

Aurizon Network Access Undertaking (2010)



Draft Amending Access Undertaking Explanatory Memorandum

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Executive Summary

Aurizon Network's 2010 Access Undertaking (2010AU) is due to terminate on 30 June 2015. The Queensland Competition Authority (QCA) indicated that a Final Decision for Aurizon Network's proposed 2014 Draft Access Undertaking (2014DAU) will be published by 31 July 2015 (dependant on the complexity of the issues raised by stakeholders). This submission constitutes an amendment to the 2010AU in order to:

- Extend the Terminating Date of the 2010AU;
- Finalise transitional revenues, volume forecasts and Reference Tariffs for Financial Year 2015; and
- Establish transitional revenues, volume forecasts and Reference Tariffs for Financial Year 2016.

The table below summarises Aurizon Network's proposal:

Issue	Aurizon Network Proposal
2010AU Terminating Date	Extend from 30 June 2015 to 30 November 2015
Finalisation of FY2015	
Transitional Revenues	As approved for FY2015, adjusted to reflect the QCA's final decision on the 2013 Flood Review Event. System Allowable Revenues (SARs) increased by: <ul style="list-style-type: none"> • \$9.5m in the Blackwater system; and • \$2.8m in the Moura system (partial recovery).
Transitional Volumes	214.6 million net tonnes for the CQCR. No changes to current forecast.
'Final' Reference Tariffs	Adjusted to reflect the revised Transitional Revenues.
Revenue variances relative to Transitional Revenue	As per the FY2015 revenue cap process (if not determined otherwise by the QCA and/or agreed with stakeholders as part of the finalisation of the 2014DAU).
Proposal for FY2016	
Transitional Revenues	Includes: <ul style="list-style-type: none"> • QCA's MAR Draft Decision (November update); • Revenue Cap Adjustment for FY2014; and • Balance of 2013 Flood Review Event costs.
Transitional Volumes	<ul style="list-style-type: none"> • Aligned to Aurizon Network's response to the QCA's Draft Decision on Maximum Allowable Revenue. • 227.4 million net tonnes for the CQCR.
Transitional Reference Tariffs	New Reference Tariffs to reflect Transitional Revenues and Transitional Volumes.

1. Introduction

1.1 Purpose

Aurizon Network submits for approval by the Queensland Competition Authority (QCA) this Draft Amending Access Undertaking (DAAU), under section 142 of the Queensland Competition Authority Act 1997 (Qld) (Act) to:

- Extend the term of Aurizon Network's 2010 Access Undertaking (2010AU);
- Confirm 'final' Reference Tariffs for Financial Year (FY) 2015 for the Central Queensland Coal Region (CQCR);
- Confirm the basis upon which any variation between actual and allowable revenues for FY2015 will be returned to, or collected from, Access Holders; and
- Establish transitional Reference Tariffs for FY2016, which will apply until such time as the proposed 2014 Access Undertaking (2014DAU) is approved.

1.2 Background

The 2010AU was approved by the QCA on 1 October 2010. The pricing arrangements in Schedule F of the 2010AU were originally effective for the period 1 July 2009 to 30 June 2013.

On 31 May 2013, the QCA approved a DAAU which extended the term of the 2010AU to 30 June 2014; providing 'transitional' Reference Tariffs for FY2014 (the 2013DAAU). In early 2014, it became apparent that the 2014DAU would not be finalised before 30 June 2014. On 12 June 2014, the QCA approved a further DAAU, which extended the term of the 2010AU to 30 June 2015 and provided 'transitional' Reference Tariffs for FY2015 (the 2014DAAU).

It is now acknowledged that the 2014DAU may not be finalised on or before 30 June 2015. Aurizon Network understands, and appreciates, that stakeholders (and Aurizon Network) are once again seeking certainty around a process for establishing Reference Tariffs until such time as the 2014DAU is approved.

1.3 Form of Submission

Aurizon Network estimates a net over-recovery of actual against transitional allowable revenues for FY2015. If this DAAU (2015DAAU) is approved by the QCA, the over-recovery will be returned to or recovered from Access Holders via an adjustment applicable to future Reference Tariffs. This is discussed in further detail in section 2.5 below.

The estimated quantum of the over/under-recovery by system is outlined in section 2.3.3 of this submission. This is provided only as a guide for stakeholders when responding as part of the QCA's consultation process.

In preparing this submission, Aurizon Network has consulted with the Queensland Resources Council (QRC), Pacific National, BMA Rail and Aurizon Operations. The QRC has reviewed this submission and supports the finalisation of FY2015 tariffs and volumes (for Take-or-Pay purposes) based on the transitional tariffs and volumes. The QRC also generally supports the establishment of transitional FY2016 tariffs based on the QCA's draft MAR decision (with limited adjustments). The QRC and its members may provide more detailed comments following a more detailed review of the submission.

This submission comprises an explanatory memorandum, a clean copy of the 2015DAAU and a mark-up of the 2015DAAU against the 2010AU. The pricing model supporting the determination of FY2016 transitional Reference Tariffs is also provided.

