

Aurizon Network Access Undertaking (2010)

Explanatory Memorandum

FY2014 Adjustment Charges



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1 Background

1.1 Introduction

Aurizon Network provides this submission to the Queensland Competition Authority (QCA) detailing the methodology, data and assumptions used to determine Adjustment Charges for the Blackwater and Goonyella systems for FY2014. Further, Aurizon Network requests the approval of the reimbursement of Adjustment Charges, totalling \$71.1 million, to Access Holders in accordance with the provisions outlined in Schedule F of Aurizon Network's 2010 Access Undertaking (the 2010AU)¹.

This submission follows the approval of the 2014 Extension Draft Amending Access Undertaking (2014 Extension DAAU), provided to the QCA in April 2014, to provide pricing, revenue and cost certainty for Aurizon Network and coal industry customers associated with final Reference Tariffs for FY2014 and transitional Reference Tariffs for FY2015.

In particular, the 2014 Extension DAAU outlined the following for approval by the QCA:

- the extension of the term of the 2010AU to the earlier of the QCA's approval of the proposed 2013AU and 30 June 2015;
- confirmation of 'final' Reference Tariffs for FY2014 for the CQCR including GAPE;
- confirmation of the basis on which the variation between actual and allowable revenues for FY2014 will be returned to, or collected from, Access Holders; and
- the establishment of transitional Reference Tariffs for FY2015.

The 2014 Extension DAAU was approved by the QCA in June 2014, following an adjustment for the removal of the \$21 million Review Event application for the Blackwater and Moura systems from the 'transitional' allowable revenues for FY2015. The QCA also approved variations to provisions in Schedule F to allow for any differences between FY2014 actual and transitional allowable revenues to be reimbursed to, or recovered from, Access Holders via an Adjustment Charge, with a submission to be provided to the QCA by 31 August 2014.

These Adjustment Charges are a direct result of record railings in the Blackwater and Goonyella systems during FY2014. For the first time, over 200 million tonnes were railed across the CQCR. This achievement reflects the sustained effort and aligned planning by all supply chain participants, including mines, ports, rail operators and Aurizon Network, and is achieved despite significant weather events affecting port operations, substantial capital works in the Blackwater system and an increased capital renewal program.

As a result of these record railings, tonnages in Blackwater and Goonyella exceeded the forecast approved by the QCA for FY2014. Aurizon Network therefore over-recovered Access Charges in these systems across the financial year.

Adjustment Charges are not proposed for the Moura, Newlands and Goonyella to Abbot Point (GAPE) systems as Take or Pay amounts were triggered and capped to the extent of the relevant System Allowable Revenues.

¹ Schedule F details the pricing arrangements for all coal-carrying train services in the Central Queensland Coal Region (CQCR).

1.2 Schedule F Provisions

Schedule F, Clause 2.3, provides that the allowance for the difference between the Access Charges paid by Access Holders and the transitional allowable revenues approved by the QCA for FY2014 is to be reimbursed to, or recovered from, Access Holders in proportion to their Access Charges paid in the relevant system.

Clause 2.3(c) also stipulates that Aurizon Network will be required to submit a Reference Tariff variation as an Adjustment Amount. Once approved, the Adjustment Amounts including interest are reimbursed to, or recovered from, Access Holders as an Adjustment Charge.

Clause 2.3.4(a) requires that where Aurizon Network submits an Adjustment Amount in accordance with Clause 2.3.3, the submission must:

- identify, subject to Clause 2.3.9, the Access Holders in respect of whom the proposed Adjustment Charges are to be applied;
- set out the proposed Adjustment Charges for each Access Holder including details of how those proposed Adjustment Charges were calculated; and
- indicate the billing period(s) in respect of which the proposed Adjustment Charges are to be applied.

The Adjustment Amounts cover the following Reference Tariff components for the Blackwater and Goonyella systems:

- Access Charges for track infrastructure (AT₂₋₄); and
- Access Charges for electric infrastructure (AT₅).

There are no AT₂₋₄ Adjustment Amounts being declared for the Moura, Newlands and GAPE systems as Take or Pay has triggered in those systems such that the relevant 'system cap', being the AT₂₋₄ System Allowable Revenue, has been reached or, in the case of Newlands, the difference is immaterial. Aurizon Network's proposal for Newlands is at Section 3.2.

The proposed Adjustment Charges to be reimbursed to Access Holders in Blackwater and Goonyella are for 1 July 2013 to 30 June 2014, and are summarised in Table 1 below:

System	AT ₂₋₄ Over-Recovery \$m	AT ₅ Over-Recovery \$m	Interest \$m	Total \$m
Blackwater	25.9	6.4	0.6	32.9
Goonyella	29.0	8.6	0.6	38.2
Total Over-Recovery	54.9	15.0		69.9
Total Interest			1.2	1.2
Total Adjustment Amounts				71.1

Table 1 Adjustment Amounts

Extracts of the financial model have been provided separately to Access Holders (Aurizon Operations, Pacific National, Rio Tinto, BMA Rail and Glencore) in advance of this submission. Aurizon Network has not received any comments that would result in an amendment to the Adjustment Amounts.

