

# Aurizon Network Access Undertaking (2010)

## Reference Tariffs for Wiggins Island Rail Project Train Services

### Response to QCA Draft Decision

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## Executive Summary

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This submission is provided in response to the Queensland Competition Authority's (QCA) Draft Decision on Reference Tariffs for Wiggins Island Rail Project (WIRP) Train Services<sup>1</sup>.

### ***Pricing outcomes***

Aurizon Network maintains that:

- the approach applied in Aurizon Network's 2010 Access Undertaking (2010AU) should be used to determine the treatment of Reference Tariffs in relation to WIRP Train Services;
- the outcome of doing so is that the WIRP Train Services using the Blackwater system are socialised as part of the Blackwater Reference Tariff, and WIRP Train Services using the Moura system should be subject to a system premium; and
- any system premium will only be applicable in the short-term. A socialised pricing approach is appropriate for all WIRP Customers in the Blackwater and Moura systems once their volumes ramp-up to full utilisation.

Chapter 7 sets out details of Aurizon Network's indicative Reference Tariff proposals based on this submission.

### ***Application of 2010AU pricing principles***

At all relevant times when decisions were made in respect of the capital projects comprised in the WIRP programme, the only regulatory regime that parties could base their investment and other decisions on was the 2010AU. The provisions of the 2010AU were reasonably known to, and relied upon by all parties when making those decisions. Accordingly, Aurizon Network maintains that applying those provisions for the purpose of determining Reference Tariffs for WIRP Train Services is fair and equitable and consistent with the object of Part 5 of the Queensland Competition Authority Act (QCA Act).

Furthermore, it is important to note that access agreements for WIRP Train Services were entered into under the 2010AU and WIRP Train Services commenced to operate while the 2010AU was in effect.

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<sup>1</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015.

### ***Beneficial effect of WIRP capital projects***

In any event, real benefits exist for incumbent users from the WIRP programme which justify socialisation. This is particularly the case for the Blackwater system (including the Blackwater Duplications, which were rolled into the WIRP programme).

The Blackwater Duplications were supported by incumbent users (including through a regulatory prescribed voting process and by the Gladstone Coal Exporters Executive) and provide tangible benefits for existing users.

The beneficial effects of the WIRP capital projects for Non-WIRP Customers are significant in number and substance and are more fully discussed in Chapter 2 of this submission. By way of example they include:

- improved robustness, resilience and reliability of the supply chain and more flexibility on critical sections of the rail network – for example, the Blackwater Duplications will have a direct and positive effect on supply chain performance by reducing the impact of ‘day of operations’ disruptions. This is evident through the Performance to Plan improvements outlined in Chapter 2. Furthermore, flood mitigation works on the Moura system will directly improve resilience in relation to flood events;
- the Blackwater Duplications will also enable efficiencies in the delivery of maintenance tasks, which can be carried out concurrently with train operations, therefore, minimising the number of whole system closures required;
- the coordination of asset renewal works with the WIRP Programme delivered significant savings;
- the renewal of signalling equipment on the Blackwater system and North Coast Line (NCL) will improve signal reliability particularly in response to wet weather scenarios;
- more efficient use of rollingstock with reduced dwell times and resultant cost savings;
- a material increase in train paths resulting in significantly greater planning flexibility, fewer contested paths and a greater ability to recover from day of operations losses and maintenance activities.

As a result, the WIRP Programme is consistent with the object of Part 5 of the QCA Act, i.e. *“to promote the economically efficient operation of, use of and investment in, significant infrastructure.....with the effect of promoting effective competition in upstream and downstream markets.”*

### ***Responses to Draft Decisions***

The following is a high level summary of Aurizon Network’s position on the QCA’s Draft Decision.

#### ***Draft Decision 3.1***

Aurizon Network disagrees with this draft decision which is effectively to ignore the past Customer Group vote under the 2010AU that endorsed the scope of the Blackwater Duplications. This draft decision would set a precedent that would diminish regulatory certainty for existing and future investors in the Central Queensland Coal Region.

There were no changes in the scope of the relevant capital projects (following the vote through to the delivery of the scope of the constructed assets) that are sufficiently material to warrant negating that vote. The Blackwater system users continue to be real beneficiaries of the Blackwater Duplications, even though the relevant capital projects were combined into WIRP. Existing users continued to value the duplications as evidenced from correspondence by the Gladstone Coal Exporters Executive.

The QCA should not seek to negate the effect or relevance of the vote.

### ***Draft Decision 3.2***

Aurizon Network agrees that the QCA is entitled to consider the WIRP Access Conditions.

However, the WIRP Access Conditions are of little relevance to the WIRP Pricing Proposal. The WIRP Access Conditions take the form of an incentive based payment relating to performance in relation to timing, cost and delivery of the relevant capacity (because Aurizon Network's performance regarding those matters was of considerable importance to the relevant WIRP Customers). Further, the WIRP Access Conditions do not relate to the entire scope of the WIRP programme.

The QCA approved the WIRP Access Conditions and should not act in a way that unwinds them or places additional regulatory risks on Aurizon Network.

Only existing WIRP Customers are subject to the WIRP Access Conditions. Aurizon Network has not proposed to seek compensation from Non-WIRP Customers in relation to any additional risks.

### ***Draft Decision 3.3***

Aurizon Network disagrees with the draft decision which diminishes the critical significance of the 2010AU provisions in addressing pricing in relation to the WIRP. The 2010AU provisions are highly relevant to the QCA's Reference Tariff decisions relating to WIRP Train Services – particularly given that investment decisions relating to the WIRP programme were made on the basis of those provisions.

The approach under the 2010AU is capable of being, and should be, applied by the QCA in relation to determining the relevant Reference Tariffs. To do otherwise would be unfair and inconsistent with the object of Part 5 of the QCA Act and would also give rise to considerable regulatory risk in respect of the treatment of future expansion projects.

The rise in regulatory risk would occur because where investment decisions in relation to an expansion occur during a regulatory period but the decisions setting the pricing relating to that expansion will not occur under the regulatory pricing regime applying in that period, investors and users will have no certainty as to the applicable price setting principles. The approach followed by the QCA creates material regulatory uncertainty for investors in expansions.

### ***Draft Decision 4.1***

Aurizon Network agrees with this draft decision and has set out the Interest During Construction (IDC) to be included in the capital indicator. The IDC calculation in this submission is based on the draft Weighted Average Cost of Capital (WACC) of 7.17% proposed by the QCA. It should be noted that Aurizon Network is proposing a WACC of 7.62%.

### ***Draft Decision 4.2***

Aurizon Network agrees with this draft decision.

### ***Draft Decision 4.3***

While Aurizon Network agrees with this draft decision in relation to the Wiggins Island Coal Export Terminal (WICET) Balloon Loop, it submits that the same principle should apply in relation to the other WIRP project segments – in particular, the Blackwater Duplications. Aurizon Network sets out various reasons for this in this submission including the:

- inconsistency of the QCA's reasoning when compared to the Blackwater Duplications which, as currently proposed, will be used by, and benefit, both WIRP and Non-WIRP Train Services;
- inconsistency of the QCA's position with the object of Part 5 of the QCA Act;

- acceptance of the scope of the Blackwater Duplications by incumbent users;
- desirability of maintaining the integrated nature of the various WIRP project segments including the Blackwater Duplications.

***Draft Decision 4.4***

Aurizon Network agrees with this draft decision, subject to confirmation from the QCA that it will not make a corresponding deduction to the total maintenance and operating cost allowances proposed by Aurizon Network in its response to the QCA's Draft Decision on Maximum Allowable Revenue (MAR).

***Draft Decision 4.5***

Aurizon Network agrees with this draft decision, subject to:

- the use of proxy incremental volumes being limited to setting incremental volumes for WIRP Train Services and not being applied more broadly to other train services;
- the QCA's proposed volume capping being applied consistently to volumes for all train services, not just WIRP Train Services for the purpose of the WIRP pricing assessment; and
- Aurizon Network's response to Draft Decision 4.6.

***Draft Decision 4.6***

Aurizon Network cannot agree with the draft decision to use Energy Economics' forecasts at this time, as the QCA has not provided Aurizon Network with sufficient detail (including a detailed breakdown of the forecasts) for Aurizon Network to assess the validity of those forecasts or to understand the effect of adopting those forecasts.

Aurizon Network also notes that forecasting is not an exact science and that while Energy Economics' volume forecasts are different from Aurizon Network's those differences do not appear to be material. It is not clear why the QCA considers the relevant forecasts to be materially different.

The QCA needs to be satisfied that, and provide reasons why, Aurizon Network's forecasts are not appropriate before it can reject those forecasts – it cannot simply prefer Energy Economics' forecasts.

Aurizon Network has also not been provided with sufficient information to understand, and assess appropriateness of, the QCA's proposed capping adjustments.

Aurizon Network also has concerns relating to the QCA's treatment of the WIRP volume ramp up for the purpose of establishing monthly GTK forecasts for inclusion in Schedule F of the 2014 Draft Access Undertaking (2014DAU). It is necessary to take account of the actual WIRP volume ramp up on a monthly basis rather than evenly pro-rating an annualised forecast over the 12 months of the relevant year.

***Draft Decision 5.1***

Aurizon Network agrees that a system premium approach to pricing is appropriate – as this is consistent with the 2010AU approach. However, Aurizon Network has concerns with various matters of principle relevant to how the QCA reached that conclusion.

***Draft Decision 6.1***

Aurizon Network does not agree that a system premium should apply in the case of WIRP Rolleston Train Services. Aurizon Network submits that the WIRP Programme creates efficiencies for the supply chain, which will benefit all customers. WIRP Blackwater and WIRP Rolleston Train Services should be socialised in the Blackwater Reference Tariff.

### **Draft Decision 6.2**

Aurizon Network agrees that WIRP Moura Train Services will be required to pay a system premium. However, Aurizon Network submits that the system premium should be less than that proposed by the QCA.

### **Draft Decision 6.3**

Aurizon Network agrees with this draft decision.

### **Proposed Reference Tariffs**

Aurizon Network has proposed revised Reference Tariffs for WIRP and Non-WIRP Train Services; these are outlined in Tables 1 to 4 below. It is intended that the proposed Reference Tariffs are indicative as the final financial metrics associated with the 2014DAU period are yet to be approved.

**Table 1: Proposed Blackwater System Reference Tariffs.**

<b>Blackwater System Reference Tariffs</b>	<b>FY2016</b>	<b>FY2017</b>
AT <sub>1</sub> (\$ / '000 gtk)	0.99	1.02
AT <sub>2</sub> (\$ / tp)	2,147.95	2,201.65
AT <sub>3</sub> (\$ / '000 ntk)	6.02	5.94
AT <sub>4</sub> (\$ / nt)	2.08	2.07
AT <sub>5</sub> (\$ / '000 egtk)	3.08	2.94

*Applicable to WIRP and non-WIRP Train Services.*

**Table 2: Proposed Moura System Reference Tariffs.**

<b>Moura System Reference Tariffs</b>	<b>FY2016</b>	<b>FY2017</b>
AT <sub>1</sub> (\$ / '000 gtk)	1.84	1.90
AT <sub>2</sub> (\$ / tp)	643.39	659.47
AT <sub>3</sub> (\$ / '000 ntk)	7.26	7.04
AT <sub>4</sub> (\$ / nt)	1.19	1.16

*Applicable to Non-WIRP Train Services.*

**Table 3: Proposed WIRP\_Moura System Premium.**

<b>WIRP_Moura System Premium</b>	<b>FY2016</b>	<b>FY2017</b>
AT <sub>3</sub> (\$ / '000 ntk)	9.16	9.39

*Applicable to WIRP\_Moura Train Services. This tariff replaces the Moura system AT<sub>3</sub> Reference Tariff in Table 2 above.*

**Table 4: Proposed WIRP\_NCL Reference Tariffs.**

<b>WIRP_NCL Reference Tariffs</b>	<b>FY2016</b>	<b>FY2017</b>
AT <sub>1</sub> (\$ / '000 gtk)	1.84	1.90
AT <sub>2</sub> (\$ / tp)	1,702.58	1,742.10

*Applicable to WIRP\_NCL Train Services.*

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## Introduction

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Aurizon Network welcomes the opportunity to respond to the QCA's Draft Decision (Draft Decision) on Reference Tariffs for WIRP Train Services.<sup>2</sup> Aurizon Network recognises the current market challenges facing our customers, particularly Australian coal producers, and appreciates that the regulatory pricing treatment of WIRP Train Services is a topic of significant interest to all producers in the Blackwater and Moura coal systems.

In August 2014, Aurizon Network submitted the 2014DAU to the QCA for approval. The 2014DAU included proposals relating to the pricing of WIRP Train Services. This was required in order to contemplate the carry-through of WIRP, a project committed to under the 2010AU, into the 2014DAU. It should be noted that this pricing assessment was based on the financial inputs and assumptions outlined in Aurizon Network's 2013DAU; the QCA's Draft Decision on MAR was published in September 2014.

In December 2014, Aurizon Network submitted a reference tariff proposal to the QCA for approval in accordance with the 2010AU in relation to WIRP Train Services. The proposal sought approval for "transitional" Reference Tariffs for WIRP Train Services for Financial Year (FY) 2015, and "indicative" Reference Tariffs for WIRP Train Services for FY2016 and FY2017. Amongst other matters, this proposal was based on updated capital expenditure and incremental cost forecasts, and an independent forecast of tonnage volumes for WIRP Train Services.

In April 2015, the QCA approved "transitional" Reference Tariffs for FY2015 subject to these being 'trued up' when the 2014 DAU is finalised. The QCA did not, approve any "indicative" or "transitional" Reference Tariffs for FY2016 and FY2017, on the basis that the 2010AU did not permit any such approval. The QCA also indicated that:

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<sup>2</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015.

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**Given the significance and materiality of the issues associated with the pricing of WIRP train services, we consider it appropriate to consider longer term tariff arrangements as part of the UT4 approval processes. In this regard, we are expecting to make a supplementary draft decision on WIRP train services in May 2015 as one of the draft decisions for the 2014 DAU.<sup>3</sup>**

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In July 2015, the QCA released its supplementary draft decision in relation to Reference Tariffs for WIRP Train Services – which considers Aurizon Network’s proposals (WIRP Pricing Proposal) for the pricing for WIRP Train Services including for FY2016 and FY2017.