The explanatory memorandum sets out a detailed discussion of the following matters:

- Confirmation of final Reference Tariffs for FY2015 and the treatment of any over or under-recovery of allowable revenues (Section 2);

- Approach to setting FY2016 transitional Reference Tariffs including allowable revenues and forecast volumes (Section 3);
- Other matters relevant to the submission (Section 4); and
- Amendments to the 2010AU to give effect to the FY2016 transitional Reference Tariffs (Section 5).

The mark-up version of the 2015DAAU is against the 'consolidated' version of the 2010AU, prepared as at June 2014, which incorporates DAAUs approved by the QCA since the commencement of UT3¹.

The explanatory memorandum and the clean and mark-up versions of the 2015DAAU are presented in a manner which is suitable for publication, should the QCA wish to do so. Consistent with past submissions, Aurizon Network requests that the pricing model is not published as it contains information on the contracted hauls of Access Holders and their end customers.

¹ <http://www.aurizon.com.au/network/access/undertaking>

2. FY2015 Final Reference Tariffs

2.1 Purpose

This section sets out Aurizon Network's proposals for confirming final Reference Tariffs for FY2015 for the QCR.

Aurizon Network proposes that the 'transitional' Reference Tariffs approved by the QCA for FY2015 be updated to reflect the QCA's Final Decision on the 2013 Flood Review Event. The resulting 'adjusted' Reference Tariff will be confirmed as the final Reference Tariffs.

Aurizon Network also proposes that the difference between actual revenues and SARs be addressed via the revenue cap mechanism in Schedule F, or otherwise determined by the QCA and/or agreed with stakeholders as part of the finalisation of the 2014DAU.

A revenue scenario (relative to transitional revenues) showing a net return to Access Holders of \$45 million (exclusive of AT₁), has been determined to provide guidance to stakeholders. Nevertheless, this net return is expected to be closely aligned to the amount by which the QCA's Draft Decision exceeds the transitional revenues, i.e. Access Charges received in FY2015 are expected to be close to the allowable revenue as per the QCA's Draft Decision.

2.2 Background

The key objective of this 2015DAAU is to provide pricing, revenue and cost certainty for FY2015 and FY2016 in the situation where the 2014DAU will not be finalised before 30 June 2015. This is in the interests of both Aurizon Network and its coal industry customers.

In September 2014, the QCA released for consultation a Draft Decision relating to Aurizon Network's Maximum Allowable Revenue (MAR Draft Decision) for the UT4 period. A further Draft Decision on 'pricing and policy' matters (Policy Draft Decision) was published by the QCA on 31 January 2015.

The Draft Decisions set out the QCA's initial views on Aurizon Network's proposed 2014DAU. These views are expected to be further developed following consultation with Aurizon Network and stakeholders. A Final Decision on UT4 is expected to be made by 31 July 2015.

Aurizon Network's proposal for finalising FY2015 is consistent with the 2014DAAU with the exception of an adjustment to reflect the QCA's Final Decision on the 2013 Flood Review Event. This is discussed in further detail below.

2.3 FY2015 Final Reference Tariffs

2.3.1 The 2014DAAU

When submitting the 2014DAAU, it was expected that the UT4 process would be finalised during FY2015. A 'true-up' would then take place whereby Aurizon Network would recover (or return) the difference between the 'transitional' allowable revenues for FY2014 and FY2015 and the 'final' allowable revenues approved by the QCA for these years, either as Adjustment Charges or via adjustments to allowable revenues in FY2016 and FY2017.

The 2014DAAU confirmed Reference Tariffs for FY2014, and proposed transitional revenues for FY2015. The MAR which underpinned the FY2015 transitional Reference Tariffs was based predominantly on a roll-forward² of the FY2014 transitional MAR agreed with the QRC, and approved by the QCA. The following exceptions applied:

- GAPE transitional revenues were aligned to Aurizon Network's expected UT4 revenue allowance for FY2015, which was lower than the 'rolled-forward' transitional revenue for FY2014;

² At the mid-point of the Reserve Bank of Australia's inflation target, i.e. 2.5%.

- Transitional revenues for Blackwater electric assets excluded capital expenditure associated with the electrification of the Rolleston branch line (commissioned in December 2014); and
- Transitional revenues for the Blackwater and Moura systems excluded any allowance for the Wiggins Island Rail Project (WIRP).

Aurizon Network expects to collect Access Charges associated with WIRP and Rolleston electric Train Services during FY2015. The appropriate treatment of these revenues (where there is no corresponding transitional revenue allowance) is discussed in further detail below.

2.3.2 The 2015DAAU

As outlined above, the QCA released its MAR Draft Decision for the UT4 period in September 2014. This was subsequently updated by the QCA in November 2014³. The Draft Decision indicated that the MARs for FY2014 and FY2015 would exceed the transitional revenues approved by the QCA as part of the 2013DAAU and 2014DAAU.

Despite the release of the QCA's Draft Decision, the 2015DAAU proposes that the transitional allowable revenues, volumes and Reference Tariffs remain unchanged, with the exception of revenues associated with Aurizon Network's 2013 Flood Review Event submission.

