

File Ref: 1394745

25 November 2019

Mr Jon Windle
Manager Network Regulation (Access Undertaking)
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Windle

Notice of final decision Aurizon Network's 2018–19 revenue adjustment

The Queensland Competition Authority has determined that Aurizon Network has appropriately calculated all of the revenue adjustments proposed in its amended application, submitted on 27 September 2019. The QCA has therefore decided to approve Aurizon Network's amended revenue adjustment amount for 2018–19, as per clause 4.3(p) of Schedule F of the 2017 access undertaking.

The QCA's review of the revenue adjustment is summarised in the attached decision notice. The notice includes a brief overview of the basis of our assessment and our main findings. This is a written notice for the purpose of clause 4.3(n)(i) in Schedule F of the 2017 access undertaking.

If you have any questions about this decision notice, please contact Pag Arao-Arao on 07 3222 0560 or by email at pag.arao-arao@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

DECISION NOTICE

AURIZON NETWORK'S 2018–19 REVENUE ADJUSTMENT AMOUNTS

25 November 2019

The Queensland Competition Authority has made a decision to approve the 2018–19 revenue adjustment amount of \$11.9 million, submitted by Aurizon Network on 27 September 2019, under the 2017 Access Undertaking (UT5). The QCA considers that Aurizon Network has calculated the adjustment amounts in accordance with clause 4.3 Schedule F.

Revenue adjustment assessment process

The 2017 access undertaking (UT5) requires that Aurizon Network submit a proposal to refund or recoup any over- or under-recovery of its allowable revenues by 30 September each year (sch. F, cl. 4.3(h)).

The revenue adjustments are the difference between the maximum allowable revenue (MAR) plus any allowable adjustments (collectively termed the adjusted allowable revenue (AAR)), and the total actual revenue (TAR) collected in that year, from the approved AT2–AT5 reference tariffs.

Clause 4 of Schedule F sets out the assessment process for a revenue adjustment application. We will approve the application if we are reasonably satisfied that the adjustment amount is calculated in accordance with clause 4.3 (sch. F, cl. 4.3(m)). The approved revenue amounts then adjust the second-year's system allowable revenues and corresponding AT2–AT5 reference tariffs (sch. F, cl. 4.4).

If we are not reasonably satisfied that the revenue adjustment amount is calculated in accordance with clause 4.3, we must refuse to approve it. We then issue a notice to Aurizon Network, explaining our reasons for refusal and how Aurizon Network is required to amend its proposal for resubmission (sch. F, cl. 4.3(n)(ii)).

We have closely checked Aurizon Network's application and supporting models¹ against all available information (publicly available and confidentially provided), to determine whether the calculations in this revenue assessment process have been performed in accordance with the 2017 access undertaking.

Aurizon Network's proposal

On 27 September 2019, Aurizon Network submitted its revenue adjustment proposal for a net refund of \$11.9 million for the 2018–19 financial year (see Table 1 for system-specific over- and under- recoveries).

¹ Aurizon Network provided models for [put in the full list: on volumes, tariffs and take-or-pay calculations, and the adjustment calculations

Table 1 2018–19 revenue adjustment amounts (\$ million)

<i>System</i>	<i>Non-electric</i>	<i>Electric</i>	<i>Total</i>
Blackwater	- 7.83	- 2.76	- 10.58
Goonyella	- 1.07	0.24	- 0.83
Moura	0.02		0.02
Newlands	- 0.12		- 0.12
GAPE	- 0.40		- 0.40
Total	- 9.39	- 2.52	- 11.91

Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a refund.

Source: Aurizon Network, 2018–19 Revenue Adjustment Explanatory Memorandum, September 2019, p. 17.

Stakeholder consultation

We invited stakeholder submissions on Aurizon Network's 2018–19 revenue adjustment proposal, but did not receive any responses.

Total actual revenues and adjustments

Total actual revenues represent the collected revenues made up of the system reference tariffs (including cross-system AT2–AT5 tariffs (schedule F, cl. 4.3(d)–(g))), billed to access holders on all railed volumes in the financial year, and any take-or-pay amounts payable.

Aurizon Network submitted detailed monthly data demonstrating the calculation of the TAR. The TAR is mainly made up of system and cross-system AT2–AT5 tariffs (schedule F, cl. 4.3(d)–(g)) and some take-or-pay.

Take-or-pay and cross-system revenues

Aurizon Network provided billing information on how it calculated the take-or-pay under its access contracts. Take-or-pay amounts were triggered in the Moura system in 2018–19. Aurizon Network's total cross-system and take-or-pay revenues for 2018–19 were \$30.4 million, comprising \$23.1 million from non-electric and \$7.3 million electric customers.

