



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

13 December 2016

Dear Catherine,

Proposed FY2017 Adjustment Charges

I am writing to seek the approval from the Queensland Competition Authority (**QCA**) for FY2017 Adjustment Charges totalling \$4.5 million to be recovered from Access Holders in the Central Queensland Coal Network (**CQCN**) systems.

As part of the approved May 2016 Extension Draft Amending Access Undertaking (**May 2016 Extension DAAU**), Aurizon Network submitted transitional Reference tariffs for FY2017 (**FY2017 Transitional Reference Tariffs**) and outlined the arrangements to finalise FY2017 tariffs, which included an Adjustment Charge for the difference between the FY2017 Transitional Reference Tariffs and the final FY2017 Reference Tariffs (**2016AU Reference Tariffs**).

Aurizon Network's 2016 Access Undertaking (**2016AU**) which was approved by the QCA on 11 October 2016 set the 2016AU Reference Tariffs. Access Holders were billed on the FY2017 Transitional Reference Tariffs from 1 July 2016 to 31 October 2016. This FY2017 Adjustment Charges submission reflects the variance between the FY2017 Transitional Reference Tariffs and 2016AU Reference Tariffs for the 1 July 2016 to 31 October 2016 period.

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

For transparency, Aurizon Network provided separate extracts of the financial model to the relevant Access Holders (Aurizon Operations, Pacific National, Rio Tinto, BMA, BMC, BMA Rail, Glencore and Sojitz) in advance of this submission. All Access Holders have agreed to the calculation and copies of relevant email correspondence have been provided to the QCA with this submission. The calculations provided to Access Holders included interest until 31 January 2017, and noted that the quantum of interest would depend upon the date of approval of the Adjustment Charge. Given it is likely that the Adjustment Charge will not be approved until at least February 2017, we will provide Access Holders with updated calculations incorporating interest until 28 February 2017.

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

Should you have any queries in relation to this request for approval, please do not hesitate to contact Ian Parkinson on (07)3019 3263.

Yours sincerely,

Donna Bowman
Network Regulation Manager – Access Undertaking

FY2017 Adjustment Charges Explanatory Memorandum

Background

Introduction

Aurizon Network provides this submission to the Queensland Competition Authority (**QCA**) detailing the methodology, data and assumptions used to determine Adjustment Charges for FY2017. Further, Aurizon Network requests the approval of the recovery of Adjustment Charges, totalling \$4.5 million, from Access Holders in accordance with the provisions outlined in Schedule F of Aurizon Network's 2016 Access Undertaking (**2016AU**)¹.

This submission follows the approval of the May 2016 Extension Draft Amending Access Undertaking (**May 2016 Extension DAAU**)², submitted to the QCA on 31 May 2016, to provide pricing, revenue and cost certainty for Aurizon Network and coal industry customers associated with final Reference Tariffs for FY2016 and transitional Reference Tariffs for FY2017 (**FY2017 Transitional Reference Tariffs**). The May 2016 Extension DAAU was approved by the QCA on 23 June 2016. In particular, the May 2016 Extension DAAU outlined the following for approval by the QCA relating to FY2017:

- the establishment of FY2017 Transitional Reference Tariffs; and
- a proposal to address any difference between the FY2017 Transitional Reference Tariffs and the final Reference Tariffs approved in the 2016AU for FY2017 (**2016AU Reference Tariffs**), through an Adjustment Charge for the period the transitional arrangement is in place.

The 2016AU which was approved by the QCA on 11 October 2016 sets the 2016AU Reference Tariffs. Access Holders were billed on FY2017 Transitional Reference Tariffs from 1 July 2016 to 31 October 2016. This FY2017 Adjustment Charges submission reflects the variance between FY2017 Transitional Reference Tariffs and 2016AU Reference Tariffs for the 1 July 2016 to 31 October 2016 period.

The Adjustment Charges in this submission are calculated as per the requirements of Clause 6 in Schedule F of the 2016AU.

Schedule F Provisions

Schedule F, Clause 6.1, provides that the difference between the Access Charges paid or payable by Access Holder (**Actual Access Charges**) and the Access Charges that would have been paid or payable by that Access Holder if the Access Charges were calculated in accordance with the approved Reference Tariffs from the Effective Date (**Final Access Charges**), is to be reimbursed to, or recovered from, Access Holders.

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

² Note, following the May 2016 Extension DAAU, Network submitted its August 2016 Extension Draft Amending Access Undertaking (August 2016 Extension DAAU) to extend the term of the 2010 access undertaking from 30 September 2016 to 30 November 2016. This was only an extension of the term of the 2010AU and no change was proposed to the FY2017 Transitional Reference Tariffs approved as part of the May 2016 Extension DAAU.

