

File Ref: 1469606

26 May 2022

Ms Pam Bains  
Group Executive Network  
Aurizon Network  
GPO Box 456  
Brisbane Qld 4001

Dear Ms Bains

**Annual review of reference tariffs, 2022–23**

The Queensland Competition Authority has approved Aurizon Network's proposed 2022–23 allowable revenues and reference tariffs as submitted in its 26 February 2022 application, which was updated on 23 March 2022 and then revised in response to stakeholder comments on 19 April 2022 and 5 May 2022.

The attached decision constitutes a notice in accordance with schedule F, clause 5.5(d)(i) of the 2017 access undertaking. The attached notice sets out the basis for our decision.

Aurizon Network's proposal, including its amendments and revisions, and stakeholder comments are available on the QCA website. We will also publish this letter and decision for stakeholders' information.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries, please direct them in the first instance to Pag Arao-Arao by email [pag.arao-arao@qca.org.au](mailto:pag.arao-arao@qca.org.au).

Yours sincerely



Charles Millstead  
Chief Executive Officer

cc: *Jon Windle, Network Regulation Manager, Aurizon Network*

## DECISION NOTICE

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### ANNUAL REVIEW OF REFERENCE TARIFFS, 2022–23

26 May 2022

The Queensland Competition Authority has approved Aurizon Network's proposed variations to its volume forecast, maintenance and capital indicators, and tax allowance, and consequential adjustments to its 2022–23 allowable revenues and reference tariffs. The reasons for this decision are set out in this notice, in accordance with Aurizon Network's 2017 access undertaking.

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Schedule F of Aurizon Network's 2017 access undertaking (UT5) provides for Aurizon Network to seek our approval for adjustments to key inputs in its system allowable revenues and reference tariffs to be applied in the following financial year.

On 28 February 2022, Aurizon Network submitted its proposed reference tariffs and allowable revenues for 2022–23 for approval in accordance with clauses 5.1(a)(ii)(B) and 4.1 of schedule F.<sup>1,2</sup> It subsequently updated and revised this proposal to reflect new information<sup>3</sup> and to respond to stakeholders' concerns about an element of its proposed approach.<sup>4, 5</sup>

### Aurizon Network's proposal

Aurizon Network has applied adjustments to volumes, allowable revenues and reference tariffs for each coal system. These adjustments are based on schedule F provisions that allow for:

- adjusting for any under- or over-recovery of the revenues (revenue cap), and the difference between approved capital expenditures and the capital indicator in previous years (cls. 4.1(a)(i)–(ii))
  - updating volume forecasts—used to determine reference tariffs (cls. 4.1(b)(i)–(ii))
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<sup>1</sup> Aurizon Network, *2017 Access Undertaking Review of Reference Tariffs—FY23*, February 2022 (Aurizon Network proposal).

<sup>2</sup> The clause references included in this decision refer to provisions in schedule F of UT5, unless otherwise noted.

<sup>3</sup> Aurizon Network, *Annual Review of Reference Tariffs—FY2023—Variations to forecast TNSP charges, Blackwater monthly GTK and table inconsistencies*, March 2022 (Aurizon Network updated proposal).

<sup>4</sup> Aurizon Network, *Response to Stakeholder Submission on the Financial Year 2022 Annual Review of Reference Tariffs*, April 2022 (Aurizon Network response).

<sup>5</sup> Aurizon Network, *Annual review of Reference Tariffs – FY2023—Update to assumptions relating to the recovery of APS Capital Expenditure*, May 2022 (Aurizon Network revised proposal).

- updating the maintenance and capital indicators for each coal system to reflect the approved maintenance and renewals strategies and budgets (cls. 4.1(b)(v) and 4.1(b)(vi))
- updating the tax allowance to reflect the changes proposed to revenues (cl. 4.1(b)(vii)(F))
- incorporating approved forecast of the independent expert (IE) pass-through costs (cl. 4.1(b)(viii))
- updating electric infrastructure and electric energy charges to reflect the latest forecast of transmission and energy costs (cls. 4.1(c)(ii) and 2.2(a)).

