



Ms Catherine Barker
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Queensland Competition Authority
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Draft Amending Access Undertaking to extend the term of the 2010 Access Undertaking

31 May 2016

Dear Catherine,

On 15 April 2016, Aurizon Network submitted a Draft Amending Access Undertaking (**April DAAU**) to the Queensland Competition Authority (**QCA**) for approval, to extend the Termination Date of the 2010 Access Undertaking (**2010AU**) to 30 September 2016.

As part of the April DAAU, Aurizon Network sought to finalise FY2016 Reference Tariffs and set Transitional Reference Tariffs for FY2017, which were aligned to the QCA's Consolidated Draft Decision (**CDD**) on Aurizon Network's 2014 Draft Access Undertaking (**2014DAU**).

On the 28 April 2016, the QCA issued its Final Decision on the 2014DAU. Subsequent to this decision, Aurizon Network re-consulted with individual stakeholders and industry groups regarding the appropriateness of updating the April DAAU, so that it was more closely aligned to the Final Decision. The majority of stakeholders expressed support for this process including the inclusion of a true up process in FY17.

Aurizon Network is still committed to achieving the approval of the 2014DAU by 30 June 2016 but is cognisant of the administrative efforts required by both the QCA and Aurizon Network to achieve final approval by this date. These efforts include time for:

1. the QCA and stakeholders to read and review large volumes of documentation, review financial models and check legal drafting;
2. Aurizon Network to resubmit documents;
3. the QCA to review the resubmitted documents and a consultation period if needed; and
4. Board approvals.

Even with best endeavours by all concerned, there remains a residual timing risk.

Therefore, the purpose of this submission is to formally withdraw the April DAAU, and re-submit this Final Decision DAAU (**May DAAU**), for approval by the QCA, under section 142 of the Queensland Competition Authority Act 1997 (Qld), to extend the term of the 2010AU to 30 September 2016.

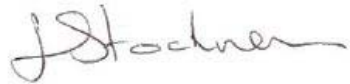
This May DAAU is closely aligned to the QCA's Final Decision on the 2014DAU and Aurizon Network's intention is to provide stakeholders with tariff certainty for FY2016 and to set transitional Reference Tariffs for FY2017. This is necessary to allow all parties to manage internal business management processes such as budgeting and auditor review of annual accounts.

Aurizon Network wishes to emphasise that while this extension DAAU will finalise the financial arrangements for FY2016, it is only relevant in the context of FY2017 if an approved 2014 Access Undertaking (**Approved Undertaking**) is not achieved by 30 June 2016. If an Approved Undertaking is achieved by the 30 June 2016 then the Allowable Revenues, System Forecasts, Reference Tariffs and true-up mechanisms for FY2017 will be consistent with that Approved Undertaking.

The detailed May DAAU proposal is contained in the Appendix attached.

Should you have any queries in relation to this DAAU, please do not hesitate to contact Jon Windle at networkregulation@aurizon.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lana Stockman', written in a cursive style.

Lana Stockman
Vice President Regulation

Appendix – Detailed May 2016 DAAU Proposal

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Summary of Aurizon Network's proposal

As part of this May DAAU, Aurizon Network is seeking to finalise the FY2016 Reference Tariffs and set FY2017 Transitional Reference Tariffs for the period 1 July 2016 to 30 September 2016. The proposed arrangements are based on the Final Decision released by the QCA on 28 April 2016. This should not, however, be interpreted as agreement of the Final Decision, which is subject to a further QCA approval.

Throughout the comprehensive consultation process, it became apparent that the majority of stakeholders' preferred to minimise the extent of any FY2016 Adjustment Charge,¹ which is necessary to reconcile the difference between transitional Reference Tariffs paid and the final Reference Tariffs confirmed for FY2016.

In outlining its proposal for FY2016 and FY2017, Aurizon Network has endeavoured to be consistent with the QCA's Final Decision. Nevertheless, in order to reflect the preference expressed by the majority of stakeholders, Aurizon Network proposes some departures from the Final Decision, which include:

- FY2014 and FY2015 revenue true-ups have been included in full in FY2017;
- The correction of the Goonyella and Blackwater FY2015 Revenue Cap Adjustments in the Final Decision allowable revenue, where Blackwater under-recovery of c. \$5mil was treated as over-recovery and Goonyella over-recovery of c. \$8mil was treated as under-recovery in FY2017; and
- The inclusion in the revenue true-ups of the over-recovery of EC Revenue from FY2014 and FY2015 as per the approved Revenue Cap submission in respect of those years. This results in lower true-ups of c. \$14m in FY2017. This affects Goonyella and Blackwater electric revenues only.

