

Queensland Competition Authority

File Ref: 1460336

16 December 2021

Ms Pam Bains
Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Ms Bains

Notice of final decision: Aurizon Network's 2020–21 revenue adjustment

The Queensland Competition Authority has determined that Aurizon Network has appropriately calculated all the revenue adjustments proposed on 28 October 2021. The QCA therefore approves Aurizon Network's proposed revenue adjustment amount for 2020–21 under clause 4.3(r) of schedule F of the 2017 access undertaking (UT5).

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(s)(i) of schedule F of UT5.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries on the attached paper, please direct them in the first instance to Pag Arao-Arao on 07 3222 0560, or by email at pag.arao-arao@qca.org.au.

Yours sincerely



Charles Millsteed
Chief Executive Officer

cc: Jon Windle, Network Regulation Manager, Aurizon Network

Queensland Competition Authority

DECISION NOTICE

AURIZON NETWORK'S 2020–21 REVENUE ADJUSTMENT AMOUNTS

16 December 2021

The Queensland Competition Authority's decision is to approve the 2020–21 revenue adjustment amount of \$17.7 million, proposed by Aurizon Network on 28 October 2021 under the 2017 access undertaking (UT5). The QCA considers that Aurizon Network has calculated the adjustment amounts in accordance with clause 4.3 of schedule F.

Each year Aurizon Network submits a proposal to refund or recoup any over- or under-recovery of its allowable revenues. The proposed adjustments are the difference between Aurizon Network's 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.

Revenue adjustment amounts for 2020–21

On 28 October 2021, Aurizon Network submitted its revenue adjustment proposal for a net recovery of \$17.7 million for the 2020–21 financial year (see Table 1 for system-specific over- and under-recoveries).

Table 1 Revenue adjustment amounts 2020–21 (\$ million)

System	AT2–4 (non-electric)	AT5 (electric)	Total
Blackwater	(15.2)	3.1	(12.1)
Goonyella	(7.9)	14.6	6.7
Moura	3.5	–	3.5
Newlands	1.0	–	1.0
GAPE	(16.7)	–	(16.7)
Total	(35.4)	17.7	(17.7)

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

Source: Aurizon Network, FY2021 Revenue Adjustment – Explanatory Memorandum, October 2021, p. 5.

Revenue adjustment assessment process

UT5 (sch. F, cl. 4.3) sets out a process for assessing Aurizon Network's proposed revenue adjustment.

We will approve an application if we are reasonably satisfied that the adjustment amount is calculated in accordance with clause 4.3 (sch. F, cl. 4.3(r)). 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. In that case, we must then issue a notice to Aurizon Network, explaining our reasons for the refusal and the way Aurizon Network is required to amend its proposal for resubmission (sch. F, cl. 4.3(s)(ii)).

We have closely checked Aurizon Network's application and supporting models¹ against all available information (both publicly available and confidentially provided), to determine whether the calculations in this revenue assessment process have been performed in accordance with UT5.

Stakeholder consultation

We invited stakeholder submissions on Aurizon Network's 2020–21 revenue adjustment proposal but did not receive any responses.

Total actual revenues and adjustments

The TAR represents the collected revenues made up of the system reference tariffs—including cross-system AT2–AT5 tariffs (sch. F, cl. 4.3(d)–(k))—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 to demonstrate the calculation of the TAR.

Take or pay, relinquishment or transfer fees, and cross-system revenues

Aurizon Network provided billing information on how it calculated the take or pay revenues under its access contracts.

Take or pay amounts were triggered in all systems in 2020–21, except in GAPE. Transfer fees were also collected in the GAPE system, which is included in its TAR. The transfer fees received, total cross-system proceeds and take or pay revenues for 2020–21 were \$115.8 million, comprising \$110.2 million from non-electric customers and \$5.5 million from 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
- cancellations (if any) due to an 'Aurizon Network Cause' were appropriately attributed, and the methodology in standard access agreements for various access undertakings has been applied correctly.

We confirm that Aurizon Network has correctly calculated the take or pay revenues that applied for agreements signed during each undertaking period (sch. F, cl. 4.3(d)(ii)).

¹ Aurizon Network provided models for: take or pay, WACC adjustment, rebate adjustment, transfers, electricity connection cost adjustments, and the revenue cap adjustment calculations.

