

File Ref: 1403717

21 February 2020

Mr Jason Livingston
Acting Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Livingston

Approval: Consolidation draft amending access undertaking (the Consolidation DAAU)

The Queensland Competition Authority (QCA) approved Aurizon Network's consolidation draft amending access undertaking (the Consolidation DAAU) on 21 February 2020.

The attached decision notice sets out the basis for our decision.

This letter and decision notice will be published on the QCA website for stakeholders' information.

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 CONSOLIDATION DAAU—DECISION

21 February 2020

The Queensland Competition Authority approved Aurizon Network's Consolidation DAAU, under section 142(2) of the *Queensland Competition Authority Act 1997*.

Background

Aurizon Network's 2017 access undertaking (UT5) sets out the general terms and conditions under which Aurizon Network will provide access to its rail infrastructure in central Queensland, including system reference tariffs, volume forecasts and allowable revenues.

In October 2019, Aurizon Network submitted a draft amending access undertaking seeking to amend 2019–20 volumes, allowable revenues and reference tariffs (the volume reset DAAU). The volume reset DAAU also coincided with our assessment of Aurizon Network's revised UT5 DAAU (provided in September 2019), with the outcomes of these processes overlapping, including in relation to 2019–20 volumes, revenues and reference tariff components in schedule F of UT5.

On 19 December 2019, we approved Aurizon Network's submitted revised UT5 DAAU.¹ We also accepted, in principle, key aspects of the volume reset DAAU, setting out our preliminary views on the issues raised. We noted Aurizon Network's intention for the outcomes from each of the two DAAUs to be reflected in the other and transposed into an 'operational' access undertaking.²

Aurizon Network's consolidation DAAU

On 20 December 2019, Aurizon Network submitted a draft amending access undertaking DAAU (the consolidation DAAU) seeking to incorporate its 2019 volume reset DAAU into the approved undertaking (as set out in the revised UT5 DAAU).

Aurizon Network said the consolidation DAAU only reflected the changes proposed by the volume DAAU, in line with our preliminary views.³

¹ QCA, *Aurizon Network's Revised UT5 Draft Amending Access Undertaking*, decision, December 2019

² QCA, *Aurizon Network's volume reset DAAU*, QCA preliminary response, December 2019

³ Aurizon Network, *Draft Amending Access Undertaking to consolidate the Revised UT5 Access Undertaking and the QCA's preliminary position on the 2019 Volume Reset Draft Amending Access Undertaking*, December 2019 (Aurizon Network supporting submission), p. 1.

This included:

- resetting 2019–20 volume forecasts to better reflect prevailing market conditions, to 240 million tonnes (from the previous 248.2 million tonnes), mainly due to the shortfalls driven by the Blackwater and Goonyella systems (down 2.8 and 5.4 million tonnes respectively)
- adjusting 2019–20 allowable revenues to account for: lower variable maintenance costs attributable to the volume reset; the forecast reduction in electric infrastructure charges attributable to lower Transmission Network Service Provider (TNSP) costs; and a proposed 'acceleration' of the 2018-19 revenue cap adjustment, such that it is reflected in reference tariffs during 2019–20, rather than in 2020-21
- updating the 2019–20 electric energy charge (EC) and the QCA levy to reflect the latest EC cost forecasts and updated estimate of the QCA's regulatory fees
- updating the nominal train payload for both the Newlands (diesel) and Blackwater (electric) systems to better reflect the train configurations operating in those systems
- revising reference tariffs accordingly.⁴

Aurizon Network said that following our decision on the consolidation DAAU, it will submit an adjustment charge (sch. F, cl. 6 of UT5) to complete a single, all-encompassing financial reconciliation of the 'final' 2019–20 allowable revenues and reference tariffs.⁵

Regulatory process

Under the *Queensland Competition Authority Act 1997* (QCA Act), Aurizon Network can submit a voluntary DAAU to amend the approved access undertaking (s. 142(1)). We must consider the DAAU and either approve, or refuse to approve, the DAAU (s. 142(2)), having regard to the matters mentioned in section 138(2) (s. 143(2)).

As required under section 143 of the QCA Act, we have published this DAAU, sought submissions, and considered the DAAU having regard to the matters mentioned in section 138(2) of the QCA Act.

We did not receive any submissions in response to the consolidation DAAU.

In this instance, we have chosen to proceed to a decision on the consolidation DAAU without first sharing our views on the proposal with stakeholders. We consider the interests of stakeholders will be served by a timely decision and there is little to be gained from further consultation given stakeholders have already had an opportunity to comment on the substantive parts of the proposal through the volume reset DAAU and the revised UT5 DAAU.

We consider that we have met our statutory obligations in this matter in proceeding this way.

QCA assessment and decision

Our decision is to approve Aurizon Network's consolidation DAAU under section 142(2) and in compliance with section 143. In making this decision, we have had regard to the assessment criteria (s. 138(2)) in considering the:

- principles of the proposed amendments to volumes, allowable revenues and reference tariffs
- accuracy of reflecting the amendments within the revenue and tariff modelling
- corresponding amendments in schedule F of the access undertaking.

