

File Ref: 1378473

25 June 2019

Mr Michael Riches
Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Riches

Aurizon Network's Reference Tariff Variation DAAU—decision

The Queensland Competition Authority approved Aurizon Network's Reference Tariff Variation draft amending access undertaking (DAAU) on 24 June 2019.

The attached decision notice sets out the basis for our decision.

This letter and decision notice will be published on the QCA website for stakeholders' information.

If you have any questions about this decision notice, please contact Ann Jones on (07) 3222 0574 or by email at ann.jones@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

DECISION NOTICE

AURIZON NETWORK'S REFERENCE TARIFF VARIATION DAAU—DECISION

24 June 2019

The Queensland Competition Authority approved Aurizon Network's Reference Tariff Variation DAAU, under section 142(2) of the *Queensland Competition Authority Act 1997* (QCA Act).

Background

Aurizon Network's 2017 access undertaking (UT5) sets out the general terms and conditions under which Aurizon Network will provide access to its rail infrastructure in central Queensland, including system reference tariffs, volume forecasts and allowable revenues from 2017–18 to 2020–21 (set out in schedule F).

UT5 came into effect on 21 February 2019, replacing Aurizon Network's 2016 access undertaking (UT4). The QCA approved extending the terminating date of UT4 four times.¹ This, among other things, established transitional reference tariffs, allowable revenues and volume forecasts for the extension period, with any final reconciliation of revenues to be dealt with on approval of UT5.

Aurizon Network's Reference Tariff Variation DAAU

Aurizon Network submitted its Reference Tariff Variation DAAU on 7 May 2019 to amend UT5 seeking to

- reset volume forecasts for 2018–19 to reflect prevailing outcomes across the network
- amend its allowable revenues across the UT5 term to account for:
 - QCA-approved flood review events that had been omitted from the UT5 final decision
 - the QCA-approved 2017–18 revenue adjustment amount in 2019–20 allowable revenues
 - an adjustment to electric infrastructure charges for Aurizon Network to pass on lower connection costs to electric traction customers
 - the reconciliation of 2017–18 transitional and adjusted allowable revenues (with the variance being incorporated in the 2018–19 adjusted allowable revenues)
 - a number of modelling matters found inconsistent with the QCA's final decision on UT5

¹ This was done over four separate Extension draft amending access undertakings (DAAUs), in April 2017, September 2017, April 2018 and October 2018.

- update for tariff components approved by the QCA during the UT4 term but not reflected in UT5 tariffs.²

The proposed net adjustment to the UT5 allowable revenues is a \$29 million increase across the UT5 term.³

Aurizon Network said that subject to the QCA's approval of this DAAU, it would submit an adjustment charge (sch. F, cl. 6 of UT5) to reconcile the 2018–19 transitional and adjusted allowable revenues.⁴

Regulatory process

Under the QCA Act, Aurizon Network can submit to the QCA a voluntary DAAU to amend the approved access undertaking (s. 142(1)).⁵ The QCA must consider the DAAU and either approve, or refuse to approve, the DAAU (s. 142(2)), having regard to the matters raised in section 138(2) (s. 143(2)).

The QCA assessed Aurizon Network's Reference Tariff Variation DAAU according to the timelines below.

<i>Date</i>	<i>Action</i>
7 May 2019	Aurizon Network submitted its Reference Tariff Variation DAAU
10 May 2019	The QCA published the DAAU and invited submissions
14 June 2019	Submissions period closed—the QCA received one submission
24 June 2019	The QCA made its decision to approve the Reference Tariff Variation DAAU

The documents mentioned above are available on the [QCA website](#).

In this instance, the QCA has chosen to proceed to a decision on the Reference Tariff Variation DAAU without first sharing its views on the proposal with stakeholders. The QCA considers the interests of stakeholders will be served by a timely decision and there is little to be gained from further consultation given stakeholders have already had an opportunity to comment on the amendments now being approved. The QCA notes the nature of the proposed amendments are largely procedural, and are often seeking to incorporate past decisions as outlined below. In doing so, the QCA considers it has met its statutory requirements.

