

# Aurizon Network 2019 Draft Amending Access Undertaking

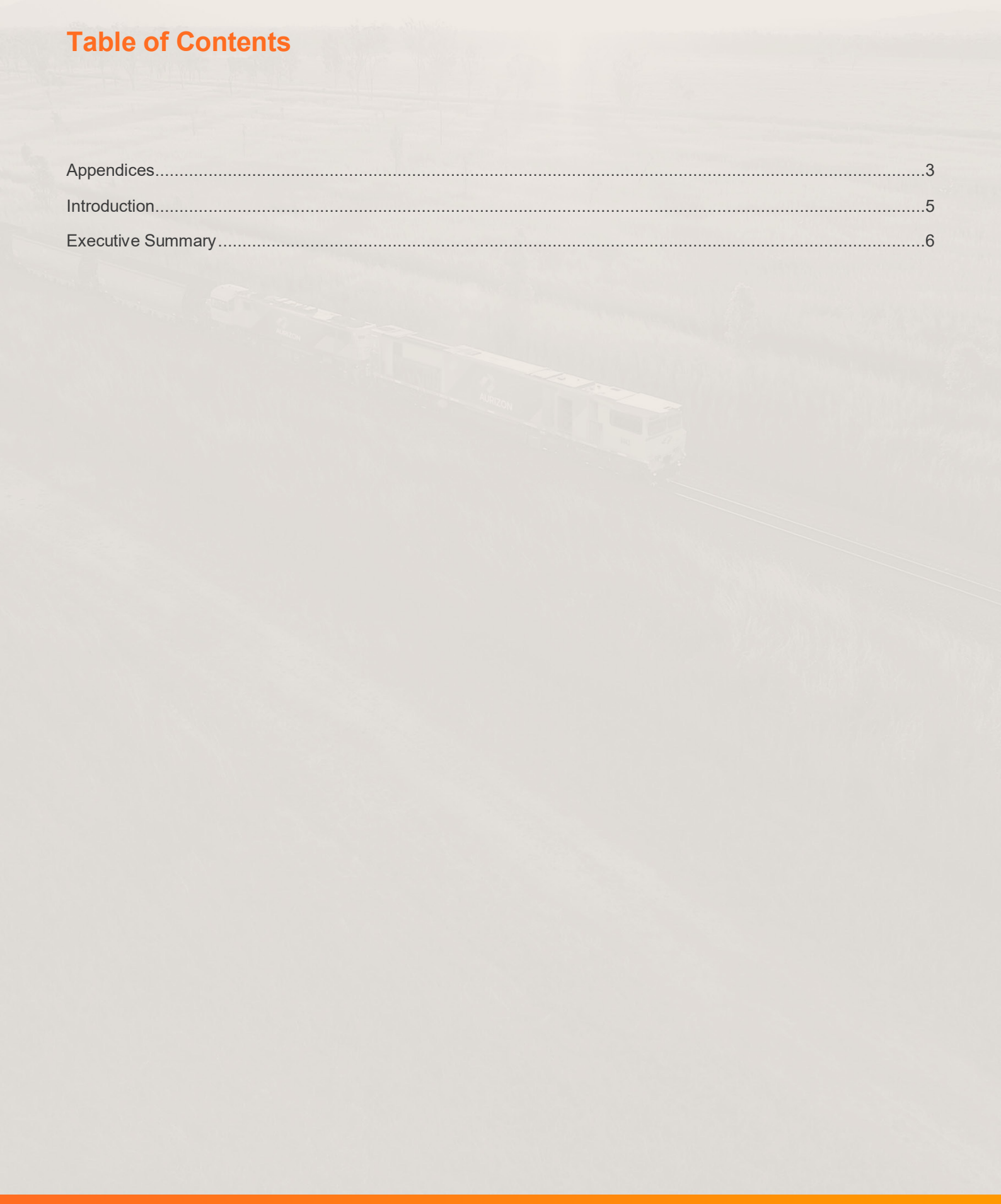
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# Aurizon Network 2019 Draft Amending Access Undertaking

