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20 December 2019

Mr Jason Livingston
Acting Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Livingston

Aurizon Network's 2019 volume reset DAAU—preliminary position

On 25 October 2019, Aurizon Network submitted a draft amending access undertaking (the 2019 volume reset DAAU), seeking to amend the 2019–20 volumes, allowable revenues and reference tariffs in the 2017 access undertaking.

The 2019 volume reset DAAU also coincided with the QCA's assessment of Aurizon Network's revised UT5 DAAU (provided in September 2019), with the outcomes of these processes overlapping, including in relation to 2019–20 volumes, revenues and reference tariff components in schedule F. On 19 December 2019, the QCA approved the UT5 DAAU.

The QCA notes Aurizon Network's intention for the outcomes from each of the two DAAUs to be reflected in the other and transposed into the 'operational' UT5 access undertaking. The QCA considers that this should be done in a transparent way—and, as currently proposed, the 2019 volume reset DAAU does not achieve this because it has not had regard to the outcomes from the UT5 DAAU.

That said, the QCA is minded to accept in principle, the key aspects of the 2019 volume reset DAAU. The attached response to the 2019 volume reset DAAU provides a summary of the QCA's preliminary views on the issues raised, in the interests of building on the work undertaken to date and to assist all stakeholders in the event that Aurizon Network chooses to submit an alternative proposal.

This letter and decision notice will be published on the QCA website for stakeholders' information.

If you have any questions about this decision notice, please contact Pag Arao-Arao on 3222 0560 or by email pag.arao-arao@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

QCA'S PRELIMINARY RESPONSE TO AURIZON NETWORK'S VOLUME RESET DAAU

The following is intended to provide Aurizon Network, and other interested stakeholders, with an insight into the QCA's preliminary views on Aurizon Network's 2019 volume reset DAAU.

Aurizon Network's 2019 volume reset DAAU

Aurizon Network submitted its 2019 volume reset DAAU on 25 October 2019 to amend UT5 to:

- reset 2019–20 volume forecasts to better reflect prevailing market conditions
- adjust 2019–20 allowable revenues to account for:
 - lower variable maintenance costs attributable to the volume reset
 - the forecast reduction in electric infrastructure charges (AT5) attributable to lower Transmission Network Service Provider (TNSP) costs
 - a proposed 'acceleration' of the 2018–19 revenue cap adjustment, such that it is reflected in reference tariffs during 2019–20, rather than in 2020–21
- update the 2019–20 electric energy charge (EC) and the QCA levy to reflect the latest EC cost forecasts and the QCA's updated estimate of its regulatory fees
- update the nominal train payload for both the Newlands (diesel) and Blackwater (electric) systems to better reflect the train configurations operating in those systems
- revise reference tariffs accordingly.¹

Aurizon Network said that it does not believe the approved UT5 2019–20 volume forecast will be achieved, with the shortfall primarily driven by the Blackwater and Goonyella systems. This will result in Aurizon Network materially under-recovering its 2019–20 allowable revenues and, in turn, higher reference tariffs for customers in 2021–22 (through the revenue adjustment).²

On that basis, Aurizon Network proposed to reduce the 2019–20 volume forecasts in Blackwater (by 2.8 million tonnes) and Goonyella (by 5.4 million tonnes), and also adjust 2019–20 allowable revenues (by \$27.7 million overall, largely through reductions in Blackwater and Goonyella) to 'mitigate the pricing impacts of the volume reset on access holders and end users'.³

Aurizon Network proposed an effective date for the revised Reference Tariffs of 1 July 2019, but noted the outcomes of the revised UT5 draft amending access undertaking (UT5 DAAU)⁴ will also impact 2019–20 revenues and tariffs. Aurizon Network said that it would continue billing access holders using existing reference tariffs for 2019–20, pending the final approval of the UT5 DAAU. It then intends to determine a single, all-encompassing adjustment charge (sch. F, cl. 6 of UT5) to reconcile the financial impacts of both processes.⁵

¹ Aurizon Network, *FY2020 Volume Reset Draft Amending Access Undertaking*, October 2019 (Aurizon Network supporting submission), pp. 3, 8–12, Appendix A.

