

Draft decision

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## Aurizon Network's review event: 2015 flood claim

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October 2016

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## SUBMISSIONS

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Closing date for submissions: 11 November 2016

This report is a draft only and subject to revision. Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore, submissions are invited from interested parties concerning its assessment of Aurizon Network's 2015 flood review event. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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While the QCA will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the Right to Information Act 2009 (RTI)), it cannot guarantee that submissions will not be made publicly available.

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## THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS

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The Queensland Competition Authority (QCA) is an independent statutory authority which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

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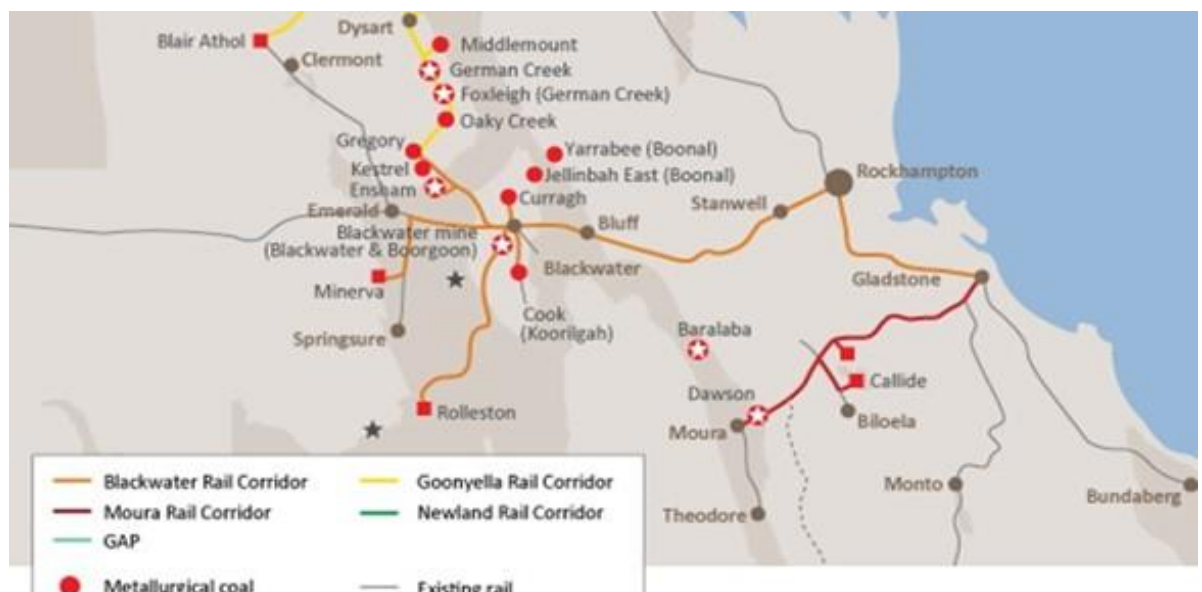
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# 1 BACKGROUND

## 1.1 Flood event

Cyclone Marcia brought widespread flooding to the Central Queensland coal region in February 2015, damaging Aurizon Network's rail infrastructure in the Blackwater and Moura rail systems (see Fig. 1). The Moura system (see Box 1) was the hardest hit and had to be closed for traffic. The worst-affected sections were Sturrat–Dumgree and Earlsfield (Fig. 2).