We consider that approving the amendments proposed in the consolidation DAAU is consistent with the pricing principles of Part 5 of the QCA Act (ss. 138(2)(g) and 168A), and ensures efficient operation and use of Aurizon

⁴ Aurizon Network, *FY2020 Volume Reset Draft Amending Access Undertaking*, October 2019, pp. 3, 8-12, Appendix A.

⁵ Aurizon Network supporting submission, p. 2.

Network's infrastructure in the Central Queensland coal network (s. 138(2)(a)). This approval is also consistent with the legitimate business interests of Aurizon Network, and the interests of access seekers and holders (s. 138(2)(b), (e), (h)).

We note the proposed amendments are consistent with our past decisions and views, and in this instance, we have not been provided with any reason to change them. Our detailed assessment of the various elements of Aurizon Network's proposal is set out below.

Volume forecast reset for 2019–20

We consider Aurizon Network's proposal to reset volume forecasts for 2019–20 is a reasonable way to reset volumes and was undertaken in a transparent way using a common method. Although the annual revenue adjustment process (in sch. F, cl. 4.3 of UT5) is intended to achieve the same purpose, we accept that the 'unusual circumstances'⁶ around timing of the approval of UT5 reduced the usefulness of that approach, making it counterproductive at that time.

Resetting volumes and revenues now provides greater certainty on revenue recovery for Aurizon Network (s. 138(2)(b)). We note that the volume reset is reasonable as the forecast more accurately reflects actual volumes railed. We consider establishing accurate volume forecasts for 2019–20 would ensure any adjustments to allowable revenues, including a likely adjustment charge, do not unfairly impact either Aurizon Network or its customers (ss. 138(2)(b), (h)). We also note stakeholders have not opposed this proposal (ss. 138(2)(e), (h)).

Adjustments to allowable revenue

We consider Aurizon Network's proposal to adjust 2019–20 allowable revenues will support the efficient operation and use of Aurizon Network's infrastructure in the Central Queensland coal network (s. 138(2)(a)) and is consistent with the legitimate business interests of Aurizon Network, and the interests of access seekers and holders (s. 138(2)(b), (e), (h)).

The approved adjustments reflect:

- the approved 2018–19 revenue adjustment amounts⁷ which will return \$12.6 million to access holders in 2019–20 (rather than 2020–21).

We recognise that volume volatility exists between the forecast number used in the final approved undertaking and the current market railing conditions. We therefore consider it reasonable to mitigate the impact of the reset volumes on 2019–20 reference tariffs.

In 'bringing forward' the 2018–19 revenue adjustment amounts, higher than expected price fluctuations can be avoided. We also recognise that it is in the interest of Aurizon Network and its access holders to minimise the impact of numerous adjustments on Aurizon Network and access holders in the regulatory process.

- a corresponding reduction in the variable maintenance component due to the forecast reduction in volumes, of \$2.1 million, as reflected in the AT1 reference tariffs.

For the AT1 reference tariffs, we consider it a reasonable application, and consistent with a tariff designed to change with volume, that a reduction in forecast throughput would have a corresponding reduction in the variable maintenance charge.

⁶ QRC, *Aurizon Network's FY2020 volume reset DAAU* (submission), November 2019, p. 2.

⁷ QCA, *Aurizon Network's 2018–19 revenue adjustment amount*, decision, November 2019.

- a reduction in the electric transmission charges of \$15.1 million, negotiated with the TNSP. Aurizon Network also recognised the reallocation of variable TNSP costs to the EC Charge, as provided for in the 2019 Electric Traction DAAU.⁸

For electric infrastructure charges (AT5), it is reasonable for Aurizon Network to pass on the costs of electric transmission and connect cost-savings from lower (TNSP) charges to its customers, and incorporate the reallocation of costs, as provided for in the approved 2019 Electric Traction DAAU.⁹

Other matters—update for the 2019-20 EC, the QCA levy and changes to the nominal train payload

We consider that Aurizon Network's proposal to incorporate other amendments (updating the EC, the QCA levy and payloads of Newlands and Blackwater) are appropriate, being in the legitimate business interests of Aurizon Network, and the interests of access seekers and holders (s. 138(2)(b), (e), (h))

Updating the EC and the QCA levy allows Aurizon Network to pass through the reduction in those costs to its access holders.

We can confirm that updating the nominal train payload changes the distribution of revenues within reference tariff components, and does not impact Aurizon Network's total allowable revenues.

Reconciliation with reference tariffs

We consider the tariff calculations accurately take into account the proposed volume reset, adjustments to allowable revenue and other updates, as described above.

The approved allowable revenues and reference tariffs from this approval decision are contained in **Appendix A**.

⁸ QCA, *Electric Traction DAAU*, decision, July 2019.