Total actual revenues

Aurizon Network submitted TAR of \$981 million for 2020–21, including all take or pay and cross-system traffic revenues received (see Table 2).

Table 2 Total actual revenues 2020–21 (including take or pay and cross-system revenues) (\$ million)

System	AT2–AT4 (non-electric)	AT5 (electric)	Total
Blackwater	363.8	72.2	436.0
Goonyella	282.6	50.3	332.9
Moura	45.4	–	45.4
Newlands	30.7	–	30.7
GAPE	135.7	–	135.7
Total	858.3	122.5	980.8

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, FY2021 Revenue Adjustment – Explanatory Memorandum, October 2021, p. 16.

The QCA is satisfied that Aurizon Network calculated its system and cross-system tariff revenues in accordance with the 2020–21 annual review of reference tariffs², and the Meteor Downs South Pricing DAAU (MDS Pricing DAAU)³.

Volumes

Aurizon Network's TAR is based on amounts billed against each customer's actual railings achieved in that period (see Table 3).

Table 3 Forecast and actual volumes 2020–21 (million net tonnes)

System	Approved forecasts	Actual tonnages
Blackwater	66.7	61.5
Goonyella	124.5	103.4
Moura	16.5	12.7
Newlands	13.2	10.7
GAPE	18.9	20.0
Total	239.7	208.3

Source: Aurizon Network, FY21 Revenue Adjustment Amounts – Explanatory Memorandum, October 2021, p. 9.

The gross tonne kilometres and net tonnes submitted by Aurizon Network were reconciled to performance reporting data on its customer portal and its 2020–21 annual report.

² QCA, *Annual review of reference tariffs*, decision notice, 28 May 2020.

³ QCA, *Aurizon Network's Meteor Downs South pricing DAAU*, decision notice, 17 December 2020.

System allowable revenues and adjustments

Annual system allowable revenues represent the approved amounts Aurizon Network is set to recover in each year during the term of its approved undertaking. Each system's allowable revenues are published in schedule F of UT5.

Under the revenue adjustment process (sch. F, cl. 4.3(c)), Aurizon Network can submit adjustments to the annual allowable revenues. Aurizon Network's 2020–21 proposal outlined its claim for the following cost adjustments to the allowable revenue (under sch. F, cl. 4.3(c)).

WACC adjustment

The WACC adjustment accounts for the difference between the actual approved WACC and the approved WACC that was used to determine the relevant reference tariff for the year (UT5, sch. F, cl. 4.3 (c)(i)).

The approved WACC used in determining 2020–21 reference tariffs was 6.3%. This assumed that Aurizon Network would meet its 1 July 2020 report date milestone under UT5 for the completion of the initial capacity assessment report and any detailed response to capacity deficits.. However, as this did not occur, the approved WACC for 2020–21 reference tariffs was 5.9%.

Aurizon Network has calculated a net return to access holders of \$26.5 million, to account for the difference in the approved WACC applied (see Table 4 for system-specific adjustments).

Table 4 WACC adjustment by system (\$ million)

System	AT2–AT4 WACC adjustment	AT5 WACC adjustment	Total
Blackwater	(10.3)	(1.8)	(12.1)
Goonyella	(7.1)	(1.1)	(8.2)
Moura	(1.5)	–	(1.5)
Newlands	(1.0)	–	(1.0)
GAPE	(3.8)	–	(3.8)
Total	(23.7)	(2.9)	(26.5)

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, FY2021 Revenue Adjustment – Explanatory Memorandum, October 2021, p. 12.

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

Maintenance cost adjustment

The maintenance cost adjustment accounts for the difference between the approved maintenance indicator and actual maintenance costs for the year, where actual maintenance costs are lower (sch. F, cl. 4.3 (c)(ii)).

Actual maintenance costs for 2020–21⁴ were lower than the maintenance indicator for 2020–21, while the variable maintenance component, which is dependent on AT1 tonnages, has increased. Aurizon Network also included an allocation for non-coal services in its maintenance costs adjustment.

⁴ The QCA approved Aurizon Network's maintenance cost claim for 2020–21 on 18 November 2021.

Aurizon Network has calculated a net recovery from access holders of \$5.5 million (see Table 5 for system-specific adjustments).

