

Workshop on Electric Infrastructure Tariff (AT₅) – Issues Discussed

This note records issues identified, and views expressed, by [stakeholder representatives](#) present at the meeting.

Date: 23 January 2013

Summary: The discussion focussed on issues with the existing AT₅ electric infrastructure tariff. While many said that AT₅ should be lower, there were substantial differences on who should bear the cost of any under-recovery arising from a reduced price – there was no consensus on a way forward.

Timing of AT₅ discussion

Several stakeholders questioned why the AT₅ issue was being singled out and dealt with ahead of UT4 and over the outstanding matters from UT3 (e.g. the standard user funding model). They said that the AT₅ issue was best addressed as part of the UT4 process along with other significant issues that were of concern to the industry. Miners were concerned about cost issues generally and particularly about uncertainty over the level of all tariffs from July 2013, when the next regulatory period was due to begin. However, none identified any technical obstacles to the resolution of AT₅ issues separately.

Some representatives said the AT₅ issue should be addressed now, separately from other issues. This would allow faster resolution of an issue which affected miners that had signed long-term electric haulage contracts, on the expectation that electric utilisation levels in Blackwater would remain high.

Problem

Several stakeholders said there was no issue to address with the AT₅ tariff, as:

- (a) Aurizon Network had withdrawn its DAAU, and therefore the workshop had no basis to continue;
- (b) Aurizon Network was already able to reduce the tariff below the approved level and allow market forces to resolve the issue; and
- (c) a decision on electric versus diesel was a decision for the market and there were already processes in the 2010 undertaking to address any apparent issues with stranded assets.

They also expressed dissatisfaction with Aurizon Network's investment approval (CRIMP) process, both at the time the new Blackwater electric assets were approved, and more generally across Aurizon Network's customer vote process, including issues with a lack of information about investment proposals.

Many participants accepted that there was a problem with the average price structure of the AT₅ tariff and that the high level of AT₅ was not sending appropriate market signals for traction choice, because it reflected a short-term price spike at low utilisation levels. Several noted that delays in completing the electrification project had contributed significantly to the problem. They said that this meant that users had been forced into diesel contracts because insufficient electric paths were available.

Aurizon Network referred to its [withdrawal letter](#) and said that withdrawing the DAAU was a good faith effort to assist the workshop process by removing any distraction that might prevent stakeholders from focussing on resolving the inefficient pricing mechanism for AT₅. Aurizon

Network said the DAAU withdrawal was not a basis to conclude that a problem did not exist with AT₅.

Presentation by Authority staff

Part way through the workshop, Authority staff were invited to make a [presentation](#) on the discussion paper circulated before the workshop. In doing so, it was noted that the paper and the comments were staff views alone and did not represent the Authority's considered views on the AT₅ matter.

Staff observed the Blackwater AT₅ tariff was comparatively low in the first two undertaking periods (UT1 and UT2). The tariff became an issue when it increased substantially in the third undertaking period (UT3, 2009-10 to 2012-13), partly due to the new investment in the Blackwater electric infrastructure.

The new investment, and resulting higher regulatory asset base, was likely to drive further increases in the AT₅ tariff in the next undertaking period (UT4), if the current mechanism was used to set electric infrastructure prices. Therefore, the current tariff structure might be contributing to the problem.

Authority staff outlined the mechanism included in the discussion paper, for Aurizon Network to forgo cashflow in the short term to cut the AT₅ price to a diesel-equivalent level. If electric utilisation increased as a result of lower price, and revenue from the diesel-equivalent tariff rose, the tariff would remain at that level until Aurizon Network had recouped the foregone cashflow.

In order to prevent the foregone amount from increasing to a level which could not be recouped through the tariff, it might be prudent to adopt a recovery mechanism similar to the unders and overs mechanism in the revenue cap or to use a process similar to the capital carry-over account (WACC adjusted).

Way forward

Representatives accepted that there was merit in a mechanism which involved Aurizon Network reducing the AT₅ tariff in the short-term to increase electric infrastructure utilisation.

However, there was no agreement about what mechanism (if any) was required to recover sunk cost should it become apparent that there was no efficient AT₅ structure that could recover the costs of electrification investments.

Aurizon Network indicated that the model generally outlined in the Authority's discussion paper appeared to be workable.

However, some representatives said that if the recovery mechanism applied to electric users only, then that approach might not achieve its objectives of recouping the shortfall (i.e. high AT₅ charges would return after a slight lag). The recovery mechanism would need to be applied to diesel and electric trains, and therefore the result would be similar (in terms of socialising some electric costs to diesel trains) to the December 2011 DAAU.

Some representatives also questioned whether, if the AT₅ tariff was set to equalise the cost of running diesel and electric consists, the AT₅ would be reviewed if there was a change in circumstances, such as an increase in the price of diesel fuel.

Representatives differed on who should be responsible for any under-recovery of costs that resulted from reducing the tariff.

Some said users should bear the risk of any under-recovery because:

- (a) they voted for those assets, through the CRIMP mechanism designed to protect Aurizon Network from stranding risk; and
- (b) if the Blackwater electric assets were allowed to strand, users would have to bear a higher weighted average cost of capital (WACC) over a larger asset base.

However, several representatives questioned whether users had any responsibility for the investments in Blackwater electric infrastructure given the problems identified by some stakeholders with the customer vote process for those investments.

They said Aurizon Network should bear the risk of any under-recovery because:

- (a) it went ahead with the investment in Blackwater electric infrastructure knowing there was a risk that the new assets would not be used;
- (b) it delayed the capacity expansion and, as a result, some users had no choice but to use diesel traction;
- (c) its approved WACC was greater than the risk-free rate and therefore included an allowance for commercial risks such as asset stranding; and
- (d) it could reduce the tariff and, if demand materialised, Aurizon Network would recoup the shortfall – otherwise the shortfall would reflect inefficient investment.

Some attendees said the AT₅ issue was specific to the Blackwater system and any solution should be applied to the Blackwater system only.

Aurizon Network said that its shareholders were not compensated under the current regulated WACC for taking investment risk. Aurizon Network said its view was that the same investment framework and WACC applied to all network regulated assets and failure to honour the pre-approval process would likely result in an investment risk premium being added to the regulated WACC for all regulated network assets.

Aurizon Network reiterated previous offers of grandfathering arrangements to protect parties to existing diesel contracts from adverse consequences of possible changes to the AT₅ tariff arrangements. Other stakeholders were reluctant to engage in detailed discussion on this issue.