Aurizon Network's transitional allowable revenues for FY2015 have been updated to reflect the QCA's Final Decision on the 2013 Flood Review event. The costs attributable to the Blackwater system are to be recovered through Reference Tariff adjustments for the remainder of FY2015. The costs attributable to the Moura system are to be recovered through Reference Tariff adjustments over an eighteen (18) month period; commencing 1 January 2015 to 30 June 2016.

The practical impact of this change is that the non-electric SAR (AT₂₋₄) and Reference Tariffs (AT₃ and AT₄) for the Blackwater and Moura systems will be increased.

The value of the flood costs to be recovered in FY2015 is:

Flood Cost Recovery (\$m)	AT ₂₋₄
Blackwater	9.5
Moura ⁴	2.8

The revised transitional SAR's for FY2015 are outlined below. For clarity, these amounts are presented inclusive of the FY2013 revenue cap adjustments and 2013 Flood Review Event amounts.

FY2015 Revised SAR (\$m)	AT ₂₋₄	AT ₅
Blackwater	247.2	94.2
Goonyella	234.8	75.0
Moura	40.6	--
Newlands	35.4	--
GAPE	114.6	--
Total	672.6	169.1

Aurizon Network has provided a revenue scenario equivalent to an aggregate net over-recovery of c. \$45 million (excluding AT₁) relative to the FY2015 transitional SAR's specified above. Differences do exist at an individual system level, and these are outlined in section 2.3.3 below.

It is important to note that the quantum of any over-recovery in FY2015 (relative to transitional revenues) is expected to be reduced upon the finalisation of UT4. Aurizon Network expects that, on aggregate, Access Charges received in FY2015 will be closely aligned to the allowable revenue as per the QCA's Draft

³ Aurizon Network's 2014DAU – Draft Decision on MAR (Information Update), QCA, 21 Nov 14.

⁴ The QCA's Final Decision on the 2013 Flood Review Event required Moura costs to be recovered during the remainder of FY2015 and FY2016. This amount represents 1/3 of the costs to be recovered from the Moura System.

Decision. On aggregate, this results in a lower ‘wash-up’ as part of the finalisation of UT4, however, differences will exist between individual coal systems.

2.3.3 Treatment of FY2015 Over/Under-Recovery

The 2014DAAU set the FY2015 transitional volume forecast for the CQCR at 214.6 million net tonnes. On the basis of actual volumes railed for the financial year to date, Aurizon Network expects total railings for FY2015 to exceed the CQCR transitional volume forecasts.

The practical impact of over-railling relative to the transitional forecast is that Aurizon Network is likely to ‘over collect’ revenues relative to the transitional SAR. Differences will, however, exist on a system-by-system basis. Aurizon Network has outlined its current expectations below.

As outlined above, it is important to note that the FY2015 transitional SAR’s that were approved by the QCA, excluded revenues associated with WIRP and the electrification of the Rolleston branch line. Accordingly, any Access Charges associated with WIRP and Rolleston Electric Train Services in FY2015, should be excluded from the definition of ‘Total Actual Revenue’ (TAR) for the purposes of calculating any over/under recovery, relative to the transitional SAR.

Actual volumes railed during FY2015 are expected to be higher than the transitional System Forecast in both the Goonyella and Blackwater systems, resulting in an over-recovery of revenues relative to the transitional SAR. In the other systems the following is expected:

- Moura - volumes are expected to be lower than the System Forecast as a result of the flooding in February 2015 associated with Cyclone Marcia. Take or Pay may be payable as the System Forecast less actual gross-tonne-kilometres (gtks), adjusted for Force Majeure and Aurizon Network cause, is close to the system trigger.
- Newlands - volumes are expected to be close to the system trigger. A small over-recovery of allowable revenues is expected.
- GAPE - volumes will be lower than the System Forecast. Take or Pay amounts will be payable up to the system cap. Therefore an under-recovery of allowable revenues is expected on AT₁ only.

In summary, a net over-recovery (relative to transitional revenues) is expected for FY2015. Although, as indicated above, Aurizon Network expects that, on aggregate, Access Charges received in FY2015 will closely align to the allowable revenue as per the QCA’s Draft Decision. Differences may exist on a system-by-system basis.

Without prejudice, to provide high level guidance to stakeholders, Aurizon Network has provided a scenario equivalent to a net over-recovery of c. \$45million (excluding AT₁), including GAPE Take or Pay. The over/under-recovery for each system by grouped Reference Tariff components is summarised below.

Revenue by System (\$m)	AT ₁ over (under) recovery	AT ₂₋₄ over (under) recovery	AT ₅ over (under) recovery	Total
Blackwater	2.1	19.7	(0.5)	21.3
Goonyella	3.1	25.6	5.3	33.9
Moura	(0.8)	(5.7)	--	(6.5)
Newlands	(0.0)	0.8	--	0.7
GAPE	(6.5)	--	--	(6.5)
Total over-recoveries	5.2	46.1	5.3	56.5
Total under-recoveries	(7.4)	(5.7)	(0.5)	(13.6)
Net over-recovery	(2.2)	40.4	4.7	43.0

As mentioned above, this estimated net over-recovery is calculated with reference to the transitional MAR. It is important to note that the amount of any over-recovery may significantly reduce upon the finalisation of UT4.

