

Friday, 3 November 2017

Catherine Barker
Director Business Performance
Queensland Competition Authority
PO Box 2257
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Dear Catherine

Pacific National Response to the Aurizon Network Submission 2016-17 Revenue Adjustment Amounts to QCA

Pacific National welcomes the opportunity to provide comment on the Aurizon Network submission to the Queensland Competition Authority (QCA) on 2016-17 Revenue Adjustment Amounts (the Submission). Areas of concern to Pacific National are outlined below.

Aurizon Network Proposed Treatment of Rebates

Pacific National has previously raised concerns that Aurizon Network's treatment of rebates in its revenue cap adjustment¹. Pacific National remains concerned that these rebate arrangements are commercial arrangements which should be treated separately from the regulatory process, yet Aurizon Network seeks to recover rebate adjustments by socialising the under recovery and over recovery of these payments through the regulatory revenue and pricing process (including through the regulatory revenue adjustment process).

Pacific National believes that more equitable rebate adjustment methods should be considered in future commercial agreements and future access undertakings (including UT5 which is currently under consideration by the QCA).

Pacific National's assessment of the Submission is that both the Blackwater and Goonyella systems will be subject to a rebate adjustment with a net return to access holders. Pacific National believes that it would be reasonable to assume that the rebate adjustments would be paid to the individual access holders with rebate agreements. However, this does not appear to be the case and the impact of the overpayment of rebates by individual access holders appears to be socialised across all users.

Pacific National believes that the rebates should be treated separately to the regulatory process relating to allowable revenue and the adjustment of this revenue as the rebates arise from commercial arrangements that Aurizon Network has with individual access holders.

Pacific National notes that the approach to rebates applied in the Submission seems generally consistent with UT4 but Pacific National is seeking that the QCA reconsider this approach in future undertakings, including UT5 which is currently under consideration by the QCA.

Blackwater Take or Pay Capping

The Submission (page 7) states that the Blackwater system did not cap for Take or Pay purposes. Pacific National understands that this means that those access holders subject to Take or Pay had to pay 100 per cent of the AT2-

¹ For example the 7 November 2014 "Asciano Response to the Aurizon Network Submission on 2013-14 Revenue Adjustment Amounts and Increments to the QCA", the 6 November 2015 "Asciano Response to the Aurizon Network Submission on 2014-15 Revenue Adjustment Accounts and Increments to the QCA" and the 9 December 2016 "Pacific National Response to the Aurizon network Submission 2015-16 Revenue Adjustment Amounts to QCA".

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AT4 charges (i.e. the Take or Pay charges). Pacific National understands that this rarely happens and that historically capping of less than 100 per cent usually applies to the Take or Pay charges. Aurizon Network claims that the 100 per cent capping was applied to Blackwater system Take or Pay charges because there was a significant amount of Aurizon Network cause and force majeure cancellations, which lead them to under recover the allowable revenue. Pacific National believes that if this is the case then there must be more transparency and supporting information provided by Aurizon Network in relation to these claims relating to Aurizon Network cause and force majeure cancellations.

Reliability of Forecasting

Improved forecasting accuracy will minimise the amount of revenue and tariff adjustment required. Pacific National recognises that improving forecasting accuracy is problematic, however differences between Aurizon Network's actual and forecast revenue indicate that there is scope for improvement in Aurizon Network's forecasting. For example Table 3 and Table 4 of the submission show Newlands being over-forecast by 20% whereas other systems are under-forecast. Similarly Table 6 indicates both substantial over-forecasting and substantial under-forecasting over time.

Pacific National believes that increased consultation by Aurizon Network with supply chain participants, including ports, miners and train operators, including Pacific National, should result in improved forecasting.

Conclusion

Pacific National is seeking that the QCA continues to seek improved transparency in Aurizon Network's forecasting approach and considers the treatment of rebates in future access undertakings, including UT5 which is currently under consideration by the QCA.

If you wish to discuss this submission further please contact me on 02 8484 8056 or Ying Yeung on 07 3002 3726.

Yours sincerely

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Manager Access and Regulation