We are satisfied that:

- the take-or-pay revenues were accurately estimated on the basis that railings within a nominated month, for the purposes of annual and variable take-or-pay, were consistently treated; and
- any cancellations (if any) due to a 'Aurizon Network Cause' were appropriately attributed and the methodology in standard access agreements for various access undertakings has been applied correctly.

We were able to confirm that Aurizon Network had correctly calculated the take-or-pay that applied for agreements signed during each undertaking period (schedule F, cl. 4.3(d)(ii)).

Total actual revenues

Aurizon Network's submitted total actual revenues of \$893 million for 2018–19 including all take-or-pay and cross-system traffic revenues received (see Table 2).

Table 2 Total actual revenues (including take-or-pay, cross-system revenues) (\$ million)

<i>System</i>	<i>Non-electric</i>	<i>Electric</i>	<i>Total</i>
Blackwater	340.25	75.66	415.91
Goonyella	281.34	51.56	332.90
Moura	38.77		38.77
Newlands	10.21		10.21
GAPE	95.20		95.20
Total	765.77	127.23	893.00

Source: Aurizon Network, 2018–19 Revenue Adjustment Explanatory Memorandum, September 2019, p. 17.

The QCA is satisfied that Aurizon Network calculated its system, and cross-system tariff revenues in accordance with the approved reference tariffs established under the Reference Tariff DAAU².

Volumes

Aurizon Network's total actual revenues collected are based on amounts billed against each customers' actual railings achieved in that period (see Table 3).

Table 3 2018–19 forecast and actual volumes - in net tonnes (millions, NT)

<i>System</i>	<i>Approved forecasts</i>	<i>Actual tonnages</i>
Blackwater	64.5	64.9
Goonyella	124.8	124.4
Moura	15.0	13.6
Newlands	12.6	12.6
GAPE	17.0	17.1
Total	233.8	232.7

Source: Aurizon Network, 2018–19 Revenue Adjustment Explanatory Memorandum, September 2019, p. 8.

The gross tonne kilometres, net tonnes, net tonnes kilometres and electric gross tonne kilometres submitted by Aurizon Network were reconciled to publicly available information in Aurizon Network's quarterly performance reports and 2018–19 annual report.

System allowable revenues and adjustments

System annual allowable revenues represent the approved amounts Aurizon Network are set to recover in each year during the term of its approved undertaking. Each system's annual allowable revenues are published in Schedule F of the 2017 AU.

Under the revenue adjustment process in Schedule F cl. 4.3(c), Aurizon Network can submit adjustments to the annual allowable revenues. Aurizon Network's 2018–19 proposal outlined its claim for the following cost adjustments to the allowable revenue under Schedule F, cl. 4.3(c).

² The QCA approved the Reference Tariff DAAU on 24 June 2019

Rebate adjustments

The revenue calculations include amounts paid as rebates to access holders who have provided Aurizon Network with funds to underwrite capital investments. Schedule F, cl. 4.3(c)(vi) of UT5 allows for an adjustment to be made for the difference in the actual and forecast payment of rebates.

Aurizon Network has calculated a net return to access holders of \$0.48 million for AT2-4 and a net recovery from access holders of \$0.08 million for AT5 (see Table 4 for system-specific rebates).

Table 4 Aurizon Network rebates by system (\$ million)

<i>System</i>	<i>AT2–AT4 rebate adjustment</i>	<i>AT5 rebate adjustment</i>	<i>Total</i>
Blackwater	– 0.67		– 0.67
Goonyella	0.21	0.08	0.29
Newlands	– 0.02		– 0.02
Total	– 0.48	0.08	– 0.40

Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a return. There are no rebate arrangements covering mines in the Moura and GAPE Systems or rebate arrangements in electric infrastructure in the Blackwater system. Source: Aurizon Network, 2018–19 Revenue Adjustment Explanatory Memorandum, September 2019, p. 17.

Aurizon Network provided a detailed model of the rebate adjustments. We verified Aurizon Network's modelling and are satisfied with Aurizon Network's claim under the rebate adjustments.

MCI, CPI and WPI adjustments

The Maintenance Cost Index (MCI) is a weighted index of several separate indices, used in calculating components of reference tariffs. The MCI is forecast and subject to adjustment for the actual MCI (reflecting the actual outcomes of the several separate indices that make up the MCI)—applied to maintenance costs—under the revenue adjustment mechanism (cl. 4.3(c)(i) of Schedule F).

Similarly, clause 4.3 (c)(ii) of Schedule F allows adjustments to approved operating costs resulting from the movement in Consumer Price Index (CPI) and Wage Price Index (WPI) against forecast growth.³

This is the first year under UT5 that the maintenance and operating cost indices are assessed.