2.3.4 Return/Recovery of FY2015 Revenues

Consistent with the process outlined in the 2010AU, the difference between FY2015 actual revenue and the revised transitional allowable revenues (outlined in section 2.3.3) would be returned to, or recovered from, Access Holders via an adjustment to future allowable revenues. Aurizon Network proposes that this adjustment is effected via the revenue cap process if not otherwise approved by the QCA as part of the finalisation of the 2014DAU. The revenue cap process is detailed in Schedule F of the 2010AU (and is proposed for the 2015DAAU as no detailed re-drafting of the 2010AU is required) and discussed further in section 2.5 below.

The treatment of any the difference between FY2014 and FY2015 transitional allowable revenues and the 'final' allowable revenues approved by the QCA for UT4 is not relevant to the 2015DAAU, rather it is a matter associated with the finalisation of UT4.

Aurizon Network acknowledges that the final form of the UT4 finalisation has not yet been confirmed. Depending on the QCA's Final Decision on UT4, the revenue cap adjustment calculated for FY2015 may be incorporated into any final wash-up. Aurizon Network will consult with stakeholders with respect to the final wash-up process.

2.3.5 Return/Recovery of AT₁ Variation

The UT3 revenue cap process detailed in Schedule F excludes any variation associated with AT₁ Access Charges.

As per the 2014DAAU, Aurizon Network proposes that the final treatment of the AT₁ over/under recovery is a matter for the UT4 finalisation rather than the 2015DAAU.

2.3.6 Summary and Timings

In summary, Aurizon Network proposes the following for the 2015DAAU in respect of FY2015:

- That the transitional AT₂₋₄ and AT₅ System Allowable Revenues (adjusted for the 2013 Flood Review Event) become the final System Allowable Revenues;
- That the transitional Reference Tariffs (adjusted for the 2013 Flood Review Event) become the final Reference Tariffs; and
- That any revenues collected over and above the System Allowable Revenues be returned to, or collected from, Access Holders via the revenue cap mechanism (inclusive of any Take or Pay, transfers and relinquishment fees).

Any over/under recovery associated with the difference between the FY2015 transitional allowable revenues and the 'final' allowable revenues approved by the QCA, will be addressed as part of the finalisation of UT4.

2.4 System Forecast

The System Forecasts in Schedule F are a gtk forecast based on a system tonnage forecast, which is then allocated between end customers based on a contract profile and applied to a standard train configuration.

The 2014DAAU established a gtk forecast based on total tonnages of 214.6 million tonnes (mt). The gtk forecast forms the basis of the Take or Pay 'trigger' for all systems for both Variable and Annual Take or Pay amounts for FY2015.

No amendments are proposed to the FY2015 System Forecasts. As discussed at section 2.3.3 above, GAPE is expected to trigger Take or Pay as the System Forecast, adjusted for Aurizon Network cause, is not expected to be reached. Take or Pay is not expected to trigger in Goonyella and Blackwater as actual gtk's are expected to exceed the System Forecast. Take or Pay may trigger in Moura and Newlands as actual gtk's, adjusted for Aurizon Network cause, are expected to be close to the System Forecast.

2.5 Revenue Cap

Clause 3.2, Part B of Schedule F of the 2010AU requires Aurizon Network to lodge a submission detailing Revenue Adjustment Amounts, including AT₂₋₄ for each system as well as AT₅ for the Goonyella and Blackwater systems, for the relevant year. For FY2015 this submission is due by 30 September 2015.

Given the nature of the return/recovery mechanism described at Section 2.3 above (subject to the QCA not proposing an alternative mechanism as part of the finalisation of the 2014DAU), a full revenue cap submission will be required, which addresses:

- The variation between TAR (less revenue associated with WIRP and Rolleston Electric Train Services) and transitional SAR for AT₂₋₄ and AT₅;
- The variation between actual and forecast payments attributable to rebateable assets; and
- The variation between actual electric charge (EC) revenues (based on the transitional EC Reference Tariff for FY2015) and electric energy costs.

There should be no adjustment associated with the difference between the actual and forecast Maintenance Cost Index (MCI) and Consumer Price Index (CPI), and between actual and forecast feeder station connection costs, as MCI and CPI escalation and the connection cost allowance are not yet approved for UT4. Aurizon Network recommends that any variation in these indices and the allowance is reflected in the Reference Tariff modelling approved by the QCA's Final Decision for UT4 rather than the revenue cap.

With respect to timing, Aurizon Network proposes the following steps:

1. The revenue cap submission (Revenue Adjustment Amounts) is lodged with the QCA by 30 September in accordance with the 2010AU; and
2. The Revenue Adjustment Amounts are applied to FY2017 System Allowable Revenues via the two year lag unless the QCA proposes otherwise as part of its finalisation of the 2014DAU.

