

File ref: 2004550

23 November 2023

Ms Pam Bains
Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Ms Bains

Notice of final decision: Aurizon Network's 2022-23 revenue adjustment

On 23 November 2023, the Queensland Competition Authority made a decision to approve Aurizon Network's proposed revenue adjustment amount for 2022-23 under clause 4.3(r) of schedule F of the 2017 access undertaking (UT5). The QCA determined that Aurizon Network has appropriately calculated all the revenue adjustments it initially proposed on 24 October 2023 (and then corrected on 7 November 2023).

The QCA's review of the revenue adjustment is summarised in the attached decision notice. The notice includes a brief overview of the basis of our assessment and our main findings. This is a written notice for the purpose of clause 4.3(s)(i) of schedule F of UT5.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries on the attached paper, please direct them in the first instance to Pag Arao-Arao on 07 3222 0560, or by email at pag.arao-arao@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

Revenue adjustment amounts 2022-23

23 November 2023

The Queensland Competition Authority's decision is to approve the 2022-23 revenue adjustment amount of \$33.1 million, proposed by Aurizon Network on 24 October 2023 (and amended on 7 November 2023), under the 2017 access undertaking (UT5). The QCA considers that Aurizon Network has calculated the adjustment amounts in accordance with clause 4.3 of schedule F.

Each year Aurizon Network submits a proposal to refund or recoup any over- or under-recovery of its allowable revenues. The proposed adjustments are the difference between Aurizon Network's maximum allowable revenue (MAR) plus any allowable adjustments (collectively termed the adjusted allowable revenue (AAR)), and the total actual revenue (TAR) collected in that year from the approved AT2-AT5 reference tariffs.

On 24 October 2023¹, Aurizon Network submitted its revenue adjustment proposal for a net recovery of \$33.1 million for 2022-23.² On 7 November 2023³, Aurizon Network provided an amended proposal incorporating corrections to a transpositional error in its model.⁴

Revenue adjustment assessment process

UT5 (sch. F, cl. 4.3) sets out a process for assessing Aurizon Network's proposed revenue adjustment.

¹ UT5 requires Aurizon Network to submit its yearly revenue adjustment amounts by 31 October (UT5, sch. F, cls. 4.3 (m), (o)).

² Aurizon Network, *FY2023 Revenue Adjustment Amounts – Explanatory Memorandum*, October 2023.

³ Aurizon Network, *FY2023 Revenue Adjustment Amounts – Explanatory Memorandum (Amended)*, November 2023

⁴ While the recovery amounts for individual coal system on non-electric services were impacted, the total net recovery for non-electric and electric services remained unchanged.

We will approve a proposal if we are satisfied that it has been calculated in accordance with UT5 – or we will issue a notice requiring Aurizon Network to resubmit its proposal, with amendments (sch. F, cls. 4.3(r), (s)).⁵ The approved revenue amounts then adjust the second-year's system allowable revenues and corresponding AT2-AT5 reference tariffs (sch. F, cl. 4.4).

If we are not reasonably satisfied that the revenue adjustment amount is calculated in accordance with clause 4.3, we must refuse to approve it. In that case, we must then issue a notice to Aurizon Network, explaining our reasons for the refusal and the way Aurizon Network is required to amend its proposal for resubmission (sch. F, cl. 4.3(s)(ii)).

We have closely checked Aurizon Network's application and supporting models against all available information (both publicly available and confidentially provided), to determine whether the calculations in this revenue assessment process have been performed in accordance with UT5.

Stakeholder consultation

We invited stakeholder submissions on Aurizon Network's initial 2022-23 revenue adjustment proposal and received no comments from stakeholders.

Revenue adjustment amounts for 2022-23

Aurizon Network's resubmitted revenue adjustment proposal provides for a net recovery of \$33.1 million, comprising under-recoveries in the Blackwater, Goonyella, Moura and GAPE systems, and over-recovery in the Newlands system for the 2022-23 financial year (see Table 1 for system-specific over- and under-recoveries).

Table 1 Revenue adjustment amounts 2022-23 (\$ million)

System	AT2-4 (non-electric)	AT5 (electric)	Total
Blackwater	7.8	9.1	16.9
Goonyella	4.4	14.1	18.4
Moura	1.1		1.1
Newlands	(4.2)		(4.2)
GAPE	1.0		1.0
Total	9.9	23.1	33.1

Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a system refund.

Source: Aurizon Network, FY2023 Revenue Adjustment Amounts - Explanatory Memorandum (Amended), November 2023, p. 3.

We have set out our assessment across each element of the approved adjustment amounts in the interests of completeness.

⁵ Approval is also subject to consultation requirements. We have undertaken requisite consultation (UT5, sch. F, cl. 4.3(q)).

