

## Aurizon Network Access Undertaking (2010)



## Draft Amending Access Undertaking Explanatory Memorandum

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**Attachment A: Draft Amending Access Undertaking (Clean)**

**Attachment B: Draft Amending Access Undertaking (Mark-up)**

# 1. Introduction

## 1.1 Purpose

Aurizon Network is submitting for approval by the Queensland Competition Authority (QCA) this Draft Amending Access Undertaking (DAAU), under section 142 of the Queensland Competition Authority Act 1997 (Qld) (Act) to:

- Extend the term of Aurizon Network's 2010 Access Undertaking (2010AU) to the earlier of the date its proposed 2013 Access Undertaking (2013AU) is approved by the QCA or 30 June 2015;
- Confirm 'final' Reference Tariffs for FY2014 for the Central Queensland Coal Region including GAPE;
- Confirm the basis on which the variation between actual and allowable revenues for FY2014 will be returned to, or collected from, Access Holders; and
- Establish transitional Reference Tariffs for FY2015 until such time as the 2013AU is approved.

Aurizon Network estimates a net over-recovery of actual against allowable revenues for FY2014. This over-recovery will be returned to Access Holders via an Adjustment Charge following the end of FY2014 if this DAAU (2014DAAU) is approved by the QCA. The estimate is provided only as a guide for stakeholders when responding as part of the QCA's consultation process.

In preparing this submission, Aurizon Network has consulted with the Queensland Resources Council (QRC) on behalf of coal producers. Unlike for the DAAU to extend the term of the 2010AU to 30 June 2014 (2013DAAU), the QRC has confirmed it is not in a position to formally endorse the entire submission as endorsement has not been unanimously provided by producers. Notwithstanding, Aurizon Network has endeavoured to incorporate the views of a majority of producers in the 2014DAAU, in this respect a discussion of the issues raised in discussions with the QRC is provided in each section. The QRC has indicated that it may provide a letter to the QCA confirming those matters on which there is broad agreement between producers, in response to the QCA's consultation on the 2014DAAU.

This submission comprises an explanatory memorandum, a clean copy of the 2014DAAU and a mark-up of the 2014DAAU against the 2010AU. The pricing model supporting the determination of FY2015 transitional Reference Tariffs is also provided.

The explanatory memorandum sets out a detailed discussion of the following matters:

- Approach to setting FY2014 final Reference Tariffs and treatment of any over or under-recovery of allowable revenues (Section 2);
- Approach to setting FY2015 transitional Reference Tariffs including allowable revenues and forecast volumes (Section 3);
- Other issues relevant to the submission (Section 4);
- 2010AU drafting amendments to give effect to the transitional Reference Tariffs for FY2015 and the FY2014 Adjustment Charge (Section 5); and
- Other matters (Section 6).

The mark-up version of the 2014DAAU is against the consolidated version, prepared as at December 2013, which incorporates DAAUs approved by the QCA since the commencement of UT3 including the 2013DAAU.

The explanatory memorandum and the clean and mark-up versions of the 2014DAAU are presented in a manner which is suitable for publication, should the QCA wish to do so. Consistent with past submissions, Aurizon Network requests that the pricing model is not published as it contains information on the contracted hauls of Access Holders and their end customers.

## 1.2 Background

The 2010AU was approved by the on 1 October 2010. The pricing arrangements in Schedule F of the 2010AU were originally effective for the period 1 July 2009 to 30 June 2013.

On 31 May 2013, the QCA approved a DAAU which extended the term of the 2010AU to 30 June 2014 and provided a set of 'transitional' Reference Tariffs for Goonyella, Blackwater, Moura and Newlands for FY2014 (the 2013DAAU). The purpose of the 2013DAAU was to extend the 2010AU until such time as the QCA approved a new set of Reference Tariffs as part of the process for Aurizon Network's proposed 2013 Access Undertaking (2013AU).

Transitional Reference Tariffs for the Goonyella to Abbot Point Expansion system (GAPE) were approved by the QCA for FY2014 on 26 September 2013.

In the letter accompanying the 2013DAAU it was proposed that if the 2013AU was not finalised before 30 June 2014 then a further DAAU would be required for FY2015. It is now acknowledged that the 2013AU will not be finalised on or before this date. Aurizon Network understands, and appreciates, that stakeholders (and Aurizon Network) are again seeking certainty around a process for establishing Reference Tariffs until such time as the 2013AU is approved.

## 1.3 Glossary

In the explanatory memorandum:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the Central Queensland Coal Region;
- References to UT3 are to the period of the 2010AU;
- References to UT4 are to the period of the 2013AU;
- References to the UT4 submission are to Aurizon Network's submission on the proposed 2013AU submitted to the QCA during April 2013;
- References to the 2010AU are to the 'consolidated' version inclusive of amendments subsequently approved by the QCA;
- References to the 2013DAAU are to the DAAU, approved by the QCA on 31 May 2013, which extended the term of the 2010AU to 30 June 2014;
- References to the 2014DAAU are to this DAAU;
- References to FY are to the relevant financial year ending 30 June; and
- Terms that are defined in the 2010AU have the meaning given in the 2010AU.

## 2. FY2014 Final Reference Tariffs

### 2.1 Background

The key objective of the 2014DAAU is to provide pricing and revenue and cost certainty for Aurizon Network and coal industry customers, associated with Reference Tariffs for FY2014 and FY2015, in the situation where the 2013AU will not be finalised before 30 June 2014.

By the end of April 2014, the QCA is expected to release for consultation a position paper relating to Aurizon Network's UT4 submission. The paper is expected to set out the QCA's initial views on various 'pricing and revenue' aspects of the UT4 submission, as well as views on a limited number of policy-related matters.

The QCA's views are then expected to be further developed in its Draft Decision (due mid-2014) and confirmed in its Final Decision (due November 2014) following consultation with Aurizon Network and stakeholders.

Aurizon Network notes that it might be possible to base a proposal for FY2014 and FY2015 on the basis of the QCA's position paper, given it is expected to be released prior to 30 June 2014. However, Aurizon Network believes there is now insufficient time between the expected timing of the QCA's position paper and 30 June 2014 to allow Aurizon Network to review the paper, develop pricing proposals based upon the paper, consult with stakeholders and submit a DAAU, and for the QCA to then conduct a consultation process and approve the DAAU.