⁹ QCA, *Electric Traction DAAU*, decision, July 2019.

APPENDIX A: ADJUSTED REFERENCE TARIFFS AND ALLOWABLE REVENUES

Table 1 Adjusted UT5 reference tariff inputs—Blackwater system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>	<i>2021–22</i>	<i>2022–23</i>
AT ₁	0.92	0.93	0.95	0.97	0.99	1.01
AT ₂	2,161.22	2,264.88	2,318.56	2,373.51	2,429.76	2,487.34
AT ₃	6.81	6.62	7.34	6.82	6.66	6.41
AT ₄	2.41	2.22	2.62	2.27	2.36	2.27
AT ₅	3.09	2.58	2.97	2.80	2.82	2.83
EC	1.01	0.79	0.86	0.86	0.89	0.91
QCA levy	0.03961	0.00907	0.00998	0.00964	0.00979	0.00993

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 2 Adjusted allowable revenues (\$m)—Blackwater system

<i>Year</i>	<i>AT₂₋₄</i>	<i>AT₅</i>
2017–18	356.45	91.22
2018–19	333.07	72.92
2019–20	374.84	80.57
2020–21	361.96	78.07
2021–22	367.53	79.53
2022–23	361.67	81.07

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 3 Adjusted UT5 reference tariff inputs—Goonyella system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>	<i>2021–22</i>	<i>2022–23</i>
AT ₁	0.63	0.65	0.66	0.67	0.68	0.70
AT ₂	1,369.26	1,434.93	1,468.94	1,503.76	1,539.39	1,575.88
AT ₃	5.22	4.87	4.81	4.55	4.51	4.38
AT ₄	1.08	0.99	0.99	0.94	0.93	0.90
AT ₅	2.30	1.40	1.54	1.60	1.63	1.66
EC	1.01	0.79	0.86	0.86	0.89	0.91
QCA levy	0.03961	0.00907	0.00998	0.00964	0.00979	0.00993

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 4 Adjusted allowable revenues (\$m)—Goonyella system

<i>Year</i>	<i>AT₂₋₄</i>	<i>AT₅</i>
2017–18	263.65	84.70
2018–19	280.11	51.71
2019–20	284.30	60.30
2020–21	283.64	66.99
2021–22	283.34	68.54
2022–23	277.68	70.18

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 5 Adjusted UT5 reference tariff inputs—Moura system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>	<i>2021–22</i>	<i>2022–23</i>
AT ₁	1.70	1.73	1.77	1.80	1.84	1.87
AT ₂	647.37	670.79	686.69	702.97	719.63	736.68
AT ₃	9.00	7.27	7.71	7.84	7.49	7.00
AT ₄	1.43	1.19	1.25	1.27	1.22	1.14
QCA levy	0.03961	0.00907	0.00998	0.00964	0.00979	0.00993

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 6 Adjusted allowable revenues (\$m)—Moura system

<i>Year</i>	<i>AT₂₋₄</i>
2017–18	36.75
2018–19	38.77
2019–20	44.91
2020–21	45.70
2021–22	46.05
2022–23	45.46

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 7 Adjusted UT5 reference tariff inputs—Newlands system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>	<i>2021–22</i>	<i>2022–23</i>
AT ₁	1.77	1.81	1.84	1.88	1.91	1.95
AT ₂	289.45	303.33	310.52	317.88	325.41	333.12
AT ₃	10.06	2.82	4.69	7.62	7.76	7.73
AT ₄	1.51	0.36	0.60	0.97	0.99	0.98
QCA levy	0.03961	0.00907	0.00998	0.00964	0.00979	0.00993

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 8 Adjusted allowable revenues (\$m)—Newlands system

<i>Year</i>	<i>AT₂₋₄</i>
2017–18	27.49
2018–19	10.13
2019–20	16.95
2020–21	26.69
2021–22	27.19
2022–23	27.12

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 9 Adjusted UT5 reference tariff inputs—Goonyella to Abbot Point system

<i>Reference tariff input</i>	<i>2017–18</i>	<i>2018–19</i>	<i>2019–20</i>	<i>2020–21</i>	<i>2021–22</i>	<i>2022–23</i>
AT ₁	1.43	1.45	1.48	1.51	1.54	1.57
AT ₂	13,436.76	14,081.21	14,414.93	14,756.57	15,106.30	15,464.32
AT ₃	1.38	1.20	1.36	1.40	1.38	1.37
AT ₄	3.44	1.13	1.98	2.01	1.93	1.78
QCA levy	0.03961	0.00907	0.00998	0.00964	0.00979	0.00993

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded

Table 10 Adjusted allowable revenues (\$m)—Goonyella to Abbot Point system

<i>Year</i>	<i>AT₂₋₄</i>
2017–18	132.28
2018–19	94.84
2019–20	123.40
2020–21	126.05
2021–22	126.26
2022–23	125.35

Note: Tariff inputs amended with approval of the Consolidation DAAU are shaded