

17 July 2020

George Passmore  
Director of Business Performance  
Queensland Competition Authority  
Level 27, 145 Ann Street  
Brisbane QLD 4000

Dear George

### **FY2021 Endorsed Variation Events - Transmission and Connection charges and QCA Regulatory Fees**

I am writing to inform the Queensland Competition Authority (**QCA**) of two Endorsed Variation Events, which Aurizon Network is seeking to have reflected in Allowable Revenues and Reference Tariffs for the financial year ending 30 June 2021 (**FY2021**).

On 13 March 2020, Aurizon Network received notification of a change in pricing from a Transmission Entity relating to its charges for FY2021. The pricing notification results in a change in the costs reflected in the AT5 Reference Tariff of greater than 2.5% and constitutes an Endorsed Variation Event in accordance with Aurizon Network's 2017 Access Undertaking (**UT5**), Schedule F, clause 5.2(b) (**AT5 Endorsed Variation**).

Furthermore, Aurizon Network also received the following notifications on 24 and 25 June respectively:

- › the QCA's fee estimate for the provision of regulatory services in FY2021; and
- › confirmation of the QCA's final regulatory fees for FY2020.

These notifications constitute an Endorsed Variation in accordance with UT5, Schedule F, Clause 5.2(c) (**QCA Levy Endorsed Variation**)

To minimise the number of separate variations to Allowable Revenues and Reference Tariffs, Aurizon Network considered it appropriate to deal with the matters outlined above through a single, combined Endorsed Variation submission.

### **Regulatory Requirements**

In accordance with UT5, Schedule F, clause 5.1, a Reference Tariff variation must be submitted within 60 days of receiving notice that the Endorsed Variation Event has occurred.

Aurizon Network confirms that in the case of the QCA's regulatory fees, this Endorsed Variation submission falls within the 60 days limit for varying the QCA Levy.

In relation to the AT5 Endorsed Variation, Aurizon Network received the pricing notification from the relevant Transmission Entity on 13 March 2020. Nevertheless, at the time of receiving the notification, Aurizon Network's Annual review of Reference Tariffs (**FY2021 ARRT**) was under review by the QCA.

This ultimately created uncertainty around the applicable Volume Forecasts, Allowable Revenues and Reference Tariffs for FY2021 to be varied.

The QCA approved the FY2021 ARRT on 28 May 2020 and accordingly, approved the volume forecasts, Allowable Revenues and Reference Tariffs for that year. With the FY2021 Reference Tariffs now finalised, Aurizon Network confirms that the pricing notification received from the relevant Transmission Entity meets the criteria for an Endorsed Variation Event under Schedule F, Clause 5.2(b).

Aurizon Network notes that the 60-day timeline has not been met in relation to the AT5 Endorsed Variation. Nevertheless, in light of the dependency on the FY2021 ARRT, and the fact that the variation results in a reduction of AT5 Reference Tariffs for both the Blackwater and Goonyella systems, Aurizon Network considers it reasonable for this AT5 Endorsed Variation to be approved by the QCA.

For the avoidance of doubt, Aurizon Network has reported the above in the June 2020 Monthly Breach Report.

As outlined in UT5 Schedule F, clause 5.4, Aurizon Network must:

- › Nominate the Reference Tariff to be varied;
- › Include evidence that the Endorsed Variation Event has occurred; and
- › Include details of the methodology, data and assumptions used to vary the Reference Tariff.

In relation to the AT5 Endorsed Variation the relevant Reference Tariff to be varied is the AT5. The QCA's notification of regulatory fees have the effect of varying the QCA Levy for FY2021.

Supporting evidence that each Endorsed Variation has occurred can be provided to QCA directly upon request.

### AT5 Endorsed Variation Event – Transmission and Connection Charges

Clause 5.2(b) of UT5 states that an Endorsed Variation Event occurs when;

*“a change in the pricing of one or more Distribution Entities and/or Transmission Entities that, either alone or in combination with all other changes in the pricing of relevant Distribution Entities and/or Transmission Entities that have occurred since the Commencing Date and that have not previously resulted in a variation of the Reference Tariff, would cause a change in the costs reflected in the AT5 input of the relevant Reference Tariff of greater than 2.5%”*

On 13 March 2020, Aurizon Network received notification of a change in pricing from a Transmission Entity relating to its charges for FY2021. The revised transmission and connection costs are approximately 3% lower than those currently included in the approved Allowable Revenues and Reference Tariffs for FY2021.