The above adjustments have been discussed directly with the QCA and stakeholders. The System Allowable Revenue (SAR) contained within this May DAAU has been adjusted to reflect the above changes (**Adjusted Final Decision SAR**).

It should be noted that the majority of stakeholders were receptive to the Adjusted Final Decision SAR and associated Reference Tariffs. Aurizon Network expects that the QCA will complete a consultation process where stakeholders will be given the opportunity to provide submissions on Aurizon Network's proposal.

¹ An Adjustment Charge will be necessary to reconcile the difference between transitional and the proposed final Reference Tariffs for FY2016. Aurizon Network will seek QCA approval of any Adjustment Charge through a separate regulatory process. Aurizon Network notes the timing difference of revenue true-ups is Net Present Value neutral.

Term

Aurizon Network proposes to extend the term of 2010AU to the earlier of 2014DAU approval or 30 September 2016. This is consistent with the April DAAU.

Current FY2016 transitional Reference Tariffs

The current transitional Reference Tariffs for FY2016 were established as part of the FY2015 Extension DAAU, approved by the QCA on the 5 June 2015 and reflect:

- The QCA's Draft Decision on MAR for FY2016;
- Revenue Cap adjustment amounts for FY2014;
- Remainder of the costs associated with the 2013 Flood Review Event that were not recovered in FY2015; and
- Volume forecasts based on the Aurizon Network's response to the QCA Draft Decision.

At the time of determining these tariffs, it was anticipated that a Final Decision would be in place and that the tariffs would have been trued-up by the end of FY2016.

Proposed Final FY2016 Reference Tariffs

Aurizon Network proposes to finalise financial arrangements for FY2016 by replacing the current transitional allowable revenues and volume forecasts with the Adjusted Final Decision SARs and Final Decision volume forecasts, and confirm it as the final Reference Tariffs for FY2016.

This would give all stakeholders greater financial certainty for FY2016. The Final Decision, including allowable revenues and volume forecasts, was selected as it is the most up to date decision from the QCA, noting that the current FY2016 transitional Reference Tariffs were based on the September 2014 QCA Draft Decision.

As mentioned above, the Adjusted Final Decision SARs presented excludes the FY2014 and FY2015 revenue true-ups², however, it includes the FY2014 Revenue Cap Adjustment and costs associated with the 2013 Flood Review Event.

A comparison between the FY2016 SARs and volume forecasts under the current transitional arrangements, as published in the QCA's Final Decision, and under Aurizon Network's proposal are provided in Tables 1 and 2.

Table 1 Proposed FY2016 Final SARs

| System | Transitional SARs | | Final Decision SARs | | Proposed Final SARs | |
|--------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | AT ₂₋₄ (\$m) | AT ₅ (\$m) | AT ₂₋₄ (\$m) | AT ₅ (\$m) | AT ₂₋₄ (\$m) | AT ₅ (\$m) |
| Blackwater | 323.6 | 105.8 | 362.0 | 103.6 | 322.4 | 99.5 |
| GAPE | 108.5 | - | 116.5 | - | 116.6 | - |
| Goonyella | 266.9 | 79.9 | 308.7 | 72.4 | 277.7 | 72.7 |
| Moura | 50.5 | - | 38.0 | - | 40.1 | - |
| Newlands | 37.3 | - | 21.2 | - | 28.1 | - |
| Total | 786.7 | 185.7 | 846.4 | 176.0 | 784.9 | 172.1 |

The difference between Aurizon Network's proposed final SARs and the QCA's published SARs for FY2016 is mainly attributable to the transfer of the FY2014 and FY2015 revenue true-ups to FY2017.

Table 2 Proposed FY2016 Final Volume Forecasts

| Volumes (nt million) | Transitional Net Tonnes | Final Decision Net Tonnes | Proposed Final Net Tonnes [^] |
|----------------------|-------------------------|---------------------------|--|
| Blackwater | 70.5 | 66.2 | 66.2 |
| GAPE | 17.5 | 15.3 | 15.3 |
| Goonyella | 112.1 | 112.1 | 112.1 |
| Moura | 13.5 | 13.0 | 13.4 |
| Newlands | 12.1 | 10.9 | 10.7 |
| Total | 225.6 | 217.4 | 217.6 |

[^] Ad-hoc services in the Newlands system should be omitted when setting Reference Tariffs. The QCA's published volumes omitted WIRP_NCL forecasts.