Aurizon Network amended its original submission on 23 March 2022, to account for pricing updates from electric transmission entities, which it received after its original submission. It reflected these pricing updates in the electric traction and energy charges, and the allowable revenues and reference tariffs for the Blackwater and Goonyella systems. It also updated its monthly system forecasts for the Blackwater system in response to further stakeholder feedback, to better reflect seasonal factors and pathing availability over the course of the year.<sup>6</sup>

Aurizon Network then further revised its proposal on 5 May 2022 in its response to stakeholder concerns on the useful asset life for its advanced planning and scheduling (APS) system.

Aurizon Network provided the methods, data and assumptions it used to determine the proposed variations to support its initial proposal and subsequent update and revision.

## Stakeholder comments

We published details of Aurizon Network's proposed reference tariffs and invited and considered comments from stakeholders regarding Aurizon Network's original proposal and update. We received a submission from the Queensland Resources Council (QRC), as well as a response to that submission from Aurizon Network.

The QRC accepted Aurizon Networks approach to system volumes (and resulting forecasts) and the application of an eight-year life for ballast undercutting renewals.<sup>7</sup>

The QRC raised concerns about the proposed treatment of Aurizon Network's APS project—noting the material impact this has on 2022–23 revenues and tariffs and suggested that an asset life of at least 10 years should apply, rather than the three-year period proposed, consistent with the endorsed asset life for computer systems.<sup>8</sup> The QRC also identified opportunities for Aurizon Network to improve consultation and increase transparency. It said these would allow stakeholders to better understand the factors that drive the adjustments being proposed<sup>9</sup> and to provide feedback (including before the proposal is lodged), in particular when the proposed adjustments are large.<sup>10</sup>

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<sup>6</sup> Aurizon Network said this changes the distribution of the annual forecast across the year, and not the aggregate amount.

<sup>7</sup> Queensland Resource Council, *Aurizon Network Annual Review of Reference Tariffs – FY23*, April 2022, pp. 1–2, 5.

<sup>8</sup> Queensland Resource Council, *Aurizon Network Annual Review of Reference Tariffs – FY23*, April 2022, p. 3.

<sup>9</sup> This included Aurizon Network providing details on capital expenditure incurred but not capitalised, providing an explanation for the TNSP cost increases within the Blackwater system and providing feedback on options for including green energy in the electric traction mix.

<sup>10</sup> Queensland Resource Council, *Aurizon Network Annual Review of Reference Tariffs – FY23*, April 2022, pp. 3–4.

## Aurizon Network's revised proposal—extending the period for the recovery of APS

In response to the issues the QRC raised, Aurizon Network revised its proposal to extend the period for the recovery of the APS capital expenditure.<sup>11</sup> To give effect to this, Aurizon Network proposed to:

- remove the amounts associated with the approved APS capital expenditure from its previous 'capital expenditure allowable revenue adjustment'
- recover the allowable revenues associated with APS on a forward-looking basis from 2022–23 to 2026–27 (rather than recover this fully in 2022–23). This reduces the impact on 2022–23 revenues—from being over \$70 million (if recovered only in 2022–23) to \$15.7 million (if recovered annually, starting in 2022–23, for 5 years).<sup>12</sup>

Aurizon Network did not seek to amend the endorsed asset life for computer systems but acknowledged that the APS software will have an operational life that exceeds the QCA-approved regulatory asset life.<sup>13</sup>

Aurizon Network also said it will work to engage with stakeholders on capital expenditure items that are not included within the scope of the maintenance and renewal strategy and budget process, wherever reasonably possible, and subject to any confidentiality constraints, before it submits in future tariff proposals.<sup>14</sup>

## 2017 AU criteria and QCA assessment

We are required to assess Aurizon Network's proposal against the requirement for the annual review of reference tariffs (cl. 4.1). This includes having regard to whether the revised volume forecasts are reasonable (with no errors made); the submitted maintenance and capital indicators are consistent with the approved indicators; the revised tax allowance has been calculated correctly; and no errors have been made in adjustments to allowable revenues or reference tariffs.

