

Aurizon Network's 2022-23 capital expenditure claim

18 April 2024

The Queensland Competition Authority has approved Aurizon Network's 2022-23 capital expenditure claim of \$298.1 million for inclusion into its regulatory asset base. The reasons are set out in this decision, in accordance with the 2017 access undertaking.

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). Aurizon Network's 2017 access undertaking (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 2023, Aurizon Network submitted its 2022-23 capital expenditure claim for \$298.1 million (including interest during construction (IDC)). The claim relates to expenditure for assets commissioned in the 2022-23 financial year. This includes expenditure that was included in the 2022-23 renewals strategy and budgets (RSBs) in each system, works that were planned for delivery in 2021-22 but were subsequently deferred for operational reasons, and additional (or substitute) scope that was identified as requiring prioritisation during 2022-23.

Our assessment approach

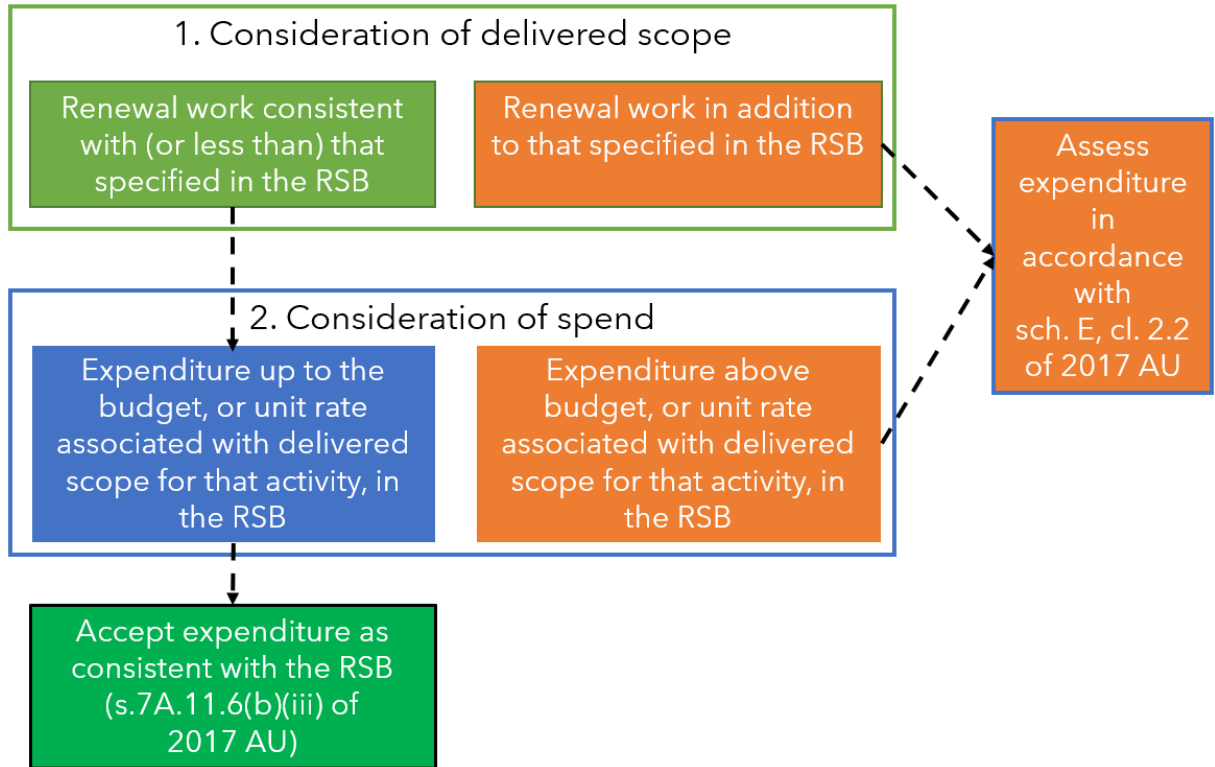
We have assessed Aurizon Network's capital expenditure claim in accordance with UT5.

¹ UT5, sch E, cl 2.2(a).

UT5 requires us to accept asset replacement and renewal expenditure that is consistent with an approved RSB.² To the extent Aurizon Network’s claim departs from an approved RSB, we assess the prudence and efficiency of additional expenditures, having regard to the framework outlined in schedule E of UT5, which relates to the scope, standard and cost of the works.

This year, a renewals strategy and budget was approved for all systems for 2022-23.³

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



As part of its claim, Aurizon Network provided a comparison of actual cost and scope of work delivered against the approved RSB for each coal system. We considered whether work delivered for each renewal item was within the approved scope and agreed budget for that item. In some cases, the completed works included the partial completion of planned works and the completion of additional works. We note that Aurizon Network has advised the Rail Industry Group of changes and variations across the year through quarterly meetings and reports.

This year, we engaged an independent engineering consultant (AECOM) to assist with our assessment. AECOM undertook a desktop review⁴ of a sample of projects from Aurizon Network’s

² UT5, cl 7A.11.6(b).

³ See Aurizon Network, [Central Queensland Coal Network FY23 Final Draft Maintenance and Renewals Strategy and Budget](#), January 2022.

