



Ms Catherine Barker
Director – Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Draft Amending Access Undertaking to extend the term of the 2010 Access Undertaking

14 April 2016

Dear Catherine,

Aurizon Network is committed to working with its operating customers, the coal industry and the Queensland Competition Authority (QCA) to achieve the efficient operation of the Central Queensland Coal Network.

To deliver on this commitment, certainty within the regulatory environment is critical to allow supply chain participants the ability to operate in the region and promote sustainable growth. Having an approved Access Undertaking in place helps meet this commitment.

Aurizon Network is still committed to achieving the approval of the 2014 Draft Access Undertaking (DAU) by 30 June 2016 but is cognizant of the pure administrative efforts required by both the QCA and Aurizon Network to achieve final approval by this date. These efforts include time for

1. the QCA and stakeholders to read and review large volumes of documentation, review financial models and check legal drafting;
2. Aurizon Network to resubmit documents;
3. the QCA and Aurizon to agree transitional arrangements for new Access Undertaking obligations;
4. the QCA to review the resubmitted documents and a consultation period if needed; and
5. Board approvals.

Even with best endeavours by all concerned, there remains a residual timing risk.

Therefore Aurizon Network submits for approval by the QCA, a Draft Amending Access Undertaking (DAAU), under section 142 of the Queensland Competition Authority Act 1997 (Qld), to extend the term of the 2010AU to 30 September 2016. By submitting the extension DAAU now, it allows the QCA staff sufficient period of time to review, consult and make a recommendation to the Board and allow for a Board decision.

Our intention is to provide stakeholders with certainty of tariffs for FY2016 and to set transitional tariffs for FY2017. This is especially relevant in relation to allowing parties to manage internal business management process such as budgeting and auditor review of annual accounts.

Aurizon Network wishes to emphasise that this extension DAAU is only relevant if an approved Undertaking is not achieved by 30 June 2016. If an approved Undertaking is achieved by the 30 June 2016 then the Allowable Revenues, System Forecasts, Reference Tariffs and true-up mechanisms will be consistent with the approved Undertaking.

As part of this DAAU, Aurizon Network is seeking to 'finalise' the FY2016 Reference Tariffs and set FY2017 transitional Reference Tariffs for the period 1 July 2016 to 30 September 2016. The proposed arrangements are based on the Consolidated Draft Decision (CDD) released by the QCA in December 2015. However, this should not be interpreted as agreement of the CDD as outlined in Aurizon Network response, submitted to the QCA on the 26 February 2016.

In outlining its proposals for FY2016 and FY2017, Aurizon Network has endeavoured to be consistent with the CDD and the submission has therefore been kept concise. Aurizon Network did not want to "cherry pick" elements of the QCA CDD including the non-inclusion of the FY2015 true-up in the CDD.

In preparing this extension DAAU, Aurizon Network has consulted with stakeholders and provided QRC with further information. As part of the consultation, Aurizon Network highlighted that this extension DAAU was submitted to provide greater certainty for all stakeholders. At the time of submission, Aurizon Network was waiting for feedback from the QRC.

Term

Aurizon Network proposes to extend the term of 2010 Access Undertaking to the earlier of 2014DAU approval or 30 September 2016.

Current FY2016 transitional Reference Tariffs

The current transitional Reference Tariffs for FY2016 were established as part of the FY2015 Extension DAAU, approved by the QCA on the 5 June 2015 and reflect:

- The QCA's Draft Decision on MAR for FY2016;
- Revenue cap adjustment amounts for FY2014;
- Remainder of the costs associated with the 2013 Flood Review Event that were not recovered in FY2015; and
- Volume forecasts based on the Aurizon Network response to the QCA Draft Decision.

At the time of determining these tariffs it was anticipated that a Final Decision would be in place and that the tariffs would have been trued-up by the end of FY2016.

'Final' FY2016 Reference Tariffs

In the event that an approved Undertaking is not in place by 30 June 2016, Aurizon Network proposes to replace the current transitional Reference Tariffs with the FY2016 Reference Tariffs contained in the CDD, and confirm it as the 'final' Reference Tariffs for FY2016. This would give stakeholders greater financial certainty for FY2016. The CDD, including allowable revenue and volume forecasts, was selected as it is the most up to date decision from the QCA, noting that the current transitional Reference Tariffs were based on the September 2014 QCA Draft Decision.

The FY2016 CDD revenue includes the FY2014 true-up¹, the FY2014 Revenue Cap Adjustment and costs associated with the 2013 Flood Review Event, but does not include the FY2015 true-up² which will be dealt with as part of the final approved Undertaking.

A comparison between the current transitional revenues and volume forecasts and the CDD revenues and volume forecasts, along with average tariffs per net tonne (nt) is provided in the following tables. Although the average tariffs per nt are lower in Blackwater and GAPE systems under the current transitional Reference Tariffs, this is because the System Forecast volumes were set higher. The total CDD Revenue is lower for both Systems than that used to set the Transitional Tariffs.