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## Appendices

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An aerial photograph of a long, single-file train of empty freight cars stretching across a vast, dry, and open landscape. The terrain is flat with sparse, dry vegetation and several dirt roads or tracks crisscrossing the area. In the background, there are low mountains under a hazy sky. The train consists of numerous dark-colored freight cars, likely used for transporting bulk goods, and they are currently empty. The perspective is from a high angle, looking down the length of the train as it recedes into the distance.

Introduction  
to the 2019 Draft Amending  
Access Undertaking

## Introduction

Aurizon Network in consultation with a significant number of its customers in the Central Queensland Coal Network (**CQCN**) has developed and agreed a variety of financial and operational modifications to Aurizon Network's approved 2017 Access Undertaking (**UT5**). The proposed modifications deliver improvements and create value that, on a holistic basis, will benefit all Access Holders, Access Seekers, end users, Train Operators and other key stakeholders operating within the CQCN.

The consultation has led to a complete package with agreed financial and operational modifications that are reflected in this Draft Amending Access Undertaking (**DAAU**), which is being submitted to the Queensland Competition Authority (**QCA**) for approval.

Aurizon Network is confident that the package of modifications reflected in this DAAU, which build on existing elements of UT5, achieves the object of Part 5 of the *Queensland Competition Authority Act, 1997 (Act)* by:

- (a) promoting the economically efficient operation and use of Aurizon Network's Rail Infrastructure through a variety of mechanisms including:
  - direct end user involvement in the pre-approval of maintenance strategies and budgets and renewals strategies and budgets;
  - independent expert assessment to identify any existing network capacity deficit and any Train Service Entitlement shortfalls in future years;
  - provisions for the ways in which any existing network capacity deficits can be addressed;
  - Expansion funding commitments by Aurizon Network to address certain types of network capacity deficits and to enable the creation of new capacity for the benefit of multiple users of the declared service; and
  - measurement of Aurizon Network's performance against contracted obligations to provide Train Service Entitlements with financial implications for non-performance;
- (b) promoting economically efficient investment in the CQCN Rail Infrastructure by, amongst other measures:
  - the creation of increased, longer term investment certainty through the proposed 8-year term for the amended access undertaking which will now expire on 30 June 2027, and greater certainty in relation to operational and maintenance cost allowances and recovery;
  - increased direct end user involvement in investment decisions for Expansions to address any independently identified network capacity deficits;
  - an approved operational cost allowance over the term of the access undertaking; and
  - a staged increase against specified milestones in the Weighted Average Cost of Capital (**WACC**) and consequent return on capital allowance that Aurizon Network is permitted to earn in return for the range of material benefits that Aurizon Network has agreed to provide through the DAAU.

As a consequence of the benefits and improvements discussed above, Aurizon Network is also confident that, consistent with the object of Part 5 of the Act, the DAAU will, once approved, materially assist in the promotion of effective competition in upstream and downstream markets.