² Difference between the FY2014 and FY2015 Final Decision approved allowable revenues and FY2014 and FY2015 transitional revenues are proposed to be trued-up in FY2017 on an NPV neutral basis.

Aurizon Network has also provided the proposed final FY2016 Reference Tariffs for each system in table 3 below. These Reference Tariffs are based on the Adjusted Final Decision Maximum Allowable Revenues (MAR) and proposed Final Decision volume forecasts for FY2016.

Table 3 Proposed FY2016 Final Reference Tariffs

| FY16 Final Tariffs (\$) | Blackwater | GAPE | Goonyella | Moura | Newlands |
|--------------------------------|-------------------|-------------|------------------|--------------|-----------------|
| AT1 | 0.89 | 1.39 | 0.62 | 1.66 | 1.73 |
| AT2 | 2,108.51 | 13,109.03 | 1,335.86 | 631.58 | 282.39 |
| AT3 | 6.27 | 1.50 | 5.43 | 8.90 | 8.83 |
| AT4 | 2.14 | 3.23 | 1.13 | 1.41 | 1.27 |
| AT5 | 3.40 | - | 2.02 | - | - |

Arrangements to finalise FY2016

At the end of FY2016, Aurizon Network will calculate:

- An Adjustment Charge for the difference between the current FY2016 transitional Reference Tariffs and the final FY2016 Reference Tariffs confirmed by the QCA. The Adjustment Charge applicable to each Access Holder will be calculated on the basis of actual volumes railed and subject to further consultation and QCA approval as part of a separate regulatory process;
- Take or Pay, based on the final FY2016 SARs and volumes confirmed by the QCA; and
- Revenue Cap adjustments based on the difference between collected AT₂₋₄ and AT₅ revenues (inclusive of any Take or Pay and relinquishment fees) and the final FY2016 SARs confirmed by the QCA. Revenue Cap will also include the variation between actual and forecast payments attributable to rebateable assets. The variation between actual EC revenues and electric energy costs will be reconciled through an adjustment to the FY2017 EC Reference Tariff.

For guidance only, Aurizon Network has provided a high-level estimate of the potential FY2016 Adjustment Charge by System within Table 4. This is indicative only and is dependent on final volumes railed.

Table 4 Indicative FY2016 Adjustment Charge

| System | Indicative FY2016 Adjustment Charge [^] (\$m) | |
|--------------|--|---|
| Blackwater | 21 | Collection from Access Holders |
| GAPE | 22 | Collection from Access Holders |
| Goonyella | (6) | Return to Access Holders |
| Moura | (8) | Return to Access Holders |
| Newlands | (6) | Return to Access Holders |
| Total | 23 | Net collection from Access Holders |

[^] Negative indicates a return to the Access Holders in that System

Any difference between the final FY2016 SARs confirmed by the QCA as part of this May DAAU and the approved Undertaking SARs for FY2016 is proposed to be trued up in FY2017 as part of the final Approved Undertaking.

FY2017 Transitional Reference Tariffs

As part of this May DAAU, Aurizon Network also proposes to set FY2017 transitional Reference Tariffs for the period 1 July 2016 to 30 September 2016, based on the Adjusted Final Decision SARs for FY2017, in the event that an Approved Undertaking is not achieved by 30 June 2016.

As mentioned above, the Adjusted Final Decision SARs for FY2017 include the FY2014 and FY2015 revenue true-ups, which maintains NPV neutrality over the entire UT4 regulatory period, as well as the FY2015 Revenue Cap Adjustment.

Aurizon Network proposes to address any difference between the transitional Reference Tariffs established for FY2017 and the approved Undertaking Reference Tariffs for FY2017, through an Adjustment Charge for the period the transitional arrangement is in place, subject to QCA approval.

A comparison between the Final Decision SARs and volume forecasts and the proposed transitional SARs and volume forecasts for FY2017 are presented below.

