

File Ref: 1262637

13 October 2017

Mr Michael Riches
Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Riches

Approval: Aurizon Network's 2015–16 capital expenditure claim

On 31 October 2016, Aurizon Network submitted its 2015–16 capital expenditure claim to the QCA for approval. The QCA has to determine what capital expenditure should be accepted into Aurizon Network's regulatory asset base (RAB), in accordance with Schedule A to Aurizon Network's 2010 access undertaking. On 5 June 2017 and 27 September 2017, Aurizon Network made requests to amend that claim.

In accordance with clause 2.5(a) of Schedule A to the 2010 undertaking, the QCA advises Aurizon Network herewith that it has approved Aurizon Network's 2015–16 capital expenditure claim (as amended), valued at \$887,281,395 (inclusive of interest during construction) for inclusion in the regulatory asset base. The reasons for this decision are summarised in the attached notice.

If you have any questions about the decision notice please contact Stephen Wisenthal at the QCA on 07 3222 0507 or stephen.wisenthal@qca.org.au.

Yours sincerely



Charles Millsted
Chief Executive Officer

cc: Donna Bowman, Network Regulation Manager (Access Undertaking), Aurizon Network Pty Ltd

DECISION NOTICE

AURIZON NETWORK'S 2015–16 CAPITAL EXPENDITURE CLAIM

13 October 2017

This is a decision notice, issued in accordance with clause 2.5(a) of Schedule A of the Aurizon Network Pty Ltd (Aurizon Network) 2010 access undertaking (2010 undertaking), that the Queensland Competition Authority (QCA) has approved Aurizon Network's 2015–16 capital expenditure claim (as amended on 5 June 2017 and 27 September 2017) for inclusion in the regulatory asset base (RAB).

Regulatory process

The QCA conducts an annual assessment of the prudence of capital expenditure to determine whether it should be included in the RAB for the Central Queensland coal network (CQCN). The 2015–16 capital expenditure claim (as amended) has been assessed under the provisions of Schedule A of the 2010 undertaking.

The QCA accepts all prudent capital expenditure into the RAB. Prudence relates to three aspects:

- scope
- standard of works
- cost.

The following steps and timelines were followed, up until this decision on the 2015–16 capital expenditure claim:

- 31 October 2016—Aurizon Network submitted its 2015–16 capital expenditure claim of \$892.6 million (including interest during construction), covering 87 projects.
- 5 June 2017—Aurizon Network requested to amend its 2015–16 capital expenditure claim. Amendments related to identified duplications in claimed spending and the use of outdated supporting data. Aurizon Network requested to withdraw the IV.00035 Callemondah Yard Spur 1 Connection project, with the intention to resubmit this project in a future capital expenditure submission to the QCA. Consequential amendments were made to claimed interest during construction.
- 3 August 2017—Stakeholders were invited to comment on the consultants' reports that advised on Aurizon Network's 2015–16 capital expenditure claim. The QCA received two submissions, from Aurizon Network and WIRP Users.
- 18 September 2017—The QCA's consultants provided a notice of advice responding to stakeholder comments raised in submissions.

- 27 September 2017—Aurizon Network requested to amend its 2015–16 capital expenditure claim. Amendments related to a decrease in claimed costs for the IV.00028 Autotransformer project and a withdrawal of the A.03742 Moura East project. Consequential amendments were made to the interest during construction that had been claimed.
- 12 October 2017—The QCA decided to approve Aurizon Network's 2015–16 capital expenditure claim (as amended) for inclusion in the RAB.

The above documents are available on the QCA's website.

Assessment findings

The QCA has determined that Aurizon Network's \$887,281,395 (inclusive of interest during construction) 2015–16 capital expenditure claim (as amended) is prudent in scope, standard of works, and cost in accordance with clause 3 of Schedule A of the 2010 undertaking. A detailed list of approved projects is contained in Attachment 1.

The QCA acknowledges Aurizon Network's requested amendments to its 2015–16 capital expenditure claim. The amendments to the 2015–16 capital expenditure claim reflect:

- identifying and removing duplication in claimed spending and adjustments for the use of outdated supporting data
- withdrawing the IV.00035 Callemondah Yard Spur 1 project
- a decrease in claimed costs for the IV.00028 Autotransformer Replacement project
- withdrawing the A.03742 Moura East project
- consequential amendments to interest during construction.