Aurizon Network has therefore consulted with the QRC and other stakeholders and submits an alternative proposal for 2014 consisting of three sub-proposals:

1. To finalise Reference Tariffs at the transitional Reference Tariffs;
2. To finalise final System Allowable Revenues at the transitional System Allowable Revenues; and
3. For any variance between the System Allowable Revenues and actual revenues for AT<sub>2-4</sub> and AT<sub>5</sub> (being the final Reference Tariffs applied to actual volumes) to be returned to, or collected from, Access Holders via an Adjustment Charge.

These sub-proposals are discussed further below. Further information is also provided on the FY2014 impact of Aurizon Network's withdrawal of the Blackwater AT<sub>5</sub> DAAU, the 'final' FY2014 System Forecast and the proposed FY2014 revenue cap arrangements.

## 2.2 FY2014 Final Reference Tariffs

### 2.2.1 The 2013DAAU

The Maximum Allowable Revenues (MARs) underlying the 2014 transitional Reference Tariffs in the 2013DAAU were based on a roll-forward of the UT3 MAR for FY2013.

Aurizon Network's letter dated 8 May 2013 to the QCA accompanying the 2013DAAU stated:

*"Aurizon Network also proposes that in the event it becomes unlikely that Reference Tariffs for the 2014/15 year will be approved by the QCA prior to 1 July 2014 as part of UT4, then a further DAAU will be submitted prior to 30 June 2014 which:*

- *Recovers the difference between the total of the 'transitional' allowable revenues for 2013/14 (i.e. \$722m) and the revenue actually collected, as an Adjustment Charge; and*
- *Establishes transitional Reference Tariffs for 2014/15.*

*The UT4 process would then be finalised during the 2014/15 financial year such that Aurizon Network recovers (or returns) the difference between the transitional allowable revenues for 2013/14 and 2014/15 and the 2013/14 and 2014/15 allowable revenues approved by the QCA for UT4 as one or more Adjustment Charges."*

This proposal was based on agreement with the QRC regarding a transitional MAR of \$722 million excluding revenue cap<sup>1</sup> and GAPE based on a volume forecast totalling 186.0 million tonnes (mt) excluding GAPE.

## 2.2.2 FY2014 Over/Under-Recovery

FY2014 volumes are expected to be significantly higher than the System Forecast in both the Goonyella and Blackwater systems, resulting in an over-recovery of revenues relative to the transitional MAR. In the other systems the following is expected:

- Moura - volumes are expected to be lower than the System Forecast. Take or Pay may be payable as the System Forecast less actual gross-tonne-kilometres (gtks), adjusted for Aurizon Network cause, is close to the system trigger. If Take or Pay is not triggered then an under-recovery of allowable revenues is expected. If Take or Pay is triggered then the under-recovery will be limited to the AT<sub>1</sub> shortfall.
- Newlands - volumes are expected to be lower than the System Forecast. Take or Pay amounts are expected to be payable to the extent of the revenue shortfall (as the system 'cap' being the AT<sub>2-4</sub> System Allowable Revenue, will be reached). On this basis there is expected to be a small under-recovery of allowable revenues equivalent to the AT<sub>1</sub> shortfall.
- GAPE - volumes will be lower than the System Forecast. Take or Pay amounts will be payable, however those amounts will be insufficient to reach the system cap. An under-recovery of allowable revenues is expected.

In summary, a net over-recovery of allowable revenues is expected for FY2014 (although, as indicated above, material differences do exist on a system-by-system basis).

For the sole purpose of providing guidance to stakeholders, Aurizon Network has provided a scenario equivalent to a net over-recovery of c.\$40 million. The over/under recovery by grouped Reference Tariff components for each system is summarised in the table below.

| System                        | AT <sub>1</sub> over (under) recovery \$m | AT <sub>2-4</sub> over (under) recovery \$m | AT <sub>5</sub> over (under) recovery \$m | Total \$m             |
|-------------------------------|---|---|---|-----------------------|
| Blackwater                    | 1.6                                       | 24.7  | 5.8                                       | 32.0                  |
| Goonyella                     | 1.6                                       | 14.4  | 4.9                                       | 20.9                  |
| Moura                         | (0.5)                                     | (2.1) <sup>2</sup>                          | -   | (2.6)                 |
| Newlands                      | (1.1)                                     | -   | -   | (1.1)                 |
|                               | 1.6                                       | 36.9  | 10.7                                      | 49.2                  |
| GAPE                          | (5.0)                                     | (2.8)                                       | -   | (7.8)                 |
|                               | (3.4)                                     | 34.1  | 10.7                                      | 41.4                  |
| <b>Total over-recoveries</b>  |   |   |   | <b>52.9</b>           |
| <b>Total under-recoveries</b> |   |   |   | <b>(11.5)</b>         |
| <b>Net over-recovery</b>      |   |   |   | <b>41.4 (c.\$40m)</b> |

## 2.2.3 Return/Recovery of FY2014 Revenues

The May 2013 letter confirms that the difference between FY2014 actual and transitional allowable revenues would be returned to, or recovered from, Access Holders via an Adjustment Charge. The 2014DAAU reflects this arrangement which was agreed between Aurizon Network and the QRC.

<sup>1</sup> \$739m including revenue cap, excludes GAPE.

<sup>2</sup> Assumes Moura Take or Pay is not triggered.

Returning the difference between FY2014 transitional allowable revenues and the allowable revenues approved by the QCA for UT4 is not relevant to the 2014DAAU, rather it is a matter associated with the finalisation of UT4. However, the issue was discussed with the QRC as part of the consultation process for the 2014DAAU.

Aurizon Network understands that a majority of producers agree that this difference should be smoothed across the remainder of UT4 (i.e. FY2015 to FY2017) rather than recovered (or returned) via an Adjustment Charge.

#### 2.2.4 Return/Recovery of AT<sub>1</sub> Variation

The letter accompanying the 2013DAAU assumed the full return/recovery of the difference between actual revenues collected and the transitional MAR (i.e. \$739m). At the time Aurizon Network assumed that recovery of variances would occur for all Reference Tariff components (AT<sub>1</sub> through to AT<sub>5</sub>).

