



Friday 24 April 2015

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
PO Box 2257
Brisbane Queensland 4001

Dear Dr Roberts

Asciano Response to the QCA regarding the Aurizon Network DAAU to Extend the Term of the Undertaking and Address Treatment of Revenue, Volume and Tariff

Background

This Asciano submission is in response to the Aurizon Network Draft Amending Access Undertaking (DAAU) dated 20 March 2015. This DAAU relates to:

- extending the term of the current Aurizon Network Access Undertaking;
- finalising transitional treatment of Aurizon Network revenue, tariffs and volumes for 2014-15; and
- establishing transitional treatment of Aurizon Network revenue, tariffs and volumes for 2015-16.

Asciano Position on Extending the Term of the Current Access Undertaking

The current Aurizon Network Access Undertaking is due to terminate on 30 June 2015; however the QCA has indicated that a Final Decision for the replacement access undertaking is expected on 31 July 2015. Thus Aurizon Network has submitted wording in the DAAU allow the current access undertaking to continue to November 2015 (or an earlier date when the replacement access undertaking is approved and the current undertaking is withdrawn).

Asciano supports the DAAU amendments which allow the current access undertaking to continue to November 2015 (or an earlier date when the replacement access undertaking is approved and the current undertaking is withdrawn). Asciano believes that this extension is needed to maintain clear and ongoing regulatory coverage of the Aurizon Network.

Asciano Position on Treatment of Revenue, Tariffs and Volumes for 2014-15

Reference Tariff Adjustments

Aurizon Network (Explanatory Memorandum Page 6) proposes that the transitional 2014-2015 reference tariffs be updated to reflect the QCA's Final Decision on the 2012-2013 flood review event. Aurizon Network also proposes that the resulting adjusted reference tariffs be confirmed as the final reference tariffs. Asciano understands that while the flood review event has been approved by the QCA the transitional reference tariffs for 2014-2015 have not been approved by the QCA. Consequently Asciano believes that until the 2014- 2015 tariffs are approved by the QCA as they should not be considered as final reference tariffs.

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Revenue Exclusions

Aurizon Network has identified several exclusions from the transitional revenues including revenues associated with Wiggins Island and revenues associated with the electrification of the Rolleston line stating that (Explanatory Memorandum Page 8):

“any Access Charges associated with WIRP and Rolleston Electric Train Services in FY2015, should be excluded from the definition of ‘Total Actual Revenue’ (TAR) for the purposes of calculating any over/under recovery, relative to the transitional SAR”

Thus Aurizon Network proposes that the definition of Total Actual Revenue should exclude these revenues for the purposes of calculating any over or under recovery.

Asciano is concerned with Aurizon Network’s proposal to exclude revenues related to electric Rolleston train services from the 2014-2015 Total Actual Revenue. From the wording in the Explanatory Memorandum above it seems as though Aurizon Network is seeking to remove all of the revenue related to the Rolleston train service rather than just the revenue from the electric component of the Rolleston train service access charges. If the electric Rolleston train services that operated were originally intended to be non-electric services, Asciano believes that only the revenues associated with electric component of the access charges for these train services should be excluded.

Asciano is concerned that removing all of the Rolleston train service revenue from the 2014-2015 Total Actual Revenue (rather than just the electric revenue) could potentially have an impact on other Blackwater users. In particular there could be a mismatch between the 2014-2015 System Allowable Revenue and the 2014-2015 Total Actual Revenue which could potentially trigger additional take or pay liability. Asciano believes this issues needs to be clarified and / or addressed to ensure these revenue exclusions do not disadvantage end users.

In addition Asciano notes that it is estimated (Explanatory Memorandum page 8) that there be an under recovery of AT5 in Blackwater (estimate of \$0.5million). Given that there is no transparency surrounding this estimate, Asciano queries whether this under recovery is attributed to the electric Rolleston train services that have been excluded from the Total Actual Revenue.

Asciano supports the Aurizon Network position of excluding Wiggins Island related revenues and volumes from the 2014-2015 System Allowable Revenue and Total Actual Revenue as the treatment of these revenues and volumes are currently being assessed via a separate regulatory process.

Recovery of AT1

Asciano is concerned that Aurizon Network is proposing (Explanatory Memorandum page 9) that the final treatment of any AT1 over recovery or under recovery will be dealt with in the process of finalising UT4 rather than in this DAAU (under the 2010 Access Undertaking). The revenue cap process outlined in the 2010 Access Undertaking does not allow Aurizon Network to seek any variations associated with AT1 access charges on the basis that they are incremental.

Aurizon Network seeking to address this issue in the finalisation of UT4 rather than in this DAAU suggests Aurizon Network will be seeking a variation associated with AT1 access

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charges. Asciano believes that any such variations should not be allowed on the basis that AT1 is incremental.

Index Linked Variations

Aurizon Network (Explanatory Memorandum page 10) seeks that any variations and allowances associated with the Maintenance Cost Index (MCI) and Consumer Price Index (CPI) are delayed and reflected instead in the reference tariff modelling approved for UT4 rather than in the revenue cap. Asciano believes that Aurizon Network should adopt the application of the MCI and CPI variations and allowances as per the QCA's Maximum Allowable Revenue draft decision.

Rebates

Asciano has previously raised concerns with the Aurizon Network treatment of rebates¹. Asciano's concern has focussed on the fact that the Total Actual Revenue is adjusted for rebates but the System Allowable Revenue is not adjusted for rebates. This raises concerns related to Aurizon Network seeking to use the revenue cap adjustment mechanism to recover the over payment of rebates to some end users. This approach is inequitable as the rebates should be managed directly with the party receiving the rebate rather than socialising the impact across other users.