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## Executive Summary

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- (a) Aurizon Network has been engaged in a consultative process with a significant number of its customers to develop a set of terms for this DAAU that would revise aspects of UT5.
- (b) A package of operational, financial and other benefits and improvements to UT5 have been agreed with industry participants and are reflected in this DAAU.
- (c) The package of operational, financial and other benefits and improvements that have been agreed with industry participants and which differ from UT5 include:
- a WACC allowance of **5.9%** from the date of submission of the DAAU, rising to **6.3%** on a milestone date associated with completion of the independent network capacity modelling, which is expected to occur within 12 months;
  - a term of 8 years ending on 30 June 2027, providing greater certainty for stakeholders and Aurizon Network, with a reset of the WACC, inflation and a limited number of other parameters at 1 July 2023;
  - greater customer involvement in assessing, and a role in pre-approving, Rail Infrastructure maintenance strategies and budgets and asset renewal and replacement strategies and budgets;
  - a pass through of maintenance costs incurred by Aurizon Network where they have been pre-approved by customers through the consultation process referred to above, or otherwise as approved by the QCA;
  - an approved operating cost allowance for the term of the access undertaking with an uplift for increases in CPI above 2.37% from the commencement of the Year ending 30 June 2022;
  - an independent expert determination of existing capacity on the network and a consequential independent re-baselining of network capacity. A process then applies to establish how to most efficiently address any network capacity deficits identified by the independent expert confirmed by a determination by the QCA;
  - a commitment, in specified circumstances, by Aurizon Network to fund Expansions to address any network capacity deficit identified by the independent expert and where the nature of the Expansion is either agreed with affected end users or determined by the QCA, up to a value of \$300m;
  - a commitment by Aurizon Network to fund up to \$30m annually for Expansions to create new capacity where the Expansion would benefit more than one access seeker or access holder;
  - an independent expert determination of Aurizon Network's performance against contracted obligations in relation to delivery of Train Service Entitlements, following the re-baselining of network capacity, and the application of a rebate for specific non-performance by Aurizon Network; and
  - more detailed compliance, reporting and ringfencing obligations.
- (d) The matters addressed in this DAAU, coupled with the elements comprising other aspects of UT5, deliver a significant number of material benefits for, and overall value to, Aurizon Network, its customers and the broader supply chain, as well as longer term certainty for the market.

- (e) The provisions of the DAAU described above also enjoy the support of a significant number of industry participants, including the support of Aurizon Network's largest customers in the CQCEN.

## Changes to UT5

The QCA approved UT5 on 21 February 2019.

It is proposed that the amendment of UT5 will be effected by means of a DAAU to be approved by the QCA. Details of the proposed amendments are discussed in the sections of this submission set out below and are reflected in the marked-up version of UT5 at **Attachment 1** of this submission.

Aurizon Network will submit to the QCA a further DAAU (**Reference Tariff Variation DAAU**) to amend UT5 shortly after the submission of this DAAU which will include a mechanism to deal with, amongst other things, differences in the Maximum Allowable Revenue between that approved by the QCA under UT5 on 21 February 2019 and the period that transitional Reference Tariffs were in place. It is expected that if the QCA approves the Reference Tariff Variation DAAU prior to the approval of this DAAU, those outcomes will be reflected in the ultimate approved version of this DAAU.

We will be submitting the Reference Tariff Variation DAAU as a separate DAAU so that it can be more readily assessed by the QCA independently of this DAAU, and if approved by the QCA prior to the approval of this DAAU can be implemented as soon as possible.

## The consultation process

The DAAU is the result of a detailed consultation and negotiation process undertaken by Aurizon Network with a significant number of its customers in the CQCEN.

Aurizon Network has agreed with the following customers:

1. Anglo American Metallurgical Coal Pty Ltd;
2. BHP Billiton Mitsui Coal Pty Ltd;
3. BM Alliance Coal Operations Pty Ltd;
4. Byerwen Coal Pty Ltd;
5. Coronado Curragh Pty Ltd;
6. Ensham Resources Pty Ltd;
7. Hail Creek Coal Holdings Pty Ltd;
8. Jellinbah Mining Pty Ltd;
9. Kestrel Coal Pty Limited;
10. Lake Vermont Resources Pty Ltd;
11. Middlemount Coal Pty Ltd;
12. Peabody Energy Australia PCI (C&M Management) Pty Ltd;
13. Peabody Energy Australia Pty Ltd;
14. QCoal Infrastructure Pty Ltd; and
15. Yarrabee Coal Company Pty Ltd.

the terms of this DAAU on the basis that the QCA approves the DAAU in the exact form (subject to immaterial changes) attached to this submission. The customers referred to above will be providing letters of support to this effect.

