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Dr Malcolm Roberts
Chairman
Queensland Competition Authority
Level 27
145 Ann Street
Queensland 4000

2 May 2014

Dear Malcolm

Aurizon Operations welcomes the opportunity to provide a submission to the Queensland Competition Authority (QCA) on the proposed extension Draft Amending Access Undertaking **(Extension DAAU)** submitted by Aurizon Network on 7 April 2014. The QCA has sought comments from interested stakeholders by 2 May 2014.

In summary, it is difficult for stakeholders to assess the proposal to reconcile the FY14 transitional allowable revenue by returning (or collecting) revenue in excess (or below) these amounts via an adjustment charge process without some understanding of critical UT4 parameters which will be approved or rejected by the QCA.

The proposal to lock in the FY14 transition revenue and manage the revenue variations through adjustment charges differs from previously applied processes. In particular, revenue unders and overs against the allowable revenues would ordinarily be reflected through revenue cap adjustment amounts.

While this approach differs from previously applied processes this may still represent an efficient mechanism to managing the circumstances where the UT4 allowable revenues, volumes and reference tariffs are not finalized prior to the end of this financial year. However, the prudency of returning excess revenue needs to be assessed against the materiality of the impacts of the difference between the transitional allowable revenue and the allowable revenue that would have been expected to apply from 1 July 2013 had UT4 been applied. Where the difference is large and positive this may have implications for prices in the last three years of UT4.

For most of the tariff components in the Central Queensland Coal Network it is feasible that the variance will have negligible impact even for large differences due to the large volumes. This may not necessarily be the case with some tariff components such as the Blackwater AT5. The pricing of AT5 and the potential bypass risks have been widely discussed and the subject of ongoing deliberation since December 2011. Deferment of <u>earned</u> revenue from railing in excess of forecasts to later years has the potential to increase those risks.

The Extension DAAU notes that with respect to the Blackwater AT5:

- the transitional MAR is $72.6 million; and
- there is an estimated over recovery of $5.8 million.

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These figures indicate that the total actual revenue earned from the Blackwater AT5 in FY14 is expected to be $**78.4** million.

This figure can be contrasted with:

- the submitted unsmoothed FY14 revenue amount of $88.4 million; and
- an approved revenue cap adjustment amount for FY12 of $20.3 million (which would ordinarily be added to the FY14 allowable revenue)

On the basis of the submitted WACC of 8.18% the capitalised revenue cap adjustment amount increases to $24.1 million. This implies an unadjusted revenue amount for FY14 of $**112.5** million.

The explanatory notes to the Extension DAAU advise that Aurizon Network expects the difference between the transitional MAR and their revised smoothed UT4 MAR to be only $1 million (indicating a substantial revenue deferral into later years of UT4). However, this is Aurizon Network's estimate and it may not be representative of the likely outcome having regard to the QCA's possible position on:

- building block revenue;
- volume profile; and
- revenue/price smoothing profile.

Stakeholders are not in a position to assess how the QCA's decision on those matters will effect tariffs in FY15 to FY17. Accordingly, in assessing the Extension DAAU, Aurizon Operations requests that the QCA scrutinize and assess the implications on the Blackwater AT5 rates for the FY15 to FY17 year associated with returning earned revenue to access holders via the adjustment charge relative to the alternative of contributing to a reduction between the transitional MAR and potential unsmoothed FY14 building block revenue inclusive of unrecovered UT3 revenue cap adjustment amounts.

Should you have any questions in relation to this submission please contact Dean Gannaway, Principal Regulatory Economist, on (07) 3019 2055 or via email at dean.gannaway@aurizon.com.au.

Yours sincerely

[redacted]

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