Table 5 Maintenance cost adjustment by system (\$ million)

System	Maintenance indicator	Actual maintenance costs	Variance	Non-coal allocations	Variable maintenance	Total maintenance adjustments
Blackwater	62.3	64.0	1.7	(1.2)	3.1	3.5
Goonyella	60.0	58.3	(1.7)	0.0a	4.6	2.9
Moura	12.5	11.4	(1.1)	(0.2)	1.8	0.5
Newlands	3.1	2.7	(0.4)	0.0a	0.9	0.5
GAPE	10.9	9.5	(1.4)	0.0a	(0.5)	(1.9)
Total	148.8	146.0	(2.9)	(1.5)	9.8	5.5

a There are non-coal allocations for Goonyella, Newlands, and GAPE, but they are <\$0.1m.

Note: Numbers combine non-electric and electric systems. Numbers may not sum due to rounding.

Source: Aurizon Network, FY2021 Revenue Adjustment – Explanatory Memorandum, October 2021, pp. 12–13.

We confirmed that actual maintenance costs are consistent with those included within the 2020–21 annual maintenance report, and the maintenance indicator is consistent with the values approved. Therefore, we are satisfied with Aurizon Network's claim under the maintenance cost adjustment.

Electricity connection costs

The electricity connection cost adjustment accounts for the difference between forecast and actual costs incurred in connecting to an electric transmission or distribution network (sch. F, cl. 4.3 (c)(iv) of UT5). This adjustment is only applicable to Aurizon Network's electrified systems.

Aurizon Network has calculated a net return to access holders of \$1.0 million. This is the difference between forecast electricity connection costs and the actual electricity connection costs paid to Powerlink Queensland and Ergon Energy for 2020–21.

The costs associated with electricity connection charges from electric infrastructure providers have been appropriately tracked, and invoices Aurizon Network supplied reflect actual costs incurred. We consider this cost pass-through is appropriate.

Rebates adjustment

To account for the difference between forecast and actual rebate payments made in 2020–21, Aurizon Network has calculated a net return to access holders of \$8.9 million (see Table 6 for system-specific rebates).

This adjustment is the difference between forecast and actual rebate payments made to access holders who have provided Aurizon Network with funds to underwrite capital investments (sch. F, cl. 4.3 (c)(viii) of UT5).

Table 6 Aurizon Network rebates by system totals (\$ million)

System	Total
Blackwater	(6.7)
Goonyella	(2.2)
Newlands	0.0 ^a
Total	(8.9)

a There is a net recovery for Newlands but it is <\$0.1m.

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 for electric infrastructure in the Blackwater system.

Source: Aurizon Network, FY2021 Revenue Adjustment – Explanatory Memorandum, October 2021, p. 15.

Aurizon Network provided a detailed model of the rebate adjustments. We have verified these amounts and are satisfied with the adjustments made.

Decision

For the reasons discussed above, the revenue adjustment amount application submitted by Aurizon Network on 28 October 2021 satisfies the requirements of UT5. The QCA's decision is to approve the total adjustment.

Table 7 shows a summary of 2020–21 revenue adjustment amounts for each system and all adjustments made to total revenues received and allowable revenues.

Table 7 Approved allowable revenues and adjustments 2020–21 (\$ million)

System	Allowable revenues in schedule F	WACC	Maintenance costs	Electricity connection costs	Rebates	Adjusted allowable revenues	Total actual revenues (per Table 2)	Revenue adjustment amount 2020–21
Non-electric								
Blackwater	363.8	(10.3)	1.7		(6.7)	348.6	363.8	(15.2)
Goonyella	282.6	(7.1)	1.4		(2.2)	274.7	282.6	(7.9)
Moura	49.9	(1.5)	0.5			48.9	45.4	3.5
Newlands	32.3	(1.0)	0.5		(0.0)a	31.7	30.7	1.0
GAPE	124.7	(3.8)	(1.9)		0.0	119.0	135.7	(16.7)
Subtotal	853.3	(23.7)	2.2		(8.9)	822.9	858.3	(35.4)
Electric								
Blackwater	76.0	(1.8)	1.8	(0.8)		75.3	72.2	3.1
Goonyella	64.7	(1.1)	1.5	(0.3)	0.0a	64.9	50.3	14.6
Subtotal	140.7	(2.9)	3.3	(1.0)	0.0	140.1	122.5	17.7
Total	993.9	(26.5)	5.5	(1.0)	(8.8)	963.0	980.8	(17.7)

a There is a net recovery for Newlands(non-electric) and Goonyella (electric), but it is less than \$0.1m.

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