**Figure 1 Central Queensland coal region**



### Box 1 The Moura system

#### Location

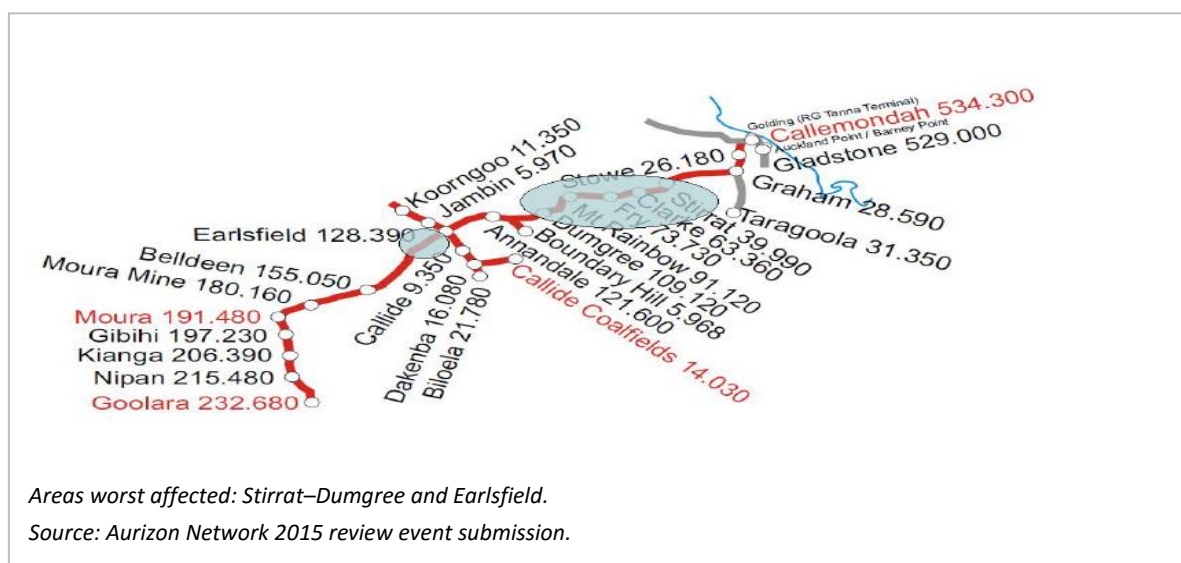
The Moura system, south west of Gladstone (central Queensland), is the rail corridor stretching from the port of Gladstone (domestic coal terminals in the vicinity of Gladstone) to the mines located in Moura. It includes the loading facility for Baralaba mine in the vicinity of Moura, and all branch lines directly connecting coal mine loading facilities to that corridor.

#### Coal transport

The system's coal is transported to Gladstone Power Station, Comalco Refinery, Queensland Alumina Limited (QAL) and Cement Australia and the RG Tanna and Barney Point coal terminals at the port of Gladstone.

**Capricornia chain.** The Moura and Blackwater systems together form the Capricornia Coal Chain.

Aurizon Network declared a force majeure at the time of the rail line damage on 19 February 2015. The Moura system was reopened for railings on 18 March 2015, but speed restrictions applied until November 2015, when all works, including rail re-stressing at Bells Creek, had been completed.

**Figure 2 Cyclone-affected parts of the Moura system**

## 1.2 Regulatory process

Aurizon Network's 2010 access undertaking requires it to apply to the QCA to vary reference tariffs within 60 days of a review event, including a force majeure event.

On 17 April 2015, Aurizon Network requested an extension to 30 November 2015, which was granted by the QCA.

On 30 November 2015, Aurizon Network submitted its finalised review event submission for the 2015 flooding in the Moura system. The amount of incremental maintenance costs Aurizon Network is seeking to recover, due to the flood damage rectification works, is \$4.05 million (pre-escalation).

After releasing Aurizon Network's application for comment, we received submissions from Anglo American and Cockatoo Coal. Issues raised in these submissions are addressed in this draft decision.

We invite stakeholders to comment on this draft decision by 11 November 2016.

Separately, at the time of writing, Aurizon Network's 2014 draft access undertaking (DAU) is in the process of being finalised.

## 1.3 Key assessment criteria

The 2010 access undertaking sets out three key criteria for the approval of a proposed reference tariff variation, when the proposal is made under the review event provisions. The QCA must be satisfied that:

- a review event has occurred
- the variation of the reference tariff reflects incremental costs resulting from the review event
- the variation of the reference tariff is calculated correctly.

These three key criteria are discussed in turn below.

The relevant clauses in the 2010 access undertaking (2010 AU) are summarised at greater length in Appendix A.

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## 2 REVIEW EVENT

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A review event is defined to include an event that:

- is beyond the reasonable control of Aurizon Network, including a fire, flood or other catastrophe
- has affected Aurizon Network to the extent that it has incurred or will incur additional incremental cost of greater than \$1 million
- has not previously resulted in a variation of the relevant reference tariff.

The relevant clauses in the 2010 AU are summarised at greater length in Appendix A.

### 2.1 Aurizon Network's submission

Aurizon Network considered the February 2015 flood event satisfied the definition of a review event, as:

- it was beyond its reasonable control
- it exceeded the \$1 million materiality threshold
- the additional incremental costs had not previously resulted in a variation of the relevant reference tariff.