This DAAU is accompanied by detailed financial models which have been used to calculate the financial values within Schedules F and K of the DAAU. Due to the sensitive nature of the information contained within the financial models, the models have not been reviewed by customers, and accordingly we expect that a view on the following matters, which (other than the loading times for additional mines not included in UT5) have been calculated based on the financial models, will not be provided by customers in their letters of support:

- the Reference Tariff values in clauses 7.2, 8.2, 9.2, 10.2, and 11.2 of Schedule F;
- the System Allowable Revenue values in clauses 7.3, 8.3, 9.3, 10.3 and 11.3 of Schedule F;
- any changes to payloads in Schedule F compared to those shown in UT5;
- loading times for additional mines not included in UT5;
- gtk forecasts within Schedule F, to the extent that they differ to those contained in UT5; and
- the values shown in Schedule K.

The financial models are being submitted to the QCA on a confidential basis for its review and approval.

### *Stakeholder interests*

Aurizon Network was keen to ensure that through the consultation process and in the final form of the DAAU, the interests of all end users, Access Seekers, Access Holders and Train Operators were protected and appropriately represented in the measures introduced by the DAAU.

For example, the DAAU operates to ensure that:

- in respect of new Access Seekers, nothing prevents or hinders access or operates for the benefit of incumbent Access Holders and end users to the detriment of new entrants or expanding users;
- a funding commitment is made by Aurizon Network in relation to Expansions to deliver additional Capacity that is conditional on that Capacity being available to more than one user of the proposed Expansion; and
- all Access Seekers, Access Holders, their Customers, Train Operators and all other Supply Chain Participants for each Coal System have a right to make submissions to an independent expert appointed to undertake capacity assessments.

Aurizon Network is confident that the DAAU appropriately protects the rights of all stakeholders in the context of the value and benefits that will be obtained by stakeholders. This submission sets out in detail below, where relevant, the measures which provide protection for new entrants, expanding users and train operators.

## **Section 138 Criteria**

The matters addressed in the DAAU build on the matters reflected in UT5 and operate to clearly satisfy the relevant factors in section 138(2) of the Act making the access undertaking reflected in the DAAU appropriate for the QCA to approve.

Taking the applicable factors in section 138(2) in order:

- (a) the objects of Part 5 of the Act are satisfied for the reasons and in the ways described above in the Introduction section of this submission;
- (b) the DAAU addresses the legitimate business interests of Aurizon Network by providing Aurizon Network with longer term security that the revenue it can expect to earn from access charges will be at least enough to cover its efficient costs of providing access, and will include a return on investment commensurate with the regulatory and commercial risks that, through the DAAU, Aurizon Network is committing to accept in favour of all those who benefit from access to the declared service;
- (c) the public interest is satisfied by reason of the numerous and various benefits that Aurizon Network is committing to provide, and be subjected to, including greater direct involvement by end users in the approval of maintenance strategies and budgets and asset renewal strategies and budgets, all of which will assist end users to be competitive in downstream markets;



- (d) the interests of access seekers and access holders are protected by enhanced ringfencing, compliance and reporting obligations while the interests of end users are also significantly enhanced by a right to a rebate payment in specified circumstances involving non-performance by Aurizon Network of its contracted obligations to provide Train Service Entitlements;
- (e) the pricing principles in section 168A of the Act are satisfied through the DAAU by:
- securing the ability to earn the requisite revenue and rate of return required by section 168A(a);
  - comprehensive and enhanced ringfencing, independent management obligations and oversight, staffing restrictions, audit and compliance obligations to prevent and monitor any unlawful discrimination in favour of a Related Operator; and
  - providing mechanisms, including direct end user involvement in the approval of maintenance strategies and budgets and asset renewal and replacement strategies and budgets and independent expert assessment of performance, to reduce costs and improve productivity.