**Table 1: FY2021 Transmission and Connection costs**

FY2021 Transmission and Connection costs	Approved (\$000)	Revised (\$000)	Variance (%)
Blackwater	26,541	26,003	-2.0%
Goonyella	32,131	30,848	-4.0%
<b>Total</b>	<b>58,672</b>	<b>56,851</b>	<b>-3.1%</b>

The revised transmission and connection cost will result in a lower AT5 Reference Tariff for both the Blackwater and Goonyella systems.

**Table 2: Proposed AT5 Reference Tariff FY2021**

FY2021 AT5 (\$ per eGTK'000)	Approved	Revised	Variance
Blackwater	2.85	2.83	(0.02)
Goonyella	1.71	1.68	(0.03)

Aurizon Network proposes an Effective Date for the revised AT5 Reference Tariffs (as outlined in Table 2 above) of 1 September 2020.

### QCA Levy Endorsed Variation Event

The review of the QCA Levy is an Endorsed Variation Event in UT5, Schedule F, clause 5.2(c).

On 24 June 2020, Aurizon Network received notification from the QCA of its FY2021 Regulatory Fees. The QCA has estimated its full fees for FY2021 to be \$829,245 (plus GST).

Furthermore, on 25 June 2020, the QCA notified Aurizon Network that its final Regulatory Fees for FY2020 were expected to be \$1,114,277 (plus GST). Subject to final audit and QCA Board approval, this amount results in an expected over-recovery of \$557,000.

Aurizon Network has taken the above notifications into consideration, when determining the proposed QCA Levy Endorsed Variation for FY2021.

The methodology for calculating the proposed QCA Levy for FY2021 is set out below. The forecast regulatory fees exclude GST:

**Table 3: Calculate final reconciliation of FY2020 QCA Levy**

Description	Value (\$)
Value invoiced by QCA during FY2020	1,671,000
Estimated QCA over-recovery	(557,000)
<b>Actual QCA Levy in FY2020</b>	<b>1,114,000</b>
FY2019 QCA Levy adjustment	538,531
<b>Total FY2020 QCA Levy (including FY2019 adjustment)</b>	<b>1,652,531</b>
QCA Levy collected via Access Charges	2,264,212
<b>FY2020 QCA Levy reconciliation adjustment</b>	<b>(611,681)</b>

**Table 4: Apply FY2020 QCA Levy reconciliation adjustment to FY2021 Regulatory Fees**

Description	Value (\$)
QCA Regulatory Fee estimate (@100%)	829,245
Less FY2020 QCA Levy reconciliation adjustment	(611,681)
<b>Adjusted Regulatory Fees for FY2021</b>	<b>217,564</b>
FY2021 CQCN Volume Forecast (NT)	239,152,249
<b>FY2021 QCA Levy (\$ per NT)</b>	<b>0.00091</b>

It should be noted that the current approved QCA Levy for FY2021 is higher than the revised value calculated in Table 4 above. The application of the approved QCA Levy to July and August railings is expected to fully recover the 'Adjusted Regulatory Fees for FY2021'. This is illustrated in Table 5 below:

**Table 5: Timing of the proposed FY2021 QCA Levy**

Description	Units	Value
FY2021 QCA Levy – currently approved	\$ per NT	0.01004
Forecast NT for July – August 2020* (NT)	NT	39,858,708
Estimate of QCA Levy billed between 1 July – 31 August 2020	\$	400,181
Adjusted Regulatory Fees for FY2021	\$	217,564
Estimated over recovery if no QCA Levy collected from 1 September 2020 – 30 June 2021	\$	(182,617)
<b>Proposed QCA Levy applicable from 1 September 2020</b>	<b>\$ per NT</b>	<b>Nil</b>

Aurizon Network proposes an Effective Date for the revised QCA Levy (as calculated in Table 4 above) of 1 September 2020. As a result of the estimated over-recovery, Aurizon Network proposes to set the QCA Levy from 1 September 2020 – 30 June 2021 at \$Nil.

#### **Proposed FY2021 AT5 and QCA Levy**

Aurizon Network proposes that the revised AT5 Reference Tariffs and QCA Levy for FY2021 be applied to coal carrying train services in the CQCN from 1 September 2020.

Any under or over recovery attributable to volume variations for the first two months of FY2021 will be dealt with:

- › for AT5 Reference Tariffs, via the normal Revenue Adjustment Amount (Revenue Cap) process at the end of the year; and
- › for the QCA Levy, via an adjustment to the QCA Levy for FY2022.

Confidential detailed financial models supporting the above calculations for AT5 and the QCA Levy have been provided to QCA staff concurrently with this submission.

Should you have any queries in relation to this Endorsed Variation Event submission please don't hesitate to contact Sandra Xia at [Sandra.xia@aurizon.com.au](mailto:Sandra.xia@aurizon.com.au).

Yours sincerely



Jon Windle  
 Manager Regulation Network  
 Aurizon Network