The QCA acknowledges Aurizon Network's statement that 'it does not agree with the [QCA consultants'] assessment' of the IV.00028 Autotransformer Replacement project and A.03742 Moura East project. Aurizon Network's amendments to its 2015–16 capital expenditure claim are consistent with the QCA consultants' assessment of prudent capital expenditure. A detailed project-by-project prudency assessment of the 2015–16 capital expenditure claim can be found in our engineering consultant's report and notice of advice on our website.¹

In its advice to the QCA, our consultant considered the quality and range of documentation provided to it by Aurizon Network and concluded that it was required to 'assign a relatively low level of documentation quality to some of [the consultant's] findings'. The QCA recommends that Aurizon Network continue to make improvements in the quality and range of documentation used in project control, particularly in relation to project justification. Continued improvements by Aurizon Network in this area will facilitate a timely and efficient capital expenditure review process.

Decision

For the reasons discussed above, the QCA has decided to approve Aurizon Network's 2015–16 capital expenditure claim (as amended 5 June 2017 and 27 September 2017) of \$887,281,395 (inclusive of interest during construction) for inclusion in the RAB. The approved projects are listed in **Attachment 1**.

¹ AECOM, *Engineering Assessment of Aurizon Network's Capital Expenditure Claim*, July 2017; AECOM, *Notice of Advice*, September 2017; RSM Australia, *Cost Review of Aurizon Network's 2015–16 Capital Expenditure Claim*, May 2017.

ATTACHMENT 1: APPROVED 2015–16 CAPITAL EXPENDITURE

Project number	Project name	Capital expenditure	IDC	Total
A.01552	Wiggins Balloon Loop	4,122,555	149,315	4,271,870
A.01631	Rocklands to Stanwell Duplications	5,313,519	107,257	5,420,776
A.01731	Dingo to Bluff Duplication	207,523,308	25,999,133	233,522,441
A.02603	NI Duringa Feeder Station	-442,176	7,732	-434,444
A.02620	Dragging Equipment Detectors: Coal Systems	747,490	134,627	882,117
A.02628	Coal System: Coal Loss Management	13,490	275	13,765
A.02803	NI Wotonga Feeder Station	47,492,745	11,950,811	59,443,556
A.02816	NR CQ COA: Level Crossing Investigations	-74,110	-5,301	-79,411
A.02827	NI STH Goonyella (Lilyvale) Passing Loop	308	4	312
A.02976	North Coast Line	155,796,331	17,997,395	173,793,726
A.03323	NI Rolleston Upgrade Spur Line 9.75 MTPA	131,477	-37	131,440
A.03353	NI DBCT To HPSCT Second Road	-74,926	171	-74,755
A.03372	Fist Fastened Sleeper Upgrade: Coal Systems	2,531	-321	2,210
A.03465	NR CQ Coal Transformer Refurbishments	1,383,941	-18,252	1,365,689
A.03473	GAP 50	-39,463	1,195	-38,268
A.03686	WIRP1: Moura System Upgrade	25,360,517	2,118,576	27,479,093
A.03735	Bauhinia North Upgrade	217,245	4,123	221,368
A.03931	NR Train Control Disaster Recovery Project	180,212	907	181,119
A.03934	CQ Coal Formation Strengthening Project	43,751	552	44,303
A.03961	NR Operational Netwk LAN WAN Architecture	620,559	-11,300	609,259
A.03978	NR Optical Fibre Transmission Network Upgrade	166,963	1,341	168,304
A.03980	Project Pluto-Network Planning System	14,418,411	1,594,535	16,012,946
A.03989	Bauhinia Electrification	149,247,831	17,852,999	167,100,830
A.04003	NI GAPE x110	5,724,152	685,356	6,409,508
A.04043	WIRP Electrification Works	11,191,299	1,667,111	12,858,410
A.04044	NR Upgrade CQ Coal Sys Fencing 2012/13	831	14	845
A.04074	POSS Points Condition Monitors	12,921	187	13,108
A.04111	NR Dual Telemetry Upgrade	85,233	1,536	86,769
A.04145	NR Newlands Culvert Upgrade Project	15,944	463	16,407
A.04187	NR CSEE Track Circuit Upgrade Rocklands	156,452	-4,749	151,703
A.04190	NR Digital TI21 Track Circuit Upgrade	-1,088,124	36,875	-1,051,249
A.04221	NR Microwave Resilience System Upgrades	7,442,954	775,704	8,218,658