AT ₁₋₅ (\$mil)	Transitional Revenue	CDD Revenue
Blackwater	469	464
GAPE	125	119
Goonyella	371	372
Moura	57	46
Newlands	43	30
Total	1,064	1,031

(nt million)	Transitional Net Tonnes	CDD Net Tonnes
Blackwater	70.5	66.2
GAPE	17.5	15.3
Goonyella	112.1	112.1
Moura	13.5	13.6
Newlands	12.1	12.0
Total	225.6	219.2

(\$/nt)	Average Transitional Tariffs	Average CDD Tariffs
Blackwater	6.6	7.0
GAPE	7.1	7.8
Goonyella	3.3	3.3
Moura	4.2	3.4
Newlands	3.5	2.5
Total	4.7	4.7

¹ Difference between the FY2014 CDD approved allowable revenue and FY2014 transitional revenues is smoothed over FY2015, FY2016 and FY2017.

² Difference between the FY2015 CDD approved allowable revenue and FY2015 transitional revenues

At the end of FY2016 Aurizon Network will calculate:

- An Adjustment Charge for the difference between the current FY2016 transitional Reference Tariffs and the proposed FY2016 Reference Tariffs based on the CDD, applied to actual volumes;
- Take or Pay based on the CDD allowable revenue and the CDD volume forecast for FY2016; and
- Revenue Cap based on the difference between collected AT₂₋₅ revenue (inclusive of any Take or Pay and relinquishment fees) and the CDD system allowable revenue. Revenue Cap will also include the variation between actual and forecast payments attributable to rebateable assets and the variation between actual EC revenues and electric energy costs.

Any difference between the CDD allowable revenue and the final approved allowable revenue for FY2016 is proposed to be trued up in FY2017 as part of the final approved Undertaking.

FY2017 Transitional Reference Tariffs

As part of this extension DAAU, Aurizon Network also proposes to set FY2017 transitional Reference Tariffs for the period 1 July 2016 to 30 September 2016, based on the CDD Reference Tariffs for FY2017, in case an approved Undertaking is not achieved by 30 June 2016.

As per the CDD, the FY2017 allowable revenue includes the FY2014 true-up, but excludes the FY2015 true-up and the FY2015 Revenue Cap Adjustment. The treatment of revenue true-ups for all years, reflective of the Final Decision and FY2015 Revenue Cap Adjustment, will form part of the final approval of the 2014DAU.

Aurizon Network proposes to address the difference between the transitional Reference Tariffs and the final approved Reference Tariffs for FY2017 through an Adjustment Charge for the period the transitional arrangement is in place, subject to QCA approval.

2015 Flood

The proposed FY2016 final Reference Tariffs and FY2017 transitional Reference Tariffs do not include the FY2015 flood costs. The FY2015 flood claim is subject to a separate QCA approval, and the impact on Reference Tariffs will be dealt with as part of that process.

Proposed Undertaking Amendments

As discussed above, to provide stakeholders with certainty in the event that an approved Undertaking is not in place by 30 June 2016, Aurizon Network requests that the QCA approves the attached DAAU that incorporates the following amendments:

- All references to the 'Terminating Date' changed to 30 September 2016;
- Transitional provisions (section 12.4) updated to reflect the updated Terminating Date;
- Reference Tariffs for FY2016 and FY2017 updated to align with the CDD; and
- The CDD System Allowable Revenues and System Forecast volumes become the final System Allowable Revenues and System Forecast volumes for FY2016.

Aurizon Network has attached clean and mark-up versions of the DAAU, which incorporate the amendments listed above.

Aurizon Network will continue to work with all stakeholders to progress the 2014DAU to a Final Decision.

Should you have any queries in relation to this DAAU, please do not hesitate to contact Jon Windle at networkregulation@aurizon.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lana Stockman', written in a cursive style.

Lana Stockman
Vice President Regulation

Glossary

In this extension DAAU letter:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the Central Queensland Coal Network;
- References to 2010AU are to the Undertaking approved on 1 October 2010 by the QCA;
- References to 2014DAU are to Aurizon Network's Draft Access Undertaking submitted in August 2014 to the QCA;
- References to Final Decision are to the QCA's Final Decision on the 2014DAU expected in April 2016;
- References to an approved Undertaking are to the Undertaking resulting from the final approval of the 2014DAU;
- References to Consolidated Draft Decision are to the Consolidated Draft Decision on Aurizon Network's 2014DAU issued by the QCA on 16 December 2015;
- References to current transitional Reference Tariffs are to the transitional Reference Tariffs established as part of the FY2015 Extension DAAU and approved by the QCA on the 5 June 2015;
- 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