### Volume forecasts

Aurizon Network proposed to reduce Central Queensland coal network (CQCN) volume forecasts from 253.4 million net tonnes (mnt) to 226.6 mnt, which varied slightly from the volume forecasts (226.8 mnt) used for the FY23 Final Draft Maintenance and Renewals Strategy Budget.<sup>15</sup>

We consider that Aurizon Network's proposed updated 2022–23 volume forecasts and associated gross tonne kilometre (gtk) forecasts are reasonable, noting the forecasts have been established with the benefit of stakeholder feedback on proposed raiing and regulatory forecasts for each of their respective origin–destination pairings. We consider that the proposed revised volumes are thus likely to better reflect current conditions. We note that the QRC accepted the approach and the resulting forecasts.<sup>16</sup>

Accordingly, we approve Aurizon Network's proposed volume forecasts.

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<sup>11</sup> Aurizon Network response, Aurizon Network revised proposal.

<sup>12</sup> Aurizon Network revised proposal, pp. 4–5.

<sup>13</sup> Aurizon Network revised proposal, p. 3; Aurizon Network response, p. 2.

<sup>14</sup> Aurizon Network response, p. 3.

<sup>15</sup> Aurizon Network proposal, p. 9.

<sup>16</sup> Queensland Resource Council, *Aurizon Network Annual Review of Reference Tariffs – FY23*, pp. 1–2.

**Table 1 Volume forecasts, 2022–23 net tonnes**

	<i>Current (millions)</i>	<i>Proposed (millions)</i>	<i>Variance (millions)</i>
Blackwater	71.2	63.0	(8.2)
Goonyella	132.0	114.6	(17.3)
Moura	18.2	12.8	(5.4)
Newlands	13.2	17.1	3.9
GAPE	18.9	19.1	0.2
<b>Total</b>	<b>253.4</b>	<b>226.6</b>	<b>(26.8)</b>

Source: *Aurizon Network proposal*, p. 9.

### Capital expenditure

UT5 allows for an adjustment to reconcile the difference between the approved capital expenditure and the capital indicator for the year in which that relevant capital expenditure was incurred (cl. 4.1(a)(ii) and calculated in accordance with sch. E, cl. 5(b)).

At the time of its original submission, Aurizon Network calculated an indicative value of the capital expenditure allowable revenue adjustment, which reflected the values in its 2020–21 capital expenditure claim and the QCA-endorsed lives for each type of asset.<sup>17</sup>

We have now approved Aurizon Network's 2020–21 capital expenditure claim in full<sup>18</sup>, which includes amounts associated with Aurizon Network's APS project. We note that the regulatory asset base roll-forward assessment for the 2020–21 approved capital expenditure would fully account for asset base changes. At the time of this decision, Aurizon Network has not yet submitted the 2020–21 roll-forward.

In addition, after stakeholders commented on the treatment of the APS project amounts, Aurizon Network proposed to reduce its capital expenditure allowable revenue adjustment amount to reflect removal of amounts associated with the APS project. Aurizon Network will recover those APS amounts separately, on a forward-looking basis, from 2022–23 to 2026–27. Aurizon Network updated its financial models to reflect this change.

We consider Aurizon Network's revised treatment of the APS project expenditures is reasonable in these circumstances.<sup>19</sup> It reduces the impact of APS project expenditures on 2022–23 revenues and tariffs and provides a clear pathway for recovery of the approved expenditure for the remainder of the regulatory period.

We consider Aurizon Network's proposal accurately reflects the proposed reconciliation.

### Maintenance indicator allowance

UT5 provides for adjustments to the maintenance indicators to reflect approved maintenance strategies and budgets (cl. 4.1(b)(v)), and in accordance with cl. 7A.11.3 of UT5).

<sup>17</sup> Aurizon Network proposal, p. 13; Aurizon Network revised proposal, p. 3.