While adopting some aspects of Aurizon Network’s WIRP Pricing Proposal, the Draft Decision is effectively to refuse Aurizon Network’s proposal. In doing so, the QCA’s draft decisions included that:

- the Customer Group vote on the Blackwater Duplication programme was negated by changes in scope and circumstances resulting in it not being determinative of the allocation of WIRP capital costs;
- WIRP access conditions should not be excluded from the QCA’s considerations;
- the 2010AU provisions relating to WIRP pricing were relevant but not determinative of WIRP pricing;
- the capital indicator be consistent with Aurizon Network’s December 2014 WIRP pricing proposal;
- the capital cost allocation approach for WIRP customers be as set out in the 2014DAU;
- the capital cost allocation be adjusted to reflect that existing Blackwater train paths are expected to use the WICET Balloon Loop;
- the WIRP operating and maintenance costs for FY2016 and FY2017 be as per Aurizon Network’s December 2014 WIRP pricing proposal;
- the approach to deriving proxy incremental volumes is to: (a) use expected railings of WIRP and non-WIRP volumes rather than an apportionment mechanism; and (b) to cap WIRP volumes to contracted volumes;
- the 2014DAU should be amended to adopt Energy Economics’ forecast volumes for WIRP and non-WIRP train services and the adjustments to cap WIRP volumes to contracted volumes;
- the appropriate pricing approach is to adopt a system premium approach;
- the pricing arrangements for WIRP users should be as set out in Chapter 6 of the QCA’s Draft Decision including a system premium for Rolleston train services and WIRP Moura train services;
- a revenue deferral mechanism should apply over the regulatory period; and
- the pricing approach outlined in Aurizon Network’s December 2014 WIRP pricing proposal for WIRP\_NCL train services should be adopted but with escalation of CCC by CPI over the regulatory period.

Aurizon Network considers that its WIRP Pricing Proposal is consistent with the object of Part 5 of the QCA Act,<sup>4</sup> i.e. *“to promote the economically efficient operation of, use of and investment in, significant infrastructure.....with the effect of promoting effective competition in upstream and downstream markets.”*

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<sup>3</sup> QCA, Decision on transitional reference tariffs for Wiggins Island Rail Project train services to Wiggins Island Coal Export Terminal, 22 April 2015, File Ref: 819375.

<sup>4</sup> Section 69E, Queensland Competition Authority Act, 1997 (Qld).

Aurizon Network is committed to working with its Access Holders, end customers, the coal industry and the QCA to efficiently achieve the sustainable growth of the Central Queensland Coal Region (CQCR). Aurizon Network has a relentless focus on cost reduction and productivity improvement and is working closely with its customers to deliver efficiencies across the supply chain, with the collective objective being that Australian coal exports remain competitive in the global market.

### Reliance on information and metrics

When preparing the financial model in support of this submission, Aurizon Network has relied upon information contained within the QCA's Draft Decision on MAR, published in September 2014. This includes (but is not limited to) draft decisions with respect to the WACC, depreciation, maintenance and operating cost allowances. It has also adopted the AT<sub>1</sub> and AT<sub>2</sub> Reference Tariffs published by the QCA in January 2015 as part of its Policy and Pricing Draft Decision.

The use of this information is not intended to reflect Aurizon Network's acceptance of the QCA's draft decisions. Rather, Aurizon Network considers it appropriate to conduct the analysis on the basis of financial assumptions that all stakeholders are familiar with.

It is intended that the methodology confirmed through the WIRP Pricing Proposal process will be used to determine Reference Tariffs. The final Reference Tariffs, however, would be updated to reflect the financial metrics confirmed as part of the QCA's Final Decision on the 2014DAU.

Aurizon Network considers this to be an appropriate way of incorporating the pricing arrangements for WIRP Train Services as part of the finalisation of the 2014DAU.

## 1.1 Wiggins Island Rail Project

As noted in both the WIRP Pricing Proposal and Draft Decision, WIRP refers to a collective programme of geographically distinct rail infrastructure projects in the southern Bowen Basin. WIRP supports the initial development of WICET and significantly improves the condition and operational performance of infrastructure in the Blackwater and Moura systems, providing benefits to all users. The location and completion dates of each project are outlined in Figure 1.1 and Table 1.1 below.

Figure 1.1: Location of WIRP segments



**Table 1.1: Estimated operational commissioning of WIRP segments**

Project Segment	Estimated year of Final Commissioning	Estimated month of Final Commissioning <sup>5</sup>
Moura System Upgrades <sup>6</sup>	FY2014 & FY2015	August-13 (a) / March-15 (a)
WICET Balloon Loop <sup>7</sup>	FY2015	March-15 (a)
Bauhinia North Upgrades	FY2015	November-14 (a)
North Coast Line Upgrades <sup>8</sup>	FY2016	September-15 (a) / December-15 (e)
Blackwater Duplications <sup>9</sup>	FY2015 & FY2016	March-15 (a) / July-15 (a)

With the exception of the WICET Balloon Loop and a portion of the Moura West upgrades, WIRP segments are fully integrated with the existing mainline infrastructure of the Blackwater and Moura systems. For clarity:

- 'WIRP Customers' refers to producers in the Blackwater and Moura coal systems who have contracted below rail capacity (either directly or via a train operator) from their mines to WICET; and
- 'Non-WIRP Customers' refers to producers in the Blackwater and Moura coal systems who do not have contracted below rail capacity (either directly or via a train operator) from the mines to WICET. For clarity, these customers rail to other unload terminals within the Gladstone Region, including (but not limited to) RG Tanna Coal Terminal and Barney Point Coal Terminal.

While this distinction is made for the purpose of discussing the views of different stakeholder groups, a critical observation is that both WIRP and Non-WIRP Customers will utilise the Blackwater Duplications, Moura East, NCL and Bauhinia North upgrades; this infrastructure represents over 70% of the capital value of the WIRP programme. Furthermore, approximately 94% of the total capital costs of the WIRP programme relates to multi-user infrastructure. When WIRP volumes ramp-up up to full utilisation, they will only comprise approximately one-third (1/3) of the total tonnes utilising the Blackwater Duplications. Non-WIRP volumes will make up the balance.

<sup>5</sup> (a) denotes 'actual' completion date; (e) denotes 'expected' completion date.

<sup>6</sup> Moura System Upgrades are separated into two segments; Moura East completed in August 2013 and Moura West completed in March 2015.

<sup>7</sup> Majority of track construction works completed in May 2014; rail works required for first coal shipments were completed in March 2015. Wiggins Island Coal Export Terminal was commenced operations in May 2015.

<sup>8</sup> Kabra Holding Roads were completed in September 2015; remaining NCL works expected to be completed in December 2015.

<sup>9</sup> Refers to the duplication of seven single line sections in the Blackwater system. Segment 4A completed in March 2015; Segment 4B completed in July 2015.

## 1.2 Aurizon Network's WIRP Pricing Proposal

Aurizon Network's WIRP Pricing Proposal (in particular, its December 2014 submission) involves:

- the application of the 2010AU pricing principles<sup>10</sup>;
- the proposed capital cost allocations to WIRP and Non-WIRP Customers;
- an assessment of incremental maintenance and operating costs post commissioning of WIRP; and
- an assessment of an independent forecast of WIRP tonnage volumes.

Using this methodology, the WIRP Pricing Proposal estimated indicative Reference Tariffs for FY2016 and FY2017. The resulting indicative Reference Tariffs were provided for the benefit of stakeholders, who faced considerable uncertainty with respect to the pricing arrangements for WIRP Train Services in the absence of this approach.

In order to estimate the indicative Reference Tariffs, Aurizon Network also relied upon information contained within the QCA's Draft Decision on MAR, published in September 2014. This includes (but is not limited to) draft decisions with respect to WACC, depreciation, maintenance and operating cost allowances. While those matters are yet to be finally determined (and Aurizon Network has made submissions concerning some of those matters), it is expected that iterative adjustments to the WIRP Pricing Proposal – in particular, the resulting Reference Tariffs - would be needed to reflect the financial metrics and inputs confirmed as part of the QCA's Final Decision on the 2014DAU.

## 1.3 Structure of Submission

The following chapters outline Aurizon Network's response to each of the QCA's WIRP Draft Decisions.

- Chapter 2, discusses the supply chain benefits created as a direct result of the WIRP programme;
- Chapters 3 to 6 will address each of the QCA's Draft Decisions; and
- Chapter 7 will outline the revised MAR and Reference Tariffs resulting from Aurizon Network's response to the Draft Decision.

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<sup>10</sup> For more information, please refer to Aurizon Network's response to Draft Decision 3.3 below.

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## Supply Chain Benefits

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In its Draft Decision, the QCA states that Non-WIRP Customers oppose making a contribution towards the costs of WIRP Infrastructure unless there is a clear financial or operational benefit in the form of increased system throughput at efficient costs.<sup>11</sup>

As outlined in the WIRP Pricing Proposal, WIRP infrastructure is fully integrated with existing infrastructure in the Blackwater and Moura systems and will be utilised by both WIRP and Non-WIRP Customers. WIRP infrastructure will deliver tangible benefits to the whole supply chain by:

- providing greater operational flexibility, which will:
  - allow Aurizon Network to optimise system closure hours; and
  - introduce initiatives such as single line running;
- improving Performance to Plan;
- improving Cycle Times;
- reducing rollingstock dwell times; and
- removing Temporary Speed Restrictions in some critical sections.

The completion of the WIRP programme will create sustainable value for customers operating in these systems. The purpose of this section is to highlight some of the efficiencies that will accrue to the supply chain as a result of the WIRP programme. In doing so, Aurizon Network will demonstrate that its proposed capital cost allocation to Non-WIRP Customers (in recognition of these benefits) is economically efficient and consistent with the objectives of the QCA Act.

### 2.1 Operational Efficiencies

The operation efficiencies resulting from the WIRP Programme will create tangible benefits for the supply chain, which will be evident on a daily basis.

The upgrades to the network as a result of WIRP will increase the number of available mainline train paths (from 48 to 72 paths per day in the Blackwater system, and from 48 to 96 paths per day on the

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<sup>11</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 44.

NCL), resulting in significantly greater planning flexibility, fewer contested paths, and a greater ability to recover from day of operations losses and maintenance activities.

As referred to in the WIRP Pricing Proposal and the supporting documentation provided with the 2008 CRIMP, WIRP infrastructure is integrated with the Blackwater and Moura systems and will create benefits for the whole supply chain, which include:

- increased system robustness (ability to cope with adverse incidents and demand variability);
- minimise impact of construction closures due to staging of expansion works;
- greater planning flexibility;
- fewer contested train paths;
- an improved ability to recover from day of operations losses;
- minimise whole system closures as a result of required maintenance activities; and
- improved signalling reliability through the renewal of existing equipment in the Blackwater system and on the North Coast Line.

Aurizon Network notes that incumbent users endorsed the Blackwater duplication program on the basis of this information, which still remains relevant today. This is discussed in further detail in Chapter 3.2.

The Moura system will also become more robust and resilient as a direct result of the WIRP programme. For example, the Moura East project scope included rail replacement, renewals and strengthening of existing infrastructure in the Moura system. The effect of these works is to reduce speed restrictions and track failures, which have contributed to historical capacity losses. This will provide a throughput benefit for access holders and end customers as the rail network will be available more of the time for train services. In lieu of the WIRP programme, the maintenance task in the Moura system would be higher.

### **Performance to Plan**

Performance to Plan measures the performance of the of supply chain by assessing the proportion of agreed weekly train services that are delivered to the unloading terminal. For example, Aurizon Network may agree to provide 100 train paths for a given week, to a rail operator as part of the Intermediate Train Plan (ITP) process. At the end of the week, 95 train services arrive at the unloading terminal.

Performance to Plan is expressed as a percentage (%) and is an important metric to measure because it reflects actual 'day of operations' losses. In the example above, Performance to Plan would be 95%, i.e.

$$\text{Performance to Plan} = \frac{\text{Train services delivered to unloading terminal}}{\text{Agreed Train services}} = \frac{95}{100} \times 100 = 95\%$$

It is important to note that Performance to Plan can vary due to factors affecting **any** supply chain participant, e.g. Below Rail, Above Rail, producers or the unloading terminal.

The WIRP Programme has contributed to reductions in Below Rail cancellations, which have a direct and positive influence on Performance to Plan.

### **Reductions in Operational Delays**

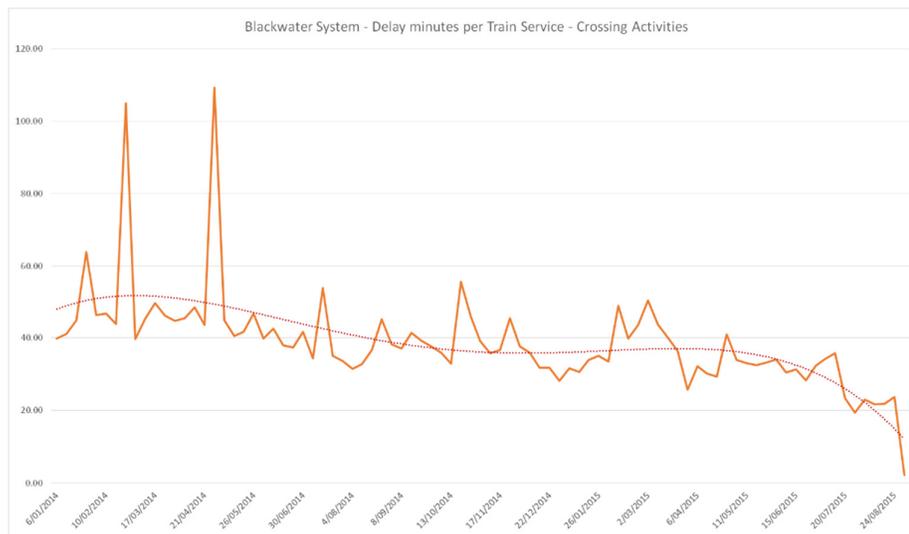
The Blackwater Duplication programme will improve the resilience and robustness of the Blackwater system, the benefits of which will be evident on a day-to-day basis. The Blackwater Duplications will reduce the reliance on passing loops and passing manoeuvres, and will provide greater operational flexibility and additional optionality when responding to 'day of operations' issues.

By way of example, rollingstock faults (including train partings and locomotive failure) would have the effect of shutting the network if they occurred on a single line section of track. This would often lead to multiple cancellations and extensive delays for all operators.

The Blackwater Duplications will significantly reduce this impact as trains are able to pass a failed consist utilising the duplicated track, resulting in fewer delays and cancellations, which benefits the entire supply chain.