### 2.2 Stakeholders' submissions

No stakeholders commented on this issue.

### 2.3 QCA assessment

The QCA accepts that the February 2015 flood event meets the definition of a force majeure review event.



## 3 INCREMENTAL COSTS

We have assessed a range of issues raised by stakeholders in relation to incremental costs, including:

- transparency of costs
- whether claimed flood costs should be capitalised
- whether claimed flood costs are already covered under insurance and self-insurance allowances
- escalation.

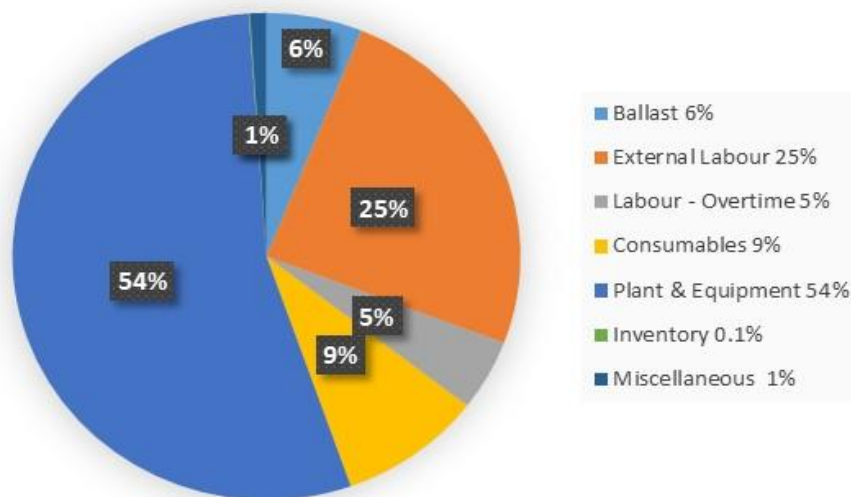
These issues are addressed in turn below.

### 3.1 Transparency

#### Aurizon Network's submission

Aurizon Network calculated the value of the incremental maintenance costs related to its flood response to be \$4.05 million excluding indexation. These costs were incurred over the 2014–15 and 2015–16 financial years. Plant and equipment (54%) form the majority of the claim (Figure 3), with external labour the other sizable portion (25%).

**Figure 3 Aurizon Network's flood cost breakdown**



*Source: Aurizon Network 2015 review event submission*

Aurizon Network said that the costs included in the claim were properly reflected at the work order level, so that each flood-affected site was treated as a job with a work order attached to it. These work orders were created in its finance system based on the location of the works undertaken for the flood remediation process.

It said the information on the finance system allowed the costs to be specifically attributed to Aurizon Network's flood response in central Queensland, and showed they:

- related only to incremental costs, such as overtime, and not to ordinary labour costs

- excluded any costs that would be claimable under Aurizon Network's insurance program
- were not already included in its 2014 DAU submission.

Aurizon Network also stated that all capital expenditure associated with its response to the 2015 floods was excluded. It said these costs would be submitted as part of an ex post capital expenditure claim.

### Stakeholders' comments

Anglo American said there was insufficient information in Aurizon Network's flood claim for Anglo American or the QCA to determine whether the costs said to have been incurred were prudent and efficient.<sup>1</sup>

Cockatoo Coal and Anglo American requested that, as per similar flood events submitted to the QCA, all reasonable steps continue to be undertaken by the regulator to independently assess the prudence of costs. This should ensure that the claims truly represent incremental costs, labour is associated with overtime hours and not ordinary effort and any costs attributable to employees or contractors are not reallocated from other tasks within the CQCN.<sup>2</sup>

Anglo American was concerned that the claim included a high proportion of both external labour costs and plant/equipment hire costs. It said this may indicate that maintenance activities which would ordinarily be undertaken by Aurizon Network, as part of its operation and maintenance of the Moura system, have been outsourced or transferred to Aurizon Operations which would be (in Anglo American's view) inefficient.

Further, Anglo American stated there was little (or no) oversight of the terms and conditions upon which Aurizon Operations contracted with Aurizon Network for maintaining the below-rail infrastructure. For example, it was not clear whether profit was being made by Aurizon Operations in carrying out activities that were properly categorised as being access-related maintenance.<sup>3</sup>

### QCA analysis

We note that there have been some improvements in Aurizon Network's record-keeping for flood cost information compared to previous years. In particular, flood-related costs were captured at the work order level and recorded based on works undertaken for flood remediation at activity level.

