Queensland Competition Authority

Draft decision

Aurizon Network's revenue cap adjustment application 2013-14

February 2015

Level 27, 145 Ann Street, Brisbane Q 4000
GPO Box 2257, Brisbane Q 4001
Tel (07) 3222 0555
www.qca.org.au

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Contacts

Enquiries regarding this project should be directed to:

ATTN: Leigh Spencer
Tel (07) 3222 0532
rail@qca.org.au
www.qca.org.au

AURIZON NETWORK'S PROPOSAL

Overview

On 30 September 2014, Aurizon Network provided a submission to us seeking approval for revenue cap adjustment amounts for 2013-14. The adjustment amounts proposed were:

- a net $7 million under-recovery in the Blackwater and Goonyella systems, made up of:
  - a $15.5 million under-recovery of the AT2-4 tariff components, representing rebate adjustments
  - a $8.5 million net over-recovery of the AT5 component, representing differences in electric charge (EC) collections and a small rebate adjustment[1]
- $8.9 million claimed as an increment from Blackwater and Goonyella access holders, which Aurizon Network said reflected its view that record tonnages in 2013-14 represented an improvement in system performance due partly to its activities and initiatives.[2]

2010 undertaking

The revenue cap adjustment and increment provisions that apply to the central Queensland coal network (CQCN) are contained in Part B of Schedule F of the 2010 access undertaking (2010 AU). Among other things, these provisions provide for Aurizon Network to:

- annually submit to us proposed revenue adjustment amounts for the AT2-4 and AT5 tariff components for each system in the CQCN, including adjustment amounts relating to rebates
- incorporate in those proposed adjustments differences between actual and forecast EC costs
- incorporate a performance increment for each system (where it is reasonably satisfied it is warranted)
- calculate performance increments as:
  - the part of the difference between actual and system allowable revenues (for the AT2-4 tariff components) that has arisen as a direct result of the whole of coal chain activities or initiatives of Aurizon Network (or its contractors) which have increased the efficiency of the below rail network
  - no greater than two per cent of AT2-4 system allowable revenues for any system.

The revenue cap adjustment provisions also provide that, if we invite comments from stakeholders on Aurizon Network's proposal and comments are received, Aurizon Network must be given a reasonable period to provide a response.

The provisions also provide that we will approve the revenue adjustment amounts and increments if we are reasonably satisfied they have been calculated in accordance with the relevant provisions of Part B of Schedule F of the 2010 AU.

[1] Aurizon Network 2014a, p.3
[2] Aurizon Network 2014a, p.4

Revenue adjustment amounts

Rebates

Rebates are provided to customers to recognise upfront capital contributions made to Aurizon Network. The CQCN includes some customer specific branch lines and other infrastructure already paid for by access holders. Aurizon Network provides annual rebates against access charges so that customers do not pay for the same infrastructure twice.

The total actual revenues reported by Aurizon Network may include revenue which is to be rebated to customers under an Access Facilitation Deed (AFD). AFDs are the agreements between Aurizon Network and customers that determine how upfront capital contributions are repaid to customers via the rebate mechanisms.

The 2010 AU allows adjustments to system allowable revenues to include rebates paid under an AFD (i.e. system allowable revenues are calculated as total actual revenues less rebates). Rebate adjustments are calculated as the difference between actual and regulatory forecast tonnages for the mine covered by the AFD, multiplied by the relevant rebate rate per tonne.

Aurizon Network has proposed a revenue adjustment of $16 million (non-electric and electric assets) to recover payment of rebates in 2013-14. Aurizon Network's rebate adjustments to total actual revenues are shown in Table 1.[3]

Table 1 Rebate adjustments to Total Actual Revenue

	Access revenues from charges	***Rebate adjustments***	***Total Actual Revenues***
Non-electric			
Blackwater	215.2	(8.5)	206.7
Goonyella	229.8	(7.0)	222.8
Moura	31.4	-	31.4
Newlands	37.7	-	37.7
GAP	124.2	-	124.2
Total	**638.3**	**(15.5)**	**622.8**
Electric			
Blackwater	72.6	-	72.6
Goonyella	92.2	(0.5)	91.7
Total	**164.8**	**(0.5)**	**(164.3)**

Electric charges

Aurizon Network has also calculated a net return to access holders of $9.0 million for electricity traction costs on its EC revenues, consisting of $1.2 million to Blackwater users and $7.8 million to Goonyella users. This net return is the difference between the amounts paid to its electricity supplier (Origin Energy), as per invoices received, and the forecast EC revenues for the Goonyella and Blackwater electric systems.

