

Queensland Competition Authority

Final Decision

Aurizon Network Revenue Cap Adjustment 2012-13

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We wish to acknowledge the contribution of the following staff to this report:

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1 AURIZON NETWORK REVENUE CAP ADJUSTMENT 2012-13

1.1 Background

Aurizon Network's 2010 access undertaking provides for Aurizon Network to seek the QCA's approval to adjust a subsequent year's revenue cap, to account for under- or over-recovery of approved system allowable revenue amounts for each coal system in the central Queensland coal region, in relation to:

- (a) non-electric revenues (AT²⁻⁴ revenue adjustment amounts) including revenue adjustment amounts for the Goonyella to Abbot Point (GAP) system
- (b) electric revenues (AT⁵ revenue adjustment amounts).

On 27 September 2013, Aurizon Network submitted its revenue cap adjustment application, proposing to recover a revenue shortfall it experienced in 2012-13. Aurizon Network estimated the revenue cap adjustment to be a net \$39.13 million shortfall, and proposed to recover this amount via adjustment to the reference tariffs for 2014-15.

In accordance with Aurizon Network's access undertaking, the QCA published Aurizon Network's proposal, invited stakeholders to comment and provided Aurizon Network with an opportunity to respond to those comments. The QCA received submissions from Anglo American and Asciano.

1.2 Aurizon Network's proposal

Aurizon Network proposed a total revenue cap adjustment amount in 2012-13 of \$39.13 million (see details in Table 1).

Table 1 Revenue adjustment amounts 2012-13 (\$m)

<i>Systems</i>	<i>Non-Electric Revenues</i>	<i>Electric Revenues</i>	<i>Total Adjustment Amount 2012-13</i>
Blackwater	20.69	13.10	33.79
Goonyella	(1.93)	(2.17)	(4.10)
Moura	(0.26)	na	(0.26)
Newlands	(0.26)	na	(0.26)
GAP	9.96	na	9.96
Total Adjustment Amount	28.20	10.93	39.13

This \$39.13 million proposed revenue adjustment comprises:

- (a) a net \$28.2 million shortfall in relation to non-electric assets – comprising \$20.69 million shortfall for the Blackwater system and \$9.96 million shortfall for the GAP system, offset by a \$2.46 million return to access holders in the Moura, Newlands and Goonyella systems for their AT²⁻⁴ (i.e. non-electric) access charge revenues
- (b) a net \$10.9 million shortfall in relation to electric assets (AT⁵ reference tariff component) - comprising a return to access holders of \$2.17 million in the Goonyella system, offset by a \$13.1 million shortfall in the Blackwater system.

Aurizon Network calculated the total shortfall by subtracting its actual revenues of \$842.89 million from its adjusted approved 2012-13 revenues of \$882.02 million.

Aurizon Network's actual revenues are based on what it was entitled to earn, regardless of whether or not it collected this amount. This includes revenues associated with reference train services, take-or-pay obligations and other revenues which it was required to refund (revenue adjustments).

Aurizon Network calculated its 2012-13 revenues on the basis that the:

- (1) *adjusted 2012-13 revenues* are the revenue caps approved by the QCA and adjusted (where necessary) to take account of:
 - (a) the maintenance costs of maintaining branch lines for new loading facilities
 - (b) actual maintenance cost escalation – using the actual, rather than forecast, maintenance cost index (MCI) to escalate the Authority's approved maintenance cost allowance
 - (c) actual operating cost escalation – using the actual, rather than forecast, consumer price index (CPI) to escalate the Authority's approved operating cost allowance
 - (d) components relating to the recovery of Aurizon Network's cost of electric energy for traction costs associated with the connection of Aurizon Network's electric traction system to an electricity transmission or distribution network (adjusted to reflect the difference between actual and forecast costs)
- (2) *total actual revenues* are based on what Aurizon Network was entitled to earn, including revenues associated with:
 - (a) reference train services including cross-system train services
 - (b) adjustments for a review event (central Queensland flooding in 2010-11), which was approved by the QCA in November 2012
 - (c) take-or-pay amounts, cross-system revenues, transfer fees and rebates
 - (d) other revenues which it was required to refund (but did not refund).