## Matters addressed in the DAAU

### *General*

Set out below is a discussion of the material operational, financial and other benefits and improvements agreed by Aurizon Network with end users involved in the consultation process for inclusion in the DAAU, and which have the effect of varying UT5.

Except to the extent otherwise discussed, the items below do not address changes to defined terms. The changes to defined terms can be viewed as a mark up in clause 12 of the DAAU in **Attachment 1**.

### *Ringfencing*

Part 3 of the DAAU includes a significantly enhanced set of ringfencing, staffing, confidentiality and compliance obligations on Aurizon Network. In summary, some of the obligations imposed on Aurizon Network by the DAAU include:

- enhanced obligations and restrictions to ensure that Aurizon Network is managed independently from other members of the Aurizon Group that compete in upstream or downstream markets that are dependent on access to the declared service;
- the introduction of an independent observer to attend Board meetings of Aurizon Network for the purpose of allowing that observer to confirm to the QCA that Aurizon Network has been governed independently and has otherwise employed good corporate governance;
- a prohibition on the transfer of senior and key Aurizon Network personnel to a Related Operator (and vice versa for relevant personnel), unless the transfer is made with the prior approval of a specified number of end users, and subject to confidentiality obligations;
- an obligation to ensure that all directors and specified senior and key personnel of Aurizon Network execute an undertaking to comply with the confidentiality obligations set out in the access undertaking; and
- a requirement for the provision of an annual ringfencing compliance declaration signed by Aurizon Network's Executive Officer.

### *Capacity*

Part 7A of the DAAU comprises a new set of provisions designed to:

- create greater transparency and confidence in the actual capacity of the rail network comprising the CQCN through independent assessment;
- provide independent identification of the efficient and effective means by which to potentially address an existing capacity deficit; and
- provide material financial consequences for non-performance by Aurizon Network of its contracted obligations to provide Train Service Entitlements.

Part 7A achieves the benefits referred to in part by creating a mechanism for the appointment of an independent expert for the purpose of conducting independent assessments of:

- the capacity of the Rail Infrastructure (expressed as the maximum number of Train Paths that can be utilised in each Coal System, having regard to specified operational and maintenance requirements) – **Deliverable Network Capacity**; and
- the capacity of the Supply Chain, including the maximum number of Train Paths that can be utilised in each Coal System, having regard to specified operational and maintenance requirements of the Rail Infrastructure and the capacity and operations of each other element of the Supply Chain – **System Capacity**.

More particularly, the independent expert will be engaged to:

(a) develop a dynamic operational model to conduct:

- an initial capacity assessment to determine and report on the extent to which there is any network capacity deficit; and
- an annual capacity assessment to determine and report on the extent to which there is a Deliverable Network Capacity deficit,

in both cases, being a circumstance where the capacity of a Coal System is less than the number of Train Paths required to meet contracted Train Service Entitlements and to comply with any Passenger Priority Obligation or Preserved Train Path Obligations;

- (b) identify and report on, and where applicable, make recommendations to the QCA in respect of, measures that could be adopted to effectively and efficiently address a network capacity deficit (if any) identified in the initial capacity assessment;
- (c) conduct an annual capacity assessment to identify the Deliverable Network Capacity and to update System Operating Parameters;
- (d) identify, as part of the annual capacity assessment, whether there has been a shortfall against contracted Train Service Entitlements - **AN Performance Shortfall** - that is the result of an Aurizon Network breach of specified obligations (for example, a breach of the Access Undertaking or an Access Agreement). This assessment is conducted for the purpose of determining the extent of Aurizon Network's liability to pay adversely affected end users an amount calculated in accordance with Part 7A.6 of the DAAU.

