

File Ref: 740258 ver 3

22 May 2014

Mr Alex Kummant
Chief Executive Officer
Aurizon Network Pty Ltd
GPO Box 456
Brisbane QLD 4001

Dear Mr Kummant *Alex*

Approval: Aurizon Network's 2012-13 capital expenditure

On 21 May 2014, we approved your revised application for \$226,418,677 of capital expenditure for the 2012-13 financial year to be included in the regulatory asset base, in accordance with Schedule A of the 2010 access undertaking. The breakdown of the approved claim is provided in **Table A1**, attached to this letter.

Context

Aurizon Network submitted its initial 2012-13 capital expenditure claim to us on 13 December 2013. A revised claim was re-submitted on 7 May 2014, to incorporate amendments recommended in the assessment process.

As per the 2010 access undertaking, we have assessed the prudence of the claim in accordance with the process in Schedule A of the undertaking, which involves assessing the scope, standard and cost of the works.

We were assisted in our assessment by three consultancies:

- (a) Jacobs SKM conducted an engineering assessment of five post-commissioning projects:
 - (i) Goonyella to Abbot Point Expansion (GAPE)
 - (ii) four Blackwater feeder stations
- (b) CMT Solutions conducted an engineering assessment of the remaining projects
- (c) RSM Bird Cameron (RSMBC) conducted a cost (accounting) assessment.

The consultants' reports will be published on our website, along with this letter (including Table A1).

Process and key issues

Generally, Jacobs SKM and CMT Solutions found the projects they assessed to be prudent in scope, standard and cost. RSMBC's cost review raised some concerns, which you have addressed in your revised claim.

Accordingly, on 21 May we approved the revised claim of \$226,418,677.

Recommendations from the assessment

While Jacobs SKM found the projects they assessed to be prudent, they provided a number of recommendations, which we consider would be helpful for future assessment processes:

- engaging assessors during, rather than after, the capital expenditure period would expedite information collection and provide a 'control mechanism' to ensure data are properly identified and catalogued
- financial transactions without any engineering content should be assessed through a financial audit mechanism
- Aurizon Network could benefit from obtaining pre-approval (from customers and the QCA), prior to commencing high value system enhancement and post-commissioning activities
- obtaining pre-approval of procurement strategy, as provided for in the undertaking, would greatly simplify the regulatory assessment and approval process.

CMT Solutions found the sample of projects it reviewed to be prudent in scope, standard and cost. However, its assessment of the Train Control Disaster Recovery Centre project in Mackay raised some questions as to whether other alternatives could have served the same purposes or whether it was entirely justified to have a separate facility. While we found this expenditure to be prudent, we note Aurizon Network could have explored alternative options, including comparative financial analysis and better documented this process.

RSMBC found a number of discrepancies when reconciling the total capital costs in the claim to the SAP accounting system and when conducting a limited assurance review of a sample of projects:

- accruals did not match actual invoices
- amounts were incorrectly referred to as accruals without supporting documentation
- variances between the amounts recorded in SAP and the amounts claimed for those projects.

Aurizon Network addressed these issues in its revised submission after discussion with us and the consultants.

With regard to the treatment of accruals, we request that, in future, Aurizon Network maintain a register of items for which reversals span different financial years. We consider this will mitigate double-counting risk and expedite the assessment process for future years' claims.

We consider the assessment process for this year's claim has proceeded smoothly, and we appreciate the support and cooperation extended by Aurizon Network.

Should Aurizon Network staff wish to discuss this matter, they should contact Leigh Spencer on 07 3222 0532.

Yours sincerely



Malcolm Roberts
Chairman

Table A1: Summary of Aurizon Network's 2012-13 capital expenditure

	\$ million (including interest during construction)
Blackwater	40.7
Raglan Feeder Station	4.2
Blackwater Crew Change Pads	5.1
Replacement of Damaged Fist Sleeper-Raglan	2.3
Optical Fibre Transmission Network Upgrade Rockhampton to Gladstone	2.2
Fist Fastener Sleeper Upgrade - Callemondah Yard	3.4
Callemondah Yard Turnout Upgrade Project	3.0
Blackwater & Goonyella Turnout Upgrade 2	2.7
Rolleston Flood Protection Stage 2	8.1
Others	9.9
GAPE	21.6
Goonyella	79.9
Fist Fastened Sleeper Upgrade: Coal Systems	4.7
Concrete Sleeper Upgrade GN Phase 1	7.4
Concrete Sleeper Upgrade GN Phase 2	3.1
Millennium Balloon Loop Upgrade	9.2
Wotonga Angle	42.6
Others	12.9
Moura	1.0
Moura Corridor Crew Change & Stowage Locations	0.8
Fencing Upgrade Moura and Blackwater Systems	0.2
Newlands	18.7
Upgrade Four Culverts - Newlands	1.1
Concrete Sleeper Upgrade - Newlands	4.9
Newlands Culvert Upgrade Project	10.6
Others	2.2
System wide	64.5
CQ Coal: Level Crossing Investigations	2.9
CQ Coal Transformer Refurbishments	5.6
Private / QRN Level Crossing Infrastructure	3.6
Gracemere Overbridge - Capital Contribute	10.4
Train Control Disaster Recovery Project	14.5
12/13 Formation Strengthening Project Stage 4	4.4
Others	23.1
Total	226.4