Aurizon Network and the QRC discussed whether the return/recovery of allowable revenues should exclude the AT<sub>1</sub> Reference Tariff component. In discussions both parties acknowledged that:

- From Aurizon Network's perspective, the calculation of the return/recovery could be better aligned with the UT3 revenue cap process detailed in Schedule F (as System Allowable Revenues for AT<sub>2-4</sub> and AT<sub>5</sub> are already provided); and
- From the QRC's perspective, the impact of the QCA's considerations of Aurizon Network's proposals for AT<sub>1</sub> and the short run marginal cost adjustment could be fully addressed as part of the UT4 settlement.

The QRC indicated to Aurizon Network (and Aurizon Network accepts) that the final treatment of AT<sub>1</sub> is matter for the UT4 finalisation rather than the 2014DAAU.

#### 2.2.5 Summary and Timings

In summary, Aurizon Network proposes the following for the 2014DAAU in respect of FY2014:

- That the transitional AT<sub>2-4</sub> and AT<sub>5</sub> System Allowable Revenues become the final System Allowable Revenues;
- That the transitional Reference Tariffs become the final Reference Tariffs; and
- That any revenues collected over and above the System Allowable Revenues be returned to, or collected from, Access Holders via an Adjustment Charge allocated between Access Holders in proportion to Access Charges paid (inclusive of Take or Pay, transfers and relinquishment fees).

Subject to the QCA's approval as part of the UT4 process, Aurizon Network proposes to smooth the over/under recovery associated with the difference between the transitional allowable revenues and allowable revenues approved by the QCA for FY2014, including for AT<sub>1</sub> price and volume variations, across the remainder of UT4 (i.e. FY2015 to FY2017).

### 2.3 Blackwater adjustment - AT<sub>5</sub> DAAU

The 2013DAAU proposed an AT<sub>5</sub> System Allowable Revenue for Blackwater of \$72.6 million<sup>3</sup>. The letter accompanying the 2013DAAU noted that:

*"Blackwater AT<sub>5</sub> has been further adjusted based on the pricing methodology outlined in Aurizon Network's DAAU for AT<sub>5</sub> submitted to the QCA on 24 April 2013."*

In other words, the transitional MAR for Blackwater assumed the approval of Aurizon Network's proposed DAAU on pricing for electric services in the Blackwater system (the AT<sub>5</sub> DAAU). The benefit of the proposed principles were reflected in reduced AT<sub>5</sub> transitional Reference Tariffs notwithstanding that the AT<sub>5</sub> DAAU was yet to be approved. In their responses to the submission accompanying the 2013DAAU, stakeholders did not oppose the reduction but specifically noted that failure to reject the reduction should not be seen by the QCA as support for the DAAU.

In April 2013 and concurrent with the 2013DAAU, Aurizon Network submitted to the QCA the AT<sub>5</sub> DAAU. The AT<sub>5</sub> DAAU proposed an alternative pricing methodology for the Blackwater AT<sub>5</sub> Reference Tariff component.

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<sup>3</sup> Clause 5.3, Part B of Schedule F of the 2010AU.



The pricing adjustment in the 2013DAAU (effectively, a deferral of AT<sub>5</sub> allowable revenues to a future regulatory period) occurred in anticipation that the AT<sub>5</sub> DAAU would be approved by the QCA. However, in December 2013 the QCA issued its Draft Decision proposing to reject the AT<sub>5</sub> DAAU. Aurizon Network then withdrew the AT<sub>5</sub> DAAU.

Aurizon Network has no plans at this time to re-submit a revised AT<sub>5</sub> DAAU prior to the finalisation of the 2013AU. Aurizon Network believes that until a new AT<sub>5</sub> DAAU is confirmed, the Blackwater AT<sub>5</sub> Reference Tariff component should be restated for FY2014 - and for UT4. As the 'unadjusted' System Allowable Revenue totalled \$92.6 million for FY2014, the value of this adjustment was therefore \$20 million. Aurizon Network believes that this amount should be recovered from electric users in proportion to access charges paid during the year (i.e. as if the AT<sub>5</sub> Reference Tariff component had been set on the basis that the AT<sub>5</sub> DAAU would not be approved).

However, Aurizon Network's UT4 submission provides that certain matters will have a positive impact on the UT4 building block parameters for Blackwater AT<sub>5</sub>. These matters are expected to substantially offset the negative impact associated with the withdrawn AT<sub>5</sub> DAAU. The matters include:

- A lower weighted average cost of capital relative to UT3;
- A positive capital carryover adjustment (actual capital expenditure less than the UT3 capital indicator); and
- Lower connection costs.

The difference between the System Allowable Revenue for the Blackwater AT<sub>5</sub> Reference Tariff component per the UT4 submission and the transitional AT<sub>5</sub> System Allowable Revenue for FY2014, inclusive of both the AT<sub>5</sub> DAAU adjustment and the matters above, is less than \$1 million. Aurizon Network also notes that due to the significantly higher volumes in FY2014 there will be a significant over-recovery of revenues which, if approved by the QCA, will be returned to Access Holders. Aurizon Network therefore proposes that no change be made to the FY2014 final AT<sub>5</sub> Reference Tariffs component to account solely for the AT<sub>5</sub> DAAU adjustment, on the basis that the adjustment is expected to be wholly offset by other matters relating to the UT4 building blocks.

The QRC has indicated to Aurizon Network that it has no issues with the proposal for Blackwater AT<sub>5</sub> on the basis that both Reference Tariffs and allowable revenues remain unchanged.

## 2.4 System Forecast

The System Forecasts in Schedule F are a gtk forecast based on a system tonnage forecast allocated between end customers based on a contract profile and applied to a standard train configuration.

The 2013DAAU established a gtk forecast based on total tonnages of 186.0 million tonnes (mt) excluding GAPE. The GAPE DAAU subsequently approved by the QCA in September 2013 contained a tonnage forecast of 20.6mt, resulting in a total regulatory tonnage forecast of 206.6mt.