### **Stakeholder input**

In conducting the initial capacity assessment and the annual capacity assessment, and in respect of the measures that could be adopted to address any capacity deficit identified in the initial capacity assessment, the independent expert is required to consult with, and seek submissions from, Aurizon Network, Access Holders, Access Seekers, and their Customers and Train Operators, as well as seeking submissions from all other Supply Chain Participants for each Coal System. The submissions to be provided to the independent expert relate to the actual performance and System Operating Parameters of each Coal System. This process is designed to ensure that the independent expert receives input from all stakeholders and makes its determination on an equitable basis, having regard to the interests of all users of the relevant Coal System and so as not to favour one user over another.

### ***Existing Capacity Deficits***

As mentioned above, where the independent expert identifies a network capacity deficit through the initial capacity assessment, and following consultation with and submissions from stakeholders, the independent expert is required to report on and make a recommendation on the most effective and efficient way to address the network capacity deficit.

The options in this regard can include a range of potential solutions (referred to as **Transitional Arrangements**) including:

- whether an Access Holder is willing to relinquish Access Rights (without the imposition of a relinquishment fee) to create additional capacity;
- changes to operation and maintenance practices, Rollingstock operations or the operation and maintenance of load-out facilities; and
- an Expansion.

There is a process for Aurizon Network and end users to agree on the Transitional Arrangements to be adopted. If Aurizon Network and affected end users cannot agree on the most appropriate Transitional Arrangement to adopt in order to address the identified network capacity deficit, the independent expert is to make a recommendation to the QCA on the most effective and efficient solution and the QCA is then given the role of making a determination on the issue.

Subject to specified qualifications, Aurizon Network must implement the QCA's determination on an agreed Transitional Arrangement. For example, Aurizon Network is obliged to commit an amount of up to \$300 million (in aggregate across all such Expansions) towards the funding of Expansions agreed with affected end users, or required by the QCA, in accordance with the relevant provisions of the DAAU.

### ***Right to a performance rebate***

Where an annual capacity assessment conducted by the independent expert identifies non-performance arising from specified breaches by Aurizon Network of its contractual obligations, Aurizon Network will be liable to pay an adversely affected end user a performance rebate. The rebate amount is calculated by reference to components of the Access Charges that the affected end user would otherwise be liable to pay if they had received their contracted Train Service Entitlements.

The rebate arrangement creates a material financial imperative for Aurizon Network to meet its contracted obligations to deliver Train Service Entitlements. With specified exceptions, the rebate will be payable in lieu of other remedies that would otherwise apply under an Access Agreement or Train Operations Deed.

If requested by an End User, the QCA will review whether the rebate mechanism has been effective, measured against limited and defined rebate objectives.

## ***Maintenance Work and Asset Renewals***

The DAAU includes significant benefits for users of the declared service including:

- direct end user involvement in the development and approval of Rail Infrastructure maintenance and asset renewal and replacement strategies and budgets, while retaining the QCA's approval role; and
- express obligations on Aurizon Network in respect of the manner in which it must conduct maintenance work and limits on the manner in which it may vary from an approved maintenance strategy and budget.

In particular, the DAAU incorporates provisions and processes which:

- oblige Aurizon Network to annually submit to the QCA for approval a proposed Maintenance Indicator and a proposed Capital Indicator;

- provide end users of the declared service with direct input into the development of, and approval rights over, the annual Rail Infrastructure maintenance strategy and budget and the asset renewals strategy and budget;
- allow end users to have the benefit of an independent expert's views in respect of a proposed maintenance strategy and budget and a proposed asset renewals strategy and budget;
- subject to limited specified qualifications, oblige Aurizon Network to implement a maintenance strategy and budget that has been approved by a special majority vote of relevant end users;
- subject to limited specified qualifications, oblige Aurizon Network to implement an asset renewals strategy and budget that has been approved by a special majority vote of the relevant end users;
- provide a process for the approval by the QCA of maintenance costs and capital expenditure submitted by Aurizon Network, including an ability for end users to make submissions to the QCA; and
- capitalises the operational costs of the ballast undercutting program, consistent with the QCA's Final Decision on UT5. Aurizon Network proposes, however, that the 'return on capital' and 'return of capital' in respect of the ballast undercutting plant be recovered annually through the Maintenance Allowance. This approach is consistent with the treatment of other maintenance plant in the UT5 Final Decision and the treatment of those ballast undercutting costs under UT4.

