

19 October 2018

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(submitted via QCA Online Submission Form)

### **RE: Aurizon Network's FY2018 Revenue Adjustment Amounts**

The Queensland Resources Council (**QRC**) welcomes the opportunity to comment on Aurizon Network's proposed FY2018 Revenue Adjustment Amounts.

#### Revenue Adjustment Amounts under UT4

We understand that Aurizon Network has calculated the Revenue Adjustment Amounts for FY2018 based on the provisions of the 2016 Access Undertaking (UT4). We rely on the QCA to assess whether the amounts have been calculated correctly, given that Aurizon Network has claimed confidentiality over the information listed in Section 2.3 of Aurizon Network's submission (billing data, rebates model, take or pay models and calculations).

We are surprised at the extent of the revenue shortfall for AT2-4 in the Blackwater System, given the existence of take or pay provisions under standard access agreements. The revenue shortfall is \$17.2m (or \$14.5m excluding proposed adjustments to Allowable Revenue), a shortfall of over 4% of allowable revenue. The volume shortfall was 5.1mt or 8%, with both tonnes and gtps being below forecast by a similar percentage. It is surprising that a revenue shortfall of 4% remains after take or pay collections, particularly if (as we expect) contracted tonnes are greater than forecast tonnes, such that the shortfall on which take or pay is collected is greater than 5.1mt. The level of disclosure is not sufficient for us to understand the cause of this outcome. We encourage the QCA to review this issue and to provide information on the cause of the shortfall (subject to confidentiality considerations) in its decision.

#### Application of the adjustment under UT5

The Revenue Adjustment Amounts for FY2018 are a quantification of the difference between the Transitional Allowable Revenues which were approved under extension

DAAUs, and Aurizon Network's Total Actual Revenue. Matters to be considered by the QCA and approved under the UT5 process include:

- Final Allowable Revenues for each year of the regulatory period (where the regulatory period, for pricing purposes, includes the period commencing 1 July 2017).
- Arrangements for the reconciliation of differences between the approved Allowable Revenues and actual revenues in regard to any part of the regulatory period which has passed as at the date on which the new undertaking takes effect.

In considering the appropriate Allowable Revenues for the UT5 period, QRC considers that the QCA should take into account the changes which Aurizon Network implemented from February 2018, which limited the throughput of the Central Queensland Coal Network. This issue has been discussed in several QRC submissions to the QCA, including our March 2018 submission on QCA's Draft Decision on UT5. In section 10.4(a) of that submission, we expressed a view that, where Aurizon Network takes actions which deliberately limit system throughput, the QCA should take this into account and:

- Exclude a portion of the RAB from revenue calculations, corresponding to the network capacity which is effectively withheld from use.
- Exclude a portion of fixed maintenance and fixed operating costs, relating to the capacity withheld, from allowable revenues.
- Alternatively, include provisions within Schedule F which ensure that, to the extent that revenue shortfalls are caused by actions of Aurizon Network which are inconsistent with its obligations under the Undertaking or Access Agreements, the relevant revenue shortfall will not be recoverable as a Revenue Adjustment Amount.

We consider that the revenue shortfall experienced in the Blackwater system in FY2018 was at least in part a consequence of Aurizon Network's actions, and that revenues were also impacted in other systems (with take or pay collections eliminating the shortfall in some systems). We do not consider that the approval of the Revenue Adjustment Amounts under UT4 provisions prevents the QCA from making an appropriate determination of allowable revenues, which reflect the impacts of Aurizon Network's actions, under UT5, and we continue to encourage the QCA to do so.

Thank you for the opportunity to provide this submission.

Yours sincerely

**Andrew Barger**