1.3 Stakeholders' comments

Stakeholders raised some issues regarding some of the revenue adjustment amounts proposed, particularly to the transfer fees invoiced for the Goonyella system, and the adjustment amounts recorded against the GAP system (and how these matters may be treated in future reference tariff calculations).

Asciano also suggested that the method of forecasting proposed volumes requires improvement, noting a lack of consultation with individual miners or train operators when developing its regulatory forecasts. Asciano also queried how Aurizon Network had accounted for ancillary services and how this is treated in the revenue cap process.

As in previous years, these issues have stemmed from stakeholders' continued concern about their inability to replicate or verify elements within the revenue cap adjustment proposal and in particular, the lack of transparency of the available information for customers to properly make meaningful year-on-year comparisons. These issues were stressed by both Asciano and Anglo American.

Transfer fees

During the year, a transfer fee of \$1.6 million was invoiced and collected relating to the Goonyella non-electric system. Anglo American does not agree that Aurizon Network is entitled to the amount paid, and believes that no transfer fee is payable. An access holder has lodged a dispute notice with Aurizon Network, in accordance with the relevant access agreement. As the dispute has not been resolved, Aurizon Network did not include the transfer fee in total actual revenues.

In its submission, Anglo American expressed concern that, despite collecting this transfer fee, Aurizon Network has not reflected this amount in its total actual revenues received, and pointed out that this is a requirement in the 2010 undertaking.

In response, Aurizon Network said it will liaise with the QCA to ensure that any amount confirmed following determination of the dispute is appropriately accounted for in any subsequent reference tariff proposal for 2014-15.

GAP revenue adjustment amount and treatment of ancillary services

Asciano queried whether a \$0.7 million revenue adjustment amount for the GAP system in 2011-12 would be included in the 2014-15 reference tariffs.

In its response, Aurizon Network stated its intention that this amount, inclusive of a cost of capital adjustment, would be included in the 2014-15 reference tariffs for the GAP system, in its reference tariff proposals for that year.

Aurizon Network also confirmed that, in the current undertaking, maintenance and operating costs associated with ancillary services are not included in the cost build-up for reference tariffs, as they are outside the declared service. Accordingly, revenues associated with these services are excluded from the total actual revenues in the revenue cap assessment process. The QCA agrees that this interpretation is correct.

1.4 Assessment criteria

Aurizon Network's 2010 access undertaking provides for the QCA to approve Aurizon Network's proposed revenue cap adjustment amounts if it is satisfied that Aurizon Network has correctly calculated the extent of any under- or over-recovery of its total actual revenues compared with its adjusted revenue caps.

The QCA assesses the adjusted revenue caps amount in accordance with approved:

- (a) actual maintenance cost escalation – using the actual, rather than forecast, MCI to escalate the QCA approved maintenance cost allowance
- (b) actual operating cost escalation – using the actual, rather than forecast, CPI to escalate the QCA approved operating cost allowance
- (c) components relating to the recovery of Aurizon Network's cost of electric energy for traction costs associated with the connection of Aurizon Network's electric traction system to an electricity transmission or distribution network (adjusted to reflect the difference between actual and forecast costs).

In addition, the QCA can vary the revenue cap adjustment amounts in relation to:

- (a) an increment – for the portion of over-recovery that Aurizon Network is reasonably entitled to retain for productivity improvements (not exceeding 2% of the approved revenues for that system)

- (b) Aurizon Network caused interruptions or 'QR cause' – for revenues which Aurizon Network earned, but which the QCA reasonably determines it was not entitled to due to its own breach of an access agreement or negligence, provided that the breach or negligence resulted in the non-provision of at least 10% of total train services in an access agreement in any given month.

In reviewing Aurizon Network's proposed revenue cap adjustment, the QCA sought to ensure that Aurizon Network had correctly calculated its claimed revenue under-recovery. Also, and as provided for in the undertaking, the review focused on the revenues that Aurizon Network was entitled to earn less any required deductions, whether or not it actually collected/refunded this amount.