We agree with Aurizon Network that costs are incremental where they are not included in allowable costs under the 2014 DAU process. Although this flood decision is made under the 2010 AU, tariffs for 2015–16 and 2016–17 have been aligned to the 2014 DAU process which is soon to be finalised.

We employed the Jacobs Group (Australia) Pty Ltd (Jacobs) to review whether Aurizon Network's flood claim reasonably reflected incremental costs associated the 2015 flood event. A full copy of Jacobs' report is available on the QCA website.

Jacobs reviewed a sample of projects from Aurizon Network's cost claim to check whether the costs were substantiated, using benchmark unit rates. Jacobs sampled 28 per cent, or \$1.15

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<sup>1</sup> Anglo American 2015, Review Event submission, p. 2.

<sup>2</sup> Cockatoo Coal 2015, Review Event submission, p. 2; Anglo American 2015, Review Event submission, p. 2.

<sup>3</sup> Anglo American 2015, Review Event submission, p. 2.

million, of the \$4.05 million cost claim. The sampled items represented a cross-section of the type of works included in the cost claim, including:

- signalling cabinet reinstatement, Mt Rainbow (MSL-1)
- embankment and track washout, Bells Creek, Mt Rainbow–Dumgree (MSL-61)
- ballast scour and track washout, Earlsfield–Dakenba (MSL-66)
- track washout, Earlsfield–Dakenba (MSL-69).

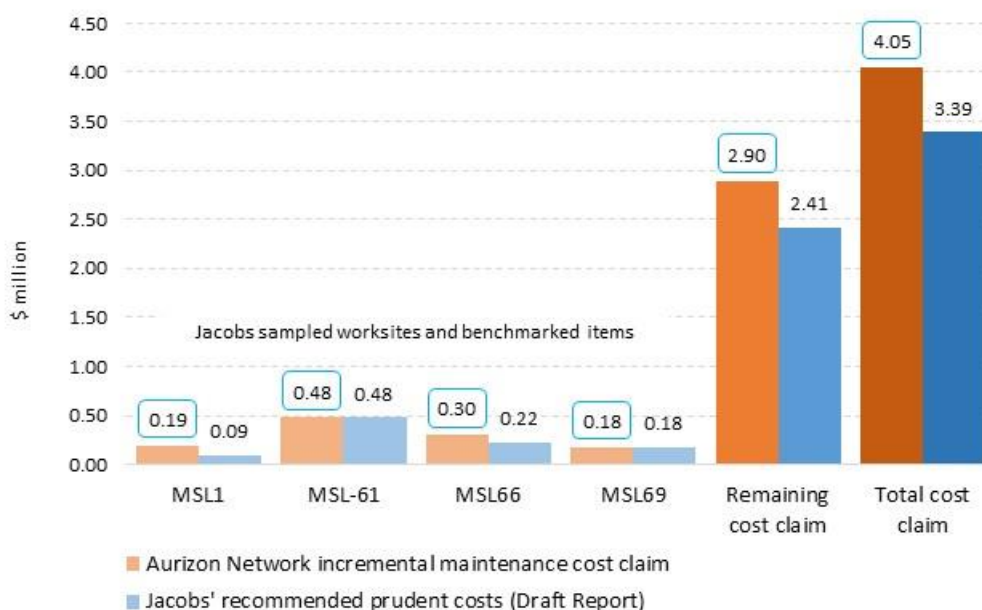
Jacobs found two out of the four sampled project costs to be prudent, comprising \$977,087 out of the sample of \$1.15 million. Of the sampled costs found not to be prudent, Jacobs said that the labour costs were high compared to benchmarked unit rates, which it said was the result of insufficient information provided by Aurizon Network to substantiate its claim in full. Lack of detailed information also showed in a discrepancy between the scope of works and benchmarks used by Jacobs. Adjustments were also made to exclude business-as-usual costs.