For the maintenance costs index, actual MCI for the year was greater than the forecast MCI in 2018–19, while the actual CPI and WPI were less than the forecast CPI and WPI. This has resulted in a net recovery from access holders of \$0.8 million for AT2-4 tariffs and \$0.04 million for AT5 tariffs due to MCI-related adjustments, and a return to access holders of \$0.9 million for AT2-4 tariffs from CPI and WPI-related adjustments.

We are satisfied that the forecasts indices submitted by Aurizon Network are consistent with modelling assumptions underpinning approved reference tariffs and that the actual indices used are sourced and applied correctly.

Other adjustments—electricity connection costs and compliance costs

Aurizon Network can submit a claim for adjustments on allowable revenues relating to costs associated with, among other things:

- connection to an electricity transmission or distribution network for its electric traction—cl. 4.3(c)(iii)

³ CPI series: All Groups – Brisbane (ABS Publication No. 6401.0, Tables 1 and 2, Series ID A2325816R). WPI series: Queensland, Private, All Industries (ABS Publication No. 6345.0, Table 3a, Series ID A2704548F).

Aurizon Network has submitted adjustments for a net return to access holders of \$0.03 million for AT5 reference tariffs, which is the difference between forecast costs used in determining the reference tariff components for 2018–19, and the actual amounts paid to Powerlink Queensland and Ergon Energy for the connection of Aurizon Network's electric infrastructure to those network and retailer.

- the recovery of compliance costs, subject to the QCA's approval, not recoverable elsewhere—cl. 4.3(c)(vii)

Aurizon Network has calculated \$0.07 million compliance costs relating to the 2017 AU not recovered elsewhere in the undertaking, which constitute a recovery from access holders.

Table 5 summarises costs and other adjustments made to allowable revenues.

Table 5 Other adjustments to allowable revenues – MCI, CPI, WPI adjustments and other (electricity connection and compliance costs) (\$ million)

<i>System</i>	<i>Non-electric</i>	<i>Electric</i>	<i>Total</i>
Blackwater	0.02	– 0.01	0.01
Goonyella	– 0.04	0.01	– 0.03
Moura	0.02		0.02
Newlands	– 0.01		– 0.01
GAPE	– 0.03		– 0.03
TOTAL	– 0.05	0.01	– 0.04

Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a return. Source: Aurizon Network, 2018–19 Revenue Adjustment Explanatory Memorandum, September 2019, p. 17.

Our analysis shows that costs associated with electricity connection charges from electric infrastructure providers are appropriately tracked, and invoices supplied by Aurizon Network have reflected actual costs incurred. We consider these costs pass-through as appropriate.

In our decision on Aurizon Network's 2017–18 revenue adjustment application⁴—assessed under transitional arrangements at the time—we accepted Aurizon Network's approach to submit the 'difference between the actual costs and those included in the 2017 AU approved compliance costs'⁵ in the 2018–19 revenue adjustment submission following approval of UT5. In doing this, we recognised that there would be additional compliance costs not included in the 2017 AU's costs during the previous transitional year.

Our analysis shows that the compliance costs reflect costs of audit works not reflected in its UT5 compliance application. In this instance, we consider this warrants inclusion into the revenue adjustment calculation.

Decision

For the reasons discussed above, the revenue adjustment amount application as submitted by Aurizon Network on 27 September 2019, satisfies the requirements of the 2017 access undertaking. The QCA's decision is therefore to approve the total adjustment.

Table 6 shows a summary of 2018–19 revenue adjustment amounts for each system and all adjustments made to total revenues received and allowable revenues.

⁴ QCA – 2017–18 revenue adjustment, Decision, November 2018, p.12

⁵ Aurizon Network – 2017–18 revenue adjustment, Submission, September 2018, p.12

Table 6 Approved allowable revenues and adjustments (\$ million)

<i>System</i>	<i>Allowable revenues in Schedule F</i>	<i>Rebates</i>	<i>Other (MCI, CPI, electric connection, compliance costs)</i>	<i>Adjusted allowable revenues</i>	<i>Total actual revenues (per Table 2)</i>	<i>2018-19 Revenue Adjustment Amount</i>
<i>Non-electric</i>						
Blackwater	333.07	- 0.67	0.02	332.42	340.25	- 7.83
Goonyella	280.11	0.21	- 0.04	280.28	281.34	- 1.07
Moura	38.77		0.02	38.78	38.77	0.02
Newlands	10.13	- 0.02	- 0.01	10.09	10.21	- 0.12
GAPE	94.84		- 0.03	94.81	95.20	- 0.40
Sub-total	756.92	-0.48	- 0.05	756.38	765.77	- 9.39
<i>Electric</i>						
Blackwater	72.91		- 0.01	72.91	75.66	- 2.76
Goonyella	51.71	0.08	0.01	51.80	51.56	0.24
Sub-total	124.62	0.08	0.01	124.71	127.23	- 2.52
TOTAL	881.54	0.08	- 0.04	881.09	893.00	- 11.91

Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a return.