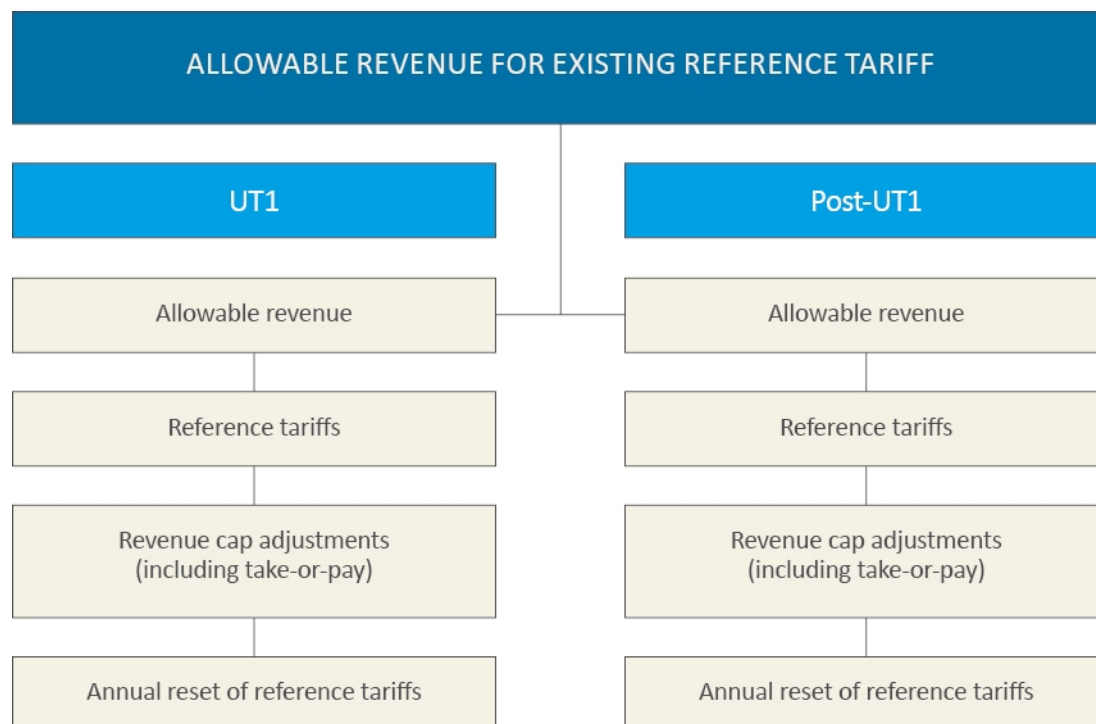
- remove the exclusion of WICET gtps from the take-or-pay trigger test for UT1 access holders**
- remove Aurizon Network's provision to shift Aurizon Network Cause paths from a post-UT1 agreement to a UT1 agreement regarding a particular origin–destination pair.

Future options for UT5 for addressing inequities between access holders

We are considering options to address the different take-or-pay costs and risks for UT1 and post-UT1 access holders that could be applied for the next undertaking. Against this background, a possible approach could be to provide UT1 access holders with separate pricing arrangements from post-UT1 access holders. This approach would separate the allowable revenues and reference tariffs between UT1 and post-UT1 access holders.

Under this approach, any applicable revenue cap adjustment(s) relating to the UT1 access holder will be conducted separately to post-UT1 access holders' allowable revenues and, for clarity, do not impact on post-UT1 access holders' reference tariffs and allowable revenues (see Figure 15).

Figure 15 Possible pricing approach for UT1 and post-UT1 access holders for future consideration



This approach would benefit both the UT1 access holder and post-UT1 access holders given take-or-pay costs and risks are contained to groups with the same take-or-pay arrangement. Consequently, inequities between the different take-or-pay arrangements should be eliminated.

Under this pricing approach, any revenue shortfall with relation to UT1 access holders would be recovered via an adjustment to the UT1 reference tariffs as part of the annual reset of reference tariffs. This would provide greater certainty for all access holders, as take-or-pay liabilities would be consistent with the terms of the access agreements that were initially agreed to, and would not be influenced by the behaviour of access holders with different take-or-pay arrangements.