Aurizon Network (Explanatory Memorandum pages 10) indicates that the concerns related to rebates as outlined above (and in previous Asciano submissions) will not be addressed in the proposed treatment of revenue in 2014-15. Asciano seeks that the QCA further consider how rebates are treated in Total Actual Revenue and System Allowable Revenue calculations in both 2014-15 and in later years with a view to ensuring that costs and benefits of rebates specific to one user are not socialised across the broad customer group.

Asciano Position on Treatment of Revenue, Tariffs and Volumes for 2015-16

Volume Forecasts

Aurizon Network (Explanatory Memorandum page 11) proposes that for 2015-2016 the System Allowable Revenue will reflect the QCA's Draft Decision adjusted for the 2013-2014 revenue cap, the 2012-13 flood event and the volume forecasts in Aurizon Network's December 2014 response to the QCA's Draft Decision on Maximum Allowable Revenue (227.4 million tonnes as per the Explanatory Memorandum page 12).

Asciano is concerned with the increase in the Aurizon Network's proposed Blackwater system volume forecast. Asciano assumes that the increase in volume forecast between the QCA's draft decision (57.6 million tonnes) and Aurizon Network's proposal (70.4 million tonnes) is likely to be the result of the inclusion of Wiggins Island train services. If this is the case then using these inflated volumes reduces the access charge unit rates for Blackwater system users in 2015-2016 as shown in the tables on pages 15 and 16 of the Explanatory Memorandum. Asciano believes that there should be greater transparency relating to the derivation of the figures in these tables.

If the increase in the Blackwater volumes proposed by Aurizon Network is related to Wiggins Island train services these should be presented as a separate line item.

¹ For example the Asciano Response to the Aurizon Network Submission on 2013-14 Revenue Adjustment Amounts and Increments to the QCA 7 November 2014

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Including Wiggins Island volumes in the Blackwater system will have a negative effect on take or pay results for users as it could lead to a misalignment between forecast and actual volumes in the take or pay assessment. If the forecast was over-inflated by Wiggins Island volumes it could lead to the system take or pay test being triggered based on Aurizon Network's proposal to exclude any Wiggins Island actual volumes from their revenue cap adjustment.

Asciano also has concerns that Aurizon Network may potentially be using volume forecasts to reduce reference tariffs in order to pass the systems test; this in turn allows assets to be incorporated into the regulatory asset base. In particular Asciano is concerned that Wiggins Island volume forecasts are overstated, allowing these assets to be incorporated into the Blackwater system regulatory asset base, thus Blackwater system users are taking on Wiggins Island volume risk.

Aurizon Network states (Explanatory Memorandum page 13) that access charges and volumes associated with Wiggins Island train services which rail in 2015-2016 will be quarantined from the Blackwater and Moura systems until such time as the QCA makes a final determination of the treatment of these elements. The QCA should ensure that this approach has been adopted by Aurizon Network in developing their 2015-2016 transitional tariffs.

Overall Asciano is seeking that the QCA scrutinise the volume forecasts which are being put forward by Aurizon Network and in particular scrutinise the level of assumed Wiggins Island volumes and the treatment of these volumes.

Consistency of Forecasts

Aurizon Network states (Explanatory Memorandum page 12) that the 2015-2016 forecast should be treated as transitional which means that it should only be used for the purpose of establishing transitional reference tariffs and not form the basis by which take or pay amounts are triggered.

Asciano believes that the same forecast used to derive tariffs should be used to assess take or pay. Otherwise, there is potential for inconsistencies and there is no certainty for users. This is particularly important when it comes to UT1 access holders whose take or pay includes a monthly forecast element. This in turn could negatively impact the take or pay of UT2 and UT3 users as a result of the sequential method by which take or pay is applied.

Rebates

Aurizon Network (Explanatory Memorandum page 13) has proposed how they are seeking rebates to be treated for 2015-16. Asciano remains concerned that Aurizon Network indicates that 2015-16 reference tariffs are inclusive of rebates (as per UT3 pricing principles) until UT4 is approved. 2015-16 reference tariffs will be exclusive of rebates following the approval of UT4. Asciano believes that the 2015-16 reference tariffs should be exclusive of rebates from 1 July 2015. This will ensure that costs and benefits of rebates specific to one user are not socialised across the broad customer group.

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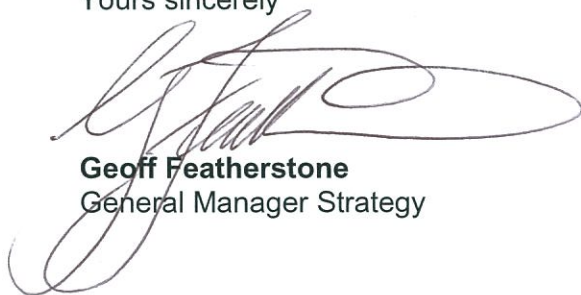
Conclusion

Overall, while Asciano supports the extension of the 2010 Access Undertaking expiry date Asciano has concerns relating to the finalisation of the treatment of revenue, tariffs and volumes for 2014-15 and the treatment of revenue, tariffs and volumes for 2015-16. Asciano is seeking that the QCA address these concerns prior to finalising its position on the DAAU.

More broadly Asciano is concerned that Aurizon Network's position on revenues and volumes inconsistently applies existing rules and attempts alignment to rules which are not yet finalised. This inconsistent application creates uncertainty for industry.

Feel free to contact Stuart Ronan on 02 8484 8056 or Ying Yeung on 07 3002 3726 to discuss this response.

Yours sincerely

A handwritten signature in black ink, appearing to read "Geoff Featherstone". The signature is fluid and cursive, with a large loop at the end.

Geoff Featherstone
General Manager Strategy

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