The letter accompanying the 2013DAAU stated that the gtk forecast would be fixed for FY2014 and as such would form the basis of the Take or Pay 'trigger' for all systems for both Variable and Annual Take or Pay amounts for FY2014.

Accordingly, no amendments are proposed to the FY2014 System Forecasts. As discussed at Section 2.2.2 above, Newlands and GAPE are expected to trigger Take or Pay as the System Forecast, adjusted for Aurizon Network cause, is not expected to be reached. Take or Pay is not expected to trigger in Goonyella and Blackwater as actual gtk's are expected to exceed the System Forecast. Take or Pay may trigger in Moura as whilst actual gtk's, adjusted for Aurizon Network cause, are expected to be close to the System Forecast.

## 2.5 Revenue Cap

Clause 3.2, Part B of Schedule F of the 2010AU requires Aurizon Network to lodge a submission detailing Revenue Adjustment Amounts, including AT<sub>2-4</sub> for each system as well as AT<sub>5</sub> for the Goonyella and Blackwater systems, for the relevant year. For FY2014 this submission is due by 30 September 2014.



Given the nature of the return/recovery mechanism described at Section 2.2 above, the matters to be addressed by the revenue cap submission should be limited to:

- The variation between actual and forecast payments attributable to rebateable assets;
- The variation between actual electric charge (EC) revenues (based on the transitional EC Reference Tariff for FY2014) and electric energy costs; and
- Any settlement of a transfer fee dispute with an Access Holder in the Goonyella system (as discussed in the FY2013 revenue cap submission).

There should be no adjustment associated with the difference between the actual and forecast Maintenance Cost Index (MCI) and Consumer Price Index (CPI), and between actual and forecast feeder station connection costs, as MCI and CPI escalation and the connection cost allowance are not yet approved for UT4. Aurizon Network recommends that any variation in these indices and the allowance is reflected in the Reference Tariff modelling approved by the QCA's Final Decision for UT4 rather than revenue cap.

With respect to timing, Aurizon Network proposes the following steps:

1. The revenue cap submission (Revenue Adjustment Amounts) is lodged with the QCA by 30 September in accordance with the 2010AU;
2. The submission incorporates within Total Actual Revenues the Adjustment Charges already submitted (2010AU amendments are proposed to give effect to this inclusion);
3. Rather than apply the Revenue Adjustment Amounts to FY2016 System Allowable Revenues via the two year lag, Aurizon Network smooths the variation across the remainder of UT4 (i.e. FY2015 to FY2017);
4. The QCA accepts the Revenue Adjustment Amounts for the purposes of its Final Decision on UT4, subject to the QCA's approval of them in accordance with Schedule F; and
5. Should there be any variation between a) the submitted and approved Revenue Adjustment Amounts and b) the approved Revenue Adjustment Amounts and amounts that would have been approved had the 2013AU been finalised, Aurizon Network will agree with the QCA the proposed treatment of the variance.

Steps 1. and 2. are as per the 2010AU subject to the QCA's approval of the 2014DAAU. As per Sections 2.2.2 and 2.2.3 above, steps 3. and 4. are subject to the QCA's approval as part of the finalisation of the UT4 process.

## 2.6 Summary

If approved by the QCA, the net effect of the proposals above (being a c.\$45 million return to Access Holders based on the scenario described at Section 2.2.2 above) on each of the systems in the Central Queensland Coal Region for FY2014 should be as follows:

- For Blackwater, an over-recovery of allowable revenues (both AT<sub>2-4</sub> and AT<sub>5</sub>), the total amount (estimated at c.\$30 million) will be returned to Access Holders in proportion to access charges paid.
- For Goonyella, an over-recovery of allowable revenues (both AT<sub>2-4</sub> and AT<sub>5</sub>), the total amount (estimated at c.\$20 million) will be returned to Access Holders in proportion to access charges paid.
- For Moura and GAPE, small under-recoveries of AT<sub>2-4</sub> allowable revenues (c.\$5 million in total), the amounts will be recovered from Access Holders in proportion to access charges paid.
- For Newlands, no under or over-recovery of AT<sub>2-4</sub> allowable revenues.

The estimated total over/under recoveries for each system are summarised in the table below.

| <b>System</b> | <b>AT<sub>2-4</sub> over<br/>(under)<br/>recovery<br/>\$m</b> | <b>AT<sub>5</sub> over<br/>(under)<br/>recovery<br/>\$m</b> | <b>Total<br/>\$m</b> |
|---------------|---|---|----------------------|
| Blackwater    | 24.7  | 5.8   | 30.5                 |
| Goonyella     | 14.4  | 4.9   | 19.3                 |
| Moura         | (2.1)   | -   | (2.1)                |
| Newlands      | -   | -   | -                    |
| Sub-Total     | 37.0  | 10.7  | 47.7                 |
| GAPE          | (2.8)   | -   | (2.8)                |
| <b>Total</b>  | <b>34.2</b>   | <b>10.7</b>   | <b>44.9</b>          |

The difference between the estimated over-recovery above and the over-recovery in the table at Section 2.2.2 (c.\$5 million) is represented by the AT<sub>1</sub> net under-recovery, which Aurizon Network proposes to retain and incorporate within the finalisation of UT4 allowable revenues for FY2014 per the QCA's Final Decision (i.e. likely to be smoothed across the remainder of UT4).

In addition and also subject to QCA approval for UT4, all other variations (including EC, AT<sub>1</sub> price and volume and rebate variations and the variation between approved UT4 and transitional allowable revenues for FY2014) will be smoothed across FY2015 to FY2017.

With respect to timing, Aurizon Network proposes that on the basis that the QCA approves the DAAU prior to the end of FY2014, an Adjustment Charge submission be made by the end of August 2014 (an 2010AU amendment is proposed to this effect). On the basis that the QCA approves this submission by the end of October then Aurizon Network expects that the Adjustment Charges would be returned or collected from Access Holders via the month-end billing process immediately following that month (i.e. in mid-November).

## 3. FY2015 Transitional Reference Tariffs

### 3.1 Background

Aurizon Network's letter accompanying the 2013DAAU stated that transitional Reference Tariffs would be established for FY2015 if it was likely that UT4 would not be finalised before 30 June 2014. The underlying methodology to be adopted for FY2015 was not discussed as it was not necessary at that time (the issue was not required to be resolved to give effect to the 2013DAAU, it was required only to give effect to a future, further extension).

