

Aurizon Network's 2017–18 capital expenditure claim

Assessment approach

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ASSESSMENT APPROACH

Purpose of this document

This document outlines the QCA's intended approach to managing the assessment of Aurizon Network's 2017–18 capital expenditure claim under Schedule E, clause 1.3 of the 2016 access undertaking (UT4), in a structured, transparent, and predictable way.

In particular, the QCA's intentions in relation to timeframes and stakeholder consultation are outlined. This document is not an exhaustive statement of the process that the QCA will follow in assessing Aurizon Network's 2017–18 capital expenditure claim.

The 2017–18 capital expenditure claim

Regulatory objectives

The QCA must approve prudent and efficient capital expenditure Aurizon Network has incurred in order to provide below-rail coal services in the Central Queensland Coal Network (CQCN).¹ Approved capital expenditure will be included in Aurizon Network's regulatory asset base (RAB).²

The RAB reflects the asset value of the CQCN infrastructure used when calculating the maximum allowable revenue (MAR) under the building block methodology. Aurizon Network recovers, through time, the value of the RAB (as indexed and adjusted) through access charges and take-or-pay payments. The revenue cap approach provides Aurizon Network with a degree of certainty that the asset value of the RAB will be recovered and a reasonable commercial return achieved, consistent with the approved weighted average cost of capital (WACC).

Any expansion of the CQCN should promote the economically efficient operation of, use of, and investment in, infrastructure by which services are provided, with the effect of promoting competition in upstream and downstream markets (s. 69E of the QCA Act). This context led the QCA, in making its final decision on Aurizon Network's 2016 access undertaking, to 'consider that the RAB should only include the capital costs associated with prudent and efficient investment.'³

Assessment criteria

The QCA conducts an annual assessment of the prudence and efficiency of capital expenditure to determine whether it should be included in the RAB for the CQCN. Schedule E of UT4 includes processes and criteria for the QCA's assessment. In assessing the prudence and efficiency of capital expenditure, we will have regard to the:

- scope of works, including whether the requirement for the works is prudent and efficient, having regard to a number of factors including the age and condition of the assets, and consistency of the works with any relevant asset management plan⁴

¹ Clause 2.2(a), Schedule E, 2016 access undertaking (UT4).

² Clause 1.1(d), Schedule E, UT4.

³ Queensland Competition Authority (QCA), Aurizon Network 2014 draft access undertaking, Volume II—Capacity and expansions, final decision, April 2016, section 14.2.1, p. 316.

⁴ Clause 2.2(b)(i), Schedule E, UT4.

- standard of works, including whether the standard could be expected to deliver the requirements for the project without being overdesigned or likely to deliver a capital works project which is beyond the requirements of the scope⁵
- cost of works, in particular whether the costs of the project are prudent and efficient, having regard to the scope and standard of work.⁶

Our assessment of the prudence and efficiency of capital expenditure takes place after the capital expenditure has occurred. In assessing the prudence and efficiency of capital expenditure, the QCA must only consider the circumstances relevant at the time the decision was made to incur the capital expenditure.⁷

Consultation

The QCA will seek and consider submissions from stakeholders before making a decision on the prudence and efficiency of Aurizon Network's capital expenditure.⁸

Aurizon Network should provide sufficient information on the prudence and efficiency of capital expenditure in its claim.⁹ The QCA may request additional information from Aurizon Network that is reasonably required for the QCA to make its decision.¹⁰ The QCA considers a structured approach to requests for information will promote timely decision making.

Sections 230–233 of the QCA Act outline a number of obligations and responsibilities when providing information to the QCA. Stakeholders should be aware that it is an offence to:

- provide information to the QCA that is false or misleading to the person's knowledge (s. 230)
- provide a document to the QCA that is false, misleading, or incomplete to the person's knowledge, and without notifying the QCA that it is false, misleading, or incomplete (s. 231)
- obstruct QCA staff members from exercising the QCA's functions under the QCA Act (s. 232).

Stakeholder involvement is a key element of our decision-making process. In the interests of transparency and to promote informed discussion, the QCA intends to publish the information received from stakeholders on its website. However, subject to the provisions of the QCA Act, we will not disclose information that is considered to be confidential (refer to s. 239 of the QCA Act).

Assessment timeframes

As with previous years, the QCA expects Aurizon Network to submit its capital expenditure claim for 2017–18 by the end of the fourth month after the end of the financial year (31 October 2018), in accordance with UT4.¹¹ Figure 1 shows an indicative timeframe associated with key milestones, where sufficient information on prudence and efficiency is provided with (or shortly after) the claim is lodged.

⁵ Clause 2.2(b)(ii), Schedule E, UT4.

⁶ Clause 2.2(b)(iii), Schedule E, UT4.

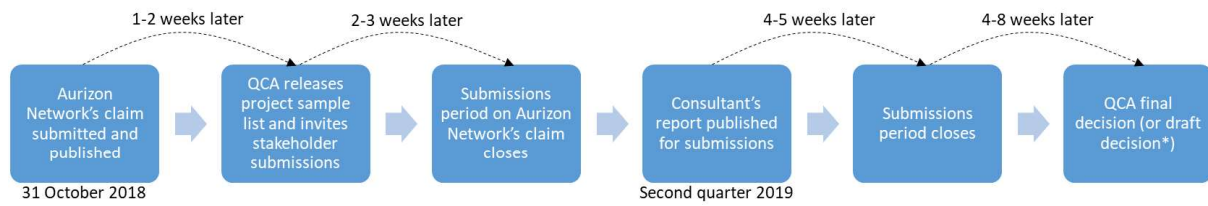
⁷ Clause 2.2(g), Schedule E, UT4.

⁸ Clause 2.3(a), Schedule E, UT4.

⁹ This information may include those outlined in AECOM's final report on Aurizon Network's 2016–17 capital expenditure claim. AECOM, *Engineering Assessment of Aurizon Network's Capital Expenditure Claim*, 8 June 2018, p. 10.

¹⁰ Clause 2.3(b), Schedule E, UT4.

¹¹ Clause 1.3(a), Schedule E, UT4.

Figure 1 Indicative timeframes for the 2017–18 capital expenditure claim milestones

**We note that, depending on the nature and extent of issues raised during the assessment of the 2017–18 capital expenditure claim, the QCA may decide to issue a draft decision. Stakeholders will be updated on subsequent timelines, and opportunities to make submissions.*

Timeliness

To promote the timely consideration and assessment of Aurizon Network's 2017–18 capital expenditure claim, all stakeholders are encouraged to provide information and submissions by the relevant due dates.

While there may be legitimate reasons for late information, such as new information becoming available, stakeholder compliance with deadlines is important for timely decision-making and natural justice considerations.