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19 April 2022

Aurizon Network – Response to Stakeholder Submission on the Financial Year 2022 Annual Review of Reference Tariffs

Dear George,

Aurizon Network thanks the Queensland Competition Authority (**QCA**) for the opportunity to respond to the Queensland Resources Council (**QRC**) submission (**QRC Submission**) on the Financial Year 2023 Annual Review of Reference Tariffs (**FY23 ARRT**).

The purpose of this submission is to respond to the issues that the QRC has raised, specifically the:

- recovery of the capital costs of the Advanced Planning and Scheduling (**APS**) system;
- increase in Transmission Network Service Provider (**TNSP**) charges; and
- Newlands / GAPE allocations.

Background

The FY23 ARRT was submitted to the QCA on 28 February 2022, in line with the requirements of Schedule F of the 2017 Access Undertaking (**UT5**). It proposed adjustments to Allowable Revenues and Reference Tariffs to reflect the requirements of UT5 including FY23 volume forecasts, forward looking maintenance and capital indicators, applicable pass-through costs and various revenue adjustments.

As part of those revenue adjustments, Aurizon Network sought the recovery of APS capital expenditure (**APS Capex**). The APS project was completed in FY21 and Aurizon Network subsequently sought QCA approval of its prudent and efficient capital expenditure through the FY21 Capital Expenditure Claim (**FY21 Capital Claim**).

The FY23 ARRT seeks to recover APS Capex through adjustments to FY23 Allowable Revenues and Reference Tariffs. The asset life applicable to APS Capex is three (**3**) years, which reflects the QCA-endorsed life for 'Computer Systems'. A schedule of all QCA-endorsed asset lives was published within the QCA's Final Decision on the 2017 Draft Access Undertaking on 6 December 2018¹. The application of this asset life results in the recovery of all APS Capex in FY23, noting that the reconciliation of FY21 and FY22 Allowable Revenues associated with APS are included within the Capital Expenditure Allowable Revenue Adjustment.

¹ https://www.qca.org.au/wp-content/uploads/2019/05/34326_Final-decision-Appendices-A-G-1.pdf

Aurizon Network notes that the QRC Submission did not raise any concerns with the amount of APS Capex being claimed, but requested that the QCA approves an asset life for APS of at least 10 years. The QRC also raised concerns with the level of consultation in relation to this adjustment prior to submission.

The QRC Submission also raised concerns in relation to the updated forecast of FY23 TNSP charges within the FY23 ARRT and subsequently updated on 23 March 2022 once the final pricing notifications from TNSP's were received. These updated charges resulted in a cost increase for the Blackwater system.

Although not outlined within the FY23 ARRT, the QRC submission made reference to the ongoing discussions led by Aurizon Network relating to the Newlands / GAPE Allocations. This engagement is ongoing with the relevant Newlands and GAPE Access Holders.

Aurizon Network has provided further information on each of these matters below.

APS

The FY23 ARRT was submitted in compliance with all QCA approved regulatory requirements, including the 3-year asset life for Computer Systems. Aurizon Network confirms that the APS software will have an operational life that exceeds the QCA-approved regulatory asset life.

Furthermore, Aurizon Network acknowledges the impact that the recovery of APS Capex over a 3-year period will have on the FY23 Allowable Revenues and Reference Tariffs. Recognising the concerns raised by the QRC, Aurizon Network proposes to extend the period over which the APS Capex is recovered.

Proposed extension of APS recovery period

Aurizon Network proposes that the recovery period for APS Capex only be extended to FY27, the end of the UT5 Term. From a practical perspective, this would see:

- the value of approved APS Capex included into the RAB in FY21;
- Allowable Revenues associated with APS Capex calculated based on a 3-year asset life;
- reconciliation of the FY21 and FY22 Allowable Revenues associated with APS Capex will be removed from the 'Capital Expenditure Allowable Revenue Adjustment' proposed in the FY23 ARRT;
- the recovery of all Allowable Revenues associated with APS Capex will commence from FY23 and on a forward-looking basis. Allowable Revenues will be smoothed between FY23 – FY27.

Aurizon Network has graphically represented its proposed approach in Appendix A to this submission.

Given that APS Capex is included in the RAB from FY21, this essentially equates to a recovery period of 7-years. Aurizon Network considers that the proposed extension to the recovery period appropriately balances the interests of Stakeholders and Aurizon Network. Aurizon Network's proposed approach provides for a stable, forward-looking recovery, reduces the impact on FY23 Allowable Revenues and Reference Tariffs, and will provide Aurizon Network with the certainty of recovery within the UT5 regulatory term, albeit over an extended period.