This issue of which methodology to adopt for FY2015 is less of an issue for both Aurizon Network and stakeholders given:

- The QCA Final Decision on UT4 is expected in November 2014, at least 7 months prior to the proposed termination date for the 2010AU of 30 June 2015; and
- Under the terms of Schedule F of the 2010AU, the difference between FY2015 transitional and final Reference Tariffs will be collected via an Adjustment Charge process to be implemented following the QCA's Final Decision. The Adjustment Charge process is the same as between the 2010AU and the proposed 2013AU.

In discussions with the QRC, the following principles were discussed and agreed:

- The FY2015 MAR should reflect, where reasonable, a roll-forward of the FY2014 transitional MAR;
- Where a roll-forward of the FY2014 transitional MAR is not reasonable (e.g. the expected UT4 outcome is for a lower amount), a lower MAR should be proposed; and
- The roll-forward matters should be restricted to CPI and revenue cap.

Aurizon Network also requested that:

- The AT<sub>2-4</sub> System Allowable Revenues for Blackwater and Moura should include an estimate of the full amount to be approved by the QCA of Aurizon Network's Review Event claim associated with the 2013 flood event (i.e. amounts are not smoothed across UT4); and
- The AT<sub>5</sub> System Allowable Revenue for Blackwater should reflect the withdrawal of the AT<sub>5</sub> DAAU. However and as discussed in Section 2, the impact of other matters associated with the expected values of the UT4 building blocks is sufficient to significantly offset the impact of this adjustment.

The QRC has indicated that Moura customers do not support the recovery of the Review Event solely in FY2015, rather they support a smoothing of the adjustment across the remainder of UT4. The reason that Moura users in particular do not support the proposal is the significance of the adjustment relative to the value of AT<sub>2-4</sub> System Allowable Revenue (around 25% before revenue cap adjustments). The Blackwater adjustment as a proportion of AT<sub>2-4</sub> System Allowable Revenue is not significant (around 5%).

Aurizon Network's position is that given the FY2014 transitional allowable revenues and Reference Tariffs will be fixed under the 2014DAAU, so long as the QCA approves the Review Event claim by the Final Decision on UT4 (being around 8 months from the date of this submission) then full recovery should occur over FY2015. As there is a high likelihood of this occurring then the claimed amount should be reflected in transitional Reference Tariffs. Aurizon Network notes that as the flood event occurred in January 2013, producers have already received a benefit in terms of a deferral of the recovery. In addition, further deferral of the recovery risks future Review Event claims having a compounding effect on Moura and Blackwater Reference Tariffs.

Aurizon Network believes that even if the QCA does not accept that the flood claim amount should be included in transitional Reference Tariffs for Blackwater and Moura (on the basis that it is yet to be approved) then the amount, when approved, should be included in FY2015 System Allowable Revenues approved by the QCA's Final Decision on UT4 and recovered partly via the FY2015 Adjustment Charge and partly by Reference Tariffs over the remainder of FY2015.

The QRC's position on the AT<sub>5</sub> DAAU adjustment is as per Section 2.3 (i.e. there are no issues on the basis that the impact on the Reference Tariff component is not material once all UT4 building blocks are taken into account).

## 3.2 Transitional MAR

The table below summarises the roll-forward of the FY2014 transitional MAR to FY2015 exclusive and inclusive of GAPE.

|  | Excluding GAPE<br>\$m | Including GAPE<br>\$m |
|--|-----------------------|-----------------------|
| 2014 transitional MAR (excluding FY2012 revenue cap) | 722.5                 | 861.7                 |
| Adjustments:   |                       |                       |
| Blackwater electric (net)                            | 2.6                   | 2.6                   |
| GAPE   | -                     | (19.4)                |
| Sub-Total  | 725.1                 | 844.9                 |
| CPI  | 16.2                  | 16.2                  |
| 2013 flood event                                     | 21.3                  | 21.3                  |
| FY2013 revenue cap                                   | 35.7                  | 48.0                  |
| <b>FY2015 transitional MAR</b>                       | <b>798.3</b>          | <b>930.3</b>          |

With respect to the adjustments:

- The FY2015 transitional MAR attributable to Blackwater electric has been adjusted downwards from a roll-forward of the FY2014 'unadjusted' transitional MAR of \$92.6 million (refer Section 2.3) to an amount reflecting Aurizon Network's UT4 estimate. The net adjustment is upwards against the 'adjusted' MAR of \$72.6 million reflected in the transitional MAR above.
- The FY2015 transitional MAR attributable to GAPE has been adjusted downwards from the FY2014 transitional MAR of \$139.2 million.

The resulting MARs for the five (5) systems in the Central Queensland Coal Region for FY2015 are summarised below.

| System       | AT <sub>1-4</sub><br>(non-electric)<br>\$m | AT <sub>5</sub><br>(electric)<br>\$m | Total<br>\$m |
|--------------|--|--------------------------------------|--------------|
| Blackwater   | 220.4                                      | 94.2                                 | 314.6        |
| Goonyella    | 255.8                                      | 75.0                                 | 330.8        |
| Moura        | 52.7                                       | -                                    | 52.7         |
| Newlands     | 40.8                                       | -                                    | 40.8         |
| Sub-Total    | 629.1                                      | 169.1                                | 798.3        |
| GAPE         | 132.0                                      | -                                    | 132.0        |
| <b>Total</b> | <b>761.2</b>                               | <b>169.1</b>                         | <b>930.3</b> |

## 3.3 FY2015 System Forecast

As discussed at Section 2.4 above, the 2013DAAU established a gtk forecast for pricing purposes based on total tonnages of 186.0 million tonnes (mt) excluding GAPE. The GAPE DAAU subsequently approved by the QCA in September 2013 contained a tonnage forecast of 20.6mt, resulting in a total regulatory forecast tonnage for FY2014 of 206.6mt. This forecast is re-confirmed for FY2014.