**Table 1 Prudence of scope, standard and cost for rectification work reviewed**

<i>Expenditure item</i>	<i>Prudence item</i>			<i>Recommended recoverable cost</i>
	<i>Scope</i>	<i>Standard</i>	<i>Cost</i>	<i>AUD 2015</i>
MSL-1 signalling cabinet reinstatement, Mt Rainbow	●	●	●	93,934
MSL-61 embankment and track washout along Bells Creek, Mt Rainbow–Dumgree	●	●	●	477,585
MSL-66 ballast scour and track washout, Earlsfield–Dakenba	●	●	●	223,536
MSL-69 track wash out, Earlsfield–Dakenba	●	●	●	182,032
<b>Total</b>				<b>977,087</b>

*Note: Green = prudent; amber = partially prudent; red = not prudent.*

Jacobs extrapolated its findings on these sampled items to the total 2015 flood expenditure claim (Fig. 4).

**Figure 4 Aurizon Network's flood claim costs and Jacobs' cost findings**

Source data: Jacobs 2016 Draft Report Report, Aurizon Network Infrastructure Flood Claim Review

Overall, Jacobs found \$3.39 million of Aurizon Network's claim of \$4.05 million to be reasonable.

On the basis of Jacobs' review, we consider Aurizon Network should provide more detailed data to substantiate its claim and to address stakeholder concerns. In particular, it should be possible for us to determine that the costs are incremental to allowable maintenance and that there is no double-counting.

## 3.2 Capitalisation

### Aurizon Network's proposal

Aurizon Network stated it sought to claim only incremental maintenance costs associated with the flood event, and for capital expenditure to be subject to a separate ex post regulatory review. Aurizon Network indicated that jobs identified as capital required upgrades to existing assets and rebuilding of assets. As such, a component of costs was excluded from the claim, as Aurizon Network intended to capitalise those costs.

### Stakeholders' comments

Anglo American submitted that all costs should be capitalised, given total costs claimed on the Moura system were said to exceed \$8 million and the works were all related to asset reinstatement or future flood immunity.<sup>4</sup>

### QCA analysis

In previous reviews, our consultants have sought to clarify the appropriate approach to capitalisation.<sup>5</sup> In our 2014 DAU final decision, we reclassified re-railings as capital in nature (asset

<sup>4</sup> Anglo American 2015, Review Event submission, pp. 2, 3.

<sup>5</sup> See for example RSMBC in the 2013–14 capital expenditure review and SKM in the 2011–12 capital expenditure review.

renewals) rather than maintenance from 2015–16<sup>6</sup>, on the basis that these activities—such as replacing tracks over a certain length with new tracks—extended the useful life of the assets and should be viewed as capital expenditure.<sup>7</sup>

Jacobs noted there was a lack of clarity on the definition of capital costs, but went on, however, to assess the capital expenditure items to ensure they were being excluded from this claim. Jacobs stated that any new assets required were excluded by Aurizon Network, as they were considered capital expenditure, and this was consistent with Aurizon Network's submission that its claim was for maintenance costs only.

On the basis of Jacobs' review, we are inclined to accept that the costs in the 2015 flood claim are maintenance-related and should not be capitalised. We will review Aurizon Network's 2015–16 capital expenditure claim for consistency with the 2015 flood maintenance claim.

However, we consider Aurizon Network needs to provide further information to clarify its approach to capitalisation, in the interests of transparency. As discussed in section 3.1, it should be possible for us to determine that there is no double-counting.

### 3.3 Insurance and self-insurance

#### Aurizon Network's proposal

Aurizon Network noted none of the flood costs were recoverable under its insurance policy, or covered by its self-insurance arrangements.<sup>8</sup>

#### Stakeholders' comments

Cockatoo Coal expressed concern about the extent to which flood costs should be covered by self-insurance arrangements. Specifically, Aurizon Network had not provided or undertaken a self-insurance appraisal since the Finity Consulting evaluation in 2012 that formed part of Aurizon Network's 2013 DAU submission. Further, there remained uncertainty about what was being covered.<sup>9</sup>

#### QCA analysis

We acknowledged in our analysis of previous flood events in 2011 and 2013 that the UT3 operating allowance for self-insurance was materially exceeded by previous weather-related infrastructure repair costs.