Aurizon Network said the over-recovery in both systems was due to actual electric volumes (egtks) exceeding system forecasts. The result of this over-recovery is an adjustment to electric system allowable revenues, from $164.8 million to $155.8 million, reflecting the difference (net return) between actual energy costs and EC collected.

[3] Aurizon Network 2014a, p.13

Increments

Aurizon Network's proposal noted that actual volumes for the Blackwater and Goonyella systems for 2013-14 significantly exceeded approved forecasts, resulting in a significant over-recovery of system allowable revenues. Volumes and revenues for these systems are shown in Table 2 below.

Table 2 2013-14 volumes and revenues (Blackwater and Goonyella)[4]

System	*Forecast volumes*	*Actual volumes*	*System allowable revenues (AT2-4)*	*Actual revenues (AT2-4)*
Blackwater	57.7mt	66.4mt	$215.2m	$241.1m
Goonyella	99.0mt	111.2mt	$229.8m	$258.8m

Aurizon Network said these higher volumes and revenues reflected sustained effort and aligned planning by all supply chain participants, including mines, ports, train operators and Aurizon Network. More specifically, it said improvement in system performance had partly arisen as a direct result of activities, initiatives and capital projects undertaken by it, or in partnership with other supply chain participants.[5] It identified the following initiatives and capital projects as relevant:[6]

- operation of longer trains. Aurizon Network said it worked with Aurizon Operations and BMA Rail to trial extensions to the operating length of trains in the Blackwater and Goonyella systems. It also said it led a number of activities to ensure the safe and effective operation of the longer trains on the existing network and at loading and unloading facilities
- an integrated planning framework. Aurizon Network said it had developed an integrated planning framework to address a number of issues which were negatively affecting network availability and reliability, involving coordination of the relevant areas of Aurizon Network, train operators, coal industry customers and port operators
- multiple consist stowage (using long track sections to stow up to three train consists within a single track section). Aurizon Network said 10 successful trials were conducted and the initiative has since been implemented across all systems in the CQCN, with $0.8 million in non-capital costs incurred by Aurizon Network in ensuring the selected locations were suitable for multiple stowage
- alternative testing procedures, such as ground penetrating radar (GPR), to assess the condition of ballast and rail. Aurizon Network said it has developed the alternative testing procedures to replace manually intensive activities
- an asset renewal program for overhead line equipment (OHLE) to reduce de-wirements, earth-wire faults and traction faults. Aurizon Network said significant improvements in network performance have resulted from this program
- over-height detectors at two level crossings in the Blackwater system to reduce the risks to the OHLE at level crossings. Aurizon Network said this resulted in OHLE incidents at these level crossings reducing to two each (from an average of five per annum since 2007)
- construction of the Gracemere Overpass to eliminate near misses at this location. Aurizon Network said it made a capital contribution of $10 million towards this project, which resulted in closure of two at-grade level crossings.

[4] Aurizon Network 2014a, p.16
[5] Aurizon Network 2014a, p.17
[6] Aurizon Network 2014a, pp.18-20

Aurizon Network estimated the benefits of the specific activities it had identified, as summarised in Table 3 below.