It would also remove the possibility of the following outcomes:

- for small shortfalls against the system forecast, uncapped UT1 take-or-pay charges leading to an over-recovery of revenue across all users, resulting in a reduction in future reference tariffs for all users⁹⁷⁸
- for large shortfalls against the system forecast, post-UT1 access holders incurring larger take-or-pay liabilities per underutilised train path than UT1 access holders.⁹⁷⁹

As outlined in Chapter 15, we consider there is merit in reviewing the future structure of reference tariffs and the role of take-or-pay. Our longer-term objective is to harmonise take-or-

⁹⁷⁸ This can occur under existing take or pay arrangements if, for instance, uncapped UT1 take-or-pay charges resulted in Aurizon Network earning revenue in excess of its allowable revenue for a particular reference tariff. Due to tariff capping provisions, post-UT1 access holders would incur no take or pay liability but would benefit from a reduction in future tariffs as a result of Aurizon Network's over-recovery of revenue.

⁹⁷⁹ This can occur under existing arrangements since UT1 take or pay charges only cover 30% of AT3 and AT4 reference tariff components, with no AT2 reference tariff component. Post-UT1 take or pay charges comprise 100% of AT2, AT3 and AT4 reference tariff components.

pay arrangements for all access holders because we consider this is necessary to achieve the efficient use of and investment in infrastructure. This will remove potential inequities between different access holders depending on the vintage of their access agreement. In addition, removal of the take-or-pay trigger test will provide stronger signalling of the holding cost of capacity and provide greater accountability of contract volumes held by different users.

We seek stakeholders' comments on whether this approach for UT5 may be appropriate as an interim measure to align take-or-pay costs and risks across all access holders and remove possible incentives for access holders to remain on a UT1 access agreement.

APPENDIX C: SUMMARY OF APPROACHES TO TARIFF STRUCTURES

Table 90 Summary of approaches to tariff structures adopted by rail access regimes

<i>Access Pricing Practice</i>	<i>Tariff structures</i>	<i>Differential pricing</i>
Hunter Valley Coal Network ⁹⁸⁰	<ul style="list-style-type: none"> • Negotiated access charge subject to being within pricing limits that ensure there is no cross-subsidisation of different users: <ul style="list-style-type: none"> – Access charges must at least cover the Direct Costs imposed by the particular Access Holder (the Floor Limit) – Maximum access charge capped at the economic cost of providing services (the Ceiling Limit). • Different Access Charges apply for each part (or Pricing Zones) of the network transversed by a particular user. • For each Pricing Zone, users are levied a two-part tariff comprising: <ul style="list-style-type: none"> – variable charge (referred to as the non-take-or-pay component) applied to actual gtk – fixed charge (referred to take-or-pay component) applied to contracted gtk. • The variable charge is set to cover 'Direct Costs', defined as efficient maintenance expenditure and other costs that vary with the usage of the network. The fixed charge then covers the remaining operating and capital costs. • Take-or-pay arrangements apply to the fixed charge component of tariffs, with each user accountable for its total contractual entitlement. 	<ul style="list-style-type: none"> • Differential pricing reflects the impacts of the use of different train configurations. Price groupings are defined in terms of the following service characteristics: <ul style="list-style-type: none"> – Maximum axle load – Maximum speed (loaded) – Maximum speed (empty) – Wagon train length – Section run time • This approach aims to provide pricing incentives to encourage more efficient rail operations.
Network Rail (UK)	<ul style="list-style-type: none"> • The price control aims to implement cost-reflective pricing. Network Rail's costs that vary with traffic on the network are recovered through variable access charges (around 10 per cent), while fixed costs are recovered from the operators in the form of fixed access charges (around 90%).⁹⁸¹ • In accordance with EU legislation, variable access charges are calculated on the basis of costs directly incurred.⁹⁸² This is interpreted as being the short-run marginal costs of using the network. Variable 	<ul style="list-style-type: none"> • The variable usage charge is differentiated by vehicle class. This differentiation reflects the significant variation in infrastructure wear and tear costs associated with different vehicle characteristics, for example vehicle operating

