



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

Updated Electric Energy Charge for Financial Year (FY) 2024

30 May 2023

Dear George,

Aurizon Network's 2017 Access Undertaking (**UT5**) allows for the recovery of electric energy costs and Variable Connection Charges through the electric energy charge component of the approved Reference Tariffs (**EC Tariff**).

This submission seeks the approval of the Queensland Competition Authority (**QCA**) for a new EC Tariff for FY2024, reflecting:

- Aurizon Network's forecast electric energy costs for FY2024;
- an adjustment to reconcile any over or under recovery of actual electric energy costs in a prior year; and
- FY2024 volume forecasts approved by the QCA in their Decision on the Reset Schedule F Preliminary Values.

Having regard to the above, Aurizon Network proposes a revised EC Tariff for FY2024 of \$1.62 per thousand electric Gross Tonne Kilometres (**eGTK'000**).

Background

Aurizon is one of Queensland's largest individual energy consumers and procures electricity through an Electricity Supply Agreement (**ESA**) with CleanCo Queensland. This ESA provides for a 'progressive purchasing' arrangement, whereby electricity is procured in a series of block purchases, with the timing of those purchases guided by the recommendations from electricity market expert Edge2020.

Aurizon Network's updated Reset Schedule F Preliminary Values (**UT5 Reset**) submission included an indicative EC Tariff of \$2.82 per eGTK'000; a value consistent with the approved FY2023 EC Draft Amending Access Undertaking.¹

¹ QCA (2022), Aurizon Network's electric energy charge DAAU – final decision, 16 November 2022. Accessed on 5 May 2023, and available at: <http://www.qca.org.au/wp-content/uploads/2022/06/ans-ec-daaU-letter-and-final-decision-notice-final.pdf>

In the UT5 Reset submission, Aurizon Network foreshadowed that:

“UT5 provides that the EC Tariff can be updated in May of each year. Aurizon Network intends to provide an update to the FY2024 EC Tariff as part of this process and will take into account any over or under recovery from FY2023.”²

In accordance with Schedule F, clause 2.2(a) of the 2017 Access Undertaking (**UT5**), Aurizon Network submits a new FY2024 EC Tariff for QCA approval, noting that the proposed tariff also takes the cumulative forecast under recovery to June 2023 into account (approximately \$0.6m).

Electricity Market Commentary

Electricity market expert Edge2020 provides Aurizon Network with ongoing strategic advice relating to the execution, management and pricing of electricity supply agreements. Aurizon Network continues to purchase electricity under the terms of its ESA, having regard to the advice received from Edge2020.

The Australian Energy Regulator’s (**AER**) Wholesale markets quarterly report for Q1 2023, notes that while high demand resulting from hot weather was a core driver of several high-price events (particularly the Queensland heatwave in March 2023), coal price offers and increased solar output were expected to put downward pressure on National Electricity Market (**NEM**) prices.³

The following factors placed upward pressure on forward prices:

- high-price events driven by heatwaves; and
- the announcement of the delay in the return to service of the Callide C3 and C4 units, now scheduled for a staged return to service from 30 September 2023, combined with the news that Callide C co-owner Genuity entered into voluntary administration;⁴ and
- news of OPEC+ cutting oil production by 1 million barrels per day.⁵

Despite these pressures, the AER noted that the weighted average price remains relatively stable, because the Default Market Offer reflects a portfolio of contracts over time, such that the impact of any one month is mitigated.⁶

At the time of writing this submission, and in accordance with Edge 2020 advice, Aurizon Network has purchased 53.3% of the total electric energy needs for FY24. This is deemed to be in the best interests of the members of the supply chain.

As a result, Aurizon Network’s proposed EC Tariff, reflects the combination of actual electricity purchases made to date, and the projected costs of procuring electricity from the NEM for remainder of FY24 based on the prevailing forward prices as at 30 May 2023.

² Aurizon Network (2023), Updates to Reset Schedule F Preliminary Values, February 2023, page 8.

³ AER (2023), Wholesale markets quarterly Q1 2023 January – March, April 2023, pages 7 – 9.

⁴ Ludlow (2023), *Australian Financial Review website*, accessed 24 May 2023, <<https://www.afr.com/companies/energy/callide-c-co-owner-genuity-goes-into-voluntary-administration-20230324-p5cv4u>>

⁵ El Dahan and Rasheed (2023), *Reuters website*, accessed 24 May 2023, <<https://www.reuters.com/business/energy/sarabia-other-opec-producers-announce-voluntary-oil-output-cuts-2023-04-02/>>

⁶ AER (2023), Wholesale markets quarterly Q1 2023 January – March, April 2023, page 17.