Table 3 Aurizon Network's Benefit Quantification[7]

Project Name	*Cost of Project ($m)*	*Benefit Received (Blackwater)*	*Benefit Received (Goonyella)*	*Nature of Benefit (in FY14)*	*Equivalent Number of Train Paths*
Longer Trains	-	29	175	Network availability (train paths generated)	204
Integrated Planning Framework	-	4	55	Network reliability (reduction in train paths cancelled)	59
Multiple Consist Stowage	0.8	n/a	n/a	Not quantified	n/a
Ultrasonic Testing	-	134	45	Network reliability (train cancellations avoided)	179
Non-Destructive Testing	1.2	25	25	No. reduced testing sites	n/a
Overhead Asset Renewal	5.5	50	27	Network reliability (train cancellations prevented)	77
Over-height Detectors	1.2	102	n/a	Network reliability / Network performance	30
Gracemere Overpass	10	616	n/a	Network performance (train cancellations prevented)	22

On the basis of the above, Aurizon Network sought approval for increments totalling $8.9 million ($4.6 million for Goonyella and $4.3 million for Blackwater)—representing two per cent of system allowable revenues. It said, if approved, the increments will be applied either in 2015-16 (consistent with the revenue cap arrangements) or as part of the finalisation of the 2014 draft access undertaking (2014 DAU).[8]

[7] Aurizon Network 2014a, p.20
[8] Aurizon Network 2014a, p.16

STAKEHOLDER COMMENTS

We published Aurizon Network's proposal on our website and requested submissions from stakeholders. We received submissions from: Anglo American; Asciano; Glencore; Peabody; Vale and the Queensland Resources Council (QRC).

Revenue adjustment amounts

Rebates

Stakeholders either did not comment on the rebates element of Aurizon Network's proposal or emphasised the importance of us independently verifying the calculations, particularly given the financial modelling underpinning this element of the proposal was not released publicly.[9]

Asciano was concerned that Aurizon Network's treatment of rebates in its revenue cap adjustment claim may be inequitable for certain access holders.[10] Asciano said that, if Aurizon Network recovers revenue refunded through rebates via the revenue cap adjustment mechanisms, this will impact all users and access holders, not just those with AFDs. It said AFDs are commercial, contractual financing arrangements between Aurizon Network and the mine customer for the relevant assets, and should not impact on third parties.

Asciano said Aurizon Network's approach for revenue recovery of over-payment of rebates in 2013-14 will effectively act to socialise the recovery across all users in the relevant system. Asciano believes proposed recovery of the rebates via the revenue cap adjustment mechanism is inequitable as it has the effect of socialising AFD risk to other users in the system. It said rebate adjustments should be managed directly with the individual party (including parties which have AFDs) rather than socialising the impact of these adjustments (whether they are positive or negative) over all other system users.

Further, Asciano said the proposed treatment of rebates:

- sets an incorrect precedent that may have negative impacts on take or pay arrangements for individual access holders
- provides no transparency as to whether the forecast of the individual AFDs is consistent with the volume forecast applied to reference tariffs
- does not provide clarity surrounding how AFD assets are accounted for in Aurizon Network's regulatory asset base (RAB).[11]

Peabody said, going forward, rebate adjustments for AFD holders should be removed from any subsequent year review of revenue and Aurizon Network should undertake reviews directly with holders of applicable agreements to maintain an accurate, agreeable and transparent process. Nevertheless, it said that, as an AFD holder, it supported these rebate adjustments being part of the process proposed by Aurizon Network, but would seek to better understand the position in a separate process.[12]

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[9] Vale 2014, p.1
[10] Asciano 2014, p.2
[11] Asciano 2014, p.3
[12] Peabody 2014, p.2

Electric charges

Stakeholders generally supported Aurizon Network’s proposed EC adjustments. Peabody endorsed Aurizon Network’s return of excess electric traction costs collected and noted that electric supply costs are generally a pass through arrangement, with a true-up in subsequent periods.[13]

Asciano was concerned with the forecasting methodology between diesel and electric volumes in the Blackwater system, as forecast tonnages have a strong impact on the Aurizon Network recovery of the AT5 tariff. Asciano suggested Aurizon Network make its forecasting approach and assumptions more transparent, given previous Aurizon Network concerns regarding the ability of the AT5 tariff to recover costs, particularly in the Blackwater system.[14]

Increments

All stakeholders opposed Aurizon Network's proposal to recover increments of $8.9 million from Blackwater and Goonyella access holders.