Table 5 Proposed FY2017 Transitional SARs

| System | Final Decision SARs | | Proposed Transitional SARs | |
|--------------|-------------------------|-----------------------|----------------------------|-----------------------|
| | AT ₂₋₄ (\$m) | AT ₅ (\$m) | AT ₂₋₄ (\$m) | AT ₅ (\$m) |
| Blackwater | 377.9 | 82.9 | 421.1 | 96.7 |
| GAPE | 133.1 | - | 132.1 | - |
| Goonyella | 289.8 | 87.8 | 322.1 | 58.4 |
| Moura | 36.8 | - | 34.5 | - |
| Newlands | 21.9 | - | 14.5 | - |
| Total | 859.5 | 170.7 | 924.4 | 155.1 |

The difference between the proposed transitional SARs and the QCA's published Final Decision SARs for FY2017 is mainly attributable to the inclusion of FY2014 and FY2015 revenue true-ups, which have been transferred from FY2016, the correction of FY2015 Revenue Cap Adjustment and the inclusion in the revenue true-ups of the over-recovery of EC revenue in FY2014 and FY2015.

Table 6 Proposed FY2017 Transitional Volume Forecasts

| Volumes (nt million) | Final Decision Net Tonnes | Proposed Transitional Net Tonnes [^] |
|-------------------------|---------------------------|---|
| Blackwater | 67.8 | 67.8 |
| GAPE | 17.0 | 17.0 |
| Goonyella | 115.6 | 115.6 |
| Moura | 12.0 | 12.5 |
| Newlands | 9.0 | 9.0 |
| Total | 221.5 | 221.9 |

[^] The QCA's published volumes omitted WIRP_NCL forecasts.

For stakeholders' convenience, Aurizon Network has presented the proposed FY2017 transitional Reference Tariffs in table 7 below. These are based on the Adjusted FY2017 Final

Decision SARs and Final Decision volume forecasts, and include the FY2015 Revenue Cap adjustments approved by the QCA.

Table 7 Proposed FY2017 Transitional Reference Tariffs

| FY17 Transitional Tariffs (\$) | Blackwater | GAPE | Goonyella | Moura | Newlands |
|---|-------------------|-------------|------------------|--------------|-----------------|
| AT1 | 0.92 | 1.43 | 0.63 | 1.70 | 1.77 |
| AT2 | 2,161.22 | 13,436.76 | 1,369.26 | 647.37 | 289.45 |
| AT3 | 8.13 | 1.26 | 6.17 | 8.18 | 5.08 |
| AT4 | 2.87 | 3.40 | 1.27 | 1.30 | 0.76 |
| AT5 | 3.27 | - | 1.59 | - | - |

2015 Flood Review Event

The proposed FY2016 final Reference Tariffs and FY2017 transitional Reference Tariffs exclude the costs associated with the FY2015 flood Review Event, which is subject to a separate QCA approval process. The resulting impact on Reference Tariffs will be dealt with as part of that process.

Proposed Undertaking Amendments

As discussed above, to provide stakeholders with certainty in the event that an approved Undertaking is not in place by 30 June 2016, Aurizon Network requests that the QCA approves the attached May DAAU that incorporates the following amendments:

- All references to the 'Terminating Date' changed to 30 September 2016;
- Transitional provisions (section 12.4) updated to reflect the updated Terminating Date;
- Reference Tariffs for FY2016 and FY2017 updated to align with the Final Decision with above-mentioned adjustments; and
- The Adjusted Final Decision SARs and System Forecast volumes become the final SARs and System Forecast volumes for FY2016.

Aurizon Network has attached clean and mark-up versions of the DAAU, which incorporate the amendments listed above.

Glossary

In this extension DAAU letter:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the Central Queensland Coal Network;
- References to 2010AU are to the Undertaking approved on 1 October 2010 by the QCA;
- References to 2014DAU are to Aurizon Network's Draft Access Undertaking submitted in August 2014 to the QCA;
- References to Final Decision are to the QCA's Final Decision on the 2014DAU in April 2016;
- References to an approved Undertaking are to the Undertaking resulting from the final approval of the 2014DAU;
- References to Consolidated Draft Decision are to the Consolidated Draft Decision on Aurizon Network's 2014DAU issued by the QCA on 16 December 2015;
- References to current transitional Reference Tariffs are to the transitional Reference Tariffs established as part of the FY2015 Extension DAAU and approved by the QCA on the 5 June 2015;
- References to FY are to the relevant financial year ending 30 June; and
- Terms that are defined in the 2010AU have the meaning given in the 2010AU