Aurizon Network and the QRC agreed that unlike the 2013DAAU, the volumes for the new transition year (i.e. FY2015) should be considered as transitional rather than final. In other words, the volumes are only necessary for the purposes of establishing transitional Reference Tariffs rather than also confirming the basis on which Take or Pay amounts are triggered (and indirectly the amounts calculated). This means that liabilities for UT1 Take or Pay, which includes a monthly element, cannot be confirmed on an ex-post basis until UT4 is finalised.

The UT4 submission proposed a tonnage forecast for FY2015 of 222.2mt. Aurizon Network believes that this volume forecast should be used for the FY2015 transitional Reference Tariffs, but also that it is appropriate to adjust the forecast to exclude hauls which are not expected to operate during FY2015 including:

- Railings from certain proposed mines for which connection of associated spurs (which trigger the commencement of the relevant access contracts) are now not expected to occur before the end of FY2015; and
- Railings from existing and new mines in the Blackwater and Moura systems associated with the Wiggins Island Rail Project (WIRP), which is now not expected to be completed before the end of FY2015.

By excluding tonnages from these mines, the total tonnage proposed by Aurizon Network to be applied to the transitional MAR is reduced to 193.7mt excluding GAPE and 214.6mt including GAPE.

A table summarising these volumes is provided below.

|                  | FY2014<br>Transitional<br>mt | FY2015<br>UT4 Submission<br>mt | FY2015<br>Proposed<br>mt |
|------------------|------------------------------|--------------------------------|--------------------------|
| Blackwater/WIRP  | 57.7                         | 60.6                           | 60.2                     |
| Goonyella        | 99.0                         | 109.4                          | 106.4                    |
| Moura            | 13.5                         | 11.0                           | 13.1                     |
| Newlands         | 15.8                         | 15.8                           | 14.0                     |
| <b>Sub-Total</b> | <b>186.0</b>                 | <b>196.8</b>                   | <b>193.7</b>             |
| GAPE             | 20.6                         | 25.4                           | 20.9                     |
| <b>Total</b>     | <b>206.6</b>                 | <b>222.2</b>                   | <b>214.6</b>             |

With respect to the allocation between customers, the System Forecasts have been adjusted for any transfers occurring between lodgement of the UT4 submission and lodgement of the 2014DAAU.

## 4. Relevant Issues

In the preparation of the 2014DAAU a number of issues have arisen which have impacted upon the tariff modelling. These issues are discussed further below.

### 4.1 Interest on Adjustment Charge

Clause 2.3.1(g), Part B of the Schedule F of the 2010AU prescribes that interest must be added to the FY2014 Adjustment Charge. Clause 2.3.2 sets out the basis of the calculation. In principle, interest is calculated at the Bank Bill Swap Rate by reference to the difference between the amounts actually due and payable and the amounts which would have been due and payable had the approved Reference Tariffs been in place from the commencement of the relevant period.

The current drafting of clause 2.3.2 is in the circumstance where the recovery is represented by the difference in Reference Tariffs for each month affected by the QCA's decision. However, the 2014DAAU proposes that the recovery be determined by reference to the difference between actual revenues and System Allowable Revenues.

Additional clauses are required in clause 2.3.2 to give effect to the calculation, which is on the basis that the Adjustment Charges are accrued evenly over FY2014 (i.e. 1/12<sup>th</sup> of the Adjustment Charge is due and payable each month).

As per the calculation for the 2010 Adjustment Charge (following the finalisation of UT3) which was approved by the QCA, amounts are deemed to be "due and payable" ten business days following the end of each month.

Aurizon Network confirms that this proposal is not consistent with the arrangements agreed with the QRC for the 2013DAAU (interest equivalent to the UT3 or UT4 cost of capital was agreed). Aurizon Network notes that:

- The difference between the two methods does not result in a material difference in the nominal amount of interest payable;
- The proposed method is actually of short-term benefit to Access Holders in the Moura and GAPE systems for which under-recoveries are expected; and
- There should be no medium to long-term benefit to Aurizon Network and Access Holders (i.e. over the UT4 period) as the difference should be reflected in the UT4 settlement such that the present value of the MARs is unchanged.

### 4.3 System Premiums and Rebates

Reference Tariffs, particularly FY2015 transitional Reference Tariffs, continue to be quoted based on UT3 pricing principles, being with System Premiums and Discounts and inclusive of rebates (UT4 Reference Tariffs are quoted with System Premiums and Discounts but exclusive of rebates). This disclosure is consistent with Schedule F of the 2010AU.

With respect to FY2015, the effect of this disclosure is that upon finalisation of UT4 (and assuming the QCA approves the UT4 proposal to net off rebates against Access Charges) Aurizon Network will:

- Recover rebates paid for the period 1 July 2014 to the date the UT4 approved Reference Tariffs come into effect; and
- Refund the portion of Access Charges attributable to rebateable assets.

The effect of this arrangement is that the bulk of any variation in rebates associated with the difference between actual and forecast volumes should be recovered from, or returned to, producers rather than incorporated within the FY2015 Revenue Cap Adjustment Amounts.

## 4.4 FY2012 Revenue Cap - GAPE

The FY2012 Revenue Adjustment Amount for GAPE was approved by the QCA together with the FY2013 Revenue Adjustment Amount. Approval of the FY2012 amount (in January 2014) occurred after the QCA's approval of the 2013DAAU (in May 2013).

On the basis that the 2014DAAU proposes to confirm the transitional GAPE System Allowable Revenue as the final System Allowable Revenue, Aurizon Network will reflect the FY2012 Revenue Adjustment Amount in the finalisation of the UT4 approved MAR for GAPE. The amount of the Revenue Adjustment Amount (\$0.6 million) is not material.

As discussed above, the transitional System Allowable Revenues for FY2015, including GAPE, include Revenue Adjustment Amounts approved by the QCA for FY2013.

## 4.5 New Reference Tariff - Middlemount

Aurizon Network has agreed with the owner of the Middlemount mine an interim Reference Tariff for a Train Service from Middlemount to the Dalrymple Bay Coal Terminal (DBCT). The interim Reference Tariff is based on an interpretation of the UT3 pricing principles in Schedule F which incorporates Private Incremental Costs funded by Middlemount's owner within the calculation of the Reference Tariff.