⁹⁸⁰ Australian Consumer and Competition Commission 2014

⁹⁸¹ Office of Rail Regulation 2012

<i>Access Pricing Practice</i>	<i>Tariff structures</i>	<i>Differential pricing</i>
	<p>charges consist of various individual charges.⁹⁸³</p> <ul style="list-style-type: none"> • The Network Grant and fixed charges are designed to cover Network Rail’s net revenue requirement.⁹⁸⁴ 	<p>speed and axle weight.</p>

⁹⁸² Office of Rail Regulation 2011: 75

⁹⁸³ Office of Rail Regulation 2013

⁹⁸⁴ Office of Rail Regulation 2012

APPENDIX D: SUMMARY OF QCA PROPOSED CHANGES TO PRICING ASSUMPTIONS AND METHODOLOGY

Table 91 Summary of QCA proposed changes to pricing assumptions and methodology

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
1	WIRP volumes and costs	WIRP volumes and costs are socialised within the Blackwater and Moura systems. ⁹⁸⁵	We propose to treat WIRP separately from the overarching 2014 DAU Draft Decision (see section 17.2.1).	Given the significance and materiality of the issues associated with Aurizon Network's August 2014 WIRP proposal, we have decided to treat WIRP separately from the overarching 2014 DAU Draft Decision.
2	Proposed forecast volumes for pricing purposes	Aurizon Network's proposed volume forecasts are based on expected railings with the exception of train services associated with GAPE and WIRP (both of which are set at 90% of contract volumes). ⁹⁸⁶	We propose to use volumes forecasts (for pricing purposes) based on expected railings. These volume forecasts are consistent with the forecasts outlined in Chapter 3 of our MAR Draft Decision, other than volume forecasts for the Newlands to Abbot Point (NAP) system which are based on more up-to-date information.	We have incorporated the updated volumes forecasts for the NAP system as they have a material impact on the timing of the recognition of capital works for pricing purposes.
3	Percentage of diesel traffic (for use in deriving electric volumes)	For parts of the Blackwater system that are electrified, Aurizon Network proposed percentages of diesel traffic that differed for each year of the 2014 DAU period. ⁹⁸⁷	We propose to use a fixed percentage of 8% across all years for parts of the Blackwater system that are electrified.	We consider there is insufficient information provided by Aurizon Network to justify the changes to the fixed percentage of 8% beyond 2013–14.
4	Calculation of incremental maintenance tariff (AT1)	Aurizon Network's proposed AT1 tariff component for 2013–14 is based on the rate approved (as part of the 2010 AU) as at 1 July 2009 escalated yearly by the maintenance	We propose to escalate the AT1 tariff component according to the MCI over the 2014 DAU period (see section 17.3.3).	We consider this approach is consistent with our use of the MCI to escalate maintenance costs in the MAR Draft Decision.

⁹⁸⁵ Aurizon Network, 2014 DAU, sub. no. 6: 2

⁹⁸⁶ Aurizon Network, 2013 DAU, sub. no. 2: 269

⁹⁸⁷ Aurizon Network December 2013 Financial Model

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
		cost index (MCI). Aurizon Network also proposed that the AT1 rate be escalated by forecast annual CPI of 2.5% each year over the 2014 DAU period. ⁹⁸⁸		
5	Calculation of incremental capacity tariff component (AT2)	Aurizon Network proposed significant increases in the AT2 tariff component in the Blackwater, Goonyella and Newlands systems. Aurizon Network based the AT2 tariff components on the cost of the next expansion for each system in order to provide more effective signals for incremental capacity costs. ⁹⁸⁹	We propose to refuse to approve the proposed AT2 tariff components. Instead, we propose to escalate the approved 2012–13 AT2 tariff components for all coal systems by forecast CPI of 2.5% over the 2014 DAU period (see section 17.3.3).	We consider there is insufficient evidence to suggest that Aurizon Network's proposed AT2 tariff components are set at the most efficient future expansion. As a result, we are not persuaded that the proposed AT2 tariff rates are consistent with the requirements of section 168A of the QCA Act. We consider our proposed amendments are in the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act) as they will contribute to a relatively stable profile of access charges which reduces uncertainty.
6	AT2 multiplier	Aurizon Network has included a capacity (diesel) multiplier, which estimates the incremental capacity consumption of a diesel train service in the Blackwater and Goonyella systems. ⁹⁹⁰	We propose to remove the diesel multiplier from our calculations of reference tariffs (see section 17.3.3).	In the absence of evidence on differing performance levels, we are not persuaded that the proposed multiplier rates are consistent with the requirements of sections 138 and 168A of the QCA Act. We consider that Aurizon Network should be able to provide evidence of the differing performance levels in order to justify the retention of the capacity multiplier.
7	Setting Newlands AT4 to \$0	Aurizon Network proposed to reduce the AT4	We propose to remove this adjustment	We consider this aligns with our proposal to