² Aurizon Network supporting submission, p. 6.

³ Aurizon Network supporting submission, p. 3–4.

⁴ See <https://www.qca.org.au/project/aurizon-network/2017-access-undertaking-ut5/ut5-daau/>

⁵ Aurizon Network supporting submission, p. 4.

Stakeholders' response

We provided stakeholders with an opportunity to comment on the 2019 volume reset DAAU and received one submission from the QRC, supporting key aspects of the proposal.

Preliminary view

We propose to accept in principle the key aspects of the 2019 volume reset DAAU.

Volume forecast reset for 2019–20

We consider Aurizon Network's proposal to reset volume forecasts for 2019–20 is a reasonable way to reset volumes and was undertaken in a transparent way using a common method. Although the annual revenue adjustment process (in sch. F, cl. 4.3 of UT5) is intended to achieve the same purpose, we accept that the 'unusual circumstances'⁶ around timing of the final decision on UT5 reduced the usefulness of that approach, making it counterproductive at that time.

Resetting volumes and revenues now provides greater certainty on revenue recovery for Aurizon Network. We note that the volume reset is reasonable as the forecast more accurately reflects actual volumes railed. We consider establishing accurate volume forecasts for 2019–20 would ensure any adjustments to allowable revenues, including a likely adjustment charge⁷, do not unfairly impact either Aurizon Network or its customers. We also note stakeholders have not opposed this proposal.

Adjustments to allowable revenue

We consider Aurizon Network's proposed adjustments to 2019–20 allowable revenues are reasonable. These include:

- the approved 2018–19 revenue adjustment amounts⁸ which will return \$12.6 million to access holders in 2019–20 (rather than 2020–21).

We recognise that volume volatility exists between the forecasts number used in the final approved undertaking and the current market railing conditions. We therefore consider it reasonable to mitigate the impact of the reset volumes on 2019–20 reference tariffs.

In 'bringing forward' the 2018–19 revenue adjustment amounts, higher than expected price fluctuations can be avoided. We also recognise that it is in the interest of Aurizon Network and its access holders to minimise the impact of numerous adjustments on Aurizon Network and access holders in the regulatory process.

- a corresponding reduction in the variable maintenance component due to the forecast reduction in volumes, of \$2.1 million as reflected in the AT1 reference tariffs.

For the AT1 reference tariffs, we consider it a reasonable application, and consistent with a tariff designed to change with volume, that a reduction in forecast throughput would have a corresponding reduction in the variable maintenance charge.

- a reduction in the electric transmission charges of \$15.1 million, negotiated with the transmission network TNSP. Aurizon Network also recognised the reallocation of variable TNSP costs to the EC Charge, as provided for in the 2019 Electric Traction DAAU.⁹

⁶ QRC, *Aurizon Network's FY202 volume reset DAAU* (submission), November, p. 2.

⁷ Aurizon Network supporting submission, pp. 6, 12.

⁸ QCA, *Aurizon Network's 2018–19 revenue adjustment amount*, decision, November 2019.

⁹ QCA, *Electric Traction DAAU*, decision, July 2019.

For electric infrastructure charges (AT5), it is reasonable for Aurizon Network to pass on to its customers' the costs of electric transmission and connect cost-savings from lower (TNSP) charges, and incorporate the reallocation of costs, as provided for in the approved 2019 Electric Traction DAAU.¹⁰

Updating the 2019-20 EC, the QCA levy and changes to the nominal train payload

We consider that Aurizon Network's proposal incorporate other amendments (updating the EC, the QCA levy and payloads of Newlands and Blackwater) are appropriate.

Updating the EC and the QCA levy allows Aurizon Network to pass through the reduction in those costs to its access holders.

We can confirm that updating the nominal train payload changes the distribution of revenues within reference tariff components, and does not impact Aurizon Network's total allowable revenues.

¹⁰ QCA, *Electric Traction DAAU*, decision, July 2019.