

Decision notice

Aurizon Network's 2021–22 capital expenditure claim

23 March 2023

The Queensland Competition Authority has approved Aurizon Network's amended 2021–22 capital expenditure claim of \$253.6 million for inclusion into its regulatory asset base. The reasons are set out in this decision, in accordance with the 2017 access undertaking (UT5).

Aurizon Network's 2021–22 capital expenditure claim

We conduct an annual assessment of the prudence and efficiency of Aurizon Network's capital expenditure, to determine if it should be included in the regulatory asset base (RAB) for the central Queensland coal network (CQCN). UT5 requires us to approve the inclusion of Aurizon Network's capital expenditure into the RAB, if the expenditure is for the prudent and efficient value of the assets used or intended to be used by Aurizon Network to provide the declared service.¹

On 19 September 2022, Aurizon Network submitted its 2021–22 capital expenditure claim for \$253.7 million (including interest during construction (IDC)). The claim consists of asset replacement and renewal expenditures for assets commissioned in the 2021–22 financial year. This includes expenditures that were included in the 2021–22 renewals strategy and budgets (RSBs) in each system, expenditure from 2020–21 for assets commissioned in 2021–22, and technology project expenditure that was not included in the 2021–22 RSB.

On 15 December 2022, we advised Aurizon Network that we were considering refusing to approve part of its 2021–22 claim relating to ballast undercutting.² We also required Aurizon Network to recalculate its IDC calculations. UT5 provides for Aurizon Network to revise its claim and/or provide additional information supporting its view that the capital expenditure or revised amount should be included.³

In response, Aurizon Network:

- provided additional information to support its ballast undercutting claim
- reallocated \$180,000 in expenditure from bridge ballast undercutting to system track upgrades (which had been incorrectly allocated previously)
- provided revised IDC calculations (based on an uplift to the approved WACC uplift, from 14 March 2022).

Our assessment approach

We have assessed Aurizon Network's capital expenditure claim in accordance with UT5.

¹ UT5, sch. E, cl. 2.2(a).

² In accordance with UT5, sch. E, cl. 2.3(i).

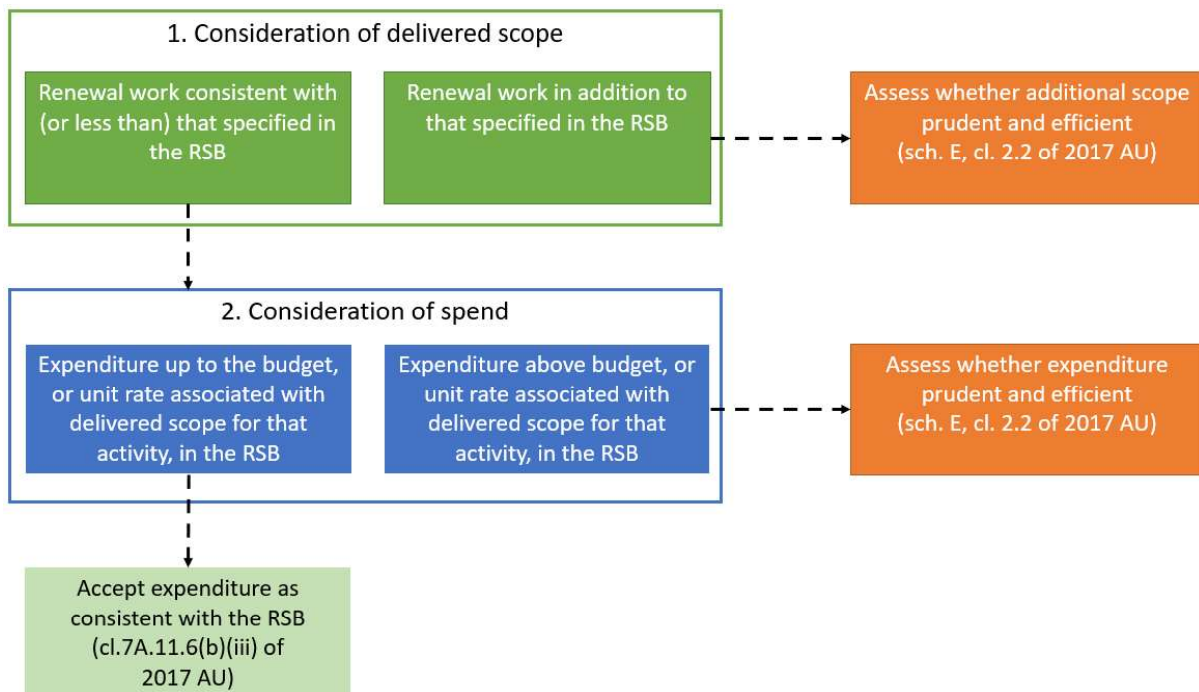
³ UT5, sch. E, cl. 2.3(d)(ii).