In addition, a detailed financial model has been prepared by Aurizon Network and provided to the QCA in electronic form in support of this submission and in accordance with Clause 2.3.4. The information includes:

- calculations supporting the AT₂₋₄ and AT₅ Adjustment Amounts for each system, being revenues collected for each system less the relevant System Allowable Revenues, adjusted for cross-system traffics (refer Section 3.3);
- extracts from Aurizon Network's billing system on the actual revenues collected; and
- calculations supporting the allocation of the Adjustment Amounts across each Access Holder.

Apart from the financial model, this submission is presented in a format which is suitable for publication, should the QCA elect to do so, in accordance with Paragraph 2.3.4(b). The financial model contains specific information on individual Train Services and accordingly Aurizon Network requests that it is not published. Outputs from both the model and the billing system are summarised in this submission.

2 Calculation of Adjustment Amounts

2.1 Introduction

Within Schedule F, clauses 2.3.1(b) and 2.3.1(g) provide the methodology detailing how Aurizon Network will calculate the Adjustment Amount and recover from, or reimburse to (as applicable), each relevant Access Holder.

The methodology is based on the differences between Actual and Allowable Revenues for each system, the interest calculated on the total differences, and the allocation of the differences and interest between actual Access Charges paid (on a pro-rata basis).

2.2 Differences between Actual and Allowable Revenues

The total value of the actual revenues (Access Charges paid) and the System Allowable Revenues for AT₂₋₄ are summarised for each system, and are depicted in Table 2 below:

System	Access Charges Paid, \$m	System Allowable Revenue, \$m	Difference \$m
Blackwater	241.1	215.2	25.9
Goonyella	258.8	229.8	29.0
Moura	31.4	31.4	-
Newlands	37.8	37.8	-
Sub-Total	569.1	514.2	54.9
GAPE	124.2	124.2	-
Total	693.3	638.4	54.9

Table 2 Differences between Actual and Allowable Revenues for AT₂₋₄

Aurizon Network confirms that:

- Access Charges paid are per Aurizon Network's billing system adjusted for cross-system traffics (refer Section 3.3).
- System Allowable Revenues (and for AT₅ below) are per Clauses 5.3, 6.3, 7.3, 8.3 and 9.3 of Part B, Schedule F of the 2010AU.
- Access Charges paid in the Newlands system include coal carrying train services operated by the Bulk East division of Aurizon Operations.
- Access Charges in the Moura and GAPE systems include Take or Pay which capped fully to the extent of AT₂₋₄ System Allowable Revenue. Take or Pay amounts were capped in the Newlands system other than for an immaterial amount (refer Section 3.2).
- Take or Pay has been determined in accordance with the relevant Standard Access Agreement and agreed with the relevant Access Holders. A copy of the Take or Pay model for these Train Services is available on request.
- GAPE Access Charges includes a transfer fee of \$17,000. No other relinquishment or transfer fees were collected, or were entitled to be collected, during FY2014.

The total value of the actual revenues (Access Charges paid) and the System Allowable Revenues for AT₅ are summarised for each system, and are depicted in Table 3 below:

System	Access Charges Paid, \$m	System Allowable Revenue, \$m	Difference \$m
Blackwater	78.9	72.6	6.4
Goonyella	100.9	92.2	8.6
Total	179.8	164.8	15.0

Table 3 Differences between Actual and Allowable Revenues for AT₅

The Access Charges payable by Access Holders for individual Train Services, including cross-system adjustments, are set out in detail in the financial model supporting the calculation of the Adjustment Charges. The model has been provided to the QCA with this submission.

2.3 Interest

The following key assumptions have been adopted in the calculation of the interest amounts to apply to the Adjustment Amounts:

- Interest has been calculated by reference to the Adjustment Amount for each month for each individual Train Service (origin/destination pair).
- The interest for each individual Train Service is calculated by month, then compounds on a month-by-month basis.
- Rates are Bank Bill Swap Rates published by the Australian Financial Markets Association for the relevant business day immediately prior to the 21st of each month.
- The rates for August and September 2014 are assumed to be the same as for July 2014.
- Pursuant to the DAAU, amounts are deemed due and payable ten business days following the end of each month.

The total value of the interest calculated, together with the Access Charge 'difference' as set out in Section 2.2 above, are summarised in Table 4 below.

System	Difference, \$m (excluding interest)		Interest, \$000	
Blackwater AT ₂₋₄	25.9		457	
Blackwater AT ₅	6.4	32.3	112	569
Goonyella AT ₂₋₄	29.0		510	
Goonyella AT ₅	8.6	37.6	152	662
Total		69.9		1,231

Table 4 Interest

The interest calculations are set out in detail in the financial model supporting the calculation of the Adjustment Amount. The model has been provided to the QCA with this submission.