Table 2: System Allowable Revenues against Total Actual Revenues (\$m)

	<i>Approved Revenue Caps</i>	<i>MCI + CPI Adjustments</i>	<i>Energy and Connection Charges Adjustments</i>	<i>Total Adjusted System Allowable Revenues</i>		<i>Reference tariff revenues (Actual)</i>	<i>Other (Cross System, transfer fees)</i>	<i>Take or Pay Adjustments</i>	<i>Rebates</i>	<i>Total Actual Revenues</i>
Non-Electric Revenues (AT²⁻⁴)										
Blackwater	270.74	(1.22)	-	269.53		240.26	10.38	1.22	(3.03)	248.84
Goonyella	257.43	(1.42)	-	256.00		243.38	9.94	0.76	3.86	257.94
Moura	44.79	(0.26)	-	44.53		34.68	0.18	9.93	-	44.79
Newlands	34.93	(0.24)	-	34.69		30.32	0.63	3.83	0.17	34.95
GAP	91.69	-	-	91.69		39.32	-	42.40	-	81.72
Sub-total	699.58	(3.15)	-	696.43		587.96	21.12	58.15	1.01	668.24
Electric Revenues (AT⁵)										
Blackwater	99.38	(0.08)	(1.03)	98.28		79.92	5.25	-	-	85.17
Goonyella	93.28	(0.10)	(5.87)	87.31		85.11	4.19	-	0.18	89.47
Sub-total	192.67	(0.18)	(6.90)	185.58		165.03	9.44	-	0.18	174.65
Totals	892.25	(3.33)	(6.90)	882.02		752.98	30.56	58.15	1.19	842.89

#Totals may vary due to rounding.

1.5 Assessment of Aurizon Network's proposal

Aurizon Network's proposed adjusted revenue caps and total actual revenues, by coal system and by non-electric and electric assets, are set out in Table 2 above.

Aurizon Network advised it is not aware of any breaches of an access agreement or negligence by Aurizon Network that would give rise to a deduction from the revenue cap adjustment sought.

Adjusted revenue cap amounts

The QCA has confirmed that Aurizon Network calculated the MCI and CPI using Australian Bureau of Statistics (ABS) published data for the relevant indices, and the QCA's approved maintenance and operating allowance schedules.

Aurizon Network did not make any adjustments to the revenue caps in relation to maintenance costs for new branch lines, but did adjust the approved revenue caps to account for:

- (a) an actual MCI increase of 3.3% (compared to the forecast of 5.3% used in the approved revenue caps), with a cumulative increase over four years of 14.4% compared to forecast of 15.0%, less the approved x-factor, resulting in a net decrease of \$2.7 million in 2012-13
- (b) an actual CPI increase of 1.9% (compared to the forecast of 2.5% used in the approved revenue caps), with a cumulative increase over four years of 9.8% compared to forecast of 11.0%, less the approved x-factor, resulting in a net decrease in 2012-13 of \$0.6 million
- (c) an actual cost of \$102.8 million for electric energy and traction costs – compared with \$109.7 million, resulting in a net decrease of \$6.9 million.

Overall, this represents a total net reduction to the 2012-13 revenue caps of \$10.2 million, decreasing the allowable revenues for the year from \$892.25 million to \$882 million.

Total actual revenues

In considering Aurizon Network's application, the QCA independently verified information that Aurizon Network sourced from various coal customers.

Reference tariff revenues and other revenues

The QCA has confirmed that reference tariff revenues were accurately estimated based on:

- (1) the approved reference tariffs
- (2) actual railings (i.e. tonnages and origin/destination) being independently confirmed by a samples of the customers (mining companies).

The QCA has also confirmed that Aurizon Network's actual revenues have been calculated in accordance with the relevant provisions in the undertaking, and has correctly identified the extent of the under-recovery of its approved revenues (i.e. the last column of Table 1), including:

- (a) using accurate actual railing information – Aurizon Network's railing information has been verified by the coal companies. The railings Aurizon Network used to calculate its revenues, and the information obtained from a sampling of coal companies, were consistent for the 2012-13 year

- (b) train services that are cross-system train services - were accurately estimated based on the use of appropriate reference tariffs, calculated in accordance with the cross-system traffic requirements of the 2010 access undertaking
- (c) any 'once off' revenue adjustments invoiced, such as those related to approved flood claims, were consistent with the amounts approved by the QCA.

Take-or-pay and rebates

The take-or-pay arrangements in the 2010 access undertaking provide for Aurizon Network to recover revenue from access holders, where contracted services do not run or where an above-rail operator does not utilise the entire amount of its contracted capacity (train services).

