



Ms. Tania Homan  
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Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

6 November 2014

Dear Tania,

### **Blackwater and Moura System Reference Tariff Adjustment: 2013 Flood Review Event**

In January 2013, Central Queensland was subject to wide spread flooding as a result of ex - tropical cyclone Oswald. The flooding caused substantial damage to rail infrastructure in Aurizon Network's Blackwater and Moura systems; prompting the declaration of a Force Majeure Event and triggering the Review Event provision within Schedule F, Clause 2.2.1 of Aurizon Network's 2010 Access Undertaking (UT3).

Aurizon Network incurred significant costs during the 2013 calendar year, restoring the Blackwater and Moura systems to their pre-flood standard. On 30 July 2013, Aurizon Network submitted a cost pass through application to the Queensland Competition Authority (QCA), seeking recovery of these costs.

On 23 July 2014, the QCA published its final decision on the 2013 flood review event. The QCA approved damage repair costs in the Blackwater and Moura systems totaling \$16.1 million.

In its final decision, the QCA noted<sup>1</sup> that the approved amount is to be:

*"...recovered through the AT3 and AT4 tariffs, noting our preference for recovery is in 2014-15..."*

The purpose of this submission is to obtain the approval of the QCA for Reference Tariff adjustments applicable to the Blackwater and Moura systems for Financial Year (FY) 2015. If approved, the adjustments will be applied to the relevant transitional Reference Tariffs from 1 January 2015, until such time as a new Reference Tariff for FY2015 is confirmed as part of the finalisation of Aurizon Network's proposed 2014 Draft Access Undertaking (2014DAU).

The effect of the adjustment is to recover the full value of the flood repair costs over the remaining six months of FY2015. Any under or over recovery will be incorporated into the FY2015 Adjustment Charge as part of the finalization of the 2014DAU.

### **Methodology**

In order to calculate the applicable Reference Tariff adjustments for FY2015, Aurizon Network has used the following inputs:

- Flood damage repair costs for the Blackwater system approved by the QCA;
- Flood damage repair costs for the Moura system approved by the QCA;

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<sup>1</sup> Final Decision: 2013 Flood Review Event Claim; QCA; File Ref: 756627; 23 July 2014

- Approved regulatory WACC for UT3, which is used to escalate flood repair costs incurred in 2012/13<sup>2</sup>;
- Proposed regulatory WACC for UT4, which is used to escalate flood repair costs incurred in 2013/14<sup>3</sup> (as per the QCA's Draft Decision – September 2014);
- Forecast CPI of 2.5%, the mid-point of the RBA's target rate of inflation; and
- FY2015 Transitional Volume Forecasts for the Blackwater and Moura systems (expressed in Net Tonnes (nt) and Net Tonne Kilometres (ntk)).

This information has been used to express the flood damage repair costs for each system on a consistent basis with the FY2015 Transitional Tariff revenue, i.e. in nominal \$2014/15. The WACC rates for UT3 and UT4 have been applied to the actual cashflows associated with the flood damage repair costs which are consistent with the claim approved by the QCA.

These amounts are outlined in table 1 below.

Flood Repair Costs (\$m)	\$2012/13	\$2013/14	\$2014/15
Blackwater system	5.62	2.92	9.52
Moura system	4.74	2.78	8.37
<b>Total</b>	<b>10.37</b>	<b>5.70</b>	<b>17.89</b>

*Table 1: Flood Damage Repair Costs*

## Proposed approach to Cost Recovery

In its final decision on the 2013 flood review event, the QCA expressed a preference for the flood repair costs to be recovered during FY2015.

In light of this and the fact that Aurizon Network incurred the majority of the flood repair costs over a year ago, Aurizon Network is seeking to recover these costs over the remainder of FY2015, i.e. via an adjustment to Reference Tariffs effective from 1 January 2015.

The amount to be recovered from the Moura system represents a material increase (19%<sup>4</sup>) relative to the Moura Maximum Allowable Revenue (MAR) currently recovered under the transitional arrangements. The impact on the Blackwater system is relatively immaterial as a percentage of the Blackwater MAR (2.6%).

It is important to note that due to the timing of the recovery, Access Charges for the Moura system during the last six months of FY2015 are expected to increase by approximately 38% relative to the Access Charges paid under the transitional Reference Tariffs.

## Reference Tariff Impacts

As outlined in the QCA's Final Decision, the portion of the flood repair costs to be recovered via Reference Tariffs will be effected via an adjustment to the AT<sub>3</sub> and AT<sub>4</sub> Reference Tariffs of the relevant systems.

Aurizon Network proposes to split the recovery of flood repair costs for each system evenly between both the AT<sub>3</sub> and AT<sub>4</sub> Reference Tariff components. This method is consistent with Aurizon Network's Pricing and Transitional Tariff models.

The amounts recoverable via each Reference Tariff component are outlined in table 2.

<sup>2</sup> These costs were incurred within the UT3 regulatory period.

<sup>3</sup> These costs were incurred within the UT4 regulatory period.

<sup>4</sup> Moura system Transitional MAR for 2014/15 (including 2012/13 Revenue Cap adjustment) = \$43.5m.

Flood Repair Costs by Tariff Component (\$2014/15, \$m)	AT <sub>3</sub>	AT <sub>4</sub>	TOTAL
Blackwater system	4.76	4.76	9.52
Moura system	4.18	4.18	8.37
<b>Total</b>	<b>8.95</b>	<b>8.95</b>	<b>17.89</b>

Table 2: Flood Damage Repair Costs by Tariff Component, \$2014/15, Nominal

These amounts are then expressed in terms of the unit rate applicable to each Reference Tariff component. AT<sub>3</sub> is recovered on a \$ per '000ntk basis; AT<sub>4</sub> is recovered on a \$ per nt basis.

In order to calculate the Reference Tariff impact for this period, Aurizon Network has halved the FY2015 Transitional Volume Forecasts, to represent the cost recovery over the final six months of the financial year. The forecasts for the Blackwater and Moura systems are outlined in table 3 below.

Transitional Volume Forecasts: FY2015: January – June	NTK (million)	Net Tonnes (million)
Blackwater system	10,442.8	30.1
Moura system	1,075.4	6.5
<b>Total</b>	<b>11,518.2</b>	<b>36.6</b>

Table 3: Transitional Volume Forecasts: 1 January to 30 June 2015

The proposed Reference Tariff adjustments for FY2015 are presented as a System Premium applied to the AT<sub>3</sub> and AT<sub>4</sub> Reference Tariff components from 1 January 2015.

These are outlined in table 4 below:

Reference Tariff Adjustment	AT <sub>3</sub> (\$/'000 ntk)	AT <sub>4</sub> (\$/nt)
Blackwater system	0.46	0.16
Moura system	3.89	0.64

Table 4: Proposed Reference Tariff Adjustments; applicable from 1 January 2015

Note that the figures in table 4 represent the amounts to be added to the relevant Transitional Reference Tariffs for FY2015. They will be applied until such time as the 2014DAU is finalised.

This submission is presented in such a way as to facilitate publication by the QCA should it choose to do so. A financial model supporting the above calculations is also provided for reference. Aurizon Network requests that the model is not published.

Should you have any queries in relation to this submission, please contact Michael Bray by phone: (07) 3019 1077 or by email [michael.bray@aurizon.com.au](mailto:michael.bray@aurizon.com.au).

Regards,



**Lana Stockman**  
**Vice President Regulation**  
**Aurizon Network Pty Ltd**