

File Ref: 1295003

23 May 2018

Mr David Collins
Head of Finance and Regulation
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Collins

Final decision: Aurizon Network's flood claim—2017 tropical cyclone Debbie

On 22 September 2017, Aurizon Network submitted a proposal to vary its reference tariffs to recover maintenance costs arising from a review event associated with tropical cyclone Debbie (the flood claim). On 21 March 2018, Aurizon Network amended its flood claim.

In accordance with clauses 5.3 and 5.5 of schedule F to the 2016 access undertaking, the QCA advises Aurizon Network herewith that it has approved Aurizon Network's 2017 (amended) flood claim of \$16.90 million (pre-escalation). The attached decision notice includes a brief overview of our assessment and findings.

We have published our final decision on our website. If you have any questions about this decision, please contact George Passmore on 07 3222 0545 or by email at George.Passmore@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

cc: *Donna Bowman, Manager - Network Regulation (Access Undertaking), Aurizon Network Pty Ltd*

DECISION NOTICE

AURIZON NETWORK'S TARIFF VARIATION TO RECOVER 2017 CYCLONE DEBBIE COSTS

23 May 2018

The Queensland Competition Authority (QCA) has approved Aurizon Network's 2017 tariff variation proposal to recover 2017 tropical cyclone Debbie costs, as submitted on 22 September 2018 and amended on 21 March 2018 (the flood claim). This is a notice, issued in accordance with clauses 5.3 and 5.5 of schedule F of Aurizon Network's 2016 access undertaking, confirming that decision.

Regulatory process

Aurizon Network's 2016 access undertaking (2016 AU) requires Aurizon Network to apply to the QCA to vary reference tariffs within 60 days of a review event. The tariff reference variation to recover 2017 tropical cyclone Debbie costs has been assessed under the provisions of Schedule F of the 2016 AU.

The following steps and timelines were followed:

- 10 May 2017—Aurizon Network wrote to the QCA requesting to extend the time period for it to lodge its flood claim by eight months to 31 January 2018.
- 24 May 2017—the QCA approved Aurizon Network's timeline extension request.
- 22 September 2017—Aurizon Network submitted its flood claim, seeking to recover incremental maintenance costs of \$16.93 million (pre-escalation). Aurizon Network proposed to vary the AT3 and AT4 tariff components for each of the Blackwater, Goonyella, Moura, Newlands, and Goonyella to Abbot Point systems to recover these costs.
- 7 November 2017—Aurizon Network provided a letter including supplementary information to clarify aspects of its flood claim.
- 10 November 2017—The QCA received submissions from the Queensland Resources Council and Anglo American on the flood claim.
- 21 March 2018—Aurizon Network amended its flood claim by reallocating some maintenance costs to the Goonyella system, and by seeking to recover electric infrastructure repair costs in the Goonyella system through the AT5 tariff. Aurizon Network also recategorised \$26,519 of costs as capital expenditure, which reduced its proposed recovery of maintenance costs to \$16.90 million (pre-escalation).
- 19 April 2018—The QCA made a draft decision to approve the flood claim, as amended on 21 March 2018.
- 3 May 2018—Submissions on the draft decision were due. The QCA did not receive any submissions.

- 23 May 2018—The QCA made its final decision to approve Aurizon Network's flood claim, as amended on 21 March 2018, to recover 2017 cyclone Debbie costs.

The relevant documents are available on the QCA's website.

Findings

The QCA has determined that Aurizon Network's review event application to recover \$16.90 million (pre-escalation) in costs for restoring rail infrastructure that was damaged as a result of tropical cyclone Debbie (the flood claim) satisfies the relevant assessment criteria.

As outlined in the draft decision, the QCA concludes that a review event has occurred (Schedule F, cls. 5.3 and 5.5(c)(ii)(A)) and that the costs are incremental (i.e. are costs of providing access), additional (i.e. would not have been incurred if the flood event did not occur) and efficient (i.e. are those that would be reasonably expected to be incurred by a railway manager adopting efficient work practices), and have not previously been recovered through reference tariffs.