In our final decision on the 2014 DAU we noted that Aurizon Network had proposed similar self-insurance arrangements. The major increase in self-insurance-related costs in our final decision was driven by an increased allowance for weather-related events,<sup>10</sup> which is the direct result of high flood and cyclone events, causing higher level of damage to the network than in prior periods. The self-insurance allowance is \$5.5 million for 2014–15 and \$6 million for 2016–17.<sup>11</sup>

Overall, in our final decision, we accepted the methodology proposed by Aurizon Network (Finity) for developing the self-insurance estimates, while acknowledging these estimates and the methodology were not transparent to Aurizon Network's customers. We noted that reports

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<sup>6</sup> QCA 2014, Aurizon Network's 2014 DAU, final decision, volume IV—MAR, pp. 107–109.

<sup>7</sup> QCA 2014, Aurizon Network's 2014 DAU, final decision, volume IV—MAR, p. 113.

<sup>8</sup> Aurizon Network 2015, Review Event submission, pp. 4, 19.

<sup>9</sup> Cockatoo Coal 2015, Review Event submission, pp. 5–6.

<sup>10</sup> QCA 2014, Aurizon Network's 2014 DAU, final decision, volume IV—MAR, p. 83.

<sup>11</sup> QCA 2014, Aurizon Network's 2014 DAU, final decision, volume IV—MAR, p. 88.

supporting self-insurance arrangements were publicly available for electricity network providers and saw no reason why Aurizon Network should not disclose the information.

Further, we said that it would be good practice for Aurizon Network to develop and maintain a comprehensive database of self-insured losses, which could be used to demonstrate there was no duplication of maintenance costs or costs associated with dealing with self-insurance-related events. We required Aurizon Network to report its self-insurance arrangements as part of the annual regulatory accounts, including disclosing the number of self-insurance events by type and value each year.<sup>12</sup>

Without this information, it is difficult to establish that Aurizon Network's current flood claim would not be covered under the increased self-insurance allowance in our final decision on the 2014 DAU.

We consider Aurizon Network should provide further information to demonstrate that the claimed flood costs are not covered in the self-insurance allowance in our final decision on the 2014 DAU.

## 3.4 Escalation

### Aurizon Network's proposal

Aurizon Network said it incurred incremental maintenance costs of \$4.05 million over two financial years—reflecting the immediate rectification works completed by end February 2015 following the flood event, and the works at Bells Creek completed on 16 September 2015.

Aurizon Network said that the timing of the works informed its approach to escalation. Aurizon Network proposed that flood costs incurred and recovered in the same year be escalated at CPI in order to be expressed in nominal terms. Where recovery of costs was deferred to a subsequent year, costs were escalated at WACC to account for deferred revenue recovery.

In term of the indices adopted, Aurizon Network used a:

- 7.17 per cent weighted average cost of capital (WACC) as outlined in the QCA's draft decision on maximum allowable revenue (MAR) in September 2014
- 2.5 per cent estimate of CPI, being the midpoint of the Reserve Bank of Australia's target range.

Hence, the \$4.05 million base cost incurred amounted to \$4.24 million (in 2015–16 dollars) after Aurizon Network's escalation.

### Stakeholders' comments

Anglo American expressed concern that the escalation calculation was inappropriate and acted to escalate payments already made, creating windfall revenue for Aurizon Network. Anglo American also said applying the WACC to escalate was consistent with capitalising of costs into the regulatory asset base (RAB), and that the costs should therefore be treated as capital spending.<sup>13</sup>

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<sup>12</sup> QCA 2014, Aurizon Network's 2014 DAU, final decision, volume IV—MAR, pp 84, 87.

<sup>13</sup> Anglo American 2015, Review Event submission, p. 6.

### QCA analysis

Consistent with our previous flood decisions, we do not consider escalation provides double-recovery, or escalates payments already made. Escalation does not reflect a return on the repair costs, but rather compensation for the fact that recovery of the passed-through costs is delayed by virtue of the application and approval processes.

The WACC that has been adopted by Aurizon Network corresponds with the WACC in our final decision on the 2014 DAU. The estimate of CPI is also consistent. We therefore consider these estimates to be appropriate for escalating flood costs.

We have assessed the escalation methodology in the flood claim and consider it requires adjustment for consistency with the mid-year approach adopted in our final decision on the 2014 DAU.<sup>14</sup>

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<sup>14</sup> QCA 2014, Aurizon Network's 2014 DAU, final decision, volume IV—MAR, p. 286.

## 4 VARIATION OF THE REFERENCE TARIFF

In the context of tariff variation in this review, two issues are of importance:

- timing of recovery
- calculation of the variation.