Clause 6.1 (a) also stipulates that Aurizon Network must submit to the QCA proposed Adjustment Charges if:

- this Undertaking specifies that a Reference Tariff is applicable or effective from a date prior to the date on which that Reference Tariff was approved by the QCA; or
- the QCA approves a variation of a Reference Tariff in accordance with Clause 5 and that variation applies or takes effect on a date prior to the date on which the QCA approves the variation.

Where Aurizon Network submits proposed Adjustment Charges to the QCA under clause 6.2(a), the submission must, without limitation:

- identify, subject to Clause 6.3 (a), the Access Holders (or, if applicable Train Operator) in respect of whom the proposed Adjustment Charges are to be applied;
- set out the proposed Adjustment Charges for each Access Holder (or, if applicable Train Operator) including details of how those proposed Adjustment Charges were calculated; and
- indicate the billing period(s) in respect of which the proposed Adjustment Charges are to be applied.
- if applicable, how the proposed Adjustment Charges are to be allocated for the purposes of calculations under clause 4.3

The Adjustment Amounts cover the following Reference Tariff components:

- Access Charges for track infrastructure (AT₁₋₄);
- Access Charges for electric infrastructure (AT₅) and
- Electric Energy Charge (EC)

The proposed Adjustment Charges to be recovered from or returned to Access Holders in each of the Central Queensland Coal Network (**CQCN**) systems are for the period of 1 July 2016 to 31 October 2016, and are summarised in Table 1 below:

Table 1 Proposed FY2017 Adjustment Amounts (\$'000)

System	AT ₁₋₄	AT ₅	EC	Interest	Total
Blackwater	213	364	455	8	1041
Goonyella	(9)	2,455	658	21	3,124
Newlands	308	-	-	2	310
Moura	104	-	-	1	105
GAPE	(72)	-	-	(1)	(72)
Total Adjustment Amounts	544	2,819	1,113	31	4,508

Numbers subject to rounding

Extracts of the financial model have been provided separately to Access Holders (Aurizon Operations, Pacific National, Rio Tinto, BMA, BMC, BMA Rail, Glencore and Sojitz) in advance of this submission. Copies of email correspondence confirming Access Holders' agreement with

the calculations have been provided to the QCA as part of this submission. The original calculations provided to customers incorporated interest until 31 January 2017 and noted that the actual amount of interest would depend upon the timing of approval of the Adjustment Charges. As it is likely that the Adjustment Charges will not be approved until at least February 2017, we will provide Access Holders with updated calculations incorporating interest until 28 February 2017.

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

- calculations supporting the AT₁₋₄, AT₅ and EC Adjustment Amounts for each system and Access Holder, being the difference between Actual Access Charges and Final Access Charges;
- extracts from Aurizon Network's billing system detailing the Actual Access Charges including how Adjustment charges are to be allocated for the purposes of calculations under clause 4.3; and
- interest calculations by month and Access Holder.

Apart from the financial model, this submission is presented in a format which is suitable for publication, should the QCA elect to do so, in accordance with Paragraph 6.2 (b) (ii). The financial model contains specific information on individual Train Services and accordingly Aurizon Network requests that it is not published as it contains confidential Access Holder information. Outputs from both the model and the billing system are summarised in this submission.

Calculation of Adjustment Amounts

Introduction

Within Schedule F, clauses 6.1(a) and 6.1(b) provide the methodology detailing how Aurizon Network will calculate the Adjustment Amount and recover from, or reimburse to (as applicable), each relevant Access Holder.

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

Difference between Actual and Final Access Charges

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

Interest

In accordance with Schedule F, clause 6.1(b), the following key assumptions have been adopted in the calculation of the interest amounts to apply to the Adjustment Amounts:

- Interest has been calculated by reference to the Adjustment Amount for each month for each individual Train Service (origin/destination pair).
- The interest for each individual Train Service accrues day by day, then compounds on a month-by-month basis.

- Rates are the mid-point Bank Bill Swap Rates published by the Australian Financial Markets Association for the relevant business day immediately prior to the 21st of each month.
- Due dates are based on the due dates of the actual monthly billing invoices.
- Interest has been calculated assuming QCA approval and subsequent collection / payment of amounts due / payable by 28th February 2017.

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

Table 2 Adjustment Amounts Interest Calculation (\$'000)

System	Total Interest
Blackwater	8
Goonyella	21
Newlands	2
Moura	1
GAPE	(1)
Total Interest	31

Adjustment Amounts – by System

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

Table 3 Proposed FY2016 Adjustment Amounts by System including interest (\$'000)

System	Total
Blackwater	1041
Goonyella	3,124
Newlands	310
Moura	105
GAPE	(72)
Total Interest	4,508

Adjustment Amounts – by Access Holder

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