

File ref: 2012488

22 February 2024

Ms Pam Bains  
Group Executive Network  
Aurizon Network Pty Ltd  
GPO Box 456  
BRISBANE QLD 4000

Dear Ms Bains

**Aurizon Network's December 2023 GAPE and Newlands pricing DAAU – QCA decision**

On 22 February 2024, the Queensland Competition Authority (QCA) made the decision to approve Aurizon Network's December 2023 GAPE and Newlands pricing draft amending access undertaking (the December 2023 DAAU).

The QCA has made its decision in accordance with the requirements under the QCA Act, including having regard to the statutory assessment criteria. Further detail is provided in the attached decision notice, which will be published on the QCA website for stakeholders' information, along with this letter.

Should your staff have any questions about the attached decision notice, please contact Allie Davis on 07 3222 0555 or by email at [alexandra.davis@qca.org.au](mailto:alexandra.davis@qca.org.au).

Yours sincerely



Charles Millstead  
Chief Executive Officer

cc: Jon Windle, Network Regulation Manager – Aurizon Network

# December 2023 GAPE and Newlands pricing DAAU

22 February 2024

The Queensland Competition Authority approved Aurizon Network's December 2023 GAPE and Newlands pricing draft amending access undertaking, under section 142(2) of the *Queensland Competition Authority Act 1997*.

On 1 December 2023, Aurizon Network submitted its December 2023 GAPE and Newlands pricing draft amending access undertaking (the December 2023 DAAU) under s. 142 of the QCA Act.

The December 2023 DAAU proposes to amend the 2017 access undertaking (UT5), including allowable revenues and reference tariffs, to address longstanding issues arising from the Goonyella to Abbot Point expansion (GAPE) project:

- the allocation of asset replacement and renewals expenditure in the shared rail corridor between Newlands Junction and the Port of Abbot Point – to date, asset replacement and renewal expenditure in the shared rail corridor has been predominantly recovered from Newlands users,<sup>1</sup> despite GAPE users also raiing through the corridor
- the treatment of Newlands system infrastructure enhancement (NSIE) capital – which has remained deferred under the regulatory framework.

These issues have been well ventilated through previously completed regulatory processes.<sup>2</sup> Most recently, we published a final decision on Aurizon Network's April 2023 GAPE and Newlands pricing DAAU (the November 2023 decision) to refuse to approve the DAAU. While we considered that the April 2023 proposal set the foundations for a DAAU that would be appropriate to approve,<sup>3</sup> we had concerns with aspects of the proposal. These included the continued deferment of a portion of NSIE

<sup>1</sup> Expenditure has been allocated to the relevant coal system in which the asset financially resides.

<sup>2</sup> This includes QCA, *Pricing of shared infrastructure for the GAPE and Newlands system*, guidance paper, September 2021; QCA, *GAPE and Newlands pricing DAAU*, preliminary considerations, December 2022.

<sup>3</sup> In particular, we saw merit in Aurizon Network's proposal to apply a causation-based approach to allocate future asset replacement and renewals expenditure in the shared rail corridor and include \$81.4 million (at 1 July 2023) of deferred NSIE capital into the Newlands pricing regulatory asset base (RAB), using a staged approach.

capital, the use of contract volumes to determine reference tariffs in the Newlands system, the ability to transfer GAPE access rights to Newlands users and a narrowing of the application of private incremental costs (PIC) discounts.<sup>4</sup>

Aurizon Network stated that its December 2023 DAAU had been prepared to comply with our November 2023 decision.<sup>5</sup>

## Assessment of the December 2023 DAAU

Our decision is to approve the December 2023 DAAU.

We have considered the December 2023 DAAU afresh, in accordance with the requirements of the QCA Act.<sup>6</sup> We published Aurizon Network's December 2023 DAAU on our website and invited submissions.<sup>7</sup> However, no submissions were received.

In making our decision, we have had regard to the statutory assessment criteria in s. 138(2) of the QCA Act.<sup>8</sup> We are of the view that the December 2023 DAAU promotes economically efficient use of, and investment in, the Central Queensland Coal Network, while balancing the interests of Aurizon Network, access seekers and access holders. In particular:

- **The DAAU proposes to apply a causation-based approach to allocate future asset replacement and renewals expenditure in the shared rail corridor.<sup>9</sup>**

This approach takes account of how GAPE and Newlands users contribute to the physical degradation of assets on the shared rail corridor, impacting asset replacement and renewal expenditure.

Accordingly, we consider that the proposed approach will produce reference tariffs that reflect the incremental costs of providing access to the shared rail corridor,<sup>10</sup> thereby providing cost-reflective price signals and promoting economically efficient outcomes.

Further supporting analysis of this approach is set out in our November 2023 decision and remains relevant in our consideration of the statutory assessment criteria.<sup>11</sup>

- **The DAAU proposes to include \$81.4 million (at 1 July 2023) of the deferred NSIE capital in the Newlands pricing regulatory asset base (RAB), using a staged approach:<sup>12</sup>**
  - **including an initial amount of \$46.2 million of the deferred NSIE capital in the Newlands pricing RAB from 1 July 2023**
  - **including an amount of \$32.7 million in the Newlands pricing RAB from 1 July 2024.**

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<sup>4</sup> Further explanation of Aurizon Network's proposed amendments and the reasons for our decision are set out in the November 2023 decision (QCA, [April 2023 GAPE and Newlands pricing DAAU](#), final decision, November 2023).

<sup>5</sup> Aurizon Network, [December 2023 Newlands-GAPE Pricing DAAU](#), p. 1.