Under UT5 we will accept asset replacement and renewal expenditure that is consistent with an approved RSB.⁴ The RSBs for 2021–22 were approved for the Blackwater, Goonyella and Moura coal systems. Users did not approve the 2021–22 RSB for Newlands and GAPE—they raised concerns around the cost allocation of renewals (to be built within the Newlands system, but which GAPE services use) as well as the proposed scope of Newlands work.

In assessing Aurizon Network's claim, we have determined the extent to which Aurizon Network's claim is consistent with the approved RSBs. In doing so, we have considered whether the claimed works are consistent with the approved scope and budget for each renewal item in the approved RSB by system.

As part of its claim, Aurizon Network provided a comparison of actual cost and scope of work delivered against the RSB it had implemented for each coal system.⁵ Where there was an approved RSB, we have considered whether work delivered for each renewal item is within the approved scope and agreed budget for that renewal item. Where the delivered scope is lower than that specified in the approved RSB, we have considered the renewal unit rate for delivering that renewal activity.

Figure 1 Approach for determining whether expenditure is consistent with an approved RSB



We have then assessed the prudence and efficiency of all claimed capital expenditure that is not consistent with the approved RSBs, including all expenditure claimed for the Newlands system and GAPE. For this part of our assessment, we have had regard to the framework outlined in schedule E of UT5, which considers the prudence and efficiency of the scope, standard and cost of the works.

Stakeholder consultation

On 26 September 2022, we published Aurizon Network's 2021–22 capital expenditure claim and invited submissions from stakeholders. We received a submission from the Queensland Resources Council, which raised a number of concerns, including the apparent inconsistencies between some elements of the claim

⁴ UT5, cl. 7A.11.6(b).

⁵ These were the approved RSBs for Blackwater, Goonyella and Moura, and the interim RSB for Newlands and GAPE.

and the approved RSBs, including where the delivered scope goes beyond the approved scope and where the observed unit rates were materially higher than the approved unit rates.

We have taken these views into account in making our decision.

QCA assessment and decision

Capital expenditure

Based on the information available, including stakeholder views, we consider it is appropriate to accept Aurizon Network's amended 2021–22 capital expenditure claim.⁶

We are satisfied that \$175.3 million of the claimed expenditure is consistent with approved 2021–22 RSBs. The remainder of the approved amount has otherwise been assessed as prudent and efficient. We consider there is reasonable grounds for undertaking the scope and standard of the assessed works, and the costs for those works are reasonable.

While we had raised concerns over the prudence of its ballast undercutting claim, Aurizon Network has now provided extensive information regarding the extenuating circumstances that led to the failure to meet their targets for ballast undercutting scope in 2021–22. These include:

- extended periods of wet weather—which resulted in some activities being cancelled after staff and plant had been deployed, or otherwise making activities more difficult
- covid-related impacts on the availability of tradesmen and skilled workers
- safety issues
- plant reliability issues
- some costs being higher than originally forecast.

We are now satisfied that there is sufficient justification to accept Aurizon Network's amended ballast undercutting claim in full. We are also satisfied that Aurizon Network has now appropriately allocated \$180,000 in expenditure to system track upgrades (that was previously allocated to bridge ballast).

The full list of capital expenditure that we are approving, by asset type, is provided in Attachment 1.

Interest during construction

In its amended claim, Aurizon Network calculated IDC using a 'composite' WACC to account for an uplift to the approved WACC (from 5.9% to 6.3%) that is provided for under UT5 on the basis that this had occurred on 14 March 2022.⁷

⁶ Our assessment was informed by information from the relevant RSBs, information provided by Aurizon Network in support of its claim, information received through stakeholder consultation, information gathered in previous assessments of projects by engineering consultants, and past decisions by the QCA.

⁷ In the original claim, this composite WACC was based on a WACC uplift from 12 November 2021.

ATTACHMENT 1: APPROVED CAPITAL EXPENDITURE AMOUNTS FOR 2021–22

Asset type	Approved expenditure (\$ (excl. IDC)	IDC (\$m)	Approved expenditure (\$ (incl. IDC)
Ballast Cleaning	72.1	0.2	72.2
Bridge Ballast Renewals	6.7	0.1	6.7
Control Systems Assets	31.4	1.1	32.4
Corridor Asset Renewals	1.3	0.0	1.5
Electrical Traction Assets	10.2	0.3	10.4
Formation Renewals	13.9	0.1	14.0
Level Crossing Renewals	6.5	0.1	6.7
Structures	19.6	0.5	20.3
Technology	10.3	0.3	10.5
Track Upgrades	64.0	0.5	64.5
Turnout Renewals	14.0	0.3	14.3
Total	250.1	3.5	253.6

Note: totals may not add due to rounding.