<sup>18</sup> QCA, *Aurizon Network's 2020–21 capital expenditure claim*, decision notice, April 2022.

<sup>19</sup> This should not be taken as a precedent for the appropriate treatment of IT costs in future reviews.

Aurizon Network proposed maintenance indicator allowances that are consistent with its maintenance strategy and budget<sup>20</sup>, which was approved by a special majority of end users of the Moura, Blackwater, Goonyella and Newlands/GAPE coal systems.<sup>21</sup>

**Table 2 Maintenance indicator allowance 2022–23, by coal system**

<i>Maintenance indicator</i>	<i>Allowance (\$m)<sup>a</sup></i>
Blackwater	68.1
Goonyella	62.8
Moura	12.8
Newlands	2.9
GAPE	10.3
<b>Total</b>	<b>156.7</b>

*a In Aurizon Network's Maintenance and Renewals Strategy and Budget (p. 8); \$156.7 million refers to direct maintenance only.*

*Source: Aurizon Network proposal, p. 15; Aurizon Network updated proposal, p. 3.*

We are required to approve a proposed maintenance indicator allowance where it is consistent with an approved maintenance strategy and budget as described in clause 7A.11.4(a)(ii) of UT5 (cl. 4.1(e)(ii)).

Accordingly, we approve Aurizon Network's proposed maintenance indicator allowances.

### Capital indicator allowance

UT5 provides for adjustments to the capital indicators to reflect approved renewals strategies and budgets (cl. 4.1(b)(vi), and in accordance with cl. 7A.11.3 of UT5).

Aurizon Network proposed capital indicator allowances that are consistent with its user-approved renewals strategy and budgets for all systems.<sup>22</sup> (Table 3).

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<sup>20</sup> Aurizon Network, *FY23 Final Draft Maintenance and Renewals Strategies and Budgets*, January 2022 (Aurizon Network MRSB).

<sup>21</sup> Aurizon Network proposal, p. 15; Aurizon Network updated proposal, p. 3.

<sup>22</sup> Aurizon Network proposal, p. 16, Aurizon Network MRSB, pp. 8, 242–248.

**Table 3 Capital indicator allowance 2022–23 (start of year)**

<i>Capital indicator</i>	<i>Allowance (\$m)</i>
Blackwater	121.2
Goonyella	118.7
Moura	15.3
Newlands	19.7
GAPE	2.1
<b>Total</b>	<b>277.1</b>

Source: Aurizon Network proposal, p. 16; Aurizon Network updated proposal, p. 3

We are required to approve a capital indicator allowance where it is consistent with an approved renewals strategy and budget as described in clause 7A.11.4(c)(ii) of UT5 (cl. 4.1(e)(iii)).

Accordingly, we approve Aurizon Network's proposed capital indicator allowances.

### Other matters

In addition to the proposed adjustments, Aurizon Network identified several other matters that may impact 2022–23 revenues and tariffs.

#### Revenue cap

Aurizon Network has proposed adjustments relating to our approval of its 2020–21 revenue adjustment proposal.<sup>23</sup>

We note these adjustments are permitted under clause 4.1(a)(i) and consider that Aurizon Network has accurately calculated the adjustment amounts.

#### Pricing arrangements for Meteor Downs South train services

The Meteor Downs South (MDS) pricing DAAU<sup>24</sup> established an expansion tariff for MDS train services that commenced on 1 July 2020 and is due to expire on 30 June 2022. Once the expansion tariff expires, MDS would be subject to the socialised system reference tariff and the same terms and conditions of access as any other access seeker.

We consider that Aurizon Network's inclusion of the MDS pricing arrangements in its submission and modelling is consistent with the terms of our decision on the MDS pricing DAAU.

<sup>23</sup> QCA, *Aurizon Network's 2020–21 revenue adjustment amounts*, decision notice, December 2021.

<sup>24</sup> QCA, *Aurizon Network's Meteor Downs South Pricing DAAU—decision*, decision notice, December 2020.