Total actual revenues and adjustments

The TAR represents the total collected revenues made up of the system reference tariffs paid by access holders on all railed volumes in the financial year and includes cross-system traffic revenues on AT2-AT5 tariffs, any take or pay amounts payable, as well as any transfer and relinquishment fees received (sch. F, cl. 4.3(d)-(k)).

Aurizon Network submitted detailed monthly data to demonstrate the calculation of the TAR.

Take or pay, relinquishment or transfer fees, and cross-system revenues

Aurizon Network provided billing information on how it calculated the take or pay revenues under its access contracts.

Take or pay amounts were triggered in the Blackwater, Goonyella and GAPE systems for 2022-23, with the take or pay recovering the full amount of AT2-AT4 shortfall. Take or pay was not triggered in the Moura and Newlands systems (where actual volumes were in line with or exceeded system forecasts), when adjusted for Aurizon Network cause and force majeure cancellations).

Total cross-system proceeds and take or pay revenues for 2022-23 totalled \$126.4 million, comprising \$119.4 million from non-electric customers and \$7 million from electric customers. There were no transfer fees or relinquishment fees collected for 2022-23.

We are satisfied that:

- the take or pay revenues were accurately calculated based on railings within a nominated month, for the purposes of annual and variable take or pay and were treated consistently
- adjustments for Aurizon Network cause and force majeure events were appropriately attributed, and the methodology in the relevant access undertakings was applied correctly.

We confirm that Aurizon Network has correctly calculated the take or pay revenues that applied for agreements signed during each undertaking period (sch. F, cl. 4.3(d)(ii)).

Total actual revenues

Including adjustments to revenues, Aurizon Network collected TAR for 2022-23 of \$978.7 million, including all take or pay and cross-system traffic revenues received (see Table 2).

Table 2 Total actual revenues 2022-23 (including take-or-pay and cross-system revenues) (\$ million)

System	AT2-4 (non-electric)	AT5 (electric)	Total
Blackwater	348.9	83.7	432.5
Goonyella	279.2	69.6	348.8
Moura	53.5		53.5
Newlands	36.1		36.1
GAPE	107.8		107.8
Total	825.4	153.3	978.7

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, FY2023 Revenue Adjustment Amounts – Explanatory Memorandum (Amended), November 2023, p. 13.

We are satisfied that Aurizon Network calculated its system and cross-system tariff revenues in accordance with the 2022-23 annual review of reference tariffs and the current approved undertaking.

Volumes

Aurizon Network's TAR is based on amounts billed against each customer's actual railings achieved in that period (see Table 3). Overall railings were below forecast, with the Newlands system railing above forecast and Blackwater, Goonyella and GAPE railing below forecast.

Table 3 Forecast and actual volumes 2022-23 (million net tonnes)

System	Approved forecasts	Actual tonnages	Variance (%)
Blackwater	63.0	52.4	-17%
Goonyella	114.6	107.0	-7%
Moura	12.8	12.9	1%
Newlands	17.1	20.7	21%
GAPE	19.1	14.6	-24%
Total	226.6	207.6	-8%

Source: Aurizon Network, FY2023 Revenue Adjustment Amounts – Explanatory Memorandum (Amended), November 2023, p. 7.

System allowable revenues and adjustments

Annual system allowable revenues represent the approved amounts Aurizon Network is set to recover in each year during the term of its approved undertaking. Each system's allowable revenues are published in schedule F of UT5.

Under the revenue adjustment process (sch. F, cl. 4.3(c)), Aurizon Network can submit adjustments to the annual allowable revenues. Aurizon Network's 2022-23 proposal outlined its claim for the following cost adjustments to the allowable revenues.

Maintenance cost adjustment

The maintenance cost adjustment accounts for the difference between the approved maintenance indicator and actual maintenance costs for the year, where actual maintenance costs are lower.

Aurizon Network's actual maintenance costs are those included in the annual maintenance costs claim it submitted on 12 September 2023 (which we approved on 19 October 2023). Overall, actual maintenance costs for 2022-23 were higher than the maintenance indicator for the year. Aurizon Network has calculated a net recovery from access holders of \$16.3 million (see Table 4 for system-specific adjustments).

Table 4 Maintenance cost adjustment by system, AT2-AT5 (\$ million)

System	Maintenance indicator	Actual maintenance costs	Variance	Variable maintenance	Total maintenance adjustments
Non-electric (AT2-AT4)					
Blackwater	62.0	65.3	3.3	5.5	8.9
Goonyella	56.6	58.6	2.0	1.8	3.8
Moura	12.8	13.6	0.8	(0.0)	0.8
Newlands	2.9	6.8	4.0	(1.8)	2.1
GAPE	10.3	7.6	(2.7)	3.1	0.4
Total	144.5	151.8	7.4	8.7	16.0
Electric (AT5)					
Blackwater	6.1	5.8	(0.3)		(0.3)
Goonyella	6.2	6.7	0.6		0.6
Total	12.3	12.5	0.3		0.3

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, FY2023 Revenue Adjustment Amounts - Explanatory Memorandum (Amended), November 2023, p. 10.