⁹⁸⁸ Aurizon Network December 2013 Financial Model

⁹⁸⁹ Aurizon Network, 2013 DAU, sub. no. 2: 241

⁹⁹⁰ Aurizon Network December 2013 Financial Model

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
		rate for the Newlands system to \$0 for all years in the 2014 DAU regulatory period. ⁹⁹¹ Aurizon Network said it proposed this measure to offset the reduction in the distance taper resulting from the increase in the AT2 tariff component. ⁹⁹²	(see section 17.3.3).	refuse to approve Aurizon Network's proposed AT2 tariff components.
8	Cross system train service calculations	Aurizon Network proposed changes to the 2010 AU treatment of AT3 and AT4 tariff components in calculating cross-system train services to ensure its proposed AT2 increase to the Blackwater and Goonyella systems does not reasonably disadvantage cross system train services. ⁹⁹³	We propose to apply the 2010 AU treatment of AT3 and AT4 tariff components for cross system train services (see section 17.3.3).	We consider this aligns with our proposal to refuse to approve Aurizon Network's proposed AT2 tariff components.
9	Contribution to common costs	Aurizon Network proposed to calculate the minimum contribution to common costs (CCC) for existing mines at Minerva, Lake Vermont (to RG Tanna), Rolleston and Middlemount using a 5% per annum escalation factor from 2012–13 reference tariffs over the 2014 DAU period. ⁹⁹⁴ Aurizon Network proposed this measure to address potential adverse implications caused by its proposed AT2 tariff components.	We propose to apply the 2010 AU calculation approach for minimum CCC (i.e. AT2 plus 50% of AT3) (see section 17.3.3).	We consider this aligns with our proposal to refuse to approve Aurizon Network's proposed AT2 tariff components.
10	System discounts	Aurizon Network proposed discounted reference tariffs in place of rebate arrangements for a number of existing spur line users who have signed AFDs with	We propose to refuse to approve the use of discounted reference tariffs in place of rebate arrangements (see section 17.3.3).	We do not consider there to be sufficient justification to apply Aurizon Network's proposed use of discounted reference tariffs, especially when this proposal does not cover

⁹⁹¹ Aurizon Network, 2013 DAU, sub. no. 2: 241–242; Aurizon Network, 2013 DAU, sub. no. 77: 81

⁹⁹² Aurizon Network, 2013 DAU, sub. no. 2: 241–242; Aurizon Network, 2013 DAU, sub. no. 77: 81

⁹⁹³ Aurizon Network, 2013 DAU, sub. no. 2: 194

⁹⁹⁴ Aurizon Network, 2013 DAU, sub. no. 2: 231

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
		<p>Aurizon Network in previous regulatory periods.⁹⁹⁵</p> <p>Aurizon Network also proposed an arrangement for discounts to be reverted to rebates in the case of a single user spur line that subsequently becomes a multi-user spur line.⁹⁹⁶</p>		<p>multi-user spur line users that have AFD arrangements.</p> <p>We consider that a clear and transparent approach to refunding the capital charge will assist in achieving an appropriate balance between the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act).and Aurizon Network's legitimate business interests (ss. 138(2)(b) and (g) of the QCA Act).</p>
11	Revenue smoothing for pricing purposes	Aurizon Network proposed the application of revenue smoothing to achieve a balance between the price path over the regulatory period and the change in price at the regulatory reset. ⁹⁹⁷	We do not propose to apply revenue smoothing.	<p>We consider it unnecessary to smooth revenues across the 2014 DAU period upon review of the revenue profiles in our MAR Draft Decision.</p> <p>We will reconsider smoothing in light of the revenue profile in our Final Decision.</p>
12	Allocation of GAPE capital costs	<p>Aurizon Network proposed to allocate the following GAPE capital costs to the GAP system:⁹⁹⁸</p> <ul style="list-style-type: none"> • all costs of the Goonyella Newlands Connection, as only GAPE customers use this infrastructure • all costs of the Goonyella system enhancements, as these enhancements are only required for the construction of the Goonyella Newlands Connection • 81% of the costs of the Newlands system enhancements (based on the proportion 	We propose to accept the allocation of GAPE capital costs to the GAP system (see section 17.4.3).	We consider that the proposed approach to the allocation of capital costs to the GAP system in 2014 DAU price modelling to be consistent with the requirements of Part 5 of the QCA Act.