### Regulatory asset life for ballast

Aurizon Network currently applies a regulatory asset life of 6 years to ballast undercutting renewal costs for the purpose of forecasting allowable revenues until 2022–23.<sup>25</sup> Aurizon Network proposed to increase this to 8 years, based on its recent engineering analysis<sup>26</sup> and consistent with its accounting treatment for ballast.<sup>27</sup>

We consider this proposal is reasonable, allowing for continuity and consistency with existing arrangements and treatment of ballast asset life.

### Electric transmission and energy costs

Aurizon Network proposed to pass through the latest pricing changes from its transmission network service providers (TNSPs) and electricity retailers to customers utilising its electric assets.

Electric transmission and connection charges are determined according to the regulatory framework and oversight by the Australian Energy Regulator. They are negotiated by Aurizon Network for customers using its electric assets (chargeable through the AT5 tariff). Aurizon Network initially proposed TNSP costs based on estimated rates and its proposed system forecasts.<sup>28</sup> It then updated this to reflect the latest forecast electric transmission, connection and energy costs from the TNSPs (cls. 2.2(a), 5.2(b)). The amended 2022–23 charges for use of electric infrastructure are higher than forecast for the year (but lower than the values that were originally proposed).<sup>29</sup>

The EC tariff is set to recover the forecast costs relating to the consumption of electric energy. Aurizon Network said that it had updated the EC tariff inputs, having regard to its proposed system forecasts, to reflect more recent information from electricity retailers for peak and off-peak charges and more recent bill rates for market, environmental and administration charges. It also noted that it had engaged with its customers to determine future options relating to electricity, including having green energy within the electric traction mix.<sup>30</sup>

We consider it reasonable that Aurizon Network reflect the latest forecasts for the electric transmission costs and energy charges in the corresponding reference tariffs.

Our analysis indicated that a large portion of the cost increase is attributed to a general rise in transmission costs expected in the new year. While there are system increases in TNSP costs, better aligning volume forecasts with customers' performance expectations would mitigate some of these changes. We note the confidential nature of negotiating for competitive prices with energy suppliers each year. We consider Aurizon Network's dissemination of relevant non-confidential factors for its customers, relevant to TNSP price discussions, will go some way to explaining cost pressures associated with energy increases.

We consider that Aurizon Network has included the electric transmission and energy costs in its access charges in an appropriate manner. We have verified that the amended proposal also incorporates these costs accurately.

### Independent expert

Aurizon Network has proposed to pass through the forecast cost to operate CNCCo (the independent expert), adjusted to account for a forecast under-spend, and invoicing under-recovery during 2022–23.

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<sup>25</sup> Aurizon Network proposal, p. 21.

<sup>26</sup> Aurizon Network, *Establishment of Ballast Asset Class and Asset Life*, March 2022.

<sup>27</sup> Aurizon Network proposal, p. 21.

<sup>28</sup> Aurizon Network proposal, p. 18.

<sup>29</sup> Aurizon Network proposal, p. 18; Aurizon Network updated proposal, p. 2.

<sup>30</sup> Aurizon Network proposal, pp. 18–19.



We note this pass-through is permitted under cl. 4.1(b)(viii), and in accordance with cl. 7A.3.4 of UT5, and consider that Aurizon Network has accurately calculated the amount.

#### QCA levy

The QCA levy component of the access charge is determined from year to year, based on the fees billed to Aurizon Network recovered and yet to be recovered.

We consider that the proposed adjustment for 2022–23 for the QCA levy is consistent with the QCA fees and has been correctly calculated.

#### Tax allowance

The tax allowance is a computation of Aurizon Network’s post-tax revenue model. We consider that Aurizon Network has accurately calculated its tax allowance adjustment (cl. 4.1(e)(iv)) and these tax revenues are appropriately reflected in the calculation of updated allowable revenues and reference tariffs for 2022–23.

#### System allowable revenues

We consider that Aurizon Network's updates to key variables are reflected in its financial models, supporting materials and in the corresponding changes to the system allowable revenues for 2022–23.