We confirmed that actual maintenance costs are consistent with those included within the 2022-23 annual maintenance report and the maintenance indicator is consistent with the values approved. Therefore, we are satisfied with Aurizon Network's claim under the maintenance cost adjustment.

Non-electric operating expenditure allowance

Aurizon Network calculates an adjustment to the component of allowable revenues relating to the recovery of the non-electric operating expenditure allowance (NOEA). This adjustment to the NOEA is based on the difference between actual and the forecast consumer price index (CPI) in UT5.

Table 5 Non-electric operating expenditure allowance 2022-23 (\$ million)

System	Non-electric operating expenditure allowance	NOEA adjustment
Blackwater	53.9	2.1
Goonyella	58.8	2.3
Moura	5.8	0.2
Newlands	3.6	0.1
GAPE	12.9	0.5
Total	135.1	5.4

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, FY2023 Revenue Adjustment Amounts - Explanatory Memorandum (Amended), November 2023, p. 11.

We have confirmed that both forecast and actual CPI used to calculate the NOEA adjustment amount are correctly applied as required in the undertaking, and that actual CPI corresponds to published information.

Electricity connection costs

The electricity connection cost adjustment accounts for the difference between forecast and actual costs incurred in connecting to an electric transmission or distribution network. This adjustment is only applicable to Aurizon Network's electrified systems.

Aurizon Network has calculated a net recovery from access holders of \$0.5 million (\$0.3 million from the Blackwater system, and \$0.2 million from the Goonyella system). This is the difference between the amounts paid to Powerlink Queensland and Ergon Energy for the connection of Aurizon Network's electric infrastructure to their respective electricity networks and the forecast costs (used for determining the AT5 reference tariff components for 2022-23).

We consider these costs have been appropriately tracked and reflect actual costs incurred.

Rebates adjustment

To account for the difference between forecast and actual rebate payments made in 2022-23, Aurizon Network has calculated a net return to access holders of \$5 million (see Table 6 for system-specific rebates).

This adjustment is the difference between forecast and actual rebate payments made to access holders who have provided Aurizon Network with funds to underwrite capital investments (sch. F, cl. 4.3 (c)(viii) of UT5).

Table 6 Aurizon Network rebates by system totals (\$ million)

System	Amounts
Blackwater	(3.2)
Goonyella	(1.8)
Newlands	0.0 ^a
Total	(5.0)

a There is a net return for Newlands but it is less than \$0.1 million.

Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery.

Source: Aurizon Network, FY2023 Revenue Adjustment Amounts – Explanatory Memorandum (Amended), November 2023, p. 12.

Aurizon Network provided a detailed model of the rebate adjustments. We have verified these amounts and are satisfied with the adjustments made.

Other adjustments

Aurizon Network did not claim any other adjustments – under UT5 sch. F, cl 4.3(c)(i), 4.3(c)(v), 4.3(c)(vi), 4.3(c)(vii) and 4.3(c)(ix) – related to the approved WACC, the cost of audits, condition-based assessment costs, ground penetrating radar costs and other compliance costs.

Summary – revenue adjustment amounts, 2022-23

System	Allowable revenues (per sch. F)	Maintenance costs adjustments	NOEA and electricity connection costs	Rebates	Adjusted allowable revenues	Total actual revenues (per Table 2)	Revenue adjustment amounts 2022-23
Non-electric (AT2-AT4)							
Blackwater	348.9	8.9	2.1	(3.2)	356.7	348.9	7.8
Goonyella	279.2	3.8	2.3	(1.8)	283.5	279.2	4.4
Moura	53.5	0.8	0.2	–	54.5	53.5	1.1
Newlands	29.6	2.1	0.1	0.01	31.8	36.1	(4.2)
GAPE	107.8	0.4	0.5	–	108.8	107.8	1.0
Subtotal	819.0	16.0	5.4	(5.0)	835.4	825.4	9.9
Electric (AT5)							
Blackwater	92.8	(0.3)	0.3	–	92.8	83.7	9.1
Goonyella	82.9	0.6	0.2	(0.05)	83.7	69.6	14.1
Subtotal	175.7	0.3	0.5	(0.0)	176.4	153.3	23.1
TOTAL	994.7	16.3	5.8	(5.0)	1,011.8	978.7	33.1