Composition of the FY2024 EC Tariff

The EC Tariff is comprised of several components, namely:

- Consumption and Supply charges, which include:
 - Consumption charges (Peak / Off-Peak / Flat rates per MWh), based on the forward wholesale market and subject to oversight by the Australian Energy Regulator (**AER**);
 - Market Charges, set by Australian Energy Market Operator (**AEMO**);
 - Fixed Service/Metering Charges, set by the retailer and metering provider;
- Environmental Compliance charges, which are a function of Australian Government (Clean Energy Regulator) targets and the associated environmental certificates, with the price of those certificates determined by the wholesale market; and
- Variable Connection Charge, which are regulated by the AER.

While the prices associated with each cost component of the EC Tariff aren't the direct result of regulatory determinations, it should be noted that each component is subject to oversight (and if required, intervention) by regulatory bodies, including the AER, Australian Energy Market Operator (**AEMO**) and Australian Energy Market Commission (**AEMC**).

Aurizon Network has summarised the calculation approach for each of the main cost categories. The resulting FY2024 cost forecasts are presented in Table 1 below.

Consumption and Supply Charges

The forecast electricity consumption and supply charges for FY2024 reflect the:

- actual cost of Aurizon Network's electricity purchases for FY2024 YTD, representing 53.3% of the total electric energy needs for the year; and
- forecast cost of procuring the remaining electric energy requirement from the NEM. Using data sourced on 30 May 2023⁷ Aurizon Network has calculated an average price for FY2024, having regard to the wholesale prices prevailing for each quarter. This equates to an average price of \$134.67 per MWh as outlined in Table 1 below.

Table 1 Average Wholesale Price – as at 30 May 2023.

Average Wholesale Price	\$ per MWh
Q1 – July to Sept	167.93
Q2 – October to December	131.00
Q3 – January to March	131.12
Q4 – April to June	108.62
Average Price – FY2024	134.67

⁷ Australian Securities Exchange Ltd 2003, *ASX Energy website*, Queensland FY24 Settled Price, accessed 30 May 2023, <https://www.asxenergy.com.au/futures_au>

Environmental Compliance Charges, AEMO Market and Other Charges

Aurizon Network's forecast of environmental compliance charges, market and administration charges is based on the most recently billed rates, escalated at the preliminary Reset Inflation Rate of 3.05%.

Variable Connection Charges

Aurizon Network has updated the variable connection charges to reflect the latest notification of prescribed transmission prices for FY2024, which were issued by the Transmission Network Service Provider (TNSP) on 20 March 2023.

Prior year Adjustment

The prior year adjustment reflects the difference between the EC access charges paid by access holders and the actual electric energy costs incurred by Aurizon Network. Aurizon Network has estimated a cumulative under recovery (approximately \$0.6m) of the electric energy charges in prior years and has incorporated this adjustment within the proposed cost base for the FY2024 EC Tariff.

Proposed FY2024 EC Tariff

For FY2024, Aurizon Network proposes a reduction in forecast EC Tariff from \$2.82 to \$1.62 (\$ per eGTK'000). Table 2 sets out each of the components used to set the proposed EC Tariff in accordance with UT5, Schedule F, clause 2.2. For clarity, the electric gross tonne kilometres (eGTKs) used to derive the EC Tariff are consistent with the FY2024 volume forecasts approved by the QCA on 25 May 2023.

Table 2 Proposed EC Tariff for FY2024

EC Cost Component	\$m	\$ per eGTK'000
Forecast eGTK'000 (Blackwater and Goonyella)		56,127,022
Consumption and Supply	79.5	1.42
Environmental Compliance Charge	7.1	0.13
Variable Connection Charge	4.2	0.07
EC Cost	90.8	
Proposed EC Tariff for FY2024 (\$ per eGTK'000)		1.62

Aurizon Network will continue to procure the remaining electricity requirement for FY24 diligently, having regard to the advice of Edge 2020, with the objective of obtaining favourable outcomes for its customers. Nevertheless, movements in the spot market can result in material changes in electricity costs and in event this occurs, Aurizon Network may look to submit a Draft Amending Access Undertaking (**DAAU**) to the QCA for approval later in FY24 to address any material cost increase or reduction in electricity costs.

Should you have any questions or require further information, please do not hesitate to contact Michael Bray at: Michael.Bray@aurizon.com.au

Sincerely,

A handwritten signature in black ink, appearing to read 'Jon Windle', written in a cursive style.

Jon Windle
Manager Regulation