The Blackwater Duplications have also contributed to improvements in cycle times of up to 60 minutes and a significant improvement in train service delays resulting from crossing activities (i.e. where a train service is required to wait in a passing loop for another scheduled train service travelling in the opposite direction to pass). This improvement can be seen through a reduction in delay minutes per Train Service, as illustrated in Figure 2.1 below.

**Figure 2.1: Blackwater System – Reduction in Crossing Delays per Train Service**



### ***Signalling Renewals as part of the WIRP Programme***

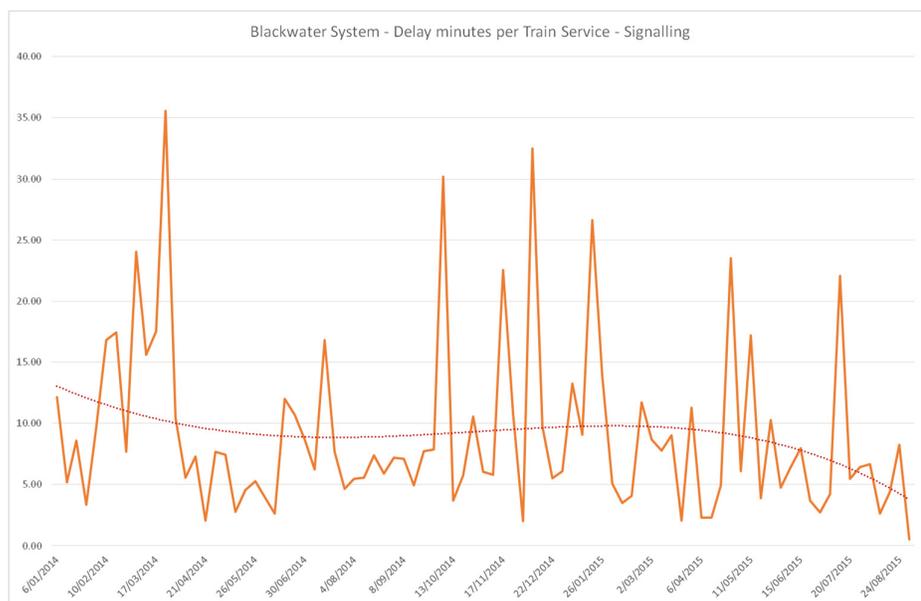
The WIRP Programme includes the renewal of signalling equipment in the Blackwater system and on the NCL, which will improve signalling reliability in the CQCR. As a direct result, Aurizon Network is realising tangible improvements in train delays related to signalling faults.

These works involve replacing the existing electrified track circuits with axle counters. The installation of axle counters will improve the resilience of the signalling system and better support safe working operations. This is because, in the event of wet weather or a lightning strike, the track circuits system would immediately revert into its “fail safe” mode, and turn all signals in the area red, halting the operation of all train services. Unlike track circuits, axle counters are not reliant on electrical circuitry, which can be impacted by surface water, tropical storms and intermittent power supply.

Axle counters provide a more reliable all-weather signalling solution. Axle counters will deliver a more robust and reliable solution for the Gladstone area which in practice, means fewer failures and an easing of congestion. The use of these axel counters will not be limited to the WIRP Customers only, as all train services will benefit from this technology. This not only represents a benefit to the whole supply chain by reducing ‘network caused’ cancellations, but is also consistent with the object of Part 5 of the QCA Act, i.e. to promote the “*economically efficient operation of, use of and investment in significant infrastructure*”.

These improvements are outlined in Figure 2.2 below:

**Figure 2.2: Blackwater System – Reduction in Signalling Delays per Train Service**



### ***Benefits for Rail Operators***

WIRP also provides a number of benefits for all rail operators which improve the efficient use of rollingstock and results in cost savings. Benefits include, for example:

- signalling improvements means fewer delays, resulting in cycle time improvements; and
- duplicated system means fewer ‘stop / start’ delays for crossing trains;

both of which not only reduce rail wear, but also reduce operating costs for all rollingstock Operators through reduced brake block wear;

- lower rates of diesel / electricity consumption due to shorter operating time, meaning lower costs for customers;
- reductions in rollingstock dwell times;
- fewer crew hours; and
- fewer full system maintenance closures, which means that rollingstock stays operational, reducing time associated with shut down and start-up of locomotives.

### ***Improvements in Performance to Plan***

Improvements in reliability have seen Aurizon Network’s cancellation impact to customer orders decrease over recent periods. Aurizon Network continues to focus on reducing below rail attributable cancellations and also the impact of force majeure cancellations where effective recovery timeframes by Aurizon Network can significantly reduce cancellation impact from these events.

There also remains a significant portion of cancellations or losses that are attributed to other supply chain participants (i.e. not attributable to Aurizon Network). Developing joint initiatives, with our supply chain partners to recover lost throughput opportunities will be a focus area in FY2016.

The WIRP Programme has contributed to reductions in Below Rail cancellations, which have a direct and positive influence on Performance to Plan.

The operational efficiencies created as a result of the WIRP Programme have resulted in strong improvements in Below Rail Cancellations and Performance to Plan, as outlined in Tables 2.1 and 2.2.

**Table 2.1: Blackwater Performance to agreed plan**

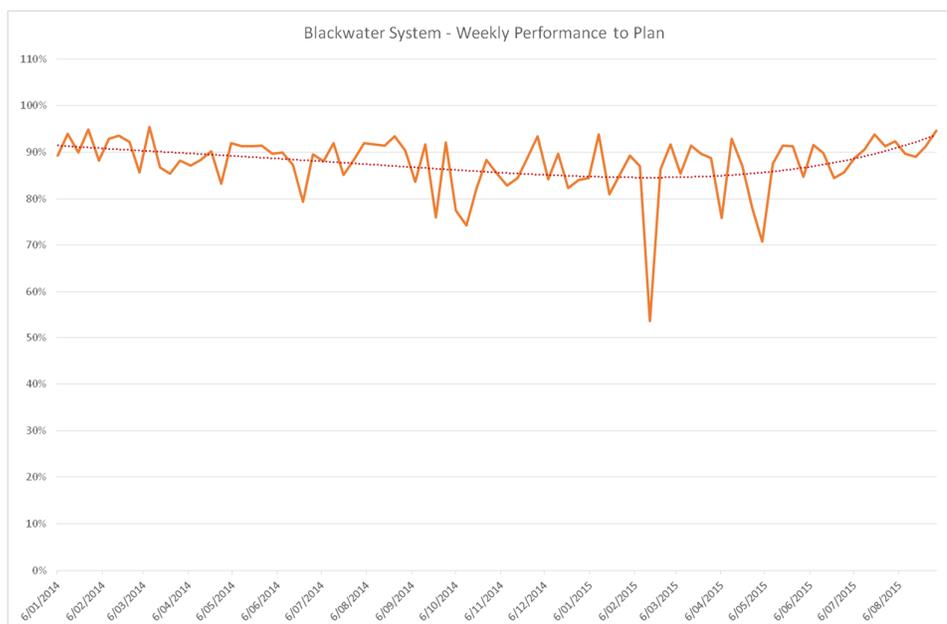
Year	Performance to Plan %	All Cancellations	Below Rail Cancellations
FY2013	83.2%	21.8%	4.7%
FY2014	90.1%	13.2%	2.8%
FY2015	86.1%	18.0%	2.6%
FY2016 (YTD)	90.0%	12.7%	1.2%

**Table 2.2: Moura Performance to agreed plan**

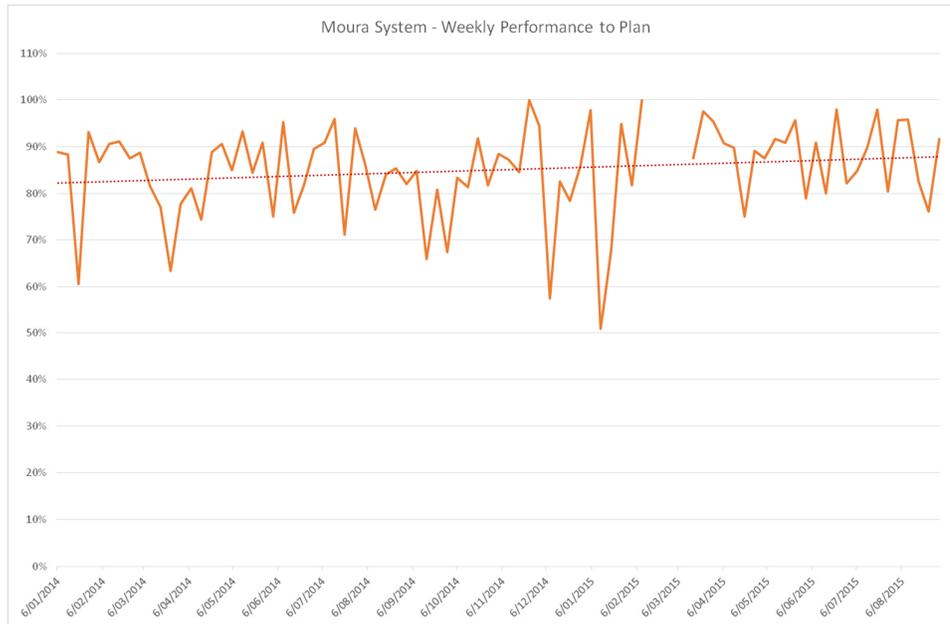
Year	Performance to Plan %	All Cancellations	Below Rail Cancellations
FY2013	80.8%	23.2%	2.5%
FY2014	84.7%	17.9%	1.6%
FY2015	82.5%	21.1%	1.9%
FY2016 (YTD)	88.0%	15.4%	0.6%

The trend lines illustrated in Figures 2.3 and 2.4 below, also highlight the ongoing improvements made in weekly 'Performance to Plan'.

**Figure 2.3: Blackwater System – Improvements in Weekly Performance to Plan**



**Figure 2.4: Moura System – Improvements in Weekly Performance to Plan**



The completion of the WIRP programme will create sustainable value for all customers operating in the Blackwater and Moura systems. Aurizon Network considers that these benefits are consistent with the objectives of the QCA Act and should be considered by the QCA when assessing WIRP capital cost allocations to Non-WIRP Customers in these systems. Aurizon Network would welcome the opportunity to address any questions the QCA have regarding the benefits outlined in this submission.

## 2.2 Network Efficiencies

The WIRP programme includes the construction of new infrastructure and the renewal and replacement of existing infrastructure in the Blackwater and Moura systems. These works will improve the robustness and reliability of the supply chain and introduce more flexibility on critical sections of the network. As a result, Aurizon Network can optimise system closure hours and introduce initiatives such as single line running in the Blackwater system, which promotes the efficient operation and use of the CQCR.

### ***Maintenance Efficiencies***

Prior to the commencement of the WIRP programme, 35 kilometres of the Blackwater mainline, east of Bluff operated on a single track. With the exception of track possessions to address immediate safety concerns, the ability to gain access to the single line sections of the Blackwater system for maintenance or renewals was historically very difficult. Maintaining infrastructure in these single line sections often required extensive network closures, which could be as long as 36 hours at a time. During such closures, no train services could effectively operate on the network upstream of the section of the infrastructure on which maintenance was occurring.

The duplication of the seven (7) remaining single line sections in the Blackwater system will provide additional network flexibility and minimise the number of whole system closures required to maintain the

tracks; especially in a 'fix on fail' scenario<sup>12</sup>. The Blackwater duplications will provide greater flexibility for Aurizon Network to plan maintenance activities on critical sections of track. This creates significant 'flow on' benefits to the whole supply chain by:

- enabling single line closures, where maintenance activities can take place while train services continue to operate on the adjacent track, meaning that the supply chain keeps moving; and
- reducing asset 'wear and tear' as volumes are spread across two tracks instead of one, thus slowing the rate of tonnage driven maintenance requirements.

Furthermore, by optimising system closures maintenance tasks can be completed in a more cost effective and efficient manner as a result of:

- Improved logistical coordination of labour force, plant and equipment;
- Mobilisation and demobilisation savings;
- Less reliance on overtime; and
- Ability to account for environmental factors (strong preference for maintenance activity to take place in the dry season, which improves asset resilience in the wet season).

The completion of the Blackwater Duplication programme has created genuine efficiencies in the delivery of the maintenance task, by easing the time constraints associated network possessions of non-duplicated track. These efficiencies were evident in FY2015 through the alignment of preventative maintenance works, signalling and overhead line equipment renewals with the Ballast Undercutting program. Some of the activities undertaken behind the undercutter include bird nest removal; earth wire clamp replacement; bonding rectification; and repairs to auto-tensioning equipment and pulleys. The collaborative efforts across maintenance functions, ensures that Aurizon Network maximises network possessions to deliver reliability improvements.

The expected maintenance cost savings have been incorporated into the maintenance cost allowances proposed by Aurizon Network as part of the 2014DAU.

There are a number of examples where the network flexibility created by the Blackwater duplications has already created benefits for the supply chain by allowing asset renewal works to be completed in conjunction with train service operations. Specifically;

- The structure and culvert rehabilitation works in the Rocklands - Gracemere section. This work was carried out on existing infrastructure within the Blackwater system, i.e. track which was not part of the WIRP programme. The single line closure meant that Train Services could continue running, where previously the Blackwater system would be in total shutdown for four (4), eight (8) hour periods (total 32 hour closure).
- The formation rehabilitation works required on the existing track between Dingo and Umolo. The duplication of this section enabled the formation rehabilitation work to be completed prior to the commencement of wet season. These works will improve the resilience of the network during the wet season. Furthermore, they will help to reduce the impact of temporary speed restrictions over this section; improving train service turnaround cycles and resulting in an efficiency and cost benefit for all rollingstock operators. As per the example above, prior to the construction of the duplicated track, this work could not have been completed without an extended system closure.

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<sup>12</sup> 'Fix on Fail' typically refers to corrective maintenance activities.

The examples above provide just a sample of the supply chain benefits, which accrue as a direct result of the WIRP programme.

### ***Network Robustness***

The WIRP programme included the implementation of new track design methods which have improved network resilience in the face of severe flooding. For example, the construction of the Moura East segment included the installation of flood mitigation measures, which have directly improved the resilience of the network.

To illustrate how these measures have been of benefit to the Moura system, consider Figure 2.5 and 2.6 below. Figure 2.5 shows the impact of heavy rainfall in January 2013 (associated with Tropical Cyclone Oswald), which led to major flooding in the Moura System, causing significant damage to the track formation<sup>13</sup>.