### *Funding an Expansion*

As noted above, where an Expansion is determined or agreed to be the Transitional Arrangement to be implemented to rectify a network capacity deficit, Aurizon Network is obliged to commit an amount of up to \$300 million (in aggregate across all such Expansions) towards the funding of such Expansions.

In addition, Aurizon Network has agreed to make available \$30 million (indexed) per annum (and carried forward from year to year) over the term of the access undertaking to assist in the development of new capacity in response to Access Applications that require funded Expansions that benefit more than one user of the proposed Expansion.

### *Expansion Capacity Deficit*

Within six months of the commissioning of any Expansion (including an Expansion undertaken to rectify a network capacity deficit), the independent expert will undertake an assessment as to whether the completed Expansion is in all material respects the same as the Expansion that was agreed or determined to be undertaken (**Expansion Capacity Assessment**).

The Expansion Capacity Assessment must indicate whether the Deliverable Network Capacity created by the Expansion is less than:

- (a) the capacity deficit required to be addressed by that Expansion; or
- (b) the Conditional Access Rights granted in relation to that Expansion, (**Expansion Capacity Deficit**).

Where there is an Expansion Capacity Deficit, Aurizon Network must (after identifying the cause(s) and undertaken relevant consultation with affected parties) provide a detailed report to the QCA. The QCA can then make a determination (subject to specified qualifications) as to whether Aurizon Network is required to undertake a further Expansion to rectify the Expansion Capacity Deficit.

### *Audit provisions*

The DAAU includes enhanced audit rights. At any time the QCA or special majority of end users may request an independent audit of Aurizon Network's compliance with, amongst other matters and subject to the relevant provisions of the undertaking, Aurizon Network's obligations to carry out maintenance work:

- in accordance with approved maintenance strategies and budgets;
- in accordance with the applicable System Operating Parameters;
- so as to ensure Committed Capacity is delivered; and
- so that outages are coordinated with other Supply Chain Participants whenever reasonably possible.

### *Additional Network Performance Information*

The DAAU replaces the existing quarterly and annual maintenance cost reporting by Aurizon Network with an enhanced regime for monthly reporting on network performance, including information that is additional to the information that would have otherwise been required under UT5. That information is provided to the independent expert who is responsible for analysing various aspects of network performance including the delivery and timing of Train Services and the type and period of Maintenance Work conducted during the reporting period.

### *Financial outcomes*

The DAAU proposes, and end users that support the DAAU have agreed, that to reflect the value, cost and regulatory and commercial risks to Aurizon Network associated with all of the various enhanced operational and performance improvements contained in the DAAU, Aurizon Network should be entitled to earn a staged increase in its WACC and to have greater certainty in respect of the calculation of Reference Tariffs, Allowable Revenue and maintenance and asset renewal cost allowances.

#### **WACC**

The DAAU provides for a WACC of:

- (a) from 1 July 2017 until the date of this submission (**Initial Date**) – 5.7%;
- (b) subject to paragraph (c), from the Initial Date until 30 June 2023 – 5.9%; and
- (c) if the date on which:
  - (i) the initial capacity assessment confirms that there is no network capacity deficit; or
  - (ii) where initial capacity assessment confirms there is a network capacity deficit, Aurizon Network responds with options to address any such network capacity deficit,(in either case, the **Report Date**) occurs prior to 1 July 2023 (**Reset Date**) – from that Report Date until the Reset Date – 6.3%;
- (d) subject to paragraph (e), from the Reset Date until the Terminating Date – the amount set out in paragraph (b) or (c) (as applicable), adjusted to take account of changes in specified time-based parameters relating to the risk free rate and the debt risk premium; and
- (e) if the Report Date occurs after the Reset Date – the amount set out in paragraph (b), increased by 0.4%.