⁹⁹⁵ Aurizon Network, 2013 DAU, sub. no. 2: 238

⁹⁹⁶ Aurizon Network, 2013 DAU, sub. no. 2: 236

⁹⁹⁷ Aurizon Network, 2013 DAU, sub. no. 3: 23

⁹⁹⁸ Aurizon Network, 2013(a): 21

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
		<p>of contract tonnes relating to GAPE, rather than NAPE, customers).</p> <p>The remaining 19% of the costs of the Newlands system enhancements relating to NAPE customers were allocated to the Newlands system.</p>		
13	Reference tariffs for GAP system users	<p>Aurizon Network has set the GAP AT3 tariff component to recover Goonyella system enhancements (including electric costs associated with additional passing loops). This leaves the AT4 tariff component to recover the remainder of the GAPE costs not recovered from the AT1, AT2 and AT3 tariff components.⁹⁹⁹</p>	<p>We propose to refuse to accept Aurizon Network's proposed approach to using the GAP AT3 tariff component to recover Goonyella system enhancements. We propose to calculate GAP system reference tariffs on a consistent basis to other rail systems in the CQCN (see section 17.4.3).</p>	<p>We do not consider that Aurizon Network has provided sufficient justification for this modified approach to calculating the AT3 tariff component. We consider that a transparent and consistent approach to calculating reference tariffs in the CQCN will achieve an appropriate balance between the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act) and Aurizon Network's legitimate business interests (ss. 138(2)(b) and (g) of the QCA Act).</p>
14	Socialisation of NAPE costs within the Newlands system	<p>Aurizon Network said the socialisation of NAPE costs within the Newlands system was justified as:¹⁰⁰⁰</p> <ul style="list-style-type: none"> part of this expenditure would have been required in the Newlands system in the absence of the GAPE project existing Newlands users derive a benefit from the GAPE project. 	<p>Our Draft Decision is to refuse to accept Aurizon Network's proposed socialisation of NAPE costs within the Newlands system (see section 17.4.3).</p> <p>Given the low initial volumes attributable to NAPE customers, we propose to set prices in the initial year of operation (2014–15) equivalent in real terms to the first full year of operation (2015–16). The initial revenue shortfall will be capitalised into the RAB at the end of the 2014 DAU regulatory period.</p>	<p>We require more detailed information to justify the socialisation of NAPE costs within the Newlands system. In particular, given the incremental cost of NAPE is higher than the access charges facing existing Newlands users.</p> <p>We consider these proposed pricing arrangements appropriately balance the interests of expanding and existing users (ss. 138(2)(e) and (h) of the QCA Act), and are consistent with the object of Part 5 of the QCA Act. They will also achieve an appropriate balance between those interests and Aurizon Network's legitimate business interests (ss.</p>