Key concerns raised by stakeholders included that the Aurizon Network proposal:

- did not demonstrate the relevant requirements of the 2010 AU had been met. In particular, stakeholders expressed concern that the higher tonnages in Blackwater and Goonyella were primarily due to factors other than activities undertaken by Aurizon Network, such as greater than expected mine production levels and unusually low rainfall in central Queensland in 2013-14.[15] Stakeholders said Aurizon Network's submission did not include any evidence demonstrating an increase in efficiency of the below-rail network[16]
- is based on volumes that remain substantially below contract, when coal producers are paying for contracted volumes. Stakeholders said Aurizon Network had not indicated that any month achieved or exceeded 100% of contract and considered that Aurizon Network should not be rewarded for delivering capacity that is less than the contracted capacity. Stakeholders said that Aurizon Network, in order to qualify for increments, needs to be able to demonstrate that contracted volumes could be exceeded (as a result of efficiency-based measures)[17]
- sought to double-count returns on capital projects, when these already receive the approved WACC (once deemed prudent and included in the RAB)[18]
- referenced a number of activities that should be considered prudent processes or prudent operation of the network that do not need to be separately incentivised. This includes the operation of longer trains, the integrated planning framework, multiple consist stowage and improved maintenance methods such as the alternative testing procedures[19]
- was inappropriate as it sought to claim increments under the 2010 AU provisions in the 2014 DAU (or UT4) regulatory period[20]
- seeks to reward Aurizon Network for a risk it doesn't bear under a revenue cap form of regulation[21]

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[13] Peabody 2014, p.2
[14] Asciano 2014, pp.5-6
[15] QRC 2014, p.3; Vale 2014, p.2
[16] Glencore 2014, p.1
[17] Anglo American 2014, p.2; Asciano 2014, p.4; Glencore 2014, p.2; Peabody 2014, p.1; QRC 2014, p.4; Vale 2014, p.2
[18] QRC 2014, p.5; Vale 2014, pp.4-5
[19] Vale 2014, pp.3-4
[20] QRC 2014, p.1

- is based on similar requirements to the draft incentive mechanism, which has not been approved, and approving increments would reward Aurizon Network for its part in delaying finalisation of the 2014 DAU.[22] Stakeholders also said any increments process or incentive mechanism should be based on properly developed key performance indicators (KPIs), with a benchmark level of performance (inputs) being established and assessed against an actual level of performance (outputs).[23]

[21] Anglo American 2014, p.2
[22] Anglo American 2014, p.2; QRC 2014, p.3
[23] Asciano 2014, p.4

AURIZON NETWORK'S RESPONSE

In accordance with the relevant provisions of the 2010 AU, we provided Aurizon Network with an opportunity to respond to stakeholder comments. On 19 December 2014, Aurizon Network provided a written response, the key elements of which are summarised below.

Revenue adjustment amounts

Rebates

With regard to rebates, Aurizon Network:

- noted Asciano's concerns, but said its revenue adjustment calculations are consistent with its previous adjustment charge submission and are in accordance with the relevant provisions of the 2010 AU. It said there is little scope for alternative treatment under the 2010 AU[24]
- said rebate adjustments will not be required in the UT4 period for most rebate arrangements, subject to discussions with AFD holders for multi-user spurs, and approval by the QCA as part of the finalisation of the 2014 DAU. It suggested this will provide a resolution of anomalies for users of multi-user spurs (such as Peabody).[25]

Electric charges

With regard to EC revenues, Aurizon Network said it:

- agrees with Asciano that accurate forecasts are desirable, but added that this is not always possible
- supports the continuation of the AT5 framework for the UT4 period, subject to any future revision of the framework approved by the QCA.

Increments

Aurizon Network maintained its view that it should be entitled to increments totalling $8.9 million. Its comments on the specific views of stakeholders are summarised in Table 3 below.