Stakeholders' submissions

The QCA provided stakeholders with an opportunity to comment on Aurizon Network's Reference Tariff Variation DAAU and received one submission, from Rio Tinto.⁶ The QCA had regard to the stakeholder's comments on this DAAU in making its decision, in accordance with s. 138(3)(d)).

QCA assessment and decision

The QCA's decision is to approve Aurizon Network's Reference Tariff Variation DAAU under section 142(2) and in compliance with section 143. In making its decision, the QCA had regard to the assessment criteria (s. 138(2)) in considering the:

- principles of the proposed amendments to the reference tariffs

² Aurizon Network, *Reference Tariff Variation DAAU*, May 2019 (Aurizon Network supporting submission), pp. 3, 5–6.

³ Aurizon Network supporting submission, p. 12.

⁴ Aurizon Network supporting submission, pp. 6, 12.

⁵ All clause references hereafter refer to the QCA Act, unless otherwise stipulated.

⁶ Rio Tinto, submission to the QCA, *Aurizon Network's Reference Tariff Variation DAAU*, June 2019 (Rio Tinto submission).

- accuracy of reflecting the amendments within the revenue and tariff modelling
- corresponding amendments to reference tariffs in schedule F.

The QCA finds approval for the amendments proposed in Reference Tariff Variation DAAU is largely consistent with the pricing principles of the QCA Act (s. 168A), and ensures efficient operation and use of Aurizon Network's infrastructure in the Central Queensland coal network (s. 138(2)(a)). This approval is also consistent with the legitimate business interests of Aurizon Network, and the interests of access seekers and holders (s. 138(2)(b), (e), (h)). The QCA's detailed assessment of the various elements of Aurizon Network's proposal is set out below.

The adjusted allowable revenues resulting from this approval decision are contained in Appendix A.

Volume forecast reset for 2018–19

The QCA considers Aurizon Network's proposal to reset volume forecasts for 2018–19 is a reasonable way to adjust for under-recovered revenues for the year. Although the annual revenue adjustment process (sch. F, cl. 4.3 of UT5) would achieve the same purpose, resetting the volume forecasts provides greater certainty on revenue recovery for Aurizon Network (s. 138(2)(b) and may reduce the total tariff adjustment borne by future users in 2020–21 (ss. 138(2)(e), (h)).

In addition, the QCA considers establishing accurate volume forecasts for 2018–19 would ensure any adjustments to allowable revenues, including a likely adjustment charge⁷, do not unfairly impact either Aurizon Network or its customers (ss. 138(2)(b), (h)).

The QCA notes that volume reset is reasonable as the forecast more accurately reflects actual volumes railed. The QCA has verified with Aurizon Network that none of Rio Tinto's contracted volumes in the GAPE system were added to the 2017–18, 2019–20 and 2020–21 volume forecasts under UT5.

The QCA has verified Aurizon Network's inclusion of the 'corresponding reduction in variable maintenance costs'⁸, which ensures the tariffs only account for Aurizon Network's efficient costs in providing for the corresponding rail volumes, consistent with the pricing principles of section 168A and the interests of current customers (ss. 138(2)(g), (h)).

Reconciliation of allowable revenues across UT5 term

The QCA assessed each of Aurizon Network's proposed variations to its UT5 allowable revenues and in summary, the QCA considers for the:

- flood review events—Aurizon Network's proposed adjustments accurately reflect the QCA-approved costs for the 2016 Goonyella⁹ and 2017 Cyclone Debbie¹⁰ floods, which were previously omitted from the UT5 allowable revenues for 2017–18, due to timing of the QCA's assessment of the 2017 draft access undertaking
- 2017–18 revenue adjustment—Aurizon Network's reconciliation of the QCA-approved 2017–18 revenue adjustment amount of \$0.7 million¹¹ in the 2019–20 tariffs is correct and consistent with UT5 (sch. F, cl. 4.4)
- adjustments to electric infrastructure charges—Aurizon Network has passed on electric connection cost savings for 2017–18 and 2018–19 electric traction customers

⁷ Aurizon Network supporting submission, pp. 6, 12.