This arrangement does not apply where Aurizon Network is unable to make rail infrastructure available for the operation of train services in accordance with an access holder's train service entitlement, i.e. where the service does not run because of a 'QR cause'.

Take-or-pay arrangements were triggered in 2012-13 for non-electric traffic in all systems, with total take-or-pay revenues of \$58.15 million collected by Aurizon Network. Of the total take-or-pay revenues collected for non-electric traffic, \$42.4 million was for the GAP system. Take-or-pay arrangements were not triggered for electric traffic in any system.

The QCA is satisfied that the take-or-pay revenues, as well as rebates repaid to some customers, were accurately estimated, on the basis that:

- (a) railings within a nominated month, for the purposes of annual and variable take-or-pay, were consistently treated and consistent with previous years' treatment, and that any cancellations due to 'QR Cause' were appropriately attributed
- (b) the methodology in standard access agreements for various access undertakings (i.e. UT1, UT2 and UT3) has been applied correctly – noting that, consistent with previous treatment, Aurizon Network made no claims for take-or-pay revenue from pre-2001 agreements
- (c) rebates for particular mines, that are payable irrespective of whether take-or-pay is triggered, have been determined separately and correctly
- (d) the amounts attributed to the GAP system take-or-pay were also accurately calculated.

Transfer fees

Under the relevant access agreements, access holders must pay Aurizon Network a transfer fee to relinquish or transfer access rights or initiate capacity transfers. This transfer fee, according to the 2010 undertaking, must be reflected as an equivalent amount payable in Aurizon Network's total actual revenues received.

As noted earlier, Anglo American is concerned that a \$1.6 million transfer fee, which is subject to dispute, is not reflected in Aurizon Network's proposed total actual revenues for 2012-13. Anglo American considers that, as the \$1.6 million amount has been invoiced and paid, it should be reflected in Aurizon Network's total actual revenues for the year. Anglo American also noted that Aurizon Network will receive the benefit of any interest earned on the money held by it, during the term of any dispute.

In its response to stakeholders' submissions, Aurizon Network confirmed that, as long as the matter remains in dispute, it proposes that the \$1.6 million transfer fee be excluded from the total actual revenues for 2012-13. However, Aurizon Network proposes to reflect any settlement of the dispute in its proposed UT3 extension (revenue and pricing) draft amending

access undertaking (DAAU), which it intends to submit to the QCA for approval prior to the start of the 2014-15 year.

While the QCA acknowledges Anglo American's concern about double dipping, should Aurizon Network fail to include the disputed amount in total actual revenues (depending on the outcome of the dispute), the QCA also acknowledges Aurizon Network's concern about the impact of the dispute on finalising the 2012-13 revenue cap.

In particular, the QCA recognises that:

- (a) Aurizon Network's proposal to add the adjustment amount after the dispute settlement (dependent on the dispute outcome) would likely be simpler than reversing the amount in question. Once the amount is incorporated as an adjustment to the Goonyella system's non-electric revenues, it becomes a whole-system issue, rather than access holder-specific billing issue.
- (b) while the inclusion of transfer fee to total actual revenue is clear in section 3.2.3(b) of the undertaking, there appears to be discretion in its subset inclusion, as this section is subject to section 3.2.4 which states that Aurizon Network *may* reduce a relinquishment fee subject to the QCA's approval
- (c) Aurizon Network's proposal to incorporate the \$1.6 million (if necessary) as an adjustment via its proposed extension DAAU, which it intends will include reference tariffs for 2014-15, meets the timing requirement of section 3.2 of the undertaking
- (d) the amount is not sufficiently material to reject Aurizon Network's revenue cap adjustment for 2012-13.

Final consideration

The QCA has decided to approve Aurizon Network's proposed 2012-13 revenue cap adjustment application, including the non-incorporation, at this time, of the \$1.6 million that remains subject to the transfer fee dispute.

However, if the \$1.6 million in dispute is concluded prior to the approval of reference tariffs for 2014-15, the QCA will require Aurizon Network to accurately reflect the outcome of the dispute in those tariffs. If the dispute is concluded after the approval of reference tariffs for 2014-15, depending on the outcome of the dispute, the QCA will require Aurizon Network to submit a subsequent (appropriate) proposed adjustment to the reference tariffs for approval by the QCA.