Aurizon Network acknowledges that the final form of the UT4 finalisation has not yet been confirmed. Depending on the QCA's Final Decision on UT4, the revenue cap adjustment calculated for FY2015 may be incorporated into any final wash-up.

3. FY2016 Transitional Reference Tariffs

3.1 Purpose

This section sets out Aurizon Network’s proposals for transitional Reference Tariffs for FY2016 for the CQR.

For expediency and without prejudice, Aurizon Network proposes that the ‘transitional’ Reference Tariffs reflect:

- SARs reflecting the QCA’s Draft Decision on MAR for FY2016, adjusted for the FY2014 revenue cap and 2013 Flood Review Event; and
- System Forecasts based on Aurizon Network’s December 2014 response to the QCA’s Draft Decision on MAR for FY2016.

3.2 Background

Aurizon Network’s 2014DAU extended the expiration date of the 2010AU to 30 June 2015. It is now unlikely that UT4 will be finalised by 30 June 2015. The expiration date of the 2010AU must therefore be extended.

The proposal for FY2016 is less concerning for both Aurizon Network and stakeholders given:

- The QCA has released MAR and Policy Draft Decision’s with respect to the 2014DAU;
- The QCA’s Final Decision on UT4 is expected by 31 July 2015; and
- Under the terms of Schedule F of the 2010AU, the difference between FY2016 transitional and final Reference Tariffs will be collected via an Adjustment Charge process to be implemented following the QCA’s Final Decision. The Adjustment Charge process is the same as between the 2010AU and the 2014DAU.

For expediency and without prejudice, Aurizon Network’s has decided to base its proposal for FY2016 on the QCA’s MAR Draft Decision. The intent of this proposal is to minimise any variance between the FY2016 transitional arrangements and the QCA’s Final Decision on UT4. It has been agreed that the FY2016 transitional MAR should reflect:

- The QCA’s Draft Decision on MAR for FY2016;
- Revenue cap adjustment amounts for FY2014; and
- Costs associated with the 2013 Flood Review Event that were not recovered in FY2015.

For clarity, Aurizon Network’s proposal should not be viewed as an endorsement of the QCA’s MAR Draft Decision for FY2016.

3.3 Transitional MAR

The table below summarises the proposed adjustments to the QCA’s Draft Decision on MAR for FY2016.

Proposed ‘Transitional’ MAR - FY2016	Total \$m
MAR (as per QCA Draft Decision) ⁵	1,065.4
FY2014 revenue cap adjustment	8.1
2013 Flood Review Event (partial) ⁶	6.0
Adjusted ‘transitional’ MAR – FY2016	1,079.4

⁵ QCA; Aurizon Network’s 2014DAU – Draft Decision on MAR (Information Update); 21 November 2014.

⁶ QCA; Final Decision – 2013 Flood Review Event; March 2015.

The 2013 Flood Review Event adjustment relates to two-thirds of the costs recoverable from the Moura system as outlined in section 2.3.2 above. The amounts that remain unrecovered from FY2015 have been escalated in accordance with the QCA's final decision on the 2013 Flood Review Event.

The resulting MARs for the five (5) systems in the CQCR for FY2016 are summarised below.

FY2016 Transitional Revenue by System (\$m)	AT ₁₋₄ (non-electric)	AT ₅ (electric)	Total
Blackwater	363.4	105.8	469.2
Goonyella	291.6	79.9	371.5
Moura	56.7	--	56.7
Newlands	57.5	--	57.5
GAPE	124.6	--	124.6
Total	893.7	185.7	1,079.4

3.4 FY2016 System Forecast

The volume forecasts for FY2016 should be considered as transitional rather than final. In other words, the volumes are only necessary for the purposes of establishing transitional Reference Tariffs and should not form the basis on which Take or Pay amounts are triggered (and indirectly the amounts calculated)⁷.

In response to the QCA's MAR Draft Decision (submitted December 2014), Aurizon Network expressed concerns that the volume forecasts proposed by the QCA were understated. Accordingly, Aurizon Network proposed an alternative tonnage forecast, which accounted for strong railings evidenced in FY2014 and FY2015 year to date. Aurizon Network believes that its revised volume forecast should be used for the FY2016 transitional Reference Tariffs.

A table summarising these volumes is provided below.

FY2016 Volume Forecast (mt)	QCA Draft Decision	Aurizon Network Proposal
Blackwater	57.6	70.4
Goonyella	102.8	112.1
Moura	12.7	13.5
Newlands	16.2	13.9
GAPE	15.2	17.5
WIRP Stage 1 ⁸	6.7	<i>see footnote</i>
Total	211.1	227.4

With the exception of the Newlands system, the practical impact of Aurizon Network's proposal is that the transitional Reference Tariffs proposed for FY2016 will be lower than if the QCA's Draft Decision forecast was retained. Aurizon Network's forecast for the Newlands system excludes volumes which are not expected to rail in FY2016.