[24] Aurizon Network 2014b, pp.1-2
[25] Aurizon Network 2014b, pp.3-4

Table 3 Aurizon Network response to stakeholder issues

Stakeholder issue	***Aurizon Network response***
Increments should not be payable until a symmetrical KPI regime is in place.	This is not relevant to the QCA's assessment of the proposed increments.[26]
It is not appropriate to approve increments, as contracted volumes were not achieved.	The 2010 AU indicates the benchmark is forecast volumes approved by the QCA, not contracted volumes.[27]
The relatively high tonnages in the Blackwater and Goonyella systems were primarily due to factors other than activities undertaken by Aurizon Network (such as greater than expected mine production levels).	This is reflected in the fact it has only claimed around 12 per cent of over-recovered revenues as increments.[28]
The increments claim should not be considered under the terms of the 2010 AU.	The relevant clauses have been in place since June 2007, for the whole of the 2013-14 financial year, and are proposed for the UT4 period.[29]
A benchmark level of performance (inputs) should be established and assessed against an actual level of performance (outputs).	The benchmark measures are appropriate for the draft incentive mechanism but, as supply chain performance is also dependent on other parties, a broad range of objective and subjective measures are appropriate for the increments claim.[30]
Initiatives represent prudent processes or prudent operation of the network that do not need to be separately incentivised (i.e. 'normal' operations).	The draft incentive mechanism is designed to reward or penalise it for its day-to-day performance and it is reasonable to expect that, in the absence of this, its claim for increments should reflect similar principles provided the benefits associated with Aurizon Network's activities and initiatives are demonstrated as accruing substantially to other parties in the supply chain.[31]

[26] Aurizon Network 2014b, p.6
[27] Aurizon Network 2014b, p.6
[28] Aurizon Network 2014b, p.6
[29] Aurizon Network 2014b, p.7
[30] Aurizon Network 2014b, p.7
[31] Aurizon Network 2014b, p.7

QCA ANALYSIS AND DRAFT DECISION

In assessing Aurizon Network's proposal, we have considered the relevant obligations contained in the 2010 AU. We have also had regard to the arguments in favour of the proposal included in Aurizon Network's original submission, the comments made by stakeholders in their submissions, and the response provided by Aurizon Network.

Revenue adjustment amounts

Rebates

We have assessed Aurizon Network's proposal with regard to rebates and are satisfied the rebate amounts proposed have been accurately calculated. More specifically, we are satisfied that the proposed amounts to be recovered are consistent with rebates repaid to customers in 2013-14, on the basis that:

- railings within a nominated month, for the purpose of calculating rebates payable, were consistently treated and consistent with previous years' treatment
- rebates for particular mines, that are payable irrespective of whether take or pay is triggered, have been determined separately and correctly
- modelling provided by Aurizon Network indicates the treatment of rebates, and associated proposed recovery of revenues, has been determined in accordance with the relevant provisions of the 2010 AU.

While we are satisfied the rebate calculations have been determined consistent with the 2010 AU, we share Asciano's concern that Aurizon Network's treatment of rebates in its revenue cap adjustment claim may be inequitable for certain access holders.

In our draft decision on Aurizon Network's 2014 DAU (January 2015) we said we were not convinced that all users should be subject to volume risk with respect to possible under- or over-payment of rebates resulting from an AFD arrangement between Aurizon Network and a particular AFD holder. We indicated our interim position is to exclude this adjustment from the calculation of both adjusted allowable revenue (which replaces the concept of system allowable revenue in the 2014 DAU) and total actual revenue.[32]

This position would appear to deal with the concerns raised by both Asciano and Peabody (going forward) and was also supported by the QRC[33] in the 2014 DAU assessment process.

In this regard, we propose that the treatment of the 2013-14 rebate adjustments be re-examined as part of our finalisation of assessment of the 2014 DAU, to ensure they are dealt with consistently with the finally approved undertaking. This is with the knowledge that the 2014 DAU proposes that the duration and application of 2014 DAU reference tariffs be for the period 1 July 2013 to 30 June 2017.

Draft decision

1.1 Our draft decision is to accept, in-principle, Aurizon Network's calculation of under-recovery of rebates for 2013-14, but to re-examine the treatment of associated adjustments as part of finalisation of the assessment of the 2014 DAU.