⁸ Aurizon Network supporting submission, pp. 4, 8, 12.

⁹ Queensland Competition Authority (QCA), *Aurizon Network's Review Event—Central Queensland Flooding 2016*, decision, May 2017, p. 10.

¹⁰ QCA, *Aurizon Network's Review Event—2017 Tropical Cyclone Debbie*, final decision, May 2018, pp. 2–3.

¹¹ QCA, *Aurizon Network's 2017–18 Revenue Adjustment Amounts*, final decision, December 2018, p. 3.

- modelling inconsistencies—the matters identified by Aurizon Network as being inconsistently treated in the revenue and tariff modelling are valid, and amendments for which ensure pricing is efficient and reflective of the Aurizon Network's efficient costs.

Update for QCA-approved tariff components

The QCA approved resets to the electric energy charge and QCA levy in its decision on the October 2018 Extension DAAU, under UT4¹². These resets were not included in the UT5 and associated tariff calculations at the time. Consistent with its previous decision, the QCA considers Aurizon Network's proposal to update both charges for UT5¹³ reasonable and also finds the corresponding update to tariff calculations to be accurate, taking into account the volume reset for 2018–19 described above.

Reconciliation for transitional arrangements

The Reference Tariff Variation DAAU reconciles the difference between 2017–18 transitional and adjusted allowable revenues through the 2018–19 allowable revenues and corresponding reference tariffs. Aurizon Network stated, subject to the QCA's approval of the Reference Tariff Variation DAAU, any resulting differences between 2018–19 transitional and adjusted allowable revenues will then be submitted to the QCA for approval as an adjustment charge in compliance with schedule F of UT5.¹⁴

Rio Tinto was concerned this may result in a producer being under-compensated for 2017–18 overpayments resulting from the difference in 2017–18 and 2018–19 volumes.¹⁵ Rio Tinto requested increased transparency of the adjustment amounts that 'separately identifies the portion attributable to [producers] revenue/paths in each of FY18 and FY19.'¹⁶

The QCA notes the reconciliation arrangements were proposed by Aurizon Network in its April 2018 Extension DAAU, which the QCA found appropriate to approve at that time.¹⁷ The QCA considers this approach appropriate in principle. The QCA understands greater transparency will be afforded in the adjustment charge application under UT5 (sch. F, cl. 6.2(b)), which requires Aurizon Network to set out reconciliation for each access holder. The QCA will assess the implementation of the 2018–19 adjustment charge, when it is submitted by Aurizon Network, having consideration for the relevant criteria in UT5 (sch. F, cl. 6.2(b)(iii)).

Way forward

The QCA's approval of the Reference Tariff Variation DAAU coincides with its ongoing assessment of Aurizon Network's UT5 and 2019 Electric Traction DAAUs. While the matters raised in each DAAU are largely separate, the QCA accepts the potential for amendments to UT5 to overlap, including in relation to the reference tariff components in schedule F. The QCA will continue its assessment of each outstanding DAAU under the statutory criteria, having regard to and on the basis of the amendments approved by the Reference Tariff Variation DAAU on 24 June 2019.

¹² QCA, *Aurizon Network's October 2018 Extension DAAU*, decision, November 2018, p. 3.

¹³ Aurizon Network supporting submission, p. 14.

¹⁴ Aurizon Network supporting submission, p. 6.

¹⁵ Rio Tinto submission, p. 1.

¹⁶ Rio Tinto submission, p. 1.

¹⁷ QCA, *Aurizon Network's April 2018 Extension DAAU*, final decision, May 2018, p. 2–3.

APPENDIX A: ADJUSTED REFERENCE TARIFFS AND ALLOWABLE REVENUES

Table 1 Adjusted UT5 reference tariff inputs—Blackwater system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>
AT ₁	0.92	0.93	0.95	0.97
AT ₂	2,161.22	2,264.88	2,318.56	2,373.51
AT ₃	6.81	6.62	6.90	6.22
AT ₄	2.41	2.22	2.44	2.07
AT ₅	3.09	2.58	3.29	3.03
EC	1.01	0.79	0.92	0.94
QCA levy	0.03961	0.00907	0.02844	0.02898

Note: Tariff inputs amended with approval of the Reference Tariff DAAU are shaded.