### 4.1 Timing of recovery

#### Aurizon Network's proposal

Aurizon Network has proposed to recover claimed incremental flood costs over an 18-month period from 1 January 2016 to 30 June 2017. This equates to one-third of the flood costs being recovered over six months from 1 January 2016 to 30 June 2016 (FY2016), with the remaining two-thirds recovered over 12 months from 1 July 2016 to 30 June 2017 (FY2017).

**Table 2 Options for flood costs recovery**

	<i>Recovery period</i>	<i>Start date</i>	<i>Amount including indexation (\$ million)</i>
Option 1	6 months	1 January 2016	\$4.05 (base cost)
Option 2	18 months	1 January 2016	\$4.24
Option 3	12 months	1 July 2016	\$4.54

While two other recovery options were discussed with affected stakeholders, Aurizon Network considered that recovery option 2 (in Table 2 above) was the most equitable, as this option:

- aligned with Aurizon Network's cash flow spend. This reflected both when the flood occurred (in FY2015) and when costs were incurred to restore the Moura system to pre-flood condition (over the FY2015 and FY2016 period)
- spread the recovery over an 18-month period. This was in accordance with stakeholders' preference for a smaller immediate financial impact, while not unduly delaying Aurizon Network's cost recovery
- avoided extending recovery out past 30 June 2017. This is the current proposed expiry date of Aurizon Network's 2014 DAU (UT4) and the period prior to the next undertaking (UT5). Aurizon Network said it would be inappropriate to extend the recovery into the UT5 period where the operating parameters, recovery mechanisms, and access tariffs were not known
- reduced the risk that the Moura system would experience another review event, such as a further flood, during the recovery period.

#### Stakeholders' comments

Cockatoo Coal preferred the utilisation of the lowest cost option 1.<sup>15</sup> Cockatoo Coal said that a longer recovery timeframe increased the probability of compounding flood review impacts on

<sup>15</sup> Cockatoo Coal 2015, Review Event submission, p. 1.



system tariffs.<sup>16</sup> Cockatoo suggested that, if the QCA did not support option 1, the QCA consider a hybrid of option 3, with the 12-month recovery period commencing 1 January 2016.<sup>17</sup>

Anglo American noted that the proposed mechanism to recover over 18 months overlapped with the 2013 flood recovery period. It said this was at odds with the preferred approach of seeking to minimise the immediate financial impact of any tariff adjustment.<sup>18</sup> While Anglo American did not state its preferred recovery method, it stated it was in discussions with Aurizon Network on appropriate payment mechanism and reserved its rights to make further submissions to resolve the matter.<sup>19</sup>

### QCA analysis

We consider that costs consistent with the 2010 AU should be recovered as soon as possible. We note the 2015–16 financial year has elapsed and the UT4 regulatory period is due to expire on 30 June 2017.

To ensure that costs are recovered within a reasonable period of time (particularly given the risk of further flood events occurring and resulting in a 'cascading effect' on tariffs), we consider Aurizon Network's proposed recovery is consistent with the 2010 AU and (in conjunction with an adjustment charge) will allow Aurizon Network to recover these costs in the remainder of the 2016–17 financial year. Recovery in the remainder of 2016–17 should also in effect alleviate Anglo American's concern of overlapping with 2013 flood recovery period.

We note that, given some time has elapsed since the initial claim was lodged, stakeholders may now prefer an alternative timing of the recovery period. We would be inclined to approve an alternative timing of recovery that has been agreed between all stakeholders.

## 4.2 Calculation of the variation of reference tariffs

### Aurizon Network's proposal

Aurizon Network said that the flood claim would affect Moura system's AT3 and AT4 tariffs and this approach was consistent with the general approach to calculating reference tariffs. Aurizon Network also said that the input assumptions, including the WACC, and the proposed reference tariff adjustments were based on estimated volumes, pending finalisation of the 2014 DAU.<sup>20</sup>

### Stakeholders' comments

Stakeholder comments included that:

- (a) numerous flood events had contributed to system tariff volatility and an alternative mechanism should be proposed to limit such volatility<sup>21</sup>
- (b) the increment should not be included in 'take or pay' revenues, given cash flow impacts and export coal market conditions.<sup>22</sup>

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<sup>16</sup> Cockatoo Coal 2015, Review Event submission, p. 3.