**Figure 2.5: Moura system post Tropical Cyclone Oswald – 132.500km**



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<sup>13</sup> Significant damage occurred between the 131.6 km – 133.4km track sections.

The flood mitigation measures installed in these sections of the Moura system significantly improved network resilience, resulting in significantly lower damage in the February 2015 floods resulting from Tropical Cyclone Marcia. This is illustrated below in Figure 2.6.

**Figure 2.6: Moura system post Tropical Cyclone Marcia – between 132.330km and 133.500km**



For clarity, the costs of these improvements were included in the WIRP Programme, and were not a part of Aurizon Network 2013 Flood Review Event claim.

A common measure of flood resilience is the Annual Exceedance Probability (AEP). The AEP measures the likelihood of occurrence of a flood or storm tide inundation event of a given size or larger in any one year. For example, if an event has an AEP of 1%, it means that there is a 1% risk (i.e. probability of 0.01 or a likelihood of 1 in 100) of this event occurring in any one year<sup>14</sup>.

The WIRP programme has improved the rail flood immunity of the Blackwater system through the installation of additional culverts to meet the freeboard requirements for the peak flows associated with the 1:50 AEP and 1:100 AEP events.

Nine (9) additional culverts were installed along the Rocklands to Stanwell section of track, which improved flood immunity from the existing capacity of less than 1:50 AEP to achieve 1:100 AEP. An additional thirteen (13) culverts were built along the Dingo to Bluff section of track, which have improved flood immunity from the existing capacity of less than 1:20 AEP to achieve 1:100 AEP.

By improving flood immunity, the WIRP programme has improved the robustness and resilience of the Blackwater and Moura systems for the benefit of the supply chain.

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<sup>14</sup> <http://www.sunshinecoast.qld.gov.au/sitePage.cfm?code=flood-definition>

## 2.3 Capital Expenditure Efficiencies

The WIRP programme has created tangible and quantifiable cost savings with respect to (non-WIRP) asset renewal works in the Blackwater system. By way of example, the coordination of asset renewal works in the Blackwater system with the WIRP Segment 4B program, delivered a saving of approximately \$2.6 million against benchmark targets. These savings were achieved as a result of:

- Planning and coordination efficiencies;
- utilising a labour force which was already mobilised; and
- Contractor incentives

These efforts have reduced the total capital cost of asset renewals for the Blackwater system, which in the absence of the WIRP programme, would not have been realised. This is a direct benefit to incumbent users in the Blackwater coal system.

3

## Historical Context and Implications

### QCA's Draft Decision

QCA Draft Decision	Reference	Aurizon Network Position
Although customer endorsement of the 2008 CRIMP occurred, the endorsement was negated by subsequent changes in scope and circumstances and is therefore not determinative of the allocation of WIRP capital costs under the 2014 DAU.	3.1	Disagree
It would not be appropriate to exclude consideration of the WIRP access conditions when forming the QCA's draft decision.	3.2	Agree, subject to the QCA acknowledging the limitations of the WIRP Access Conditions
While the 2010 AU provisions relating to WIRP pricing are relevant to the QCA's consideration of the reference tariffs for WIRP under the 2014 DAU, the QCA does not consider these provisions are determinative, particularly as their focus is on assessing the 2014 DAU.	3.3	Disagree

### 3.1 Summary of Aurizon Network's Position

The provisions of the 2010AU were relied upon by all parties at the time the WIRP investment decisions were made. It is also pertinent that the relevant provisions of the 2010AU were similar in effect to the equivalent provisions in preceding access undertakings, indicating a preference by the QCA for a consistency of approach.

Accordingly, Aurizon Network maintains that the relevant provisions of the 2010AU must be applied when determining Reference Tariffs for WIRP Train Services. Aurizon Network believes the QCA should approve the pricing framework for WIRP in accordance with the 2010DAU, and subsequently apply the pricing input parameters which are finalised under the 2014DAU process.

As outlined in Chapter 2 above, existing users will receive tangible benefits (which are already being realised) as a result of the delivery of the WIRP infrastructure. Furthermore, existing users specifically requested that Aurizon Network complete the mainline duplication programme in the Blackwater system.

Hence, Aurizon Network does not agree with the QCA's Draft Decision to exclude the customer endorsement and regulatory pre-approval of the Blackwater duplication programme from consideration.

Aurizon Network agrees with the QCA giving consideration to the WIRP access conditions, however reiterates that the QCA should be mindful that those access conditions do not cover the full scope of the WIRP infrastructure and are otherwise of little relevance to setting Reference Tariffs in relation to the WIRP Pricing Proposal.

### 3.2 2008 CRIMP Endorsement (DD 3.1)

Draft Decision 3.1 states that although customer endorsement of the Blackwater Duplication programme was received through the 2008 Coal Rail Infrastructure Master Plan (CRIMP) process, the endorsement was negated by subsequent changes in scope and circumstances and is therefore not determinative of the allocation of WIRP capital costs under the 2014DAU.

Aurizon Network is committed to building a long term sustainable business that delivers lasting value to our customers, shareholders, employees and communities. Investment in significant infrastructure is characterised by material, long term capital commitments. Aurizon Network employs constant financial vigilance by scrutinising investment proposals prior to commitment to ensure they are delivered for the optimal combination of scope, standard and cost. Given the long lead-times required for building significant infrastructure, Aurizon Network relies on a wide range of assumptions when making investment decisions. This includes capacity analysis and future demand profiles. As a result, Aurizon Network is heavily reliant on customer and regulatory endorsement as a pre-condition for proceeding with an investment. In the context of the Blackwater duplications, endorsement was provided in accordance with the established regulatory processes in place at the time under the applicable access undertaking.

In assessing the WIRP Pricing Proposal, the QCA must also have regard to the provisions outlined in the QCA Act; specifically section 69E, the objective of which is to:

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**“...promote the economically efficient operation of, use of and investment in, significant infrastructure...”**

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The key question for the QCA to consider is whether it is economically efficient for incumbent users of the Blackwater system to make a contribution towards the costs of infrastructure that will deliver significant operational efficiencies to the supply chain. For the reasons outlined in this submission, Aurizon Network believes that doing so would be consistent with and achieve the object set out in section 69E. Furthermore, the QCA states that its assessment approach considers:

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**“allocating WIRP costs to non-WIRP customers where WIRP has clear benefits to those users is consistent with cost-reflective pricing arrangements and appropriate allocation of costs”<sup>15</sup>**

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<sup>15</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 47.

As outlined in the CRIMP documentation and in Chapter 2 above, the benefits to the supply chain include:

- increased system robustness (ability to cope with adverse incidents and demand variability);
- minimise impact of construction closures due to staging of expansion works;
- greater planning flexibility;
- fewer contested train paths;
- an improved ability to recover from day of operations losses;
- minimise whole system closures as a result of required maintenance activities; and
- improved signalling reliability through the renewal of existing equipment in the Blackwater system and on the North Coast Line.

Aurizon Network disagrees with the QCA's Draft Decision 3.1 and maintains that the endorsement and regulatory pre-approval of the Blackwater duplication programme by Non-WIRP Customers remains a relevant consideration, which must be taken into account when assessing the WIRP Pricing Proposal.

Consistent with clause 3.3.1 (a)(i), Schedule A of the 2010AU, when making a pricing determination in relation to capital expenditure projects, the QCA should consider information and facts that were reasonably known and relied upon by all of the relevant parties at the time of making the decision to proceed with the capital investment. Investors and developers of all WICET and WIRP related infrastructure including the unloading terminal, rail and mine investments relied on existing regulatory practice, i.e. in the case of rail, the existing regulatory practice was reflected in the provisions of the 2010AU, and the endorsement of the Blackwater Duplication programme by incumbent, Non-WIRP Customers.

Accordingly, it is inappropriate for the QCA to negate the customer endorsement of these projects. If this Draft Decision holds, it will create a dangerous precedent whereby projects which have (in whole or part) been endorsed as prudent can be 'dis-endorsed' in the event that circumstances change after the investment decisions have been taken. Such retrospective dis-endorsement exposes Aurizon Network and expansion customers to additional regulatory risk and is contrary to the promotion of a stable and consistent regulatory framework.

As discussed in the WIRP Pricing Proposal, customer endorsement and regulatory pre-approval of the scope of the Blackwater Duplication programme through the Customer Group vote is evidence that a fully duplicated Blackwater system will create value for the supply chain and that there is demand for that value. This value was subsequently reinforced by the Gladstone Coal Exporters Executive (GCEE) who requested that Aurizon Network:

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**“...recommence the duplication programme for the remaining single line sections of the rail line between Rocklands and Blackwater, as a matter of utmost urgency and continue that programme in a structured manner, until all duplications are complete.”<sup>16</sup>**

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<sup>16</sup> GCEE, letter to Lance Hockridge, 14 December 2010.

And as a result of these benefits, subsequently stated that they would be willing to consider making a contribution towards the costs of the duplications through Access Charges:

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**“As also expressed in our previous letters, GCEE members are willing to consider the inclusion of the costs of the duplications in the regulated asset base, despite the fact they may be constructed earlier than would otherwise have been the case. The resultant outcome would, we believe, be mutually beneficial to all parties.”<sup>17</sup>**

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These benefits are no less relevant today than when the Blackwater Duplications were endorsed by incumbent users of the Blackwater system.

Aurizon Network reiterates that the endorsement and regulatory pre-approval of the scope of the Blackwater Duplication programme by incumbent Non-WIRP Customers, remains an important and relevant consideration, which must be taken into account when assessing the WIRP Pricing Proposal. It is inappropriate for the QCA to seek to negate the endorsement. Doing so would ignore the fact that:

- a Customer Group vote was (and is) a legitimate means of seeking regulatory pre-approval of the scope of the Blackwater Duplication programme under the 2010AU;
- the endorsement and regulatory pre-approval was relied upon by Aurizon Network and WIRP Customers when making their respective investment decisions;
- the Blackwater Duplications create value for the supply chain, and it is these benefits which should be considered when assessing cost-reflecting pricing arrangements for WIRP and Non-WIRP Customers;
- WIRP infrastructure will be extensively<sup>18</sup> utilised by Non-WIRP Customers; and
- WIRP infrastructure improves the flexibility and resilience of the supply chain.

#### ***There was no material change in scope***

The QCA states that its Draft Decision was made on the basis of changes in scope and circumstance since the Blackwater Duplications vote<sup>19</sup>. Aurizon Network acknowledges that the dynamic nature of capacity modelling relies on inputs and assumptions which are assessed at a point in time; the results of which can vary with the requirements of the supply chain. What did not change, however, was the scope delivered (i.e. seven (7) Blackwater mainline duplications) and the tangible benefits subsequently created for the supply chain. Aurizon Network reiterates that the maintenance and ‘day of operations’ benefits, which have been delivered, were integral to the positive endorsement of the Blackwater duplication programme by incumbent Non-WIRP Customers.

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<sup>17</sup> GCEE, letter to Lance Hockridge, 24 December 2010.

<sup>18</sup> Approximately 94% of the total capital costs of the WIRP programme relates to multi-user infrastructure. When WIRP volumes ramp-up up to full utilisation, they will only comprise approximately one-third (1/3) of the total tonnes utilising the Blackwater Duplications. Non-WIRP volumes will make up the balance.

<sup>19</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 17.



the relevant infrastructure. The QCA should make a decision on the WIRP Pricing Proposal that results in an outcome that is consistent with relevant principles under the 2010AU.

Furthermore, it would be inappropriate for the QCA to assess the WIRP Pricing Proposal in the context of the 2014DAU, which was not even drafted at the time WIRP arrangements were agreed. Doing so would create perverse pricing outcomes for WIRP customers, who would be subject to all of the additional risk associated any expansion pricing framework ultimately approved under the 2014DAU, without any of the benefits or protections it provides<sup>22</sup>. It is also relevant that at the time of entering into the WIRP arrangements, the only regulatory regime that the parties could base their investment decisions on was the 2010AU (and the historical treatment of these matters under past access undertakings). The concept of expansion tariffs referred to in the 2014DAU was not contemplated by any of the parties at the time that investment decisions were made in relation to the WIRP infrastructure. If it were, the parties may have made different decisions about whether to proceed with the respective projects.

Aurizon Network submitted the WIRP Pricing Proposal consistent with the principles and requirements of the 2010AU. The reasons for doing so are:

- The 2010AU is the **only** approved Access Undertaking currently in effect;
- Investors and developers of all WICET and WIRP related infrastructure including the unloading terminal, rail and mine investments relied on existing regulatory practice, i.e. the provisions of the 2010AU. Consistent with clause 3.3.1 (a)(i), Schedule A of the 2010AU, any assessment as to the prudence of investments should be based on the facts reasonably known to the parties at the time of making the decision to proceed with the investment;
- WIRP access seekers contracted access and committed to investments under the provisions of the 2010AU, including the pricing principles;
- WIRP Train Services commenced operating to WICET in Quarter 4 of FY2015 (the 2010AU was in effect at this time);
- WIRP Reference Tariffs were required for the commencement of new train services to WICET in Quarter 4 of FY2015 , which was prior to expiration of the 2010AU; and
- The provisions of the 2010AU (and not the 2014DAU) applied when WIRP Train Services commenced operating.

For the reasons outlined above, Aurizon Network and WIRP Customers<sup>23</sup> are strongly of the view that the pricing principles outlined in the 2010AU should be applied to establish the methodology for setting Reference Tariffs for WIRP Train Services. The reference tariff principles of the 2010AU were the only relevant principles reasonably known to the parties at the time of making the decision to proceed with the investment.

Aurizon Network believes that it is within the QCA's power to approve a pricing methodology for WIRP Train Services based on the principles of the 2010AU as these principles were relied upon at the time. As outlined in Chapter 1.2 above, the resulting Reference Tariffs, will need to be updated to reflect the financial metrics and inputs confirmed as part of the QCA's Final Decision on the 2014DAU. This is an appropriate and reasonable way of incorporating the WIRP pricing arrangements as part of the finalisation of the 2014DAU.

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<sup>22</sup> For example, the regulatory pre-approval process, which would provide guidance on the pricing outcome prior to substantial investments being made.

<sup>23</sup> Balance Resources, Wiggins Island Rail Project (WIRP) Proposed Pricing Treatment, February 2015.