At the Reset Date there will also be a reset of the applicable inflation rate.

### ***Reference Tariff adjustments***

As mentioned in paragraph (d) above, the DAAU makes provision for the resetting of the WACC for changes in specified parameters. Similarly, at various points during the term of the undertaking reflected in the DAAU, Aurizon Network is obliged to provide the QCA with revised data sets to allow for adjustments to Reference Tariffs. Part 6A of the DAAU expressly governs how Reference Tariffs (as well as Allowable Revenues and GtK forecasts) are to be applied in adjusting Schedule F for the period commencing on the Reset Date and ending on the Terminating Date.

The data and forecasts to be updated and provided to the QCA at specified times are set out in Part 6A and Schedule F of the DAAU. Part 6A and Schedule F also set out the methodology to be applied in updating relevant data, as well as the basis on which the QCA is to consider, and if applicable, approve the proposed adjustments to Reference Tariffs.

The DAAU expressly contemplates that Aurizon Network must provide supporting documents, modelling and assumptions used in the revised data and forecasts for the QCA to consider. Part 6A of the DAAU also provides that the QCA will publish proposed reset values on which it will seek and consider submissions from industry participants, as part of the process of approving or refusing to approve the proposed reset values by which the Reference Tariffs will be revised.

Additionally, Schedule F specifies the manner in which various data sets must be provided to the QCA as part of the process for annual review of Reference Tariffs. The data to be provided by Aurizon Network to the QCA in this regard includes:

- the value of the proposed Maintenance Indicator and Capital Indicator determined in accordance with applicable provisions of the DAAU; and
- the maintenance strategy and budget approved by end users for a particular year, or if none is approved by a specified date, Aurizon Network's proposed maintenance strategy and budget (and the same approach for the asset renewals strategy and budget) for review by the QCA.

Schedule F also includes a list of matters that are not to apply in the adjustment of Reference Tariffs prior to 30 June 2023 and the matters which the QCA must take into account in approving or refusing to approve the various matters listed for its approval as part of the adjustment process.

### ***Allowable Revenue adjustments***

Part 6A and Schedule F proposed by the DAAU follow a similar process to the one described above in respect of the adjustment of Reference Tariffs, for the adjustment of Allowable Revenue at various points in the term of the undertaking. In particular, Part 6A and Schedule F set out the data and supporting information to be provided by Aurizon Network to the QCA, the manner in which certain data is to be determined and the methodology to be applied by the QCA in exercising its power to approve or refuse to approve an adjustment.

Schedule K of the DAAU has been included for the purpose of transparency as to the method of calculation of the forecast Allowable Revenues for the period from 1 July 2017 to 30 June 2023.

### ***Term***

In order to provide all stakeholders and the equity markets with greater certainty, Aurizon Network and the end users that support the DAAU have proposed that the revised access undertaking should have a term of (approximately) eight years. The term would commence on the Approval Date (expected in 2019) and end on 30 June 2027, unless terminated earlier in accordance with the Act.

Aurizon Network recognises that the proposed term is longer than has traditionally applied in respect of its access undertakings. However, Aurizon Network and the end users that support the DAAU consider a longer term undertaking is appropriate in view of:

- the detailed nature and the documented outcome of the extensive consultation process with a significant number of customers;
- the nature of the operational and other benefits associated with the proposed revised undertaking and the material benefits that will flow from their application over a longer period;
- the effort in establishing the independent expert and the role that the expert will play in critical elements of the proposed new arrangements;
- the greater financial certainty a longer term will provide, enabling efficient investment in the Rail Infrastructure, including the significant financial investment which Aurizon Network has already committed to make in the provisions of the DAAU; and
- the introduction of an ability for end users to propose amendments to the approved access undertaking.