



Ms Catherine Barker
Director – Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

1 August 2016

Dear Catherine,

Proposed FY2016 Adjustment Charges

I am writing to seek the approval of the Queensland Competition Authority (**QCA**) for FY2016 Adjustment Charges totalling \$20.99 million to be recovered from Access Holders in the Central Queensland Coal Network (**CQCN**) systems.

As part of the approved May 2016 Extension Draft Amending Access Undertaking (**May 2016 Extension DAAU**), Aurizon Network has outlined the arrangements to finalise FY2016 tariffs which includes an Adjustment Charge for the difference between the FY2016 transitional Reference Tariffs and the final FY2016 Reference Tariffs confirmed by the QCA as part of the May 2016 Extension DAAU.

This submission comprises an explanatory memorandum and a financial model. The memorandum is presented in a format which is suitable for publication should the QCA choose to do so. The model contains specific information on individual Train Services and accordingly Aurizon Network requests that it is not published as it contains information that is confidential to Access Holders.

For transparency, Aurizon Network provided separate extracts of the financial model to the relevant Access Holders (Aurizon Operations, Pacific National, Rio Tinto, BMA, BMC, BMA Rail, Glencore, Sojitz and Cockatoo Coal) in advance of this submission. Where Access Holders have agreed to the calculations, copies of email correspondences have been provided to the QCA with this submission.

If approved by the QCA, the Adjustment Charges will be recovered from or repaid to Access Holders concurrent with the invoicing of Access Charges for the month in which the QCA's approval is provided.

Should you have any queries in relation to this request for approval, please do not hesitate to contact Ron Huang on networkregulation@aurizon.com.au.

Yours sincerely,


Donna Bowman
Network Regulation Manager – Access Undertaking

FY2016 Adjustment Charges Explanatory Memorandum

Background

Introduction

Aurizon Network provides this submission to the Queensland Competition Authority (**QCA**) detailing the methodology, data and assumptions used to determine Adjustment Charges for FY2016. Further, Aurizon Network requests the approval of the recovery of Adjustment Charges, totalling \$20.99 million, from Access Holders in accordance with the provisions outlined in Schedule F of Aurizon Network's 2010 Access Undertaking (**2010AU**)¹.

This submission follows the approval of the May 2016 Extension Draft Amending Access Undertaking (**May 2016 Extension DAAU**), provided to the QCA on 31 May 2016, to provide pricing, revenue and cost certainty for Aurizon Network and coal industry customers associated with final Reference Tariffs for FY2016 and transitional Reference Tariffs for FY2017.

In particular, the May 2016 Extension DAAU outlined the following for approval by the QCA:

- the extension of the term of the 2010AU to the earlier of 2014 Draft Access Undertaking (**2014DAU**) approval or 30 September 2016;
- confirmation of final Reference Tariffs for FY2016;
- confirmation of the arrangements to finalise FY2016 tariffs which include an adjustment charge for the difference between the FY2016 transitional Reference Tariffs and the final FY2016 Reference Tariffs confirmed in the May 2016 Extension DAAU; and
- the establishment of transitional Reference Tariffs for FY2017.

The May 2016 Extension DAAU was approved by the QCA on 23 June 2016.

The Adjustment Charges in this submission are calculated as per the requirements of Clause 2.3 in Schedule F.

Schedule F Provisions

Schedule F, Clause 2.3.1, provides that the difference between the Access Charges paid or payable by Access Holder (**Actual Access Charges**) and the Access Charges that would have been paid or payable by that Access Holder if the Access Charges were calculated in accordance with the approved Reference Tariffs from the Effective Date (**Final Access Charges**), is to be reimbursed to, or recovered from, Access Holders.

Clause 2.3.3 (b) also stipulates that Aurizon Network must submit to the QCA proposed Adjustment Charges if:

¹ Schedule F details the pricing arrangements for all coal-carrying train services in the Central Queensland Coal Region (CQCR).

- the QCA approves a variation of a Reference Tariff in accordance with Clause 2.2 and that variation applies or takes effect on a date prior to the date on which the QCA approves the variation; or
- this Undertaking specifies that a Reference Tariff is applicable or effective from a date prior to the date on which that Reference Tariff was approved by the QCA.