4

## WIRP Costs and Volumes

### QCA's Draft Decision

QCA Draft Decision	Reference	Aurizon Network Position
<p>The QCA refuses to approve Aurizon Network's proposed capital indicator for WIRP in the 2014 DAU. The way in which the QCA considers it is appropriate to amend the 2014 DAU is as follows:</p> <ul style="list-style-type: none"> <li>a. Adjust the capital indicator for WIRP to be consistent with Aurizon Network's December 2014 WIRP pricing proposal.</li> </ul>	4.1	Agree
<p>The QCA approves Aurizon Network's proposed capital cost allocation approach for WIRP customers as set out in the 2014 DAU.</p>	4.2	Agree, subject to amendment
<p>The QCA refuses to approve Aurizon Network's proposed capital cost allocation to non-WIRP users. The way in which the QCA considers it is appropriate to amend the 2014 DAU is as follows:</p> <ul style="list-style-type: none"> <li>a. Adjust the capital allocation for the WICET balloon loop to reflect that existing Blackwater train paths are expected to use this project segment.</li> <li>b. Remove the capital allocation of Blackwater duplication costs to existing Blackwater system customers, for the purposes of defining incremental capital costs associated with WIRP infrastructure.</li> </ul>	4.3	<ul style="list-style-type: none"> <li>a. Agree, subject to verification of the QCA's calculations</li> <li>b. Disagree</li> </ul>
<p>The QCA refuses to approve Aurizon Network's proposed allocation of operating and maintenance costs to WIRP train services in the 2014 DAU. The way in which the QCA considers it is appropriate to amend the 2014 DAU is as follows:</p> <ul style="list-style-type: none"> <li>a. Use Aurizon Network's December 2014 proposed WIRP operating and maintenance costs for 2015–16 and 2016–17.</li> </ul>	4.4	Agree, subject to verification of the QCA's calculations

QCA Draft Decision	Reference	Aurizon Network Position
<p>Based on the information before the QCA, the appropriate approach to deriving proxy incremental volumes is to:</p> <ul style="list-style-type: none"> <li>a. Use expected railings of WIRP and non-WIRP volumes option rather than a apportionment mechanism</li> <li>b. Cap WIRP volumes to contracted volumes.</li> </ul>	4.5	<ul style="list-style-type: none"> <li>a. Agree, subject to verification of QCA's calculations.</li> <li>b. Disagree, due to insufficient information</li> </ul>
<p>The QCA refuses to approve Aurizon Network's proposed volume forecasts. The way in which the QCA considers it is appropriate to amend the 2014 DAU is as follows:</p> <ul style="list-style-type: none"> <li>a. Adopt the forecast volumes for WIRP and non-WIRP train services consistent with Energy Economics' forecasts and the adjustments to cap WIRP volumes to contracted volumes.</li> </ul>	4.6	Disagree, due to insufficient information

## 4.1 Summary of Aurizon Network's Position

This chapter outlines the key input assumptions used in the pricing assessment for WIRP Train Services. In Chapter 2, Aurizon Network outlined a number of the benefits and efficiencies that accrue to the supply chain as a result of the WIRP programme. Aurizon Network believes that these benefits and efficiencies are consistent with the objectives of S69E of the QCA Act, by:

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**“...promoting the economically efficient operation of, use of and investment in, significant infrastructure...”**

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In recognition of these benefits, Aurizon Network reiterates its position that it is equitable to allocate a portion of WIRP capital costs to Non-WIRP Customers who utilise WIRP infrastructure.

Aurizon Network is also concerned that the QCA has refused to provide Aurizon Network with its detailed volume forecasts. As a result, it is impossible for Aurizon Network to assess the validity of the forecasts or calculate revised Reference Tariffs for either the Blackwater or Moura systems on the basis of the QCA's Draft Decision. This information is critical for determining reference tariffs and Aurizon Network is concerned that the QCA's decision not to provide this information to Aurizon Network has broader implications that will adversely impact Aurizon Network's ability to comply with the QCA's Final Decision on the 2014DAU.

Aurizon Network cannot agree, and cannot be expected to agree with the QCA's volume forecasts due to a lack of sufficient information.

## 4.2 WIRP Capital Expenditure Forecasts (DD 4.1)

Draft Decision 4.1 is to refuse to approve Aurizon Network's proposed capital indicator for WIRP in the 2014DAU. The QCA has recommended that Aurizon Network adjust the capital indicator for WIRP to be consistent with Aurizon Network's December 2014 WIRP Pricing Proposal.

Aurizon Network agrees with the QCA's Draft Decision. As outlined in the WIRP Pricing Proposal, the WIRP Capital Indicator, inclusive of Interest During Construction (IDC) is provided in Table 4.1 below.

**Table 4.1: WIRP Capital Indicator.**

Capital Indicator (\$million)	Including IDC
Wiggins Island Balloon Loop	245.8
Blackwater Duplications	424.8
Bauhinia North Upgrades	17.3
Moura System Upgrades	48.3
North Coast Line Upgrades	209.1
<b>Total</b>	<b>945.3</b>

Consistent with the QCA's Draft Decision on Aurizon Network's MAR<sup>24</sup>, IDC has been calculated with reference to the Draft Decision Vanilla WACC rate of 7.17%. The use of this rate is not intended to reflect Aurizon Network's acceptance of the QCA's WACC draft decision. It should be noted that in its response to the QCA's MAR Draft Decision, Aurizon Network proposed a revised WACC rate of 7.62%.

For clarity, Aurizon Network's revised Reference Tariffs for WIRP Train Services will be calculated with respect to the Capital Indicator, inclusive of IDC.

Aurizon Network notes that the WIRP Capital Indicator has not been revised since the December 2014 WIRP Pricing Proposal because expenditure on the WIRP Programme has not yet been completed. Aurizon Network reiterates that any variation between the forecast WIRP Capital Indicator, and the actual amounts approved by the QCA as part of Aurizon Network's annual ex-post Capital Expenditure submission<sup>25</sup> will be subject to a true-up as part of the Capital Expenditure Carryover Account<sup>26</sup>.

### 4.3 Capital Allocations among WIRP Customers (DD 4.2)

Draft Decision 4.2 is to approve Aurizon Network's proposed capital cost allocation approach for WIRP customers as set out in the 2014DAU.

Aurizon Network's WIRP Pricing Proposal sought to allocate capital expenditure between WIRP customers in accordance with their utilisation of each individual segment, using forecast Gross Tonne Kilometres (GTK) as a proxy for this. Under this methodology, all WIRP customers were required to make a contribution towards the capital costs of the North Coast Line upgrades.

Nevertheless, Aurizon Network agrees with the QCA's Draft Decision, subject to amendment.

In July 2015, Aurizon Network responded to a Request for Information (RFI) from the QCA, which sought an update of contracted tonnes. For consistency, Aurizon Network has used this updated information when preparing its response to the QCA's Draft Decision.

<sup>24</sup> QCA, Draft Decision on Aurizon Network's Maximum Allowable Revenue, September 2014.

<sup>25</sup> Aurizon Network, 2010 Access Undertaking, Schedule A, Clause 2 and 3.

<sup>26</sup> Aurizon Network, 2010 Access Undertaking, Schedule A, Clause 4.

## 4.4 Capital Allocations to Non-WIRP Customers (DD 4.3)

Draft Decision 4.3 is to refuse to approve Aurizon Network's proposed capital cost allocation to non-WIRP users. Under Draft Decision 4.3 a), the QCA has recommended that Aurizon Network adjust the capital allocation for the WICET Balloon Loop to reflect that existing Blackwater train paths are expected to use this project segment.

Aurizon Network agrees with the QCA's Draft Decision 4.3 a), but notes that this appears to create an inconsistency with Draft Decision 4.3 b). Under 4.3 a), the QCA considers it appropriate to allocate the capital costs of the WICET Balloon Loop to existing Blackwater train paths. This allocation was made on the basis that existing Blackwater train services utilise this infrastructure.

Aurizon Network considers that the QCA should apply this logic consistently to other WIRP project segments in the Blackwater and Moura systems, which in reality are more heavily utilised by Non-WIRP Customers than the WICET Balloon Loop – i.e. all WIRP infrastructure costs should be borne by all Blackwater or Moura customers who may use that infrastructure. In the context of Draft Decision 4.3 b), Aurizon Network recommends that the QCA apply a consistent capital allocation to other WIRP project segments to reflect the fact that existing Blackwater and Moura system train services are expected to use them.

Under Draft Decision 4.3 b), the QCA has recommended that Aurizon Network remove the capital allocation of Blackwater Duplication costs to existing Blackwater system customers, for the purposes of defining incremental capital costs associated with WIRP infrastructure.

Aurizon Network disagrees with the QCA's Draft Decision. In assessing an appropriate cost allocation under Draft Decision 4.3 b), the QCA must have regard to the provisions outlined in the QCA Act; specifically under section 69E, the object of Part 5 of the QCA Act is to:

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**“...promote the economically efficient operation of, use of and investment in, significant infrastructure...”**

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A key question for the QCA to consider is whether it is economically efficient for incumbent users to contribute towards the costs of infrastructure that will deliver significant operational efficiencies to the supply chain. Chapter 2 of this submission provides a detailed description of these benefits and efficiencies, which are no less relevant today than when the Blackwater Duplications were originally endorsed by incumbent users. On the basis of the evidence and examples provided in this submission, it is equitable for incumbent users of the Blackwater and Moura systems to make a contribution towards the capital costs of WIRP infrastructure. Aurizon Network believes that doing so would be consistent with the object set out in section 69E of the QCA Act.

In its response to Draft Decision 3.1 and 3.2, Aurizon Network reiterates that when assessing the appropriate allocation of capital expenditure, it would be inappropriate for the QCA to ignore the fact that:

- incumbent users of the Blackwater system endorsed the Blackwater Duplication programme through a successful Customer Group vote in respect of those capital projects; and
- the WIRP Access Conditions were subject to a number of limitations (particularly, the exclusion of [REDACTED] capital expenditure, which does not form part of the WIRP Fee arrangements and the relevant payments being tied to meeting time, cost and performance targets);

The repeated approaches by the GCEE with respect to the Blackwater Duplication programme also demonstrate that the duplications were desirable in the absence of committed capacity from WIRP Train Services. In December 2010, the GCEE wrote to Aurizon Network<sup>27</sup>, requesting that it:

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**“...recommence the duplication programme for the remaining single line sections of the rail line between Rocklands and Blackwater, as a matter of utmost urgency and continue that programme in a structured manner, until all duplications are complete.”**

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Furthermore, the GCEE stated that they would be willing to consider making a contribution towards the costs of the duplications through Access Charges:

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**“As also expressed in our previous letters, GCEE members are willing to consider the inclusion of the costs of the duplications in the regulated asset base, despite the fact they may be constructed earlier than would otherwise have been the case. The resultant outcome would, we believe, be mutually beneficial to all parties.”<sup>28</sup>**

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Recommending that incumbent users make a contribution towards the capital costs of WIRP Infrastructure accounts for the fact that:

- WIRP infrastructure improves supply chain flexibility and resilience, for the benefit of all users;
- the endorsement and regulatory pre-approval received for the scope of the Blackwater Duplications was relied upon by Aurizon Network and WIRP Customers when making their respective investment decisions;
- the Blackwater Duplications were desirable by the supply chain in the absence of committed WIRP Train Services; and
- WIRP infrastructure will be extensively utilised by Non-WIRP Customers. Approximately 94% of the total capital costs of the WIRP programme relates to multi-user infrastructure. When WIRP volumes ramp-up up to full utilisation, they will only comprise approximately one-third (1/3) of the total tonnes utilising the Blackwater Duplications. Non-WIRP volumes will make up the balance.

The last point raises an interesting conundrum in the context of this Draft Decision. In describing its assessment approach, the QCA intends to establish cost-reflective pricing arrangements. In doing so, QCA considers that the following are consistent with cost-reflective pricing arrangements:

- *WIRP train services bear at least their incremental costs, without unfairly differentiating in a material way between access holders and seekers;*
- *Allocating WIRP costs to non-WIRP customers where WIRP has clear benefits to those users;*

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<sup>27</sup> GCEE, letter to Lance Hockridge, 14 December 2010.

<sup>28</sup> GCEE, letter to Lance Hockridge, 24 December 2010.

- *Minimising the impact on existing users of an expansion triggered by other users; and*
- *Imposing a CCC on WIRP customers is not necessarily required.*<sup>29</sup>

Aurizon Network agrees with this assessment.

### ***Integration of WIRP infrastructure and the CQCR***

WIRP is fully integrated with the existing Blackwater and Moura systems. Aurizon Network suggests that in its assessment of cost-reflective arrangements, the QCA should have regard to this level of integration and the operational realities, which result in Non-WIRP Customers utilising WIRP infrastructure.

In assessing whether a cost allocation to Non-WIRP Customers is appropriate, the QCA should not simply focus on the impact that WIRP will have on Non-WIRP Customers. It should also have regard to the rate of asset degradation resulting from the intensive utilisation of WIRP infrastructure by Non-WIRP Customers. For example, where Non-WIRP Customers operate on WIRP Infrastructure, they contribute towards the wear and tear of the asset. As a direct result, the condition of WIRP Infrastructure will degrade at a quicker rate than if that infrastructure was utilised solely by WIRP Customers.

The QCA's Draft Decision is to remove the capital allocation of Blackwater Duplication costs to existing Blackwater system customers, for the purposes of defining incremental capital costs associated with WIRP infrastructure. This Draft Decision effectively ignores a key characteristic of an integrated supply chain, where incumbent and new customers utilise the same infrastructure. The QCA should also take this factor into consideration when assessing capital cost allocations between WIRP and Non-WIRP Customers.

In its Draft Decision, the QCA states that Non-WIRP Customers oppose making a contribution towards the costs of WIRP Infrastructure unless there is a clear financial or operational benefits in the form of increased system throughput at efficient costs.<sup>30</sup> In Chapter 2 of this submission, Aurizon Network has articulated specific examples where the WIRP Infrastructure is consistent with the object of Part 5 of the QCA Act, i.e. promoting the "*economically efficient operation of, use of and investment in*" the CQCR. The efficiencies created by the WIRP programme have provided a direct benefit to all supply chain participants.

Aurizon Network disagrees with the QCA's position with respect to Draft Decision 4.3 b). The QCA's Final Decision should be considered in conjunction with the information outlined in this section, Chapter 2, the regulatory endorsement and pre-approval of the Blackwater Duplications (response to Draft Decision 3.1) and the limitations of the WIRP Access Conditions (response to Draft Decision 3.2).