**Table 4 System allowable revenues, 2022–23**

	<i>AT2–4 (\$)</i>	<i>AT5 (\$)</i>
Blackwater	353.3	92.8
Goonyella	279.2	82.9
Moura	53.5	–
Newlands	29.6	–
GAPE	107.8	–
<b>Total</b>	<b>823.4</b>	<b>175.7</b>

## Reference tariffs for 2022–23

We consider that Aurizon Network's updates to key variables are reflected in its financial models, supporting materials and in the corresponding changes to the reference tariffs for 2022–23.

**Table 5 System reference tariffs, 2022–23**

	<i>AT1 (\$)</i>	<i>AT2 (\$)</i>	<i>AT3 (\$)</i>	<i>AT4 (\$)</i>	<i>AT5 (\$)</i>	<i>EC (\$)</i>	<i>QCA levy (\$)</i>	<i>IE passthrough costs (\$)</i>
Blackwater	1.01	2,487.34	7.15	2.56	3.56	1.11	0.00274	0.01868
Goonyella	0.70	1,575.88	5.22	1.07	2.32	1.11	0.00274	0.01868
Moura	1.87	736.68	12.23	1.99	–	–	0.00274	0.01868
Newlands	1.95	333.12	5.90	0.79	–	–	0.00274	0.01868
GAPE	1.57	15,464.32	0.17	1.05	–	–	0.00274	0.01868

## Proposal documents and submissions

We received the following documents from Aurizon Network that relate to the review of Aurizon Network's reference tariffs for 2022–23, as well as the following submissions from stakeholders. These documents are available on our [website](#).<sup>31</sup>

### Aurizon Network

Aurizon Network, *Review of reference tariffs—FY2023*, 28 February 2022.

— *DAAU FY23 annual review of reference tariffs—clean*, 28 February 2022.

— *DAAU FY23 annual review of reference tariff—mark-up*, 28 February 2022.

— *Central Queensland coal network FY23 Final Draft Maintenance and Renewals Strategy and Budget 21 January 2022*, 28 February 2022.

— *Ballast asset life in the Central Queensland coal network 15 September 2022*, 28 February 2022.

— *Review of ballast undercutting scope and costs 15 March 2022*, 28 February 2022.

— *Civil engineering report percentage void contamination (PVC) testing after ballast cleaning 16 September 2021*, 28 February 2022.

— *Ballast asset life in the Central Queensland coal network 15 September 2022*, 28 February 2022

— *Review of reference tariffs—FY2023 variations to forecast TNSP charges, Blackwater monthly GTK and table inconsistencies*, 22 March 2022.

— *Update DAAU FY23 annual review of reference tariffs TNSP update—clean*, 22 March 2022.

— *Update DAAU FY23 annual review of reference tariffs TNSP update—mark-up*, 22 March 2022.

— *Response to stakeholder submission on the financial year 2022 annual review of reference tariffs*, 19 April 2022.

— *Review of reference tariffs update to assumptions relating to the recovery of APS Capital Expenditure*, 5 May 2022.

— *Update DAAU FY23 annual review of reference tariffs APS update—clean*, 5 May 2022.

— *Update DAAU FY23 annual review of reference tariffs APC update—mark-up*, 5 May 2022.

### Other submissions

— Queensland Resources Council (QRC), *Aurizon Network Annual Review of Reference Tariffs—FY23*, April 2022.

## References

Aurizon Network, *FY23 Draft Maintenance and Renewals Strategies and Budgets*, January 2022.

Queensland Competition Authority (QCA), *Aurizon Network's Meteor Downs South Pricing DAAU—decision*, decision notice, December 2020.

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<sup>31</sup> QCA, *Annual review of reference tariffs*, QCA website, 2022.

— [Aurizon Network's 2020–21 revenue adjustment amounts](#), decision notice, December 2021.

— [Aurizon Network's 2020–21 capital expenditure claim](#), decision notice, April 2022.