⁴ Aurizon Network provided some supporting information as part of its claim, as well as additional documentation, on request, to clarify issues found in the projects being reviewed. AECOM also conducted several online interviews with key Aurizon Network staff to clarify remaining queries, including costs.

claim.⁵ The review focused on aspects of the claim that exceeded the expenditure, or failed to deliver the scope agreed to, as part of the 2022-23 RSB process (Box 1).⁶

While we had regard to the advice provided by AECOM, we have not simply adopted AECOM's proposed views, recommendations or analysis. Rather, we used that as one input into our assessment task.

Box 1: AECOM review of Aurizon Network's 2022-23 capital expenditure claim

AECOM undertook a detailed review of a sample of the projects submitted in Aurizon Network's claim (accounting for 70% of the total value of the claim). AECOM found:

- the scope of works across the sampled projects was reasonable and consistent with the approved 2022-23 RSBs. Differences from the approved 2022-23 RSBs were attributed to the completion of delayed scopes (previously approved in past RSBs), additional scope adjustments based on asset conditions and the deferral of planned scope (due to inclement weather conditions and challenges related to resourcing)
- the costs of works across the sampled projects were consistent with the approved 2022-23 RSBs (or where the variances were satisfactorily explained) with 2 exceptions,⁷ where it proposed adjustments to the claim (\$1.85 million, which is less than 1% of the total claim amount).

AECOM's analysis did not identify any broad systemic issues that would likely affect the remaining portions of the claim.

As part of its review AECOM made a number of recommendations for Aurizon Network including:

- reevaluating its ballast renewals policy
- improving documentation quality
- updating its methodologies regarding scope priority
- considering escalating costs for electrical systems in future RSB processes.⁸

AECOM's report is available on our [website](#).

⁵ The sample was selected to include projects that appeared to depart from the approved RSB, but also to ensure that the sample encompassed all the main project disciplines, each of the four systems and projects were of sufficient project size.

⁶ A copy of AECOM's report is available on our [website](#).

⁷ AECOM found that the costs incurred for track renewal projects in Blackwater and Moura incurred costs that were notably higher than projected costs (based on planned unit rates and scope) and were not satisfactorily justified in the information provided.

⁸ AECOM, *Review of Aurizon Network's FY23 Capital Expenditure Claim*, March 2024, pp 63-64. Aurizon Network's 2022-23 capital expenditure claim

Consultation

We provided stakeholders with an opportunity to comment on the prudence and efficiency of Aurizon Network's claim. This included providing their views on the consistency of expenditure with the approved 2022-23 RSBs and the prudence and efficiency of expenditure that is either inconsistent with these RSBs, or had otherwise been undertaken. We did not receive any submissions in response.

QCA assessment and decision

Capital expenditure

Based on the information available, including AECOM's review, we consider it is appropriate to accept Aurizon Network's 2022-23 capital expenditure claim in full.⁹

We are satisfied that \$172.2 million of the claimed expenditure¹⁰ is consistent, both in terms of scope and cost, with the approved 2022-23 RSBs. The remainder of the approved amount has otherwise been assessed as prudent and efficient. This is largely made up of expenditure for works from previous years (\$72.4 million) or works that either exceeded the budget, or failed to deliver the scope agreed to, in the 2022-23 RSBs (\$47.5 million). It also includes expenditure for works that were brought forward from 2023-24 for efficiency reasons (\$1.8 million) and works completed for projects that were outside the RSB processes (\$0.2 million).

We consider that the standard of works is reasonable and there are reasonable grounds to undertake works beyond the approved 2022-23 RSBs. Where costs exceed the unit rates implied by the 2022-23 RSBs, or were not included in 2022-23 RSBs, we are satisfied that there are reasonable extenuating circumstances, such as industry-wide input cost increases, procurement and resourcing issues, and inclement weather preventing completion of the full scope of works.

While AECOM proposed adjustments to 2 cost items (totalling \$1.85 million) we note that the proposed adjustment is minor (<1%) in relation to the overall claim adjustment and is within a reasonable margin of error for engineering assessments of this nature. We consider the differences likely to reflect the quality of documentation relating to resourcing issues and the impact of adverse weather, rather than suggest systemic cost inefficiencies.

We see this process as showing a clear opportunity for Aurizon Network to improve the quality of its cost documentation to support its claims in future; review its ballast renewal policies; and ensure its methodologies are up to date.

⁹ Our assessment was informed by information from the relevant RSBs, information Aurizon Network provided in support of its claim, information engineering consultants gathered in previous assessments of projects, past QCA decisions, and AECOM's review.

¹⁰ The following assessed amounts exclude IDC.
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Interest during construction

Aurizon Network has calculated the IDC consistent with previous years using the approved methodology.

Approved capital expenditure amounts for 2022-23

Asset type	Approved expenditure (\$m, excl IDC)	IDC (\$m)	Approved expenditure (\$m, incl IDC)
Permanent way	82.1	0.6	82.7
Ballast cleaning	88.5	0.7	89.2
Structures	30.3	0.3	30.7
Civil renewals	32.2	0.2	32.4
Control systems	52.2	1.7	54.0
Electrical assets	8.6	0.4	8.9
Non-MRSB	0.2	0.0	0.2
Total	294.1	4.0	298.1

Note: Totals may not add due to rounding.