The QCA has also indicated that a pre-requisite to the allocation of expansion costs to existing users is that such users must benefit from the expansion and that they must have also stated that they want the benefit and are willing to pay for it<sup>31</sup>. While Aurizon Network considers that this criteria is amply satisfied in the present circumstances – they voted on it and they supported it publically, the regulatory affect of the QCA's approach is potentially concerning. This is because existing users in other circumstances could simply refuse to state that they want the benefit or, even if they do, that they are not willing to pay for it. Existing users could easily do this for the purpose of free-riding at the expense of new or expanding users who may have no other choice but to proceed with the expansions if they wish to have those expansions occur. The result being that new or expanding users would then be effectively forced to

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<sup>29</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 47.

<sup>30</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 44.

<sup>31</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 30.

subsidise improvements to the services provided to their competitors with existing users unfairly taking the benefit at no cost.

Aurizon Network maintains that the cost allocations outlined in the WIRP Pricing Proposal remain appropriate when considering the efficiencies created by the WIRP infrastructure, i.e. that the Blackwater Duplication costs be shared evenly between WIRP and Non-WIRP Customers.

## 4.5 Revised Capital Expenditure Allocations

On the basis of its responses to Draft Decision 4.2 and 4.3 above, Aurizon Network has revised the capital allocations to each group for pricing purposes. These allocations are outlined in Table 4.2 and are used when calculating the revised Reference Tariffs outlined in Chapter 7.

For clarity, the capital costs have been separated into electric and 'non-electric' asset classes, and are expressed inclusive of IDC. The 'Difference' column compares the revised allocations for each pricing group against the allocations proposed in the WIRP Pricing Proposal.

**Table 4.2: Proposed Capital Allocations by Customer Group; including IDC**

Capital Allocations (\$ million, Nominal)	Non-Electric	Electric	Total
WIRP_Blackwater	160.7	13.2	<b>173.9</b>
WIRP_Rolleston	292.5	22.5	<b>315.0</b>
WIRP_Moura	63.2	--	<b>63.2</b>
WIRP_NCL	0.4	--	<b>0.4</b>
'Non-WIRP' Blackwater	189.0	23.4	<b>212.4</b>
'Non-WIRP' Rolleston	27.8	1.6	<b>29.4</b>
Deferred Capital	139.5	11.4	<b>150.9</b>
<b>Total</b>	<b>873.2</b>	<b>72.1</b>	<b>945.3</b>

## 4.6 WIRP Maintenance and Operating Costs (DD 4.4)

Draft Decision 4.4 is to refuse to approve Aurizon Network's proposed allocation of operating and maintenance costs to WIRP train services in the 2014DAU. The QCA has recommended that Reference Tariffs for WIRP Train Services are calculated with reference to the incremental operating and maintenance costs outlined in Aurizon Network's December 2014 WIRP Pricing Proposal for FY2016 and FY2017.

As outlined in the WIRP Pricing Proposal<sup>32</sup>, Aurizon Network expects that the new infrastructure constructed as part of the WIRP programme will initially require a low level of maintenance work. This was taken into consideration when preparing Aurizon Network’s maintenance cost forecasts for the period of the 2014DAU.

Aurizon Network agrees with the QCA’s Draft Decision, subject to confirmation that the QCA has not made a corresponding deduction to the total maintenance and operating cost allowances proposed by Aurizon Network in its response to the QCA’s Draft Decision on MAR<sup>33</sup>.

Consistent with the WIRP Pricing Proposal and the QCA’s Draft Decision, the incremental maintenance and operating costs used to determine the revised WIRP Reference Tariffs are outlined in Table 4.3.

**Table 4.3: Incremental Maintenance and Operating Costs for WIRP Train Services.**

Incremental Maintenance and Operating Costs (\$ million, Nominal)	FY2016	FY2017
WIRP_Blackwater	1.71	2.34
WIRP_Moura	0.12	0.24
WIRP_NCL	--	--
<b>Total</b>	<b>1.83</b>	<b>2.57</b>

## 4.7 Derivation of Incremental Volumes (DD 4.5)

Draft Decision 4.5 a) is to use expected railings of WIRP and non-WIRP volumes to derive proxy incremental volumes rather than an apportionment mechanism.

When preparing its annual regulatory volume forecasts for each coal system, Aurizon Network prepares detailed estimates for each producer on the basis of expected railings between each origin and destination pair. This process is used to determine the aggregate forecasts for each coal system. The coal system forecasts are then apportioned among each origin and destination pair in accordance with its share of total volumes contracted. This ensures that Reference Tariffs for each coal system are set on an independent, consistent and equitable basis for all producers.

In this instance, Aurizon Network agrees with the Draft Decision, provided its application is limited to setting incremental volumes for WIRP Train Services, and not applied more broadly (at an ‘origin and destination’ level) for the purpose of calculating Reference Tariffs.

Draft Decision 4.5 b) is to cap WIRP volumes to contracted volumes.

Aurizon Network could agree with this Draft Decision, however, Aurizon Network has not been provided with a detailed breakdown of the QCA’s volume forecasts, which were prepared by Energy Economics. Given the lack of information, it is impossible for Aurizon Network to properly comment on the reasonableness of the QCA’s Draft Decision. If the QCA intends to apply a cap on WIRP volumes for the purpose of assessing the pricing arrangements for WIRP Train Services, the volumes of Non-WIRP

<sup>32</sup> Aurizon Network, Proposed new Reference Tariff Train Services to Wiggins Island Coal Export Terminal, December 2014, pg.21.

<sup>33</sup> QCA, Draft Decision on Aurizon Network’s Maximum Allowable Revenue, September 2014.

Customers must also be capped. Doing so will ensure that the pricing assessment between WIRP and Non-WIRP volumes will be conducted on a like-for-like basis.

In July 2015, Aurizon Network responded to an RFI from the QCA, which sought an update of contracted tonnes. For consistency, Aurizon Network has used this updated information when preparing its response to the QCA's Draft Decision.

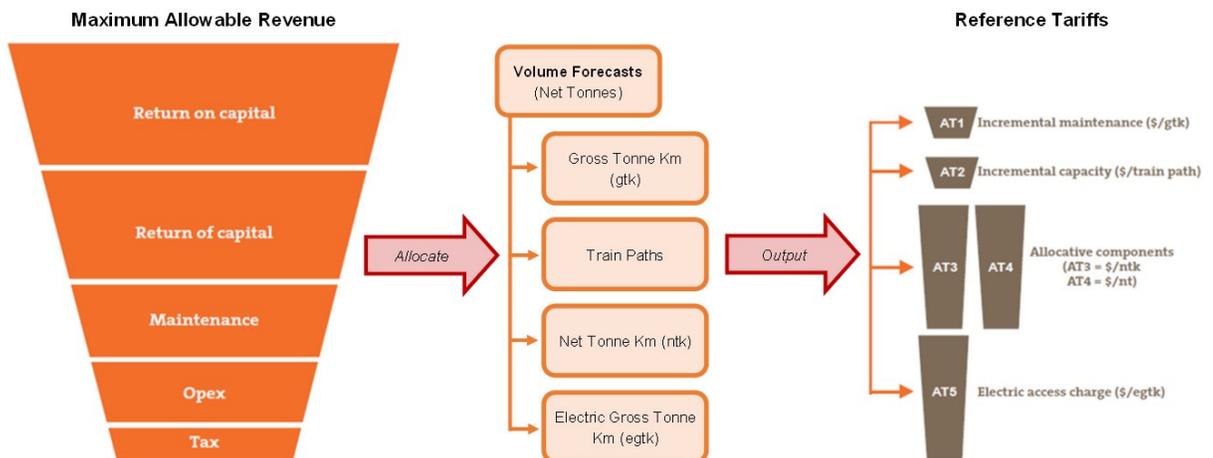
Nevertheless, in light of Aurizon Network's response to Draft Decision 4.6 below, Draft Decisions 4.5 a) and 4.5 b) are not explicitly applied when determining revised Reference Tariffs for WIRP Train Services.

## 4.8 Volume Forecasts (DD 4.6)

Draft Decision 4.6 is to refuse to approve Aurizon Network's proposed volume forecasts. The QCA recommends that Aurizon Network adopt the forecast volumes for WIRP and non-WIRP train services consistent with Energy Economics' forecasts and the adjustments to cap WIRP volumes to contracted volumes.

Volume forecasts are a critical aspect of converting Aurizon Network's MAR into Reference Tariffs for all Train Services operating in the CQCR. Figure 4.1 below provides a conceptual overview of this process, where the recovery of MAR is spread over five operational metrics<sup>34</sup>.

**Figure 4.1: Converting Maximum Allowable Revenue to Reference Tariffs**



Aurizon Network is concerned that the QCA has refused to provide Aurizon Network with its detailed volume forecasts – in particular, the full information on which those forecasts are based. As a result, it is impossible for Aurizon Network to assess the validity of the forecasts or calculate revised Reference Tariffs for either the Blackwater or Moura systems on the basis of the QCA's Draft Decision and to make submissions to the QCA on those matters. This information is critical for determining reference tariffs and Aurizon Network is also concerned that the QCA's decision not to provide this information to Aurizon Network has broader implications that will adversely impact Aurizon Network's ability to comply with the QCA's Final Decision on the 2014DAU. For example, while the aggregate forecast for each coal system (expressed in Net Tonnes) would be available, Aurizon Network would not have sufficient information to

<sup>34</sup> Net Tonnes, Gross Tonne Kilometres, Train Paths, Net Tonne Kilometres and Electric Gross Tonne Kilometres.

split this forecast between each origin and destination pair. As a result, Aurizon Network could not derive the associated Train Paths, GTK's and NTK's, which are critical metrics for calculating Reference Tariffs.

Aurizon Network cannot agree, and cannot be expected to agree with this Draft Decision due to a lack of sufficient information. Accordingly, Aurizon Network maintains that the best estimate of WIRP volumes are those outlined in the WIRP Pricing Proposal, which were independently prepared by JT Boyd<sup>35</sup>.

The JT Boyd forecasts were provided to Aurizon Network (and subsequently the QCA) by WICET in-confidence. Using the data contained within the JT Boyd forecast, Aurizon Network prepared an annualised, aggregated forecast, which will enable a like-for-like comparison with the QCA's annual forecasts proposed in this Draft Decision. WICET has agreed that Aurizon Network may publish (without redaction) the annualised and aggregated forecast. A comparison is provided in the table below.

**Table 4.4: Comparison of volume forecasts proposed for WIRP Train Services**

Proposed Volume Forecast (million net tonnes)	FY2016	FY2017
Aurizon Network forecast – December 2014	13.68	16.35
Energy Economics – July 2015	12.1	18.6
QCA adjustments	(1.1)	(2.1)
QCA proposed volume forecast	11.0	16.5
<b>Aurizon Network proposed forecast – September 2015</b>	<b>13.68</b>	<b>16.35</b>

As outlined above, the annualised forecasts provided as part of the WIRP Pricing Proposal are not materially different from the QCA's own forecasts. Furthermore, they provide a reasonable forecast of WIRP railings in FY2016 and FY2017.

Aurizon Network cannot calculate Reference Tariffs for the CQCR without being provided with the QCA's volume forecasts. In light of this and the fact that Aurizon Network's forecasts are not materially different from the QCA's on aggregate, Aurizon Network asks that the QCA reconsider its Draft Decision, and approve Aurizon Network's forecasts as per the WIRP Pricing Proposal.

#### ***QCA Capping Adjustments***

As discussed above, the QCA has not provided sufficient information to enable Aurizon Network to adequately assess or form a view on the reasonableness of the capping adjustments it has applied. Aurizon Network would welcome the opportunity to discuss this further with the QCA.

Aurizon Network notes that if the QCA intends to cap WIRP volume forecasts for the purpose of assessing the pricing arrangements for WIRP Train Services, the volume forecasts of Non-WIRP Customers must also be capped. Doing so will ensure that the pricing assessment will be conducted on a like-for-like basis.

<sup>35</sup> Aurizon Network, Proposed new Reference Tariff Train Services to Wiggins Island Coal Export Terminal, December 2014, pg.33.

### ***Allowing for WIRP Ramp-Up***

While the forecasts presented in the table above are annualised, Schedule F of Aurizon Network's 2010AU and 2014DAU also requires forecast GTK's to be estimated on a monthly basis for the purpose of determining UT1 take-or-pay liabilities. In the context of finalising the GTK forecasts included in the 2014DAU, the QCA must account for the WIRP volume ramp-up, rather than evenly pro-rate the annualised forecast over each 12 month period.

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## Assessment of WIRP Pricing Options

### QCA's Draft Decision

QCA Draft Decision	Reference	Aurizon Network Position
<p>The QCA refuses to approve the current pricing approach set out in the proposed WIRP pricing arrangements. The QCA considers that the proposed approach is not appropriate, having regard to the factors set out in section 138(2) and given the implications of volume risk and substitutability between WIRP and non-WIRP train services. The way in which the QCA consider it is appropriate to amend the 2014 DAU is as follows:</p> <p>a. use a system premium pricing approach.</p>	5.1	Agree with the system premium approach, but have concerns with the QCA's assessment

### 5.1 Summary of Aurizon Network's Position

Aurizon Network agrees that a system premium pricing approach is appropriate in the context of setting Reference Tariffs for WIRP Train Services. This approach is consistent with the outcomes contemplated by the 2010AU.

In this chapter, Aurizon Network addressed some concerns it has regarding the QCA's assessment. In particular, the QCA's draft decisions to:

- exclude the contribution to common cost associated with existing Rolleston Train Services for the purpose of assessing the baseline system Reference Tariff;
- calculate its pricing assessment for WIRP Train Services on a \$ per net tonne basis; and
- apply a system premium on AT<sub>5</sub> for Rolleston Train Services.

Aurizon Network also reiterates that the provisions of the 2010AU are appropriate for assessing the pricing arrangements for WIRP Train Services; in particular, Schedule F, Part B, Subclause 4.1.2. Aurizon Network maintains that:

- there is nothing in this subclause that excludes its operation where access for the new coal carrying Train Service involves a major expansion; and
- the subclause is capable of being sensibly interpreted and applied in respect of a major expansion.

It is critical that the Final Decision on the WIRP Pricing Proposal applies the regulatory principles that were relevant and relied upon by all parties at the time of committing to investments in significant infrastructure.

## 5.2 System Premium Approach (DD 5.1)

Draft Decision 5.1 is to refuse to approve the pricing approach proposed by Aurizon Network, i.e. full socialisation of WIRP in the Blackwater coal system. The QCA recommends that a system premium pricing approach be applied to WIRP Train Services.