Clause 2.3.4(a) requires that where Aurizon Network submits Adjustment Charges in accordance with Clause 2.3.3, the submission must:

- identify, subject to Clause 2.3.9, the Access Holders in respect of whom the proposed Adjustment Charges are to be applied;
- set out the proposed Adjustment Charges for each Access Holder including details of how those proposed Adjustment Charges were calculated; and
- indicate the billing period(s) in respect of which the proposed Adjustment Charges are to be applied.

The Adjustment Amounts cover the following Reference Tariff components:

- Access Charges for track infrastructure (AT₁₋₄); and
- Access Charges for electric infrastructure (AT₅).

The proposed Adjustment Charges to be recovered from or returned to Access Holders in each of the Central Queensland Coal Network (CQCN) systems are for the period of 1 July 2015 to 30 June 2016, and are summarised in Table 1 below:

Table 1 Proposed FY2016 Adjustment Amounts

System	AT ₁₋₄ (\$m)	AT ₅ (\$m)	Interest (\$m)	Total (\$m)
Blackwater	12.28	3.33	0.21	15.82
GAPE	21.07		0.27	21.35
Goonyella	7.01	(8.46)	(0.02)	(1.47)
Moura	(8.03)		(0.11)	(8.14)
Newlands	(6.48)		(0.08)	(6.57)
Total Adjustment Amounts	25.85	(5.13)	0.27	20.99

Extracts of the financial model have been provided separately to Access Holders (Aurizon Operations, Pacific National, Rio Tinto, BMA, BMC, BMA Rail, Glencore, Sojitz and Cockatoo Coal) in advance of this submission. Access Holders' agreements with the calculations have been provided to the QCA as part of this submission.

In addition, a detailed financial model has been prepared by Aurizon Network and provided to the QCA in electronic form in support of this submission and in accordance with Clause 2.3.4. The information includes:

- calculations supporting the AT₁₋₄ and AT₅ Adjustment Amounts for each system and access holder, being the difference between Actual Access Charges and Final Access Charges;

- extracts from Aurizon Network's billing system on the actual revenues collected; and
- interest calculations by month and access holder.

Apart from the financial model, this submission is presented in a format which is suitable for publication, should the QCA elect to do so, in accordance with Paragraph 2.3.4(b). The financial model contains specific information on individual Train Services and accordingly Aurizon Network requests that it is not published as it contains confidential Access Holder information. Outputs from both the model and the billing system are summarised in this submission.

Calculation of Adjustment Amounts

Introduction

Within Schedule F, clauses 2.3.1(a) and 2.3.1(f) provide the methodology detailing how Aurizon Network will calculate the Adjustment Amount and recover from, or reimburse to (as applicable), each relevant Access Holder.

The methodology is based on the differences between Actual Revenues and the revenues that would have been paid or payable if the Access Charge were calculated in accordance with the approved Reference Tariffs from the Effective Date for each system and the interest calculated on the total differences.

Difference between Actual and Final Access Charges

The Actual and Final Access Charges paid or payable by Access Holders for individual Train Services are set out in detail in the financial model supporting the calculation of the Adjustment Charges. The model has been provided to the QCA with this submission.

Interest

In accordance with Schedule F, clause 2.3.2, the following key assumptions have been adopted in the calculation of the interest amounts to apply to the Adjustment Amounts:

- Interest has been calculated by reference to the Adjustment Amount for each month for each individual Train Service (origin/destination pair).
- The interest for each individual Train Service accrues day by day, then compounds on a month-by-month basis.
- Rates are the mid-point Bank Bill Swap Rates published by the Australian Financial Markets Association for the relevant business day immediately prior to the 21st of each month.
- Due dates are based on the due dates of the actual monthly billing invoices.
- Interest has been calculated assuming QCA approval and subsequent collection / payment of amounts due / payable by 30th September 2016.

The total value of the interest calculated is summarised in Table 2 below.

Table 2 Adjustment Amounts Interest Calculation

System	Total Interest (\$m)
Blackwater	0.21
GAPE	0.27
Goonyella	(0.02)
Moura	(0.11)
Newlands	(0.08)
Total	0.27

Adjustment Amounts – by System

The total Adjustment Amounts, inclusive of interest, are summarised for each system in Table 3 below.

Table 3 Proposed FY2016 Adjustment Amounts by System including interest

System	Total (\$m)
Blackwater	15.82
GAPE	21.35
Goonyella	(1.47)
Moura	(8.14)
Newlands	(6.57)
Total	20.99

Adjustment Amounts – by Access Holder

The total Adjustment Amounts, inclusive of interest by Access Holder have been provided in the models submitted to the QCA.