[32] QCA 2015, p.413
[33] QRC 2013, p.97

Electric charges

We have accepted Aurizon Network's proposal to adjust the electric system allowable revenues to reflect the EC actual revenues received against forecasts. This is with the knowledge that it is consistent with previous years' adjustments and consistent with the 2010 AU provisions. We are also satisfied that the calculations have been conducted accurately.

While we note Asciano's ongoing concern regarding forecasting, particularly between diesel and electric volumes, we consider this issue can be included in the wider discussion about revenue and tariff setting in the assessment of the 2014 DAU.

Draft decision

1.2 Our draft decision is to accept Aurizon Network's proposal to return $9.0 million to access holders for over-recovery of electricity traction costs on its EC revenues, specifically:

(a) $1.2 million to Blackwater users

(b) $7.8 million to Goonyella users.

Increments

With regard to Aurizon Network's increments proposal, we are not convinced that the requirements of the relevant 2010 AU provisions have been met, and our draft decision is to not accept the proposed payment of an increment for 2013-14.

In forming this view, we consider some of the points made by Aurizon Network in its application, and response to stakeholders' submissions, are valid, including that:

- the view that increments should not be payable until a symmetrical KPI regime is in place is not relevant to our assessment of the proposed increments. While we are supportive of the development of a symmetrical KPI regime to apply to Aurizon Network in future, we accept this is not a requirement of the relevant 2010 AU provisions
- it is incorrect to consider that it is not appropriate to approve increments as contracted volumes were not achieved. While we believe any mechanisms to incentivise Aurizon Network's performance that are developed in future should be linked to contractual entitlements, we accept that the relevant provisions of the 2010 AU relate to forecast volumes approved by the QCA, not contracted volumes.

However, we share stakeholders' concerns that the achievement of volumes greater than forecast in 2013-14 in the Blackwater and Goonyella systems may have been due to factors other than activities undertaken by Aurizon Network. In that context, we note that:

- central Queensland coal mines produced at historically high levels in 2013-14, driven by incentives to maximise production in a period of falling international coal prices, while operating businesses characterised by relatively high fixed costs and low variable costs
- as reported by Energy Economics, rainfall over the central Queensland coal producing areas was significantly lower than average in 2013-14, with no flood events occurring during the wet season that were big enough to substantially disrupt mining or railing of coal.[34]

We also share stakeholders' concerns that Aurizon Network's proposal, and its response submission, did not include clear evidence demonstrating an increase in efficiency of the below rail network. With regard

[34] Energy Economics 2014, p.3

to the specific initiatives identified by Aurizon Network as relevant to its claim for increments, we make the following comments:

- operation of longer trains. While we fully support Aurizon Network's efforts to work with its customers to trial extensions of the operating length of trains in the Blackwater and Goonyella systems, it is not clear this fits the 2010 AU description of a whole of coal chain activity or initiative which has increased the efficiency of the below rail network. Instead, we consider it to be a normal commercial response to customer requests
- an integrated planning framework. We consider it encouraging that Aurizon Network is working to develop better and more integrated planning processes to address issues negatively affecting network availability and reliability, in conjunction with its stakeholders. However, our view is this represents prudent planning processes on behalf of Aurizon Network, not whole of coal chain activities that warrant additional reward via increments
- multiple consist stowage. Our view is that, while we also fully support Aurizon Network's efforts to work with train operators on these trials, this also represents an initiative we would expect a firm that is appropriately responsive to the needs of its customers to undertake in the normal course of business
- alternative testing procedures. It is evident Aurizon Network has been working actively over the UT3 period to develop a better understanding of the condition of the ballast on the CQCN, including through use of GPR.[35] We support Aurizon Network implementing more advanced testing techniques to allow better assessment of the condition of its ballast and rail, but we consider this to be part of Aurizon Network's delivery of its maintenance program
- asset renewal program for OHLE. Asset renewals will be included in Aurizon Network's RAB, if deemed prudent as part of our assessment of Aurizon Network's annual capital expenditure claims. We do not consider additional reward, beyond the ability to earn the regulated return on the RAB component, is warranted
- over-height detectors at level crossings. We consider it to be a positive outcome that installation of these detectors appears to have reduced OHLE incidents at the relevant level crossings (compared to the previous average) but we do not consider this to represent anything other than prudent management of the network by Aurizon Network
- contribution to construction of the Gracemere overpass. We note this item was included in Aurizon Network's 2012-13 capital expenditure claim. It was deemed prudent as part of our assessment of that claim and included in Aurizon Network's RAB, meaning it is eligible to earn the regulated return. As with other capital projects, we do not consider additional reward in the form of increments is warranted.