The integrated nature of WIRP infrastructure within the Blackwater and Moura coal systems means it would be inappropriate in the context of the 2010AU, which applied at the time of the WIRP investment decisions, to establish WIRP as a new coal system, with separate pricing arrangements. When considering the appropriate pricing treatment for WIRP Train Services, the QCA must have regard to the regulatory principles that were relevant and relied upon by all parties at the time of making the decision to proceed with the investment. In the context of WIRP, the relevant regulatory principles were those outlined in the 2010AU.

The pricing arrangements outlined in the 2010AU provide for a system premium to be paid by new Train Services where the application of the Reference Tariffs prevailing in the system are insufficient to recover the Train Service's incremental costs, plus a contribution to common costs (CCC). If applicable, the system premium approach ensures that the new Train Service will pay an Access Charge that is reflective of the costs it imposes on the system.

Aurizon Network agrees with the QCA's Draft Decision, and confirms the QCA's view that the input assumptions will determine whether a system premium is applicable or not<sup>36</sup>.

Nevertheless, Aurizon Network wishes to address some concerns it has regarding the detailed calculations applied by the QCA in its assessment approach. Specifically the;

- treatment of Rolleston's 'non-WIRP' CCC when calculating the baseline system Reference Tariff;
- assessment approach applied to Rolleston electrification costs; and
- inconsistent application of unit prices when conducting the pricing assessment, e.g. \$ per Net Tonne Kilometres (\$ per NTK) for some, \$ per Net Tonnes (\$ per NT) for others.

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<sup>36</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 44.

## Assessing the Baseline System Reference Tariff

The QCA's Draft Decision states that:

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**“The baseline system reference tariff reflects the tariff that would apply to existing users if we completely isolated existing users from the costs and volumes associated with WIRP.”<sup>37</sup>**

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The QCA has assessed Rolleston's spur costs against the requirements of the 2010AU, Schedule F, Part B, subclause 4.1.2, to determine whether they should be included in the calculation of the baseline Reference Tariff for the Blackwater system. The results of the QCA's analysis, indicate that existing Rolleston volumes should pay a system premium and are outlined in Table 11 of the QCA's Draft Decision<sup>38</sup>.

For clarity, this initial assessment relates to the pricing treatment of existing Rolleston volumes only and is not related to WIRP Train Services. Aurizon Network is concerned about the QCA's treatment of the Rolleston CCC when determining the baseline reference tariff, i.e. Criterion (a) of the QCA's Table 11. In its assessment, the QCA has erroneously deducted the CCC from the baseline system Reference Tariff, which has the effect of artificially deflating the baseline system Reference Tariff. This puts existing Rolleston Train Service at an immediate disadvantage in determining whether it should pay the system price, or a system premium.

As noted above, the baseline system Reference Tariff is reflective of the price that would prevail in the absence of the relevant train service. In this instance, the baseline system Reference Tariff should exclude the capital, maintenance and operating costs associated with the Rolleston spur, and any mainline maintenance costs associated with the Rolleston Train Service. The CCC element, however, represents Rolleston's contribution to common system costs, which are not attributable to any individual customer. These costs would still be incurred by the system in the absence of Rolleston Train Services and should therefore be recovered through the baseline system reference tariff.

Aurizon Network disagrees with the QCA's financial modelling approach, which deducts the CCC from the baseline system Reference Tariff. Aurizon Network has assessed existing Rolleston Train Services against the requirements of subclause 4.1.2, while retaining the CCC as part of the baseline system reference tariff. The results are outlined below.

**Table 5.1: Access Charges for existing Rolleston Train Services; expressed in \$ per NTK**

Rolleston Non-Electric (\$ per NTK)	FY2016	FY2017
Criteria (a) – Reference Tariff	0.0148	0.0147
Criteria (b) – Incremental	0.0145	0.0145

The results above indicate that for existing (i.e. non-WIRP) Rolleston Train Services, criteria (a) exceeds criteria (b). Therefore a socialised Blackwater system Reference Tariff should apply.

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<sup>37</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 48.

<sup>38</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 49.

### **Assessment of Rolleston electrification costs**

The QCA's Draft Decision states that the incremental cost of Rolleston electrification "*results in a higher tariff than the Blackwater AT<sub>5</sub> tariff.*"<sup>39</sup> Once again, this initial assessment relates to the pricing treatment of existing Rolleston volumes only and is not related to WIRP Train Services.

Unfortunately, the QCA has not provided detailed calculations of how the pricing arrangements for Rolleston electric assets have been assessed. Aurizon Network's own pricing assessment indicates that the additional electric volumes railed as a result of the Rolleston electrification project are sufficient to offset the incremental costs and as a result, will reduce the AT<sub>5</sub> Reference Tariffs for all users in the Blackwater system<sup>40</sup>.

As a result, Aurizon Network proposes that Rolleston Train Services do not pay a system premium in either FY2016 or FY2017. Aurizon Network would appreciate the opportunity to discuss this further with the QCA, to better understand the basis upon which it has determined that an AT<sub>5</sub> system premium is appropriate for Rolleston Train Services.

### **Basis of the Pricing Assessment (NTK versus NT)**

As outlined in the WIRP Pricing Proposal, Subclause 4.1.2 of Schedule F, Part B of the 2010AU (Subclause 4.1.2) requires a unit price comparison of:

- a. the Access Charges payable by the new Train Service at the baseline system Reference Tariff; and
- b. the Incremental Costs of the new Train Service, plus a CCC.

Each element unit price is expressed on a consistent basis, i.e. in terms of \$ per NTK. While the QCA has assessed existing (i.e. non-WIRP) Rolleston Train Services on the basis of a \$ per NTK calculation, WIRP has been assessed using a \$ per NT approach. Aurizon Network is concerned that an inconsistent approach, such as the one proposed in the QCA's Draft Decision, can create different outcomes for different customers.

The methodology applied by the QCA is effectively a mixture of the approaches outlined in the 2010AU and the 2014DAU. Aurizon Network notes that:

- the \$ per NTK approach is currently in effect, through the provisions of the 2010AU; and
- the expansion pricing framework proposed in the 2014DAU provides for an assessment to be conducted on the basis of \$ per NT.

Aurizon Network reiterates that the pricing methodology applied must have regard to the provisions of the 2010AU, i.e. the pricing assessment for WIRP Train Services must be on the basis of a \$ per NTK approach. The provisions of the 2010AU are currently in effect and were relied upon at the time Aurizon Network and WIRP Customers made the decision to proceed with the investment. Furthermore, the QCA has not provided reasons as to why it considers a \$ per NT approach to be superior to a \$ per NTK approach.

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<sup>39</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 57.

<sup>40</sup> Aurizon Network's financial model indicates that no system premium is payable in FY2016 and FY2017.

In the context of WIRP, where the characteristics of individual Train Services are known (such as contracted volumes and haul distances), \$ per NTK basis provides a more accurate balance between the operational characteristics of the relevant train services.

Under the expansion pricing framework proposed in the 2014DAU, a Pricing Proposal for the expansion would be submitted **prior** to investment commitments being made<sup>41</sup>. At that point in time, specific operational details (such as the point of connection to the mainline), which are relevant to individual producers, may not be available. In those circumstances, the \$ per NT approach would be appropriate because it allows an informed consultation process to take place. In the context of the 2014DAU, a \$ per NT calculation was proposed, in part as a simplification to address such complexities and unknown factors.

The operational characteristics of WIRP Train Services are known. Furthermore, WIRP investments were committed and WIRP Train Services commenced operating in accordance with the provisions of the 2010AU.

In light of the above, and the fact that it more accurately accounts for known operational differences between producers, Aurizon Network disagrees with the QCA's Draft Decision. Aurizon Network submits that the pricing treatment for WIRP Train Services be assessed on the basis of a \$ per NTK approach.

### 5.3 Application of Subclause 4.1.2 to WIRP Train Services

Under the provisions of the 2010AU, Subclause 4.1.2 specifies that:

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**“...the Reference Tariff applicable for a new coal carrying Train Service will be the higher of (on a \$ / net tonne kilometre (ntk) basis):**

**a) the Reference Tariff for the relevant Individual Coal System Infrastructure; or**

**b) the sum of the new coal carrying Train's Service's Private Incremental Costs (if any), the Incremental Costs of using any Rail Infrastructure specifically related to the new coal carrying Train Service and the required minimum Common Cost contribution determined in accordance with Subclause 4.1.1,**

**provided that the Access Charge payable to QR Network for the operation of that new coal carrying Train Service is calculated as the applicable Reference Tariff less the Private Incremental Costs...”**

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There is nothing in Subclause 4.1.2 that excludes its operation where access for the new coal carrying Train Service involves a major expansion. Rather, the use of “Incremental Costs” in clause 4.1.2(b) expressly results in the provision considering the *“costs of providing Access, including capital (renewal and expansion) costs....”* Furthermore, the definition of “Incremental Costs” refers to *“the particular Train Service or combination of Train Services”*. While many of the past submissions referencing this subclause related to a new mine connecting to the rail network this does not mean that the provisions are limited or restricted to those circumstances.

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<sup>41</sup> The proposed term was within 80 Business Days after the Feasibility SFA becomes unconditional for that expansion.

In order to determine the Reference Tariff applicable for WIRP Train Services, Aurizon Network reiterates its view that Subclause 4.1.2 of the 2010AU must be applied. Aurizon Network notes that the QCA's Draft Decision avoids the need to include a CCC for the purposes of conducting the pricing test for WIRP Train Services. Aurizon Network agrees with this assessment as it is an option contemplated within the provisions of the 2010AU.

To reflect the requirements of this subclause, the resulting access charges are expressed in terms of \$ per Net Tonne Kilometres (NTK). The results are outlined in the Tables 5.2– 5.4 below:

**Table 5.2: Access charges for WIRP\_Blackwater Train Service; expressed in \$ per NTK**

WIRP_Blackwater (\$ per NTK)	FY2016	FY2017
Criteria (a) – Reference Tariff	0.0163	0.0162
Criteria (b) – Incremental	0.0089	0.0091

**Table 5.3: Access charges for WIRP\_Rolleston Train Service; expressed in \$ per NTK**

WIRP_Rolleston (\$ per NTK)	FY2016	FY2017
Criteria (a) – Reference Tariff	0.0138	0.0137
Criteria (b) – Incremental	0.0104	0.0107

**Table 5.4: Access charges for WIRP\_Moura Train Service; expressed in \$ per NTK**

WIRP_Moura (\$ per NTK)	FY2016	FY2017
Criteria (a) – Reference Tariff	0.0174	0.0172
Criteria (b) – Incremental	0.0221	0.0226

There is no applicable 'existing' Reference Tariff against which to assess the WIRP\_NCL Train Service. Given the unique characteristics of this Train Service relative to those currently operating in the Blackwater and Moura systems, Aurizon Network proposes that an incremental Reference Tariff should apply to the WIRP\_NCL Train Service. The results above indicate that for:

- WIRP\_Blackwater and WIRP\_Rolleston: criteria (a) exceeds criteria (b); a socialised Blackwater system Reference Tariff should apply; and
- WIRP\_Moura criteria (b) exceeds criteria (a). Therefore a system premium in addition to the Moura baseline system price is applicable.

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## WIRP Pricing Arrangements

### QCA's Draft Decision

QCA Draft Decision	Reference	Aurizon Network Position
<p>The QCA's draft decision is to refuse to approve Aurizon Network's proposed pricing approach for WIRP train services in Blackwater. The QCA considers it appropriate to amend the 2014 DAU as follows:</p> <ul style="list-style-type: none"> <li>a. Apply a the pricing arrangements outlined in this chapter for WIRP users, including applying a system premium for Rolleston train services</li> <li>b. Address the impact of WIRP customers that are not expected to rail during the 2014 DAU period, by application of our proposed revenue deferral mechanism to address the impact on expanding users resulting from the under-utilisation of WIRP capacity over the remainder of the 2014 DAU period.</li> </ul>	6.1	<ul style="list-style-type: none"> <li>a. Agree with the pricing arrangements for WIRP_Blackwater customers, but disagree with the application of a system premium for Rolleston train services.</li> <li>b. Agree, subject to amendment</li> </ul>
<p>The QCA's draft decision is to refuse to approve Aurizon Network's proposed pricing approach for WIRP train services in Moura in its 2014 DAU. The QCA considers it appropriate to amend the 2014 DAU as follows:</p> <ul style="list-style-type: none"> <li>a. Apply a system premium for WIRP Moura train services consistent with the pricing arrangements outlined in this chapter.</li> </ul>	6.2	Agree, subject to amendment
<p>The QCA's draft decision is to refuse to approve Aurizon Network's proposed pricing approach for WIRP_NCL train services from Colton. The QCA considers it appropriate to amend the 2014 DAU as follows:</p> <ul style="list-style-type: none"> <li>a. Apply the approach outlined in Aurizon Network's December 2014 WIRP pricing proposal, with the CCC for WIRP_NCL train services escalated in accordance with CPI over the 2014 DAU regulatory period.</li> </ul>	6.3	Agree

## 6.1 Summary of Aurizon Network's Position

On the basis of its response to each of the QCA's Draft Decisions, Aurizon Network has conducted a revised pricing assessment for all WIRP Train Services. The results of the revised assessment indicate that it is appropriate for:

- WIRP\_Blackwater and WIRP\_Rolleston Train Services to be socialised with the Blackwater system, with no applicable system premium on either AT<sub>3</sub> or AT<sub>5</sub>; and
- WIRP\_Moura Train Services to pay a system premium, but the quantum of the system premium will reduce relative to the QCA's Draft Decision.

Aurizon Network agrees with the QCA's Draft Decision with regards to WIRP\_NCL Train Services.

Aurizon Network is also prepared to agree to the QCA's proposed revenue deferral mechanism, under the following conditions:

- the quantum of the deferral is calculated with reference to the volume forecasts provided by Aurizon Network in its WIRP Pricing Proposal (to ensure consistency with Aurizon Network's response to Draft Decision 4.6); and
- an explicit time limit must be placed on the duration of the deferral. Aurizon Network recommends setting this at 30 June 2017. On 1 July 2017, any capital expenditure that Aurizon Network agrees to defer will be included for MAR and pricing purposes.

