



4 March 2014

Ms Tania Homan  
Director – Aurizon Network  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Tania

### **2013 Review Event Submission – Final Costing & Recovery**

The 2010 Access Undertaking (2010 AU) provides for a variation to Reference Tariffs by submission to the Queensland Competition Authority within 60 days of a Review Event. For the January 2013 weather event in the Central Queensland Coal Region, The Queensland Competition Authority approved a due date for the 2013 Review Event Submission (the Submission) of the 31 July 2013.

The purpose of this letter is to:

1. Provide confirmation of the final costs to repair the damage as a result of the January 2013 Review Event and
2. Describe the proposed recovery mechanism.

#### **Background**

On the 25<sup>th</sup> and 26<sup>th</sup> January 2013, significant rainfall occurred over the Rockhampton region resulting in flooding that caused considerable damage to the Blackwater and Moura systems within the Central Queensland Coal Network. Subsequently, a Force Majeure was declared triggering the provisions within Schedule F, Clause 2.2.1 of the 2010 AU.

The Submission outlined the total costs from the January 2013 weather event of \$17,157,174 which included an estimated amount of \$4,251,000 for works that were yet to be completed. These works were scheduled to be undertaken during one of the planned system closures between the 1 July and 31 December 2013.

In August 2013 the Queensland Competition Authority engaged Sinclair Knight Merz to review and comment on the reasonableness of the costs included in Aurizon Network's Submission. The Queensland Competition Authority also invited stakeholders to comment on both the Aurizon Network Submission and the Sinclair Knight Merz report.

#### **Final Cost**

Aurizon Network can confirm that all outstanding flood related works on the Blackwater, North Coast Line and Moura have been completed at a final cost of \$18,604,361, expressed in 2012/13 dollars. A breakdown of the flood recovery costs is outlined in the table below:



System	Ballast \$	Labour Ordinary \$	Labour Overtime \$	Consumables \$	Resurfacing \$	Inventory \$	Overheads \$	Total Costs \$
Blackwater	351,404	1,381,982	69,886	3,367,905	1,650,793	193,432	644,252	7,659,654
Moura	673,896	517,470	88,079	5,606,445	283,715	118,126	751,718	8,039,448
North Coast Line <sup>1</sup>	270,782	641,002	26,675	1,521,018	241,269	32,449	172,064	2,905,259
<b>Total</b>	<b>1,296,082</b>	<b>2,540,454</b>	<b>184,639</b>	<b>10,495,369</b>	<b>2,175,777</b>	<b>344,007</b>	<b>1,568,034</b>	<b>18,604,361</b>

The increase in cost from the submission was due to additional external contractors being used to complete work at some of the flood affected sites. The use of additional external contractor was crucial to complete the works in a timely manner and minimise any further disruption to the supply chain.

### Recovery Mechanism

The timing of the Queensland Competition Authority decision should be considered when determining the most appropriate and efficient method to recover the cost. It is intended that the 2013 Review Event costs could be recovered in addition to the System Allowable Revenue for 2014/15. This will avoid significant retrospective adjustment charging. This is conditional upon the approval of the 2013 Draft Access Undertaking (2013 DAU).

As the costs were incurred during both the 2012/13 and 2013/14 financial years, it was necessary for Aurizon Network to escalate the flood recovery costs to 2014/15 dollars. Cost escalation has been calculated for all remedial works. The rates of escalation used are:

- 9.96%, the 2010 Access Undertaking approved Weighted Average Cost of Capital; and
- 2.5%, the midpoint of the Reserve Bank of Australia's target rate of Consumer Price Index (CPI).

The Weighted Average Cost of Capital will be applied until 30 June 2014 to reflect the fact that Review Event costs were incurred in 2012/13 and 2013/14 and will not be recovered within those financial years. The Consumer price Index will be applied from 1 July 2014 in order to express the costs in 'end of year' 2014/15 dollars. This approach is consistent with all other inputs used when calculating allowable revenue and tariffs for the 2014/15 year.

After the cost escalation, the total costs of repairing the flood affected systems to pre-flood condition is \$21,258,029 expressed 2014/15 dollars.

Aurizon Network considers the most efficient means of recovering the costs is to split the recovery of the flood claim costs on a 50 50 basis between the AT<sub>3</sub> and AT<sub>4</sub> approved Reference Tariffs. This approach is consistent with the application of Revenue Adjustment Amounts.

Aurizon Network has outlined the indicative tariff impacts in the table below, which have been modelled using the 14/15 Reference Tariffs provided as part of the 2013 DAU submission:

<sup>1</sup> The North Coast Line costs are included within the Blackwater Systems tariffs.



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System	AT <sub>3</sub>			AT <sub>4</sub>		
	Excl Flood	Inc Flood	% increase	Exc Flood	Inc Flood	% Increase
Blackwater	5.81	6.09	4.9%	1.97	2.07	5.1%
Moura	10.85	12.83	18.2%	1.85	2.18	18.2%

Should you wish to discuss any aspect of this submission please feel free to contact Mr Scott Riedel General Manager Assets on 07 30192456.

Regards



**Clayton McDonald**  
Vice President – Network Operations  
Aurizon Network Pty Ltd