Aurizon Network will shortly submit to the QCA an application for this Reference Tariff to be accepted for FY2012 to FY2014. If the application is accepted by the QCA by 30 June 2014 then the following arrangements will apply:

- The difference between the interim Access Charges and approved Reference Tariffs will be returned to, or recovered from, the relevant Access Holder;
- The differences for FY2012 and FY2013 will be returned to, or recovered from, Access Holders via the process for the finalisation of UT4 (no further action is required for the FY2014 difference);
- The FY2014 Adjustment Charge for Middlemount will be calculated by reference to Access Charges based on the approved FY2014 Reference Tariff; and

If the application is not accepted by the QCA by 30 June 2014 then the following arrangements will apply:

- The application will be withdrawn;
- The Goonyella system Reference Tariff will apply for the Train Service over the distance between the connection point of the Middlemount spur and DBCT;
- The difference between the interim Access Charges and Goonyella system Reference Tariffs will be recovered from the relevant Access Holder;
- The differences for FY2012 and FY2013 will be returned to, or recovered from, Access Holders via the process for the finalisation of UT4 (no further action is required for the FY2014 difference);
- The FY2014 Adjustment Charge for Middlemount will be calculated by reference to Access Charges based on the Goonyella system Reference Tariff.

These 'fall-back' arrangements are consistent with Aurizon Network's proposed UT4 pricing principles for privately owned spurs.



## 5. 2010AU Amendments

### 5.1 Proposed FY2015 Reference Tariffs

The final and transitional Reference Tariff components for FY2014 and FY2015, respectively, are detailed in Schedule F for Goonyella, Blackwater, Moura, Newlands and GAPE.

In addition, final (FY2014) and transition (FY2015) average prices are summarised in the tables below for the AT<sub>1-4</sub> and AT<sub>5</sub> Reference Tariff components on 2 bases:

- Revenue (in \$) per forecast net tonne (\$/nt) for the AT<sub>1-4</sub> Reference Tariff components; and
- Revenue per forecast electric net tonne (\$/electric nt), for the AT<sub>5</sub> Reference Tariff component,

The tables are presented on two bases – exclusive and inclusive of the FY2012 and FY2013 revenue caps.

#### Excluding revenue cap

| System                                 | FY2014<br>Final<br>\$ | FY2015<br>Transitional<br>\$ | Change<br>%  |
|--|-----------------------|------------------------------|--------------|
| <b>AT<sub>1-4</sub> (\$/nt)</b>        |                       |                              |              |
| Blackwater                             | 4.10                  | 4.23                         | 3.1          |
| Goonyella                              | 2.54                  | 2.43                         | (4.7)        |
| Moura                                  | 3.17                  | 4.04                         | 27.7         |
| Newlands                               | 2.53                  | 2.93                         | 15.8         |
| Average excluding GAPE                 | 3.07                  | 3.13                         | 2.0          |
| GAPE                                   | 6.75                  | 5.74                         | (15.1)       |
| <b>Average including GAPE</b>          | <b>3.44</b>           | <b>3.39</b>                  | <b>(1.6)</b> |
| <b>AT<sub>5</sub> (\$/electric nt)</b> |                       |                              |              |
| Blackwater                             | 1.93                  | 1.76                         | (8.8)        |
| Goonyella                              | 0.77                  | 0.73                         | (5.6)        |
| <b>Average</b>                         | <b>1.10</b>           | <b>1.03</b>                  | <b>(6.4)</b> |

The proposal results in the following:

- Average net increase in the final AT<sub>1-4</sub> Reference Tariff components across the network for FY2015 of \$0.06/net tonne (2%) exclusive of GAPE, and an average net reduction of \$0.05/net tonne (2%) inclusive of GAPE, compared to the FY2014 transitional Reference Tariffs; and
- Average net decrease in the final AT<sub>5</sub> component of \$0.07/electric net tonne (6%) compared to the FY2014 transitional Reference Tariffs.

Changes in the relevant Reference Tariff components are explained as follows:

- Blackwater non-electric (3% increase in AT<sub>2-4</sub>) is associated with the 2013 flood event offset by a higher tonnage forecast relative to FY2014.
- Goonyella non-electric (5% reduction in AT<sub>2-4</sub>) is associated with a higher tonnage forecast relative to FY2014.
- Blackwater and Goonyella (9% and 6% reduction, respectively, in AT<sub>5</sub>) are associated with higher electric tonnage forecasts relative to FY2014.
- Moura (28% increase in AT<sub>2-4</sub>) is associated with the 2013 flood event and is compounded by a slightly lower tonnage forecast relative to FY2014.
- Newlands (16% increase in AT<sub>2-4</sub>) is associated with a significantly lower tonnage forecast relative to FY2014.

- GAPE (15% reduction in AT<sub>2-4</sub>) is associated with a significantly higher tonnage forecast relative to FY2014.

#### Including revenue cap

| System                                       | FY2014<br>Final<br>\$ | FY2015<br>Transitional<br>\$ | Change<br>%  |
|--|-----------------------|------------------------------|--------------|
| <b>AT<sub>1-AT<sub>4</sub></sub></b> (\$/nt) |                       |                              |              |
| Blackwater                                   | 4.23                  | 4.64                         | 9.8          |
| Goonyella                                    | 2.52                  | 2.41                         | (4.5)        |
| Moura  | 2.78                  | 4.02                         | 44.3         |
| Newlands                                     | 2.75                  | 2.91                         | 5.8          |
| Average excluding GAPE                       | 3.09                  | 3.25                         | 5.1          |
| GAPE   | 6.75                  | 6.32                         | (6.4)        |
| <b>Average including GAPE</b>                | <b>3.45</b>           | <b>3.55</b>                  | <b>2.7</b>   |
| <b>AT<sub>5</sub></b> (\$/electric nt)       |                       |                              |              |
| Blackwater                                   | 1.85                  | 2.12                         | 14.5         |
| Goonyella                                    | 0.94                  | 0.70                         | (25.2)       |
| <b>Average</b>                               | <b>1.20</b>           | <b>1.12</b>                  | <b>(6.7)</b> |

Material changes in these relevant Reference Tariff components, relative to the table above, are solely attributable to the 'swing' in revenue cap associated with the removal of the FY2012 revenue cap and inclusion of the FY2013 revenue cap.