Project number	Project name	Capital expenditure	IDC	Total
A.04231	NR Ethernet to Corner --- SCADA Upgrade	2,826,359	311,833	3,138,192
A.04252	NI Rolleston Flood Protection Stage 2	70,446	-1,406	69,040
A.04254	NR Section Insulator Renewal	66,312	-345	65,967
A.04297	NR AzS600 Axle Counters Replacement	399,999	66,560	466,559
A.04307	Culvert Asset Renewal Project Blackwater	5,727	-116	5,611
A.04308	NR Culvert Asset Renewal Project Goonyella	3,516	31	3,547
A.04313	NR Gauge Face Lubrication Asset Renewal	333,078	2,766	335,844
A.04320	NR Optical Fibre Transmission Network Upgrade	3,778,047	389,142	4,167,189
A.04321	NR Central Coal UPS Upgrade Project	156,197	977	157,174
A.04322	NR CQ Access Roads - Accelerated Program	-163,736	-6,421	-170,157
A.04338	NR IAMPS Upgrade	864	13	877
A.04339	NR Turnout Renewal Program 2014-15	2,249,332	45,917	2,295,249
A.04358	PACE-Possession Assessment & Capacity	1,828,691	160,648	1,989,339
A.04366	NR Level Crossing Upgrades 13/14 FY	100,967	-6,165	94,802
A.04371	DC Power Supplies CERs	248,269	22,800	271,069
A.04404	Energy Efficiency Study	12,454	249	12,703
A.04429	NR Burnett Highway Bridge Protect System	743,032	42,695	785,727
A.04433	Network Billing System	506,973	9,224	516,197
A.04463	NR Dynamic Speed Indicator Safety	128,728	1,739	130,467
A.04511	Accelerated Culvert Asset Renewal Project	-380,637	-7,766	-388,403
A.04516	Aurizon Network Customer Portal	3,400	40	3,440
A.04547	NR Track Upgrade Program FY15	8,374,705	-119,073	8,255,632
A.04548	NR Weighbridge Renewal	958,808	-26,670	932,138
A.04563	NR CQCN Structures Renewal Program FY15	1,091,162	16,176	1,107,338
A.04565	Track Access System (TAS)	1,592,032	60,060	1,652,092
A.04591	Network SAP PS Enhancements	-4,621	-169	-4,790
A.04612	NR Formation Strengthening FY15	-28,385	-1,442	-29,827
A.04621	OH Equipment Renewal FY14 to FY17 - Goonyella	2,967,184	-1,014	2,966,170
A.04622	OH Equipment Renewal FY14 to FY17 - Black Mountain	4,755,344	73,868	4,829,212
IV.00001	NR Asset Protect. Systems: Braeside WILD	22,189	267	22,456
IV.00002	NR Sleeper Renewal Program FY15	-234,797	-9,794	-244,591
IV.00006	NR Cooling Channel Bridge Upgrade (Phase 2)	2,317,656	85,375	2,403,031
IV.00008	NR Saraji SI22 Signal Movement	76,521	4,102	80,623

Project number	Project name	Capital expenditure	IDC	Total
IV.00009	GIS Implementation	1,592,200	75,081	1,667,281
IV.00010	NR CQCN Corridor Sec. Civil Works 14/15	1,270,281	928	1,271,209
IV.00013	NR Points Machine Improvement Project	273,603	12,127	285,730
IV.00014	NR UTC Upgrade Program	15,242	241	15,483
IV.00025	NR Track Upgrade Program FY16	25,649,120	-188,881	25,460,239
IV.00026	Transmission Renewal Program – Tranche 1	1,389,384	-23,774	1,365,610
IV.00028	NR Autotransformer Renewal Program	2,893,210	-64,970	2,828,240
IV.00029	NR Bridge Ballast Renewals FY15	3,590,552	146,690	3,737,242
IV.00031	NR FY16 Structure Renewal Program	9,127,213	-80,381	9,046,832
IV.00032	NR FY16 Turnout Renewal Program	9,817,490	-96,292	9,721,198
IV.00033	NR FY16 Sleeper Renewal Program	10,350,381	-25,496	10,324,885
IV.00034	NR Callemondah Yard Track Upgrade	5,294,254	131,607	5,425,861
IV.00036	NR Bridge Ballast Renewals FY16	5,631,746	7,737	5,639,483
IV.00040	NR Train Detection Renewal Program	6,015,709	53,861	6,069,570
IV.00041	Connors Range 3G Coverage	2,467,343	-37,767	2,429,576
IV.00042	Open Track Project	41,100	1,081	42,181
IV.00048	NR Formation Renewal FY16	5,661,247	-36,424	5,624,823
IV.00052	Level Crossings FY16	6,378,121	-107,699	6,270,422
IV.00140	NO FY16 Network Maintenance Re-Rail Program	33,313,552	-151,105	33,162,447
IV.00176	2015 Moura Flood Works	4,367,193	-136,429	4,230,764
	Total	805,638,928	81,642,467	887,281,395

Source: Adapted from Aurizon Network, Capital Expenditure FY16—Amendment, 27 September 2017.