⁹⁹⁹ Aurizon Network, 2013(a): 22

¹⁰⁰⁰ Aurizon Network, 2013(a): 21

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
				138(2)(b) and (g) of the QCA Act).
15	Reference tariffs for Caval Ridge to Hay Point Services Coal Terminal (HPSCT)	<p>Aurizon Network did not propose an alternative reference tariff for Caval Ridge as part of its 2014 DAU submission (cl. 7, Schedule F).</p> <p>However, the QCA did approve Aurizon Network's application for a new 2014–15 transitional reference tariff that provided a discount to the Goonyella system reference tariff based on 2010 AU pricing principles.</p>	We propose to calculate the reference tariff for the 2014 DAU regulatory period based on the reference tariff calculation approach under clause 6.3.1 of our proposed 2014 DAU (see section 17.5.3).	<p>This train service qualifies as a new loading point under clause 6.3.1 of our proposed 2014 DAU.</p> <p>We consider the 2014 DAU pricing principles explicitly deal with issues relating to the interpretation, and prudence and efficiency assessment, of private incremental costs. We also consider our proposed approach is simple and transparent, and facilitates efficient pricing outcomes.</p>
16	Reference tariffs for Middlemount to Dalrymple Bay Coal Terminal (DBCT)	<p>Aurizon Network did not propose an alternative reference tariff for Middlemount as part of its 2014 DAU submission (cl. 7, Schedule F).</p> <p>However, the QCA did approve Aurizon Network's application for 2013–14 and 2014–15 transitional reference tariffs that provided a discount to the Goonyella system reference tariff based on 2010 AU pricing principles.</p>	We propose to continue calculating the reference tariffs for the 2014 DAU regulatory period based on the reference tariff calculation approach under 2010 AU pricing principles.	<p>Since the Middlemount to DBCT train service commenced operations in November 2011 prior to the start of the 2014 DAU regulatory period, we consider that the reference tariffs for this train service should be calculated based on 2010 AU pricing principles.</p> <p>We consider that a transparent and consistent approach to calculating reference tariffs in the CQCN will achieve an appropriate balance between the interests of access seekers and holders (ss. 138(2)(e) and (h) of the QCA Act) and Aurizon Network's legitimate business interests. The proposed approach does not, for example, adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).</p>
17	Treatment of electric investments in the Rolleston branch line	Aurizon Network proposed a single AT5 electric access charge for all users of electric train services in the Blackwater system that includes costs associated with new	We consider that the AT5 electric tariff for the Rolleston loading point will need to cover incremental costs. However, rather than using Aurizon Network's assumption	We consider that a transparent and consistent approach to calculating reference tariffs in the CQCN will appropriately balance the interests of access seekers and holders (ss. 138(2)(e) and

<i>Item</i>	<i>Issue</i>	<i>Aurizon Network 2014 DAU Proposal</i>	<i>QCA Draft Decision</i>	<i>Rationale for QCA proposed change</i>
		investment for electrification of the Rolleston branch line. ¹⁰⁰¹	<p>of 85% of contract volumes for electric train services on the Rolleston branch line, we consider it more appropriate to use forecast volumes consistent with our MAR Draft Decision.</p> <p>For those years in which the incremental cost of the new electric investment results in a higher tariff than the Blackwater AT5 electric tariff, users of this new investment will pay a system premium reflecting their higher incremental cost. Otherwise, these costs will be socialised in the Blackwater AT5 tariff.</p>	(h) of the QCA Act) and Aurizon Network's legitimate business interests. The proposed approach does not, for example, adversely affect Aurizon Network's ability to earn revenue that reflects its efficient costs or reasonable rate of return (ss. 138(2)(b) and (g) of the QCA Act).

¹⁰⁰¹ Aurizon Network, 2013 DAU, sub. no. 3: 158–159

APPENDIX E: REFERENCE TARIFFS & ALLOWABLE REVENUES

Table 92 Blackwater System Reference Tariffs (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT1 – incremental maintenance (\$/'000 gtk)	0.94	0.97	0.99	1.02
AT2 – incremental capacity (\$/rtp)	2,044.45	2,095.56	2,147.95	2,201.65
AT3 – allocative component (\$/'000 ntk)	4.35	4.80	4.58	4.60
AT4 – allocative component (\$/nt)	1.49	1.66	1.58	1.60
AT5 – electric infrastructure (\$/'000 egtk)	3.48	4.37	3.87	3.19

Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments.

Table 93 Blackwater System Alternative Reference Tariff Components (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
<i>Rolleston</i>				
AT3 – allocative component (\$/'000 ntk)	4.94	4.98	6.05	6.27
AT5 – electric infrastructure (\$/'000 egtk)	n.a.	6.22	3.87	3.19
<i>Stanwell</i>				
AT3 – allocative component (\$/'000 ntk)	2.94	3.12	2.97	2.99

Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments. These tariff components replace the equivalent reference tariff component in Table 1. There is no applicable AT5 tariff for Rolleston in 2013–14, since electrification of the Rolleston line is expected to occur in 2014–15.