Aurizon Network reiterates that it is not seeking to amend the QCA-endorsed Asset Life for Computer Systems as part of this response.



Comments on pre-submission consultation

The development and implementation of APS commenced prior to the UT5 Rail Industry Group (**RIG**) processes regarding capital expenditure. During the life of Project Pluto, there were various engagements held directly with customers and operators on the functionality of APS.

The level of pre-lodgement engagement was limited to the QCA consultation. Moving forward, Aurizon Network will, wherever reasonably possible and subject to any confidentiality constraints, seek to inform the RIG of material capital expenditure items that are not included within the scope of the Maintenance and Renewal Strategy and Budget process (**MRSB Process**).

Transmission Network Service Provider Costs

The QRC Submission outlined its concerns with Aurizon Network's ability to provide an explanation as to the reason for the TNSP cost increases within the Blackwater System. Aurizon Network notes that its ability to do so is limited by confidentiality constraints.

Aurizon Network has requested permission from the relevant TNSP to disclose further information to customers, that would explain the drivers of the cost increases for the Blackwater System. This request was declined. Aurizon Network is, however permitted to provide these details to the QCA and has done so to enable their review of these costs.

Newlands / GAPE allocation

Aurizon Network is progressing discussions with the relevant End-Users to seek to resolve a range of issues relevant to the allocation of renewal capital expenditure in the shared Newlands rail corridor. These issues were initially raised as part of the FY21 Annual Review of Reference Tariff process. Aurizon Network notes that as these discussions have progressed, other matters have been identified that are relevant to a solution to the allocation issue.

The QRC Submission raises concerns about the possibility of costs being shifted to Newlands Customers. Aurizon Network reiterates that the current approved approach to allocating asset renewal expenditure, allocates the costs to the Regulatory Asset Base in which the asset is contained. For example, asset replacement and renewal expenditure on any GAPE expansion infrastructure geographically located in the Newlands system will be allocated to the GAPE asset base.

If you have any questions in relation to this correspondence, please do not hesitate to contact Michael Bray on Michael.Bray@aurizon.com.au

Kind regards,



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Manager – Regulation
Aurizon Network



Appendix A: Comparison of Recovery Methods

Please note that the values represented in Figure 1 and Figure 2 are based on the current UT5 assumptions, and do not account for any updated assumptions that may be relevant to the Reset Period. These should be considered for illustrative purposes only.

Figure 1 QCA approved recovery method

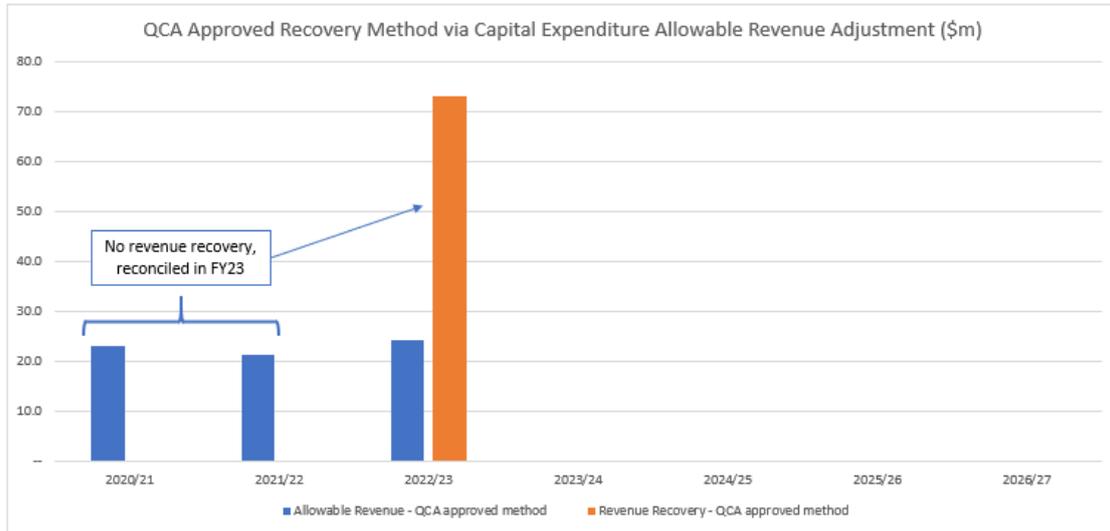


Figure 2 Aurizon Network's proposed recovery method