⁷ This means that liabilities for UT1 Take or Pay, which includes a monthly element, should not be confirmed until UT4 is finalised. It is expected that the monthly forecast for FY2016 will reflect actual volumes up to the month of the QCA's Final Decision on the 2014DAU.

⁸ The QCA's Draft Decision on MAR presented WIRP volume forecasts separately from the Blackwater and Moura systems. Consistent with Aurizon Network's WIRP Pricing Proposal (December 2014), volume forecasts for WIRP Train Services have been combined with the forecasts of the aforementioned coal systems.

4. Relevant Issues

4.1 Purpose

This section sets out how Aurizon Network has addressed a number of issues which impact upon the tariff modelling for FY2016.

4.2 Level of AT₁ and AT₂ Reference Tariffs

In January 2015, the QCA published its Pricing and Policy Draft Decision (Policy Draft Decision). As outlined in Draft Decisions 17.1 and 17.3, the QCA refused to approve the AT₁ and AT₂ Reference Tariffs proposed by Aurizon Network. The AT₁ and AT₂ Reference Tariffs suggested by the QCA are outlined in Appendix E of the Policy Draft Decision, and Schedule F of the QCA's marked-up 2014DAU.

For the purpose of setting transitional Reference Tariffs for FY2016, Aurizon Network proposes to set AT₁ and AT₂ Reference Tariffs with reference to the values set out in the QCA's mark-up of the 2014DAU.

4.3 System Premiums and Rebates

Reference Tariffs, particularly FY2016 transitional Reference Tariffs, continue to be quoted based on UT3 pricing principles, being with System Premiums and Discounts and inclusive of rebates (UT4 Reference Tariffs are quoted with System Premiums and Discounts but exclusive of rebates). This disclosure is consistent with Schedule F of the 2010AU.

With respect to FY2016, the effect of this disclosure is that upon finalisation of UT4 (and assuming the QCA approves the UT4 proposal to net off rebates against Access Charges) Aurizon Network will:

- Recover rebates paid for the period 1 July 2015 to the date the UT4 approved Reference Tariffs come into effect; and
- Refund the portion of Access Charges attributable to rebateable assets.

The effect of this arrangement is that the bulk of any variation in rebates associated with the difference between actual and forecast volumes should be recovered from, or returned to, producers rather than incorporated within the FY2016 Revenue Cap Adjustment Amounts.

4.4 Reference Tariff for WIRP Train Services

In December 2014, Aurizon Network submitted a proposal (WIRP Pricing Proposal) to the QCA seeking approval of new Reference Tariffs for WIRP Train Services.

For the purposes of this 2015DAAU, Aurizon Network proposes that the transitional pricing arrangements for WIRP Train Services in FY2016 are aligned to the Reference Tariffs applicable in the Blackwater and Moura systems. Access Charges and volumes associated with WIRP Train Services which rail in FY2016, will be quarantined from the Blackwater and Moura systems, until such time as the QCA makes a final determination with respect to the WIRP Pricing Proposal. This approach is consistent with Aurizon Network's proposal for WIRP Train Services operating in FY2015, as outlined in the WIRP Pricing Proposal.

Aurizon Network considers that this proposal is appropriate for the following reasons:

- It provides regulatory certainty to all stakeholders (particularly WIRP customers) and allows the QCA to make a decision on the transitional WIRP Tariffs via a separate process (the WIRP Pricing Proposal);
- Allows the QCA to make a decision on this 2015DAAU without pre-empting the longer term pricing arrangements for WIRP Train Services, including whether the WIRP costs should be socialised or not; and

- Provides sufficient time for the QCA to make a considered and informed decision with respect to the longer term pricing arrangements for WIRP Train Services.

It is important to reiterate that this treatment is a transitional arrangement only, subject to later reconciliation. Reference Tariffs applicable to WIRP Train Services will be finalised in accordance with the QCA's final decision on the 2014DAU.

4.5 New Reference Tariff – Caval Ridge

In October 2014, the QCA approved new Reference Tariffs applicable to Train Services between Caval Ridge and Hay Point Services Coal Terminal (HPSCT) (Caval Ridge Submission).

The approved Reference Tariffs were calculated with respect to the UT3 pricing principles, which take into consideration the value of any Private Incremental Costs funded by Caval Ridge's owner. The value of any Private Incremental Costs is recognised as a discount to the resulting Access Charge.

In January 2015, the QCA published its Policy Draft Decision. Draft Decision 17.6⁹ unwinds the QCA's October 2014 final decision on the Caval Ridge Submission, by requiring Reference Tariffs for the Caval Ridge to HPSCT Train Service to be calculated with respect to the 2014DAU pricing principles.

Aurizon Network will articulate its concerns with Draft Decision 17.6 as part of its response to the Policy Draft Decision.

For the purposes of the 2015DAAU, Aurizon Network proposes that the Private Incremental Cost discount continue to be recognised and applied (as approved by the QCA in October 2014) on an interim basis, until such time as a final decision is made on the 2014DAU; subject to subsequent reconciliation over the UT4 period.