## 6.2 Pricing Arrangements for Blackwater Customers (DD 6.1)

Draft Decision 6.1 a) is to refuse to approve Aurizon Network's proposed pricing approach for WIRP train services in Blackwater. The QCA recommends that Aurizon Network apply the pricing arrangements outlined in Chapter 6 of its Draft Decision for WIRP users, including applying a system premium for Rolleston Train Services.

The system premium is a pricing outcome contemplated under the principles of the 2010AU. The QCA also notes that the decision to apply a system premium for Rolleston Train Services relies upon cost and volume assumptions<sup>42</sup>. As outlined in its response to Draft Decision 5.1, Aurizon Network generally agrees with this approach, but has submitted some amendments to both the QCA's input assumptions, and their pricing methodology. Aurizon Network believes these proposed changes will deliver more equitable pricing arrangements for WIRP and Non-WIRP Customers.

Aurizon Network's pricing assessment indicates that no system premium should be applied to WIRP\_Rolleston Train Services. Accordingly, Aurizon Network disagrees with Draft Decision 6.1 a), and recommends that WIRP\_Blackwater and WIRP\_Rolleston Train services pay a socialised Blackwater system Reference Tariff.

In Draft Decision 6.1 b) the QCA recommends that Aurizon Network address the impact of WIRP customers that are not expected to rail during the 2014DAU period, by applying a revenue deferral mechanism proposed by the QCA.

In its WIRP Pricing Proposal, Aurizon Network proposed a revenue deferral mechanism, whereby the recovery of MAR associated with WIRP Train Services was sculpted to align with the WIRP volume

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<sup>42</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 44.

forecasts. Under Aurizon Network's proposal, a higher proportion of MAR was recovered as forecast volumes increased.

Aurizon Network understands that in its Draft Decision, the QCA seeks to impose a two-part revenue deferral mechanism, which:

- i. defers<sup>43</sup> the share of capital expenditure allocated to WIRP Customers who are not expected to rail before 30 June 2017; and
- ii. sculpts the MAR associated with the remaining WIRP Customer in accordance with the WIRP volume forecasts.

Aurizon Network agrees with the QCA's Draft Decision, subject to the following amendments being made.

***Part i) of the QCA's proposed revenue deferral mechanism***

Aurizon Network understands that the QCA used the Energy Economics forecast as the basis for calculating part i) of its proposed revenue deferral mechanism. As discussed in Aurizon Network's response to Draft Decision 4.6, the QCA has not provided Aurizon Network with the detailed Energy Economics volume forecasts. Without these detailed forecasts, it is impossible for Aurizon Network to assess the quantum or accuracy of the QCA's revenue deferral calculations. Aurizon Network does not agree and cannot be expected to agree to a revenue deferral mechanism of which it has no visibility.

While the practical impact of the QCA's Draft Decision should be neutral from an NPV perspective, decisions that require revenue to be deferred impose additional cashflow volatility and regulatory risk on Aurizon Network. In its Draft Decision, the QCA has confirmed the temporary nature of the revenue deferral and notes that the deferred capital costs will be capitalised for the remainder of the regulatory period<sup>44</sup>. While Aurizon Network had proposed a similar treatment in 2013 for the Newlands to Abbot Point Expansion (NAPE) customer share of Goonyella to Abbot Point Expansion (GAPE) project costs, it was the only deferral being proposed at the time. It would be inappropriate for the QCA to recommend further revenue deferrals without setting an explicit limit on the duration of the deferral.

Accordingly, Aurizon Network could agree to implement part i) of the QCA's proposed revenue deferral mechanism under the following conditions:

- the quantum of the deferral is to be calculated with reference to the volume forecasts provided by Aurizon Network in its WIRP Pricing Proposal (for consistency with Aurizon Network's response to Draft Decision 4.6); and
- an explicit time limit must be placed on the duration of the deferral. Aurizon Network recommends setting this at 30 June 2017, the end of the 2014DAU period. Therefore, on 1 July 2017, any capital expenditure that Aurizon Network agrees to defer will be included for MAR and pricing purposes.

***Part ii) of the QCA's proposed revenue deferral mechanism***

Aurizon Network agrees to part ii) of the QCA's proposed revenue deferral mechanism (i.e. revenue smoothing) as it is consistent with the WIRP Pricing Proposal.

Aurizon Network has re-calculated the Reference Tariffs applicable to WIRP\_Blackwater and WIRP\_Rolleston Train Services in accordance with the revised assumptions contained in this submission. The revised Reference Tariffs are provided in Chapter 7 below.

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<sup>43</sup> For the purpose of calculating MAR and Reference Tariffs.

<sup>44</sup> QCA, Supplementary Draft Decision, Reference Tariffs for Wiggins Island Rail Project Train Services, 31 July 2015, pg. 56-57.

## 6.3 Pricing Arrangements for Moura Customers (DD 6.2)

Draft Decision 6.2 is to refuse to approve Aurizon Network's proposed pricing approach for WIRP train services in the Moura system in its 2014 DAU. The QCA recommends that Aurizon Network apply a system premium for WIRP Moura train services consistent with the pricing arrangements outlined in Chapter 6 of the Draft Decision.

Aurizon Network notes that the QCA's draft decision to apply a system premium for WIRP Moura Train Services is consistent with the pricing arrangements proposed in the WIRP Pricing Proposal. Accordingly, Aurizon Network agrees with the QCA's draft decision.

Aurizon Network notes that the quantum of the system premium will reduce relative to the QCA's Draft Decision as a result of the revised assumptions outlined in this submission. Revised Reference Tariffs for WIRP Moura Train Services are outlined in Chapter 7 below.

## 6.4 Pricing Arrangements for WIRP\_NCL Train Services (DD 6.3)

Draft Decision 6.3 is to refuse to approve the annual escalation factor applied to the Contribution to Common Cost (CCC) for Train Services operating between Colton and WICET.

Due to the unique characteristics of this Train Service, the QCA approved an alternative CCC (unit rate of \$1.09 per net tonne (FY2012\$)) as part of its Final Decision on an alternative Access Charge for Colton to Barney Point Coal Terminal.<sup>45</sup> Aurizon Network proposed to calculate the minimum CCC for WIRP\_NCL Train Services with reference to this unit rate.

As the CCC unit rate is expressed in FY2012\$, it must be escalated into nominal terms for the purpose of calculating Reference Tariffs for the WIRP\_NCL Train Service. Consistent with the recommendation made in the Draft Decision, Aurizon Network agrees to escalate the CCC in accordance with CPI. The resulting unit rate for each year is outlined in Table 6.1.

**Table 6.1: Minimum CCC Unit rate for WIRP\_NCL Train Services**

Minimum CCC Unit Rate (\$ per NT, Nominal)	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Escalation Rate	--	1.99%	3.22%	2.5%	2.5%	2.5%
WIRP_NCL	1.09	1.11	1.15	1.18	1.21	1.24

Aurizon Network has re-calculated the WIRP\_NCL Reference Tariffs in accordance with the revised assumptions contained in this submission. The revised Reference Tariffs are provided in Chapter 7 below.

<sup>45</sup> QCA Final Decision: QR Network's Proposed Alternative Access Charge for Colton to Barney Point Service; March 2012.

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## Revised MAR and Reference Tariffs

This chapter outlines the revised MAR and Reference Tariffs, which have been calculated on the basis of Aurizon Network's response to each of the QCA's Draft Decisions.

### 7.1 Revised MAR requirement for WIRP Train Services

The table below summarises the revised MAR requirement for WIRP Train Services. These amounts, combined with Aurizon Network's proposed volume forecasts are used to determine the Reference Tariffs outlined below.

**Table 7.1: Non-Electric MAR requirement for WIRP Train Services**

Non-Electric MAR (\$million)	FY2016	FY2017
WIRP_Blackwater	15.4	17.2
WIRP_Rolleston	27.8	29.5
WIRP_Moura	3.5	9.1
WIRP_NCL	0.5	0.7
<b>Total</b>	<b>47.2</b>	<b>56.5</b>

**Table 7.2: Electric MAR requirement for WIRP Train Services**

Electric MAR (\$million)	FY2016	FY2017
WIRP_Blackwater	1.2	1.3
WIRP_Rolleston	2.1	2.2
<b>Total</b>	<b>3.3</b>	<b>3.5</b>

## 7.2 Proposed Reference Tariffs

The proposed Reference Tariffs applicable to WIRP Train Services operating in the Blackwater and Moura coal systems are presented below. Aurizon Network's assessment indicates that WIRP Train Services using the Blackwater system should be socialised as part of the Blackwater Reference Tariff, and WIRP Train Services using the Moura system should be subject to a system premium. Furthermore, it is important to note that any system premium will only be applicable in the short-term. A socialised pricing approach is appropriate for all WIRP Customers in the Blackwater and Moura systems once their volumes ramp-up to full utilisation.

Aurizon Network has adopted the AT<sub>1</sub> and AT<sub>2</sub> Reference Tariffs presented in the QCA's Draft Decision on Pricing and Policy<sup>46</sup>. The AT<sub>3</sub>, AT<sub>4</sub> and AT<sub>5</sub> Reference Tariffs have been calculated to reflect the revised assumptions, as outlined in this submission. It is intended that these Reference Tariffs will be updated to reflect the financial metrics confirmed by the QCA upon finalisation of the 2014DAU.

**Table 7.3: Proposed Reference Tariffs: Blackwater System.**

Blackwater System Reference Tariffs	FY2016	FY2017
AT <sub>1</sub> (\$ / '000 gtk)	0.99	1.02
AT <sub>2</sub> (\$ / tp)	2,147.95	2,201.65
AT <sub>3</sub> (\$ / '000 ntk)	6.02	5.94
AT <sub>4</sub> (\$ / nt)	2.08	2.07
AT <sub>5</sub> (\$ / '000 egtk)	3.08	2.94

*Applicable to WIRP and non-WIRP Train Services; excludes any applicable Revenue Cap Adjustment Amounts.*

**Table 7.4: Proposed Moura System Reference Tariffs.**

Moura System Reference Tariffs	FY2016	FY2017
AT <sub>1</sub> (\$ / '000 gtk)	1.84	1.90
AT <sub>2</sub> (\$ / tp)	643.39	659.47
AT <sub>3</sub> (\$ / '000 ntk)	7.26	7.04
AT <sub>4</sub> (\$ / nt)	1.19	1.16

*Applicable to Non-WIRP Train Services; excludes any applicable Flood Cost Recovery and Revenue Cap Adjustment Amounts.*

<sup>46</sup> Approved by the QCA on 12 June 2014.

**Table 7.5: Proposed WIRP\_Moura System Premium.**

WIRP_Moura System Premium	FY2016	FY2017
AT <sub>3</sub> (\$ / '000 ntk)	9.16	9.39

*Applicable to WIRP\_Moura Train Services. This tariff replaces the Moura system AT<sub>3</sub> Reference Tariff in Table 7.4 above.*

**Table 7.6: Proposed WIRP\_NCL Reference Tariffs.**

WIRP_NCL Reference Tariffs	FY2016	FY2017
AT <sub>1</sub> (\$ / '000 gtk)	1.84	1.90
AT <sub>2</sub> (\$ / tp)	1,702.58	1,742.10

*Applicable to WIRP\_NCL Train Services.*

### **Indicative Non-Electric Access Charges**

As indicated above, Aurizon Network proposes that all WIRP and Non-WIRP Customers operating Non-Electric Train Services in the Blackwater system pay a socialised Blackwater system Reference Tariff. This is expressed on a \$ per NT basis in Table 7.7:

**Table 7.7: Blackwater System; Average Non-Electric Access Charge; \$ per NT.**

Blackwater System Non-Electric Access Charge (\$ per NT, nominal)	FY2016	FY2017
Blackwater System (pre-WIRP)	5.15	5.15
WIRP_Blackwater & WIRP_Rolleston (incremental)	3.46	3.52
<b>WIRP and Non-WIRP Socialised</b>	<b>4.85</b>	<b>4.85</b>

*Excludes Revenue Cap Adjustments.*

WIRP\_Moura customers will pay the current Moura system Reference Tariff, plus a System Premium. This is expressed on a \$ per NT basis in Table 7.8:

**Table 7.8: Moura System; Average Access Charge; \$ per NT.**

<b>Moura System</b> Average Access Charge (\$ per NT, nominal)	<b>FY2016</b>	<b>FY2017</b>
Moura System (pre-WIRP)	3.10	3.05
<b>Moura System (post-WIRP)<sup>47</sup></b>	<b>3.06</b>	<b>3.00</b>
<b>WIRP_Moura (incremental)</b>	<b>4.26</b>	<b>4.36</b>

*Excludes Revenue Cap Adjustments and Flood Cost Recovery.*

Reference Tariffs for the WIRP\_NCL Train Service are structured in a manner consistent with the Colton to Barney Point Alternative Access Charge submission<sup>48</sup>, approved by the QCA in March 2012. This Train Service will pay:

- the AT<sub>1</sub> Reference Tariff component for the Moura system; and
- a train path charge equivalent to recover the Incremental Costs and minimum CCC associated with the WIRP\_NCL Train Service.

This access charge is expressed on a \$ per NT basis in Table 7.9:

**Table 7.9: WIRP\_NCL; Average Access Charge; \$ per NT.**

<b>WIRP_NCL</b> Average Access Charge (\$ per NT, nominal)	<b>FY2016</b>	<b>FY2017</b>
<b>WIRP_NCL (incremental)</b>	<b>1.40</b>	<b>1.44</b>

*Excludes Revenue Cap Adjustments.*

<sup>47</sup> Moura System (post-WIRP) price is lower due to the CCC paid by WIRP\_NCL Train Services.

<sup>48</sup> QR Network Submission on Colton to Barney Point Alternative Access Charge; November 2011.

### ***Indicative Electric Access Charges***

As indicated above, Aurizon Network proposes that all WIRP and Non-WIRP Customers operating electric Train Services in the Blackwater system pay a socialised Blackwater system Reference Tariff. This is expressed on a \$ per eGTK'000 basis in Table 7.10:

**Table 7.10: Blackwater System; Average Electric Access Charge; \$ per eGTK'000.**

<b>Blackwater System</b>		
<b>Average Electric Access Charge</b>	<b>FY2016</b>	<b>FY2017</b>
<b>(\$ per eGTK'000, nominal)</b>		
Blackwater System (pre-WIRP)	3.30	3.29
WIRP_Blackwater & WIRP_Rolleston (incremental)	1.07	0.76
<b>WIRP and Non-WIRP Socialised</b>	<b>3.08</b>	<b>2.94</b>

*Excludes Revenue Cap Adjustments.*