For the reasons outlined in the draft decision, the QCA approves the:

- recovery of flood repair costs by varying the AT3, AT4 and AT5 reference tariffs (see **Attachment 1**)
- recovery period being between 1 January 2018 and 30 June 2018¹
- adjustment, through a true-up, of any difference between the approved revenue and tariff adjustments arising from this flood review event and those included in the transitional tariffs that are already being collected, once a replacement undertaking (UT5) is approved²
- approach to escalating the flood-related costs³
- recovery of the Goonyella electric infrastructure repair costs (\$244,382) from users of the electric infrastructure by varying the AT5 tariff.⁴

The QCA's technical consultants, AECOM, considered the quality and range of documentation provided to it by Aurizon Network for each project under review. Generally, AECOM found the quality of documentation over the projects assessed to be medium (as shown in Table 16 of the report), meaning 'incomplete documentary evidence, but interviews, informal documentation and/or professional judgement support AECOM's recommendation'.⁵ AECOM commented that:

a review event such as tropical cyclone Debbie requires urgent mobilisation and works. Given this urgency and the unplanned nature of the works, the level of documentation that would be considered 'sufficient' to support a recommendation would not be expected to be as high as for other, planned projects.⁶

The QCA recommends that Aurizon Network continue to make system improvements to capture supporting information for any future review events. Continued improvement by Aurizon Network in this area will facilitate a timely and efficient tariff variation review process.

¹ See section 4.2 of the QCA's draft decision.

² See section 4.4 of the QCA's draft decision.

³ See section 4.3 of the QCA's draft decision.

⁴ See section 4.4 of the QCA's draft decision.

⁵ AECOM, Review of Aurizon Network Review Event 2017 Submission—Tropical Cyclone Debbie, March 2018, p. 64.

⁶ AECOM, Review of Aurizon Network Review Event 2017 Submission—Tropical Cyclone Debbie, March 2018, p. 64.

Transitional tariffs

On 9 November 2017, the QCA approved Aurizon Network's draft amending access undertaking to extend the terminating date of the 2016 access undertaking (the September 2017 Extension DAAU).

In addition to extending the terminating date of the 2016 undertaking, and establishing transitional reference tariffs for the remainder of 2017–18, the DAAU included proposed incremental flood costs of \$16.93 million relating to cyclone Debbie (although they were still subject to consideration by the QCA under the review event application that is now approved by this final decision). This means it is anticipated that Aurizon Network will, by the end of June 2018, have already recovered that amount through the transitional tariffs.

Consistent with the expectations of access holders, access seekers and Aurizon Network, it is anticipated the transitional tariffs will be subject to a 'true-up' process after the final decision on the next Aurizon Network access undertaking (the 2017 draft access undertaking, or UT5). This means that, subject to the QCA's decision on UT5, the amount ultimately recovered for costs arising from the cyclone Debbie review event is anticipated to be the \$16.90 million approved in this final decision under the review event provisions in the 2016 undertaking.

Final decision

For the reasons outlined in the QCA's draft decision, and recognising that there were no stakeholder comments on the draft decision or AECOM's report, the QCA's final decision is to approve Aurizon Network's 2017 flood claim of \$16.90 million (pre-escalation), as amended on 21 March 2018.

ATTACHMENT 1: APPROVED FLOOD CLAIM BY SYSTEM

Table 1: Approved flood costs and indicative tariff effect by system.

Cost Recovery	Blackwater	Goonyella	Newlands	Gape	Moura	Total
Recovery excl. escal (\$)	2,438,620	11,604,467	464,311	1,136,761	1,015,893	16,660,052
Recovery incl. escal (\$)	2,513,039	11,958,599	478,480	1,171,452	1,046,895	17,168,465
Tariff increase						
AT3	0.10	0.50	0.35	0.19	0.53	
AT4	0.04	0.10	0.05	0.07	0.08	

Notes:

a As discussed in this decision notice under the heading 'Transitional tariffs', the tariff increase numbers in this Table 1 are indicative, as the final outcome is expected to be determined as part of a true-up once the 2017 access undertaking (UT5) is approved.

b The total amended Goonyella claim amount of \$11,604,467 excludes electric infrastructure costs of \$244,382.

c The recovery of the Goonyella electric infrastructure repair costs (\$244,382) from users of the electric infrastructure will be recovered through varying the AT5 tariff, adjusted through a true-up once the replacement undertaking (UT5) is approved.

d The Newlands approved costs (\$1,601,072) in the draft decision includes a proportion of the Gape tariffs.