4.6 Time Extension

Aurizon Network proposes a five (5) month extension to the 2010AU to allow for the finalisation of UT4 post the QCA Final Decision on the 2014DAU. This is based on the following assumptions:

- QCA Final Decision on 2014DAU: 31 July 2015.
 - A rejection of the 2014DAU with proposed amendments
 - All stakeholders are satisfied the Final Decision is legally sound
- Aurizon Network prepares a 2015 DAU: 1 August - 15 September 2015.
 - Preparation and calculation of Final Reference Tariffs;
 - Preparation and calculation of UT4 true-up/reconciliation;
 - Drafting of the 2015DAU taking into account the proposed QCA amendments; and
 - Aurizon Network consultation with stakeholders on the items above as well as any Aurizon Network proposed variances to the QCA Final Decision
- QCA formally consults and considers the 2015DAU: 15 September – mid October 2015.
- QCA considers the 2015DAU and stakeholder comments, prepares recommendation to Board (October - November 2015)
- QCA Board issues Final Approval for UT4 no later than 30 November 2015.
 - Assumes the QCA Board is satisfied that the 2015DAU meets the requirements of the QCA Act.
- UT4 effective 1 December 2015.

⁹ QCA; Aurizon 2014 Draft Access Undertaking - Draft Decision Volume III – Pricing & Tariffs; January 2015; pg 406.

5. 2010AU Amendments

5.1 Purpose

This section sets out the proposed changes to the 2010AU.

5.2 Proposed FY2016 Reference Tariffs

The final and transitional Reference Tariff components for FY2015 and FY2016, respectively, are detailed in Schedule F of the updated 2010AU for Goonyella, Blackwater, Moura, Newlands and GAPE.

In addition, final (FY2015) and transitional (FY2016) average prices are summarised in the tables below for the AT₁₋₄ and AT₅ Reference Tariff components on two bases:

- Revenue (in \$) per forecast net tonne (\$/nt) for the AT₁₋₄ Reference Tariff components; and
- Revenue per forecast electric net tonne (\$/electric nt), for the AT₅ Reference Tariff component.

The quantum of the change between FY2015 and FY2016 is predominantly due to the fact that the transitional allowable revenues were set significantly below the allowable revenues expected to be recoverable during UT4. In other words, the average prices for FY2015 displayed in the tables below are under-stated relative to the QCA's MAR Draft Decision, which exacerbates the annual change.

The tables below illustrate the effective average prices over the year for each system. The average prices are presented exclusive and inclusive of the FY2013 and FY2014 revenue caps, which are applicable in FY2015 and FY2016 respectively. Average prices are presented in this way is because the Revenue Cap relates to 'one-off' adjustments, which can distort the 'underlying' annual price variation. Nevertheless, the average prices expressed 'inclusive' of revenue cap adjustments will best reflect the experience of customers as they move from FY2015 to FY2016 transitional Reference Tariffs.

Excluding revenue cap

System	FY2015 Final	FY2016 Transitional	Change %
AT₁₋₄ (\$/nt)			
Blackwater	4.18	5.01	20%
Goonyella	2.43	2.53	4%
Moura	3.56	4.23	19%
Newlands	2.93	4.14	41%
GAPE	5.74	7.12	24%
Average	3.34	3.85	15%
AT₅ (\$/electric nt)			
Blackwater	1.76	1.84	5%
Goonyella	0.73	0.79	8%
Average	1.03	1.15	11%

The proposal results in the following:

- Average net increase in the AT₁₋₄ Reference Tariff components across the network for FY2016 of \$0.51 per net tonne (15%), compared to the FY2015 transitional Reference Tariffs; and
- Average net increase in the final AT₅ component of \$0.12 per electric net tonne (11%), compared to the FY2015 transitional Reference Tariffs.

In outlining its proposal for FY2016, Aurizon Network has endeavoured to be consistent with the QCA's MAR Draft Decision. Furthermore, Aurizon Network acknowledges the material change this creates for the average price of the Newlands system. A portion of this increase relates to the inclusion of allowable revenues for NAPE Train Services, which have not yet commenced raiing.

While Aurizon Network does not wish to 'cherry-pick' elements of the QCA's MAR Draft Decision, it would consider excluding NAPE revenues and volumes from the Newlands system transitional allowable revenues for FY2016, if stakeholders consider it appropriate to do so. This is expected to reduce the annual change in Newlands system transitional tariffs from 42% to 10%.

Including revenue cap

System	FY2015 Final	FY2016 Transitional	Change %
AT₁-AT₄ (\$/nt)			
Blackwater	4.60	5.15	12%
Goonyella	2.41	2.60	8%
Moura	3.53	4.23	20%
Newlands	2.91	4.14	42%
GAPE	6.32	7.12	13%
Average	3.50	3.93	12%
AT₅ (\$/electric nt)			
Blackwater	2.12	1.82	-14%
Goonyella	0.70	0.71	1%
Average	1.12	1.09	-3%

Material changes in these relevant Reference Tariff components, relative to the table above, are solely attributable to the 'swing' in revenue cap associated with the removal of the FY2013 revenue cap and inclusion of the FY2014 revenue cap.

