

QRC

Working together for a shared future

submission



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1. Background

QRC welcomes the opportunity to comment on Aurizon Network's submission regarding FY2015 Revenue Adjustment Amounts and Increments.

This submission does not contain confidential information, and may be published on the QCA's website.

2. Comments on Aurizon's submission

Revenue Adjustment Amounts:

The QRC relies on the QCA to assess Aurizon Network's claims and adjustments in regard to Revenue Adjustment Amounts. QRC does not have adequate information on which to base any comments on the Revenue Adjustment Amounts. We support an approach in which the Revenue Adjustment Amounts are applied as part of the QCA's finalisation of the 2014 DAU. We prefer that this be achieved through the application of a smoothed tariff for the years of the final approved undertaking which remain following its approval, rather than through the application of Revenue Adjustment Amounts to specific years, as would normally occur.

Increment under UT3:

Aurizon Network has sought guidance from the QCA on the information which Aurizon Network would need to provide in order to gain approval of an Increment based on the terms of UT3.

We consider that it is inappropriate, and inconsistent with the approach being taken to revenue related matters under UT4, to claim an Increment under UT3 terms during FY2015 (which, for the purposes of revenue related matters, is effectively part of the UT4 period). It is intended that Maximum Allowable Revenues and tariff related matters for the FY2015 year will be assessed as part of UT4 and, if necessary, adjusted over the remaining term of UT4. The question of whether Aurizon Network can claim an Increment for FY2015 should therefore be assessed under UT4, based on the final approved terms of UT4. Aurizon Network has proposed this approach in regard to adjustments to FY2015 maintenance costs, MCI, electricity connection costs, and operating costs. The final adjustments for these matters will be determined based on UT4 terms, including, for example, the use of UT4 approved escalation mechanisms. Aurizon Network's proposal to claim an Increment for FY2015 based on UT3 terms is inconsistent with this approach.

We note that this view was put forward in the QRC's submission on Aurizon Network's FY2014 revenue cap submission. In the QCA's May 2015 Final Decision, the QCA reiterated comments from its draft decision, that the QCA "*shared stakeholders' concerns regarding Aurizon Network's proposal that its claim for increments be considered under the 2010 AU provisions, as applied through the extended 2010AU, during what will ultimately be the UT4 period*" (page 12). While it is not clear whether this concern was a key consideration in the rejection of the claimed increment for FY2014, QRC remains of the view that it is inappropriate to apply this element of the UT3 charging framework to the UT4 period.



Increment / Incentives under UT4:

QRC generally supports the QCA's views regarding incentives, as set out in the QCA's Draft Decision on the 2014 DAU. This included a requirement to remove the proposed increment provision from the DAU, and to insert a commitment to develop an incentive arrangement during the term of UT4 which would comply with certain criteria. The criteria included that any mechanisms be based on properly assessed 'baselines' against which improvements in performance can be measured. QRC would seek meaningful baselines such that improvement on these measures is evidence of strong performance.

QRC welcomes the efficiency initiatives which have been documented by Aurizon Network. We remain supportive of an incentive regime under UT4 which rewards Aurizon Network for exceptional performance, while including a reciprocal mechanism for performance shortfalls.

Rebate Adjustments:

Aurizon Network's revenue cap over-recovery has been reduced by \$6.5m due to 'rebate adjustments'. We understand that this type of adjustment arises from mismatches between:

- the rebates under the commercial agreements through which some users provided funding for infrastructure owned by Aurizon Network; and
- the revenue which Aurizon Network receives from the relevant assets.

(and is not related to the treatment of Private Incremental Costs in regard to the development of tariffs for new train services under Clause 4.1).

We understand that Aurizon Network's proposed treatment of this adjustment is consistent with Clause 3.2.3(c) of Part B of Schedule F, and that the approach has been applied and approved in previous years. We rely on the QCA to assess these adjustments and suggest that the tonnage forecasts adopted for mines which are subject to rebate agreement should be closely reviewed by the QCA, so that the risk of substantial rebate adjustments is minimised.

Adjustment for unders/overs on EC costs

Under UT3, variations between costs and revenues for EC are adjusted against AT5 System Allowable Revenue, and therefore affect the AT5 Revenue Adjustment Amounts for the relevant system.

We note that Aurizon Network has not separately identified an EC adjustment relating to WIRP due to measurement and materiality issues. For the FY15 year:

- The total adjustment for the Blackwater system is \$0.1m.
- The QCA's draft decision on WIRP would (if confirmed) create a separate AT5 only for Rolleston, so any separate identification of the EC over-recovery would be required only in regard to Rolleston's share of the \$0.1m.

For UT4, we would suggest that EC unders/overs should be adjusted against future EC charges, rather than against AT5, and that this approach should be applied to the FY14 and FY15 adjustments. This approach would eliminate any need for allocation of unders/overs in the case where more than one AT5 exists in a system.