Most notable are the Blackwater and Moura systems which experienced material negative swings between the FY2012 and FY2013 revenue caps, the swing in Blackwater being sufficient to outweigh the benefit associated with the higher tonnage forecast. Newlands' positive swing significantly offsets the impact of the lower tonnage forecast, whereas the opposite effect has occurred in GAPE where a negative swing has offset the impact of the higher tonnage forecast.

Goonyella's positive swing, particularly for AT<sub>5</sub>, compounds the benefit associated with the higher tonnage forecast.

## 5.2 FY2015 Reference Tariffs – Other Issues

A number of selected issues are noted with respect to the proposed FY2015 transitional Reference Tariffs:

- The Blackwater AT<sub>5</sub> transitional Reference Tariff component excludes the pricing impact (being an increase in both allowable revenues and electric gtps) of the electrification of the Rolleston branch. This project is expected to be completed by 31 December 2014. The impact on the Reference Tariff component is not expected to be material, allowable revenues and electric gtps will therefore be confirmed as part of the QCA's Final Decision in UT4.
- Both the EC Reference Tariff component and the QCA Levy reflect FY2014 values as Reference Tariffs for FY2015 are yet to be confirmed.

## 5.3 Other 2010AU Amendments

In May 2013 the QCA approved the 2013DAAU, which extended the term of the 2010AU to 30 June 2014 and provided a set of 'transitional' Reference Tariffs for FY2014.

A number of drafting amendments were made to the 2010AU to give effect to the extension including:

- Clause 12.2 – amend Terminating Date from 30 June 2013 to the earlier of 30 June 2014 or the QCA’s approval of a replacement access undertaking.
- Clause 12.4 – re-alignment of transitional provisions.
- Schedule F marked-up with transitional FY14 Reference Tariffs and annual/monthly gtk forecasts for FY2014 only.

Similar changes are proposed to give effect to the 2014DAAU. The 2014DAAU is a mark-up of the ‘consolidated’ 2010AU dated December 2013. A copy of this document of provided on Aurizon Network’s web-site<sup>4</sup>.

The amendments for which the QCA’s approval is sought are as marked up in the attached marked-up copy of the consolidated 2010AU. In summary, the relevant amendments are as follows:

| Reference  | Amendment   |
|--|---|
| Clause 12.1<br>“Terminating Date”                          | Reference to “30 June 2014” is replaced by “30 June 2015”.  |
| Clause 12.4(h) and (i)                                     | <p>Clause 12.4(h) was included in the 2013DAAU to remove any retrospective liability created by the amendment to the Terminating Date, so that Aurizon Network was excused from compliance with obligations (if any):</p> <ul style="list-style-type: none"> <li>• Which would not have arisen but for the amendment to the Terminating Date; and</li> <li>• Where the date for compliance has passed by the date on which the QCA approves the 2013DAAU.</li> </ul> <p>Clause 12.4(i) has been added to ensure that the removal of retrospective liability extends to the additional period covered by the 2014DAAU. For consistency, clause (h) has been consequentially amended.</p> |
| Schedule F<br>Part A, Clauses 2.3 and 3.2                  | <p>Provisions are included to:</p> <ul style="list-style-type: none"> <li>• Give effect to the return or recovery of the difference between actual revenues and System Allowable Revenues, for each Reference Tariff component, as an Adjustment Charge;</li> <li>• Clarify the calculation of interest in this circumstance;</li> <li>• Confirm a due date for the Adjustment Charge submission of 31 August 2014; and</li> <li>• Confirm the treatment of the Adjustment Charge in the FY2014 revenue cap process.</li> </ul>   |
| Schedule F,<br>Part B, Clauses 5.3, 6.3, 7.3 and 8.3       | Transitional System Allowable Revenues, System Forecasts and Monthly System Forecasts are provided for FY2015 as an extension of the existing tables.   |
| Schedule F,<br>Part B, Clauses 5.4(a), 6.4(a), 7.4 and 8.4 | Transitional Reference Tariffs are provided for FY2015 as an extension of the existing tables.  |

<sup>4</sup> <http://www.aurizon.com.au/network/access/undertaking>

## 6. Other Matters

In respect of the QCA's consideration of the 2014DAAU, including the matters under sections 138(2) and (3) of the Act, Aurizon Network submits the following:

- The 2014DAAU gives Access Holders and Access Seekers, Aurizon Network, the QCA and other interested parties certainty around process in relation to 3<sup>rd</sup> party access to the relevant declared service. It would be in the interests of all interested parties to extend the 2010AU rather than to have its detailed processes and provisions fall away leaving 3<sup>rd</sup> party access to the declared service subject only to the negotiate and arbitrate framework under the Act.
- The amendments should not give rise to retrospective liability on the part of Aurizon Network. For example, without the extension of the Terminating Date, Aurizon Network's obligations for the annual review of Reference Tariffs referred to under clause 2.2.1(b)(ii), Part A and clause 3.1.1, Part B of Schedule F would not apply as there would be no next Year in the Term for those provisions to operate in respect of. However, once the 2014DAAU is approved, there will be a next Year in the Term. Accordingly, if this matter was not dealt with by the proposed new clause 12.4(h), Aurizon Network could potentially be made retrospectively responsible for a failure to comply with those provisions (even though the time frames for compliance have lapsed and the 2014DAAU has achieved substantial compliance by setting Reference Tariff inputs, System Forecasts and System Allowable Revenues for FY2014) and suffer the consequences such as a QCA tariff review. Any such retrospective liability is inappropriate. For this reason, Aurizon Network has retained clause 12.4(h) and included clause 12.4(i) within the 2013DAAU.
- The proposed extension of the 2010AU will not have the effect of excluding existing assets for pricing purposes within the meaning section 138(2)(f) of the Act.
- Nothing in the proposed extension of the 2010AU as proposed offends the pricing principles in section 168A of the Act.
- The 2014DAAU is not inconsistent with any access code, or ruling by the QCA under Division 7A of the Act.

# Attachment A: Draft Amending Access Undertaking (Clean)

# Attachment B: Draft Amending Access Undertaking (Mark-up)