The most notable change is the Blackwater AT₅ rates, which experienced a material reduction between the FY2013 and FY2014 revenue caps.

5.3 FY2016 EC Reference Tariff and QCA Levy

Both the EC Reference Tariff component and the QCA Levy for FY2016 reflect the values outlined in Schedule F of the QCA's mark-up of the 2014DAU.

5.4 Other 2010AU Amendments

In June 2013, the QCA approved the 2013DAAU, which extended the term of the 2010AU to 30 June 2014 and provided a set of 'transitional' Reference Tariffs for FY2014. In May 2014, the QCA approved the 2014DAAU, which extended the term of the 2010AU to 30 June 2015 and provided a set of 'transitional' Reference Tariffs for FY2015.

A number of drafting amendments were made to the 2010AU to give effect to the extensions including:

- Clause 12.2 – amend Terminating Date to the earlier of 30 June 2014, then 2015, or the QCA's approval of a replacement access undertaking.
- Clause 12.4 – re-alignment of transitional provisions.
- Schedule F marked-up with transitional FY2014, then FY2015 Reference Tariffs and annual/monthly gtk forecasts for FY2014, then FY2015 only.

Similar changes are proposed to give effect to the 2015DAAU. The 2015DAAU is a mark-up of the 'consolidated' 2010AU dated June 2014. A copy of this document of provided on Aurizon Network's website¹⁰.

The amendments for which the QCA's approval is sought are as marked up in the attached marked-up copy of the consolidated 2010AU. In summary, the relevant amendments are as follows:

Reference	Amendment
Clause 12.1 "System Gtk"	Definition updated to exclude "...Train Services which terminate at Wiggins Island Coal Terminal".
Clause 12.1 "Terminating Date"	Reference to "30 June 2015" is replaced by "30 November 2015".
Clause 12.4(j)	<p>Clause 12.4(h) was included in the 2014DAAU to remove any retrospective liability created by the amendment to the Terminating Date, so that Aurizon Network was excused from compliance with obligations (if any):</p> <ul style="list-style-type: none"> • Which would not have arisen but for the amendment to the Terminating Date; and • Where the date for compliance has passed by the date on which the QCA approves the 2014DAAU. <p>Clause 12.4(j) has been added to ensure that the removal of retrospective liability extends to the additional period covered by the 2015DAAU.</p>
Schedule F Part B, Clauses 3.2.3 and 3.2.5	The calculation of Total Actual Revenues for AT ₂₋₄ and AT ₅ has been amended to exclude access charges associated with WIRP and Rolleston electric Train Services.
Schedule F, Part B, Clauses 5.3, 6.3, 7.3 and 8.3	Transitional System Allowable Revenues, System Forecasts and Monthly System Forecasts are provided for FY2016 as an extension of the existing tables.
Schedule F, Part B, Clauses 5.4(a), 6.4(a), 7.4 and 8.4	Transitional Reference Tariffs are provided for FY2016 as an extension of the existing tables.

¹⁰ <http://www.aurizon.com.au/network/access/undertaking>

6. Other Matters

In respect of the QCA's consideration of the 2015DAAU, including the matters under sections 138(2) and (3) of the Act, Aurizon Network submits the following:

- The 2015DAAU gives Access Holders and Access Seekers, Aurizon Network, the QCA and other interested parties certainty around process in relation to 3rd party access to the relevant declared service. It would be in the interests of all interested parties to extend the 2010AU rather than to have its detailed processes and provisions fall away leaving 3rd party access to the declared service subject only to the negotiate and arbitrate framework under the Act.
- The proposed extension of the 2010AU will not have the effect of excluding existing assets for pricing purposes within the meaning section 138(2)(f) of the Act.
- Nothing in the proposed extension of the 2010AU as proposed offends the pricing principles in section 168A of the Act.
- The 2015DAAU is not inconsistent with any access code, or ruling by the QCA under Division 7A of the Act.

6.1 Glossary

In the explanatory memorandum:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the Central Queensland Coal Region;
- References to UT3 are to the period of the 2010AU;
- References to UT4 are to the period of the 2014DAU;
- References to the UT4 submission are to Aurizon Network's submission on the proposed 2014DAU (originally submitted to the QCA during April 2013, and updated in August 2014);
- References to the 2010AU are to the 'consolidated' version inclusive of amendments subsequently approved by the QCA;
- References to the 2013DAAU are to the DAAU, approved by the QCA on 31 May 2013, which extended the term of the 2010AU to 30 June 2014;
- References to the 2014DAAU are to the DAAU, approved by the QCA on 12 June 2014, which extended the term of the 2010AU to 30 June 2015;
- References to the 2015DAAU are to this DAAU;
- References to FY are to the relevant financial year ending 30 June; and
- Terms that are defined in the 2010AU have the meaning given in the 2010AU.

Attachment A: Draft Amending Access Undertaking (Clean)

Attachment B: Draft Amending Access Undertaking (Mark-up)