Table 2 Adjusted allowable revenues (\$m)—Blackwater system

<i>Year</i>	<i>AT₂₋₄</i>	<i>AT₅</i>
2017–18	356.5	91.2
2018–19	333.1	72.9
2019–20	368.0	91.5
2020–21	336.3	84.2

Note: Allowable revenues adjusted with approval of the Reference Tariff DAAU are shaded.

Table 3 Adjusted UT5 reference tariff inputs—Goonyella system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>
AT ₁	0.63	0.65	0.66	0.67
AT ₂	1,369.26	1,434.93	1,468.94	1,503.76
AT ₃	5.22	4.87	4.43	4.24
AT ₄	1.08	0.99	0.91	0.87
AT ₅	2.30	1.40	1.57	1.69
EC	1.01	0.79	0.92	0.94
QCA levy	0.03961	0.00907	0.02844	0.02898

Note: Tariff inputs amended with approval of the Reference Tariff DAAU are shaded.

Table 4 Adjusted allowable revenues (\$m)—Goonyella system

<i>Year</i>	<i>AT₂₋₄</i>	<i>AT₅</i>
2017–18	263.6	84.7
2018–19	280.1	51.7
2019–20	276.3	65.9
2020–21	266.1	71.1

Note: Allowable revenues adjusted with approval of the Reference Tariff DAAU are shaded.

Table 5 Adjusted UT5 reference tariff inputs—Moura system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>
AT ₁	1.70	1.73	1.77	1.80
AT ₂	647.37	670.79	686.69	702.97
AT ₃	9.00	7.27	7.67	7.57
AT ₄	1.43	1.19	1.25	1.23
QCA levy	0.03961	0.00907	0.02844	0.02898

Note: Tariff inputs amended with approval of the Reference Tariff DAAU are shaded.

Table 6 Adjusted allowable revenues (\$m)—Moura system

<i>Year</i>	<i>AT₂₋₄</i>
2017–18	36.7
2018–19	38.8
2019–20	44.7
2020–21	44.3

Note: Allowable revenues adjusted with approval of the Reference Tariff DAAU are shaded.

Table 7 Adjusted UT5 reference tariff inputs—Newlands system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>
AT ₁	1.77	1.81	1.84	1.88
AT ₂	289.45	303.33	310.52	317.88
AT ₃	10.06	2.82	3.73	6.86
AT ₄	1.51	0.36	0.47	0.87
QCA levy	0.03961	0.00907	0.02844	0.02898

Note: Tariff inputs amended with approval of the Reference Tariff DAAU are shaded.

Table 8 Adjusted allowable revenues (\$m)—Newlands system

<i>Year</i>	<i>AT₂₋₄</i>
2017–18	27.5
2018–19	10.1
2019–20	13.6
2020–21	24.1

Note: Allowable revenues adjusted with approval of the Reference Tariff DAAU are shaded.

Table 9 Adjusted UT5 reference tariff inputs—Goonyella to Abbot Point system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>
AT ₁	1.43	1.45	1.48	1.51
AT ₂	13,436.76	14,081.21	14,414.93	14,756.57
AT ₃	1.38	1.20	1.32	1.32
AT ₄	3.44	1.13	1.74	1.62
QCA levy	0.03961	0.00907	0.02844	0.02898

Note: Tariff inputs amended with approval of the Reference Tariff DAAU are shaded.

Table 10 Adjusted allowable revenues (\$m)—Goonyella to Abbot Point system

<i>Year</i>	<i>AT₂₋₄</i>
2017–18	132.3
2018–19	94.8
2019–20	118.7
2020–21	118.3

Note: Allowable revenues adjusted with approval of the Reference Tariff DAAU are shaded.