Table 94 Blackwater System Allowable Revenues (\$'000, nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT2–AT4	226,757	225,117	312,215	323,619
AT5	75,637	100,358	107,688	92,194

Note: 2013–14 allowable revenues include 2011–12 revenue cap adjustments.

Table 95 Goonyella System Reference Tariffs (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT1 – incremental maintenance (\$/'000 gtk)	0.65	0.67	0.68	0.71
AT2 – incremental capacity (\$/rtp)	1,295.28	1,327.66	1,360.85	1,394.87
AT3 – allocative component (\$/'000 ntk)	4.55	4.97	5.44	5.21
AT4 – allocative component (\$/nt)	0.97	1.04	1.12	1.08
AT5 – electric infrastructure (\$/'000 egtk)	2.35	2.32	2.66	2.58

Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments.

Table 96 Goonyella System Alternative Reference Tariff Components (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
<i>Middlemount</i>				
AT3 – allocative component (\$/'000 ntk)	1.01	1.44	1.56	1.51
AT4 – allocative component (\$/nt)	0.27	0.39	0.42	0.40
AT5 – electric infrastructure (\$/'000 egtk)	0.49	0.00	0.00	0.00

*Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments. These tariff components replace the equivalent reference tariff component in **Error! Reference source not found.***

Table 97 Goonyella System Allowable Revenues (\$'000, nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT2–AT4	241,586	248,559	260,788	267,026
AT5	86,019	79,831	88,252	90,817

Note: 2013–14 allowable revenues include 2011–12 revenue cap adjustments.

Table 98 Moura System Reference Tariffs (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT1 – incremental maintenance (\$/'000 gtk)	1.75	1.80	1.84	1.90
AT2 – incremental capacity (\$/rtp)	612.39	627.70	643.39	659.47
AT3 – allocative component (\$/'000 ntk)	6.58	8.01	7.24	7.40
AT4 – allocative component (\$/nt)	1.09	1.32	1.19	1.20

Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments.

Table 99 Moura System Allowable Revenues (\$'000, nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT2–AT4	29,154	35,147	42,757	44,609

Note: 2013–14 allowable revenues include 2011–12 revenue cap adjustments.

Table 100 Goonyella to Abbot Point (GAP) System Reference Tariffs (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT1 – incremental maintenance (\$/'000 gtk)	1.47	1.51	1.54	1.59
AT2 – incremental capacity (\$/rtp)	12,710.75	13,028.52	13,354.23	13,688.09
AT3 – allocative component (\$/'000 ntk)	5.42	4.51	3.12	2.95
AT4 – allocative component (\$/nt)	2.00	1.73	1.09	1.03

Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments.

Table 101 Goonyella to Abbot Point (GAP) System Allowable Revenues (\$'000, nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT2–AT4	95,132	96,610	108,929	110,219

Note: 2013–14 allowable revenues include 2011–12 revenue cap adjustments.

Table 102 Newlands Indicative Reference Tariffs (nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT1 – incremental maintenance (\$/'000 gtk)	1.82	1.87	1.92	1.98
AT2 – incremental capacity (\$/rtp)	273.81	280.65	287.67	294.86
AT3 – allocative component (\$/'000 ntk)	10.09	9.31	10.75	10.83
AT4 – allocative component (\$/nt)	1.40	1.19	1.35	1.32

Note: 2013–14 reference tariffs include 2011–12 revenue cap adjustments. For illustrative purposes only, this table shows blended tariffs that combines allowable revenues and volumes for both the Newlands and Newlands to Abbot Point (NAP) systems.

Table 103 Newlands Indicative Allowable Revenues (\$'000, nominal)

<i>Tariff Component</i>	<i>2013–14</i>	<i>2014–15</i>	<i>2015–16</i>	<i>2016–17</i>
AT2–AT4	36,733	35,542	45,229	54,102

Note: 2013–14 allowable revenues include 2011–12 revenue cap adjustments. For illustrative purposes only, this table shows combines allowable revenues for both the Newlands and Newlands to Abbot Point (NAP) systems.