Given the above, we are not convinced there is clear evidence to show that actual volumes for the Blackwater and Goonyella systems for 2013-14 exceeding approved forecast tonnages, has, in whole or part, arisen as a direct result of whole of coal chain activities or initiatives of Aurizon Network (or its contractors) which have increased the efficiency of the below rail network.

We also share stakeholders' concerns regarding Aurizon Network's proposal that its claim for increments be considered under the 2010 AU provisions, as applied through the extended 2010 AU, during what will ultimately be the UT4 period. While we understand Aurizon Network's position that this is appropriate

[35] QCA 2014, p.139

because the relevant clauses have been in place since June 2007 and are proposed for the UT4 period, we note that our draft decision on the 2014 DAU (January 2015) proposes to:

- approve Aurizon Network's proposal that the duration and application of the 2014 DAU reference tariffs be for the period 1 July 2013 to 30 June 2017[36]
- require removal of the increment calculation and application provisions from the 2014 DAU.[37]

We also note some other aspects of our draft decision on the 2014 DAU, which we consider are relevant to the discussion of Aurizon Network's claim for increments, namely:

- we are proposing inclusion in the 2014 DAU of a process for development and approval of an incentive mechanism, including outlining a more detailed set of criteria, than included in the 2010 AU, that we consider a well developed incentive mechanism would need to meet. These criteria include that any mechanism be based on properly developed baselines, against which changes in performance can be measured[38]
- in the interests of better informing all stakeholders about Aurizon Network's performance, we are proposing that the 2014 DAU include more detailed and regular reporting of maintenance and performance information. We consider these reporting requirements will, in future, provide a better benchmark for assessing Aurizon Network's performance and the extent to which it has contributed to efficient operation of coal supply chains[39]
- we are proposing inclusion in the 2014 DAU of a new Part 7A on baseline capacity and supply chain alignment. We consider the processes detailed in Part 7A will act to:
  - provide for the efficient operation of, use of and investment in the CQCN and deliver the lowest overall supply chain logistics cost
  - address access holders' and access seekers' interests in contracting secure, reliable and sustainable tranches of capacity on the CQCN
  - broaden Aurizon Network's scope of participation to align baseline capacity and coal supply chain coordination with the maximisation of coal throughput in the CQCN.[40]

Overall, we consider the proposals contained in our draft decision on the 2014 DAU will:

- better incentivise Aurizon Network to undertake, and cooperate with, initiatives that act to improve the efficiency and productivity of coal supply chains
- provide a better developed benchmark for assessing Aurizon Network's contribution to the efficient operation of coal supply chains.

Draft decision

1.3 Our draft decision is to not accept Aurizon Network's proposal for payment of an increment of $8.9 million for the Blackwater and Goonyella systems for 2013-14.

[36] QCA 2015, p.24
[37] QCA 2015, p.415
[38] QCA 2015, pp.38-39
[39] QCA 2015, pp.102-109
[40] QCA 2015, pp.193-210

Draft decision

For the reasons outlined in this draft decision, we have decided to not approve Aurizon Network's 2013-14 revenue cap adjustment application.

As we are proposing to not approve the application, we consider it appropriate to release this draft decision and give stakeholders, including Aurizon Network, a further opportunity to comment on the proposal and our draft decision.

Stakeholders are requested to provide any further comments by Friday 20 March 2015.

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