2.4 Adjustment Amounts – by System

The total Adjustment Amounts, inclusive of interest, are summarised for each system in Table 5 below.

System	AT ₂₋₄ Over-Recovery, \$m	AT ₅ Over-Recovery, \$m	Total \$m
Blackwater	26.4	6.5	32.9
Goonyella	29.5	8.7	38.2
Moura	-	n/a	-
Newlands	-	n/a	-
GAPE	-	n/a	-
Total Adjustment Amounts	55.9	15.2	71.1

Table 5 Adjustment Amounts – by System

2.5 Adjustment Amounts – by Access Holder

The total Adjustment Amounts, inclusive of interest, are summarised for each Access Holder in Table 6 below.

System	AT ₂₋₄ Over-Recovery, \$m	AT ₅ Over-Recovery, \$m	Total \$m
Aurizon Operations	39.3	10.8	50.1
Pacific National	11.0	2.5	13.5
Glencore	3.6	1.3	4.9
Rio Tinto	1.0	0.3	1.3
BMA Rail	1.0	0.3	1.3
Total Adjustment Amounts	55.9	15.2	71.1

Table 6 Adjustment Amounts – by Access Holder

In accordance with Schedule F, the total difference between Access Charges paid and the System Allowable Revenue for AT₂₋₄ and AT₅ for the Blackwater and Goonyella systems has been allocated between Access Holders, and between Train Services linked to those Access Holders, on a pro-rata basis according to Access Charges paid.

A consequence of this approach is that Adjustment Charges are payable to Access Holders for Train Services which were not operated under a Train Service Entitlement (i.e. are 'ad hoc' hauls). This consequence was intended and is to replicate the situation where an Adjustment Charge was not sought and the difference was returned to, or recovered from, Access Holders via the revenue cap process. The impact of an exclusion of ad hoc Train Services from the calculations is not material.

3 Other Matters

3.1 Reconciliation of System Allowable Revenues

The sum of the AT₂₋₄ and AT₅ System Allowable Revenues in Tables 2 and 3 above, excluding GAPE, is \$679 million.

The difference between this sum and the total maximum allowable revenues referred to in the explanatory memorandum accompanying the 2014 Extension DAAU of \$739 million is explained by allowable revenues attributable to AT₁.

As indicated above, the difference between actual and approved AT₁ revenues will be returned to, or recovered from, Access Holders as part of the finalisation of the 2013AU.

3.2 AT₂₋₄ Adjustment Amount for Newlands

As indicated above, Take or Pay triggered in the Moura, Newlands and GAPE systems, and for Moura and GAPE the Take or Pay amounts were capped exactly to the limit of the AT₂₋₄ System Allowable Revenues.

The Newlands system, but neither Moura nor GAPE, contains infrastructure assets which are subject to rebate arrangements.

As discussed in past revenue cap submissions to the QCA, the Take or Pay capping mechanism in Newlands is affected by the differential treatment between UT2 and UT3 Access Agreements in relation to a rebate variation associated with one mine. This has resulted in actual Access Charges exceeding the AT₂₋₄ System Allowable Revenue by around \$20,000.

Substantially all of this amount reverses as the rebate variation would have been included in the FY2015 revenue cap submission (there is a negligible loss of around \$2,000, or 10%, equivalent to the proportion of UT2 contracted tonnages relative to the sum of the UT2 and UT3 tonnages). Rather than declare an Adjustment Amount and have this recovered through revenue cap, Aurizon Network has confirmed, and will confirm, the Adjustment Amount and the Revenue Adjustment Amount, respectively, for Newlands at \$nil.

3.3 Cross-System Train Services

The AT₂₋₄ and AT₅ System Allowable Revenues reflect allocations between the Blackwater and Goonyella systems for Cross-System Train Services. These Train Services include:

- The Lake Vermont mine in the Goonyella system to the RG Tanna Coal Terminal (Gladstone) via the Blackwater System; and
- The Gregory mine in the Blackwater system to the Hay Point Coal Terminal via the Goonyella System.

Allocations between the Blackwater and Goonyella systems are in accordance with both the cross-system pricing rules in Schedule F and the revenue cap process as applied to prior years.

3.4 Past Train Services

Clause 2.3.9 states that Adjustment Charges should not apply to Past Train Services.

Aurizon Network confirms that there are no Train Services subject to these arrangements via Access Agreements terminating either during or subsequent to FY2014.

4 Glossary

In the submission:

- References to Aurizon Network are to Aurizon Network Pty Ltd, operator of the CQCR;
- References to the 2010AU are to the 'consolidated' version inclusive of amendments subsequently approved by the QCA;
- References to UT2 are to the period of QR Network's 2005 Access Undertaking;
- References to UT3 are to the period of the 2010AU;
- References to UT4 are to the period of the 2013AU;
- References to the UT4 submission are to Aurizon Network's submission on the proposed 2013AU submitted to the QCA during April 2013;
- References to FY are to the relevant financial year ending 30 June; and
- Defined terms have the meaning given in the 2010AU.