<sup>17</sup> Cockatoo Coal 2015, Review Event submission, p. 3.

<sup>18</sup> Anglo American 2015, Review Event submission, p. 6.

<sup>19</sup> Anglo American 2015, Review Event submission, p. 6.

<sup>20</sup> Aurizon Network 2015, Review Event submission, p. 29.

<sup>21</sup> Cockatoo Coal 2015, Review Event submission, pp. 2, 4, 5.

<sup>22</sup> Anglo American 2015, Review Event submission, p. 6.

### QCA analysis

We note that Aurizon Network's proposed recovery of flood costs as a variation to the AT3 and AT4 reference tariffs is consistent with the principles set out in our previous decisions, as all customers who use the system should contribute to the repair costs.

While there are concerns about the volatility of tariffs in the Moura system, the regulatory framework does allow review event costs to be recovered in this manner, where the claim meets the criteria set out in the 2010 AU. Alternative mechanisms to limit volatility are outside the scope of this review.

The impact of Aurizon Network's proposal on transitional arrangements is outlined in (Fig. 5).

**Figure 5 Reference tariffs under Aurizon Network's proposed option 2 (18-month recovery)**



*Note: Reference tariffs for 2015-16 are based on transitional reference tariffs in place at the time (January 2016 Extension DAAU) 2016-17 reference tariffs are based on QCA's 2014 DAU Draft Decision*

Concerns about take or pay arrangements are also outside of the scope of this review, as they are subject to separate provisions in the 2010 AU and arrangements in access agreements.

In summary, we consider the approved pass-through amount should be incorporated into both the AT3 and AT4 reference tariffs as proposed by Aurizon Network (option 2).

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## 5 QCA DRAFT DECISION

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For the reasons outlined in this decision document, we have made a draft decision not to approve Aurizon Network's 2015 flood claim of \$4.24 million.

In particular, we consider that further information is required on Aurizon Network's costs so it is possible to determine there is no double-counting of maintenance costs, capital costs or self-insurance costs. Adjustments are also required for consistency with our final decision on the 2014 DAU.

Stakeholders are invited to provide submissions on this draft decision by **11 November 2016**.

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## APPENDIX A: EXCERPTS FROM THE 2010 UNDERTAKING

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### Review event approval criteria

Schedule F, Part A, clause 2.2.1 of the 2010 AU states that Aurizon Network will submit a variation of reference tariff to the QCA if a review event occurs.

A variation of a reference tariff as a result of a review event must be submitted in accordance with Schedule F Part A, clause 2.2.7, whereby Aurizon Network must:

- (1) nominate the reference tariff to be varied
- (2) include evidence the review event has occurred or will occur, and
- (3) include details of the methodology, data and assumptions used to vary the reference tariff.

The QCA may approve the proposed variation if it is satisfied that:

- (1) the review event has occurred or will occur; and
- (2) the variation of the relevant reference tariff:
  - (a) is consistent with the change in the cost resulting from or that will result from the review event
  - (b) reflects the impact of the relevant review event on the financial position of Aurizon Network (including the impact of incremental maintenance and incremental capital costs), and
  - (c) has been calculated as if all other reference tariffs were also being recalculated due to the occurrence causing or that will cause the review event (Box 2 defines a review event).

The QCA will publish details of Aurizon Network's proposed variation of the relevant reference tariffs and invite and consider comments from stakeholders regarding the proposed variation (Schedule F, Part A, clause 2.2.7(b)).

### Force majeure review event

In the 2010 undertaking, a review event includes, among other things, a force majeure event (see clause (c) of the definition of 'review event'). A force majeure event is any cause, event or circumstance or combination of causes, events or circumstances which:

- (a) is beyond the reasonable control of the affected party; and
- (b) by the exercise of due diligence, the affected party was not reasonably able to prevent or is not reasonably able to overcome

The force majeure review event definition limits the application to two types of force majeure, namely:

- (i) acts of God;
- (ii) fire, flood, earthquake, washaway, landslide, explosion or other catastrophe, epidemic and quarantine restriction.

The force majeure review event definition further specifies that the event should:

- (a) affect Aurizon Network to the extent that it has incurred or will incur additional incremental costs of greater than \$1 million
- (b) have not previously resulted in a variation of the relevant reference tariff.