<sup>6</sup> QCA Act, s. 143.

<sup>7</sup> QCA Act, s. 143 (3).

<sup>8</sup> QCA Act, s. 143 (2).

<sup>9</sup> See Aurizon Network, sub. 1, attachment A.

<sup>10</sup> This is consistent with the pricing principles in UT5. Clause 6.6.2 of UT5 states that access charges should be set at no less than the level that will recover the expected incremental cost of providing access to the user and no more than the level that will recover the expected standalone cost of providing access to the user.

<sup>11</sup> QCA, [April 2023 GAPE and Newlands pricing DAAU](#), final decision, November 2023, pp. 7-8.

<sup>12</sup> Aurizon Network, [December 2023 Newlands-GAPE Pricing DAAU](#), pp. 1-2.

The inclusion of the deferred NSIE capital into the Newlands pricing RAB recognises that the deferment of capital is used to address initial periods of uncertainty around volumes in a way that should allow Aurizon Network to recover the full costs of an expansion.<sup>13</sup>

While the amount of \$81.4 million (at 1 July 2023) does not reflect the full value of the deferred NSIE capital, it aligns with our view that existing commercial arrangements<sup>14</sup> may have dampened incentives under the regulatory framework for Aurizon Network to recover deferred revenue at the earliest possible opportunity.<sup>15</sup> Accordingly, the amount of \$81.4 million (at 1 July 2023) reflects the value of the deferred NSIE capital had it been included in the Newlands pricing RAB from the commencement of UT5, being the earliest reasonable opportunity for Aurizon Network to have sought to recover revenue associated with the deferred NSIE capital under the regulatory framework.<sup>16</sup>

The inclusion of this amount into the Newlands pricing RAB recognises that all Newlands users<sup>17</sup> benefit from the NSIE and that there is no differentiation in the level of service provided to Newlands users.

Further supporting analysis of this approach to including deferred NSIE is set out in our November 2023 decision and remains relevant in our consideration of the statutory assessment criteria.<sup>18</sup>

The December 2023 DAAU maintains the use of forecast volumes to determine reference tariffs in the GAPE and Newlands system, applying current forecasts that we approved recently – that is, in October 2023.<sup>19</sup> This is consistent with the approach applied in other systems. Importantly, should actual volumes differ to the forecast, UT5 provides for any over-recovery of revenue in a given year to be returned to users.<sup>20</sup> The forecast volumes to be applied in future years will be reviewed and can be updated each year as part of the ‘annual review of reference tariffs’ process.<sup>21</sup>

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<sup>13</sup> The application of the revenue deferral mechanism is consistent with the principle of financial capital maintenance, which refers to the requirement that the present value of expected capital charges for an asset over its economic life should be equal to the initial asset value. Within a regulatory context, this means that investors of a regulated firm can expect to recover the opportunity cost of their capital and the nominal value of their initial investment over the life of the asset.

<sup>14</sup> Capacity created by the GAPE project has been subject to GAPE and NAPE deeds that were negotiated outside of the regulatory framework.

<sup>15</sup> Under the terms of the GAPE deed, Aurizon Network may recover revenue associated with the deferred NSIE capital. Where Aurizon Network is able to recover the full value of the NSIE amount (including the capitalisation of foregone returns) under the regulatory framework, these commercial arrangements may provide for Aurizon Network to benefit from additional revenue, the longer the NSIE amounts are deferred.

<sup>16</sup> Noting that the deferral of the NSIE capital was approved as part of the 2016 access undertaking (UT4) in October 2016.

<sup>17</sup> This includes legacy Newlands users (those whose mines were operational or committed prior to negotiation of the GAPE project and connected directly to the existing Newlands system), NAPE users (those who sought access as part of the GAPE project and connected directly to the existing Newlands system) and post-GAPE Newlands users (those who sought access following completion of the GAPE project and connected to the existing Newlands system through the Carmichael Rail Network).

<sup>18</sup> QCA, *April 2023 GAPE and Newlands pricing DAAU*, final decision, November 2023, pp. 8–13.

<sup>19</sup> QCA, *Aurizon Network’s reset Schedule F values*, decision, October 2023, pp. 6–7.

<sup>20</sup> Further information is available on the QCA website at [Revenue adjustment](#).

<sup>21</sup> Further information is available on the QCA website at [Annual reference tariff review](#).

The December 2023 DAAU also sets allowable revenues and reference tariffs in the GAPE and Newlands system for 2023–24 according to the preliminary limited update inputs.<sup>22</sup> This is consistent with requirements under UT5 relating to the reset of Schedule F.<sup>23</sup>

While the reported allowable revenues for the Blackwater, Goonyella and Moura systems in 2023–24 do not reflect the preliminary limited update inputs (instead, they reflect the limited update inputs), Aurizon Network has confirmed that this inconsistency will not result in any different treatment of customers across systems.

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<sup>22</sup> UT5 includes processes for updating Schedule F to include allowable revenues and reference tariffs for 2023–24 to 2026–27. This included a process to determine allowable revenues and reference tariffs for the period using ‘preliminary limited update inputs’ that were then adjusted to reflect ‘limited update inputs’. For further information see QCA, [Aurizon Network’s reset Schedule F preliminary values](#), final decision, May 2023; QCA, [Aurizon Network’s reset Schedule F values](#), decision, October 2023.

<sup>23</sup> UT5 (sch. F, cl. 4.3(ca)) requires that any difference in allowable revenues for 2023–24 resulting from differences in the ‘preliminary limited update inputs’ and the ‘limited update inputs’ be accounted for through the adjusted allowable revenue mechanism.