

Decision

Aurizon Network's Revised UT5 draft amending access undertaking

December 2019

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DECISION

On 4 December 2019, Aurizon Network submitted a draft amending access undertaking (Aurizon Network's Revised UT5 DAAU) seeking to make amendments to its approved 2017 Undertaking (UT5). Aurizon Network said its Revised UT5 DAAU complies with our decision on 25 November 2019 (November Decision) in respect of Aurizon Network's previous UT5 DAAU application.¹

It is our decision that Aurizon Network's Revised UT5 DAAU is appropriate to approve.

Our decision has been made after considering Aurizon Network's Revised UT5 DAAU in accordance with the statutory assessment criteria in s. 138(2) and other applicable requirements of the QCA Act. We have also considered all submissions received from stakeholders.

Aurizon Network's Revised DAAU has been submitted in response to our November Decision in which we did not approve Aurizon Network's previous UT5 DAAU application (submitted to us on 3 May 2019). That decision considered the appropriateness of Aurizon Network's UT5 DAAU and provided notice of the:

- reasons for our refusal; and
- way in which we considered it appropriate to amend Aurizon Network's DAAU.

We consider that Aurizon Network's Revised UT5 DAAU complies with our November Decision; in particular, the amendments required to secure our approval. In the absence of any reason to depart from the positions outlined in our November Decision, we adopt these positions and supporting analysis in our consideration of the statutory assessment criteria in s. 138(2) and in forming our decision on the appropriateness of Aurizon Network's Revised UT5 DAAU.² Relevantly, submissions have supported the approval of Aurizon Network's Revised UT5 DAAU.

Aurizon Network's Revised UT5 DAAU

Among other things, the key amendments we consider appropriate to approve include:

- Extending the term of the UT5 Undertaking to 30 June 2027 with processes to reset allowable revenues and reference tariffs for the reset period (2023–24 to 2026–27).
- Increasing the Approved WACC from 5.7% to 5.9% (from 3 May 2019),³ with a further 0.4% increase following certain milestones related to the Initial Capacity Assessment Report, and a 0.3% reduction to apply where the rebate mechanism ceases to apply.
- Developing maintenance allowances on an annual basis from 1 July 2021, with processes for direct customer involvement in developing maintenance strategies and budgets. Where Aurizon Network does not obtain pre-approval from coal end users, we will assess and determine the annual maintenance strategy and budget.
- We will determine the extent to which annual maintenance cost claims are consistent with approved maintenance strategies and budgets from 1 July 2021, with adjustments to reference tariffs to reflect the approved maintenance expenditure.

¹ QCA, *Aurizon Network's 2019 UT5 DAAU*—decision, 25 November 2019.

² QCA, *Aurizon Network's 2019 UT5 DAAU*—decision, 25 November 2019.

³ While we must consider Aurizon Network's Revised UT5 DAAU afresh, we recognise that Aurizon Network has submitted a revised version of its previous UT5 DAAU application, as submitted on 3 May 2019. In doing so, the Initial Date is 3 May 2019.

- A new role for an Independent Expert to undertake a range of tasks, including:
 - Determination of capacity of the below-rail network and broader supply chain, identifying existing capacity deficits and making recommendations on how these should be addressed.
 - Determination of the system operating parameters for planning and contracting purposes.
 - Reviewing performance information and network service quality as well as providing monthly performance reports to relevant parties.
 - Participating in network development plans and a consultation role within demand assessments for access seekers and provisional capacity allocations to access holders.
- Various mechanisms that involve voting thresholds that provide, amongst other things, pre-approval and approval processes that bind Aurizon Network, as supported by coal producer representatives.
- Aurizon Network funding expansions to address capacity deficits identified by the Independent Expert's initial capacity assessment agreed by end customers, or failing agreement as determined by us, up to \$300 million in total.
- Aurizon Network committing to fund expansions (up to \$30 million per annum, with carry-forward provisions) that benefit more than one access seeker/holder or customer.
- Revised ring-fencing and governance arrangements, including a customer voting process to approve proposed transfer of key Aurizon personnel between Aurizon Network and its related parties.
- Development of a 'Rail Industry Group' to facilitate consultation on a range of matters, including proposed maintenance and renewals strategies and budgets.
- A rebate is payable by Aurizon Network where the Independent Expert identifies that there has been a contractual capacity shortfall due to Aurizon Network breaching its contractual/undertaking obligations for coal users. A review process will occur in January 2023 for us to assess whether the rebate mechanism is achieving its objectives.
- Retaining contractual and regulatory obligations to minimise disruption to non-coal access holders and clarifying specific capacity matters for non-coal traffic to be considered by the Independent Expert.

Stakeholder submissions

Submissions received from stakeholders supported the approval of Aurizon Network's Revised UT5 DAAU.

Aurizon Network's proposal reflects the consensus positions that have been developed in consultation with a diverse and overwhelming number of coal users. The following coal producers submitted in support of Aurizon Network's Revised UT5 DAAU:⁴

- Anglo American Metallurgical Coal
- BHP Billiton Mitsui Coal
- BMA Coal Operations
- Byerwen Coal
- Coronado Curragh
- Ensham Resources

⁴ Coal producer submission, sub. 3.

- Hail Creek Coal Holdings
- Jellinbah Mining
- Kestrel Coal Resources
- Lake Vermont Resources
- Middlemount Coal
- Peabody Energy Australia PCI
- Peabody Energy Australia
- QCoal Group
- Yarrabee Coal Company

In addition, Pacific National submitted it had no objections to Aurizon Network's Revised UT5 DAAU noting that non-coal issues have been addressed.⁵

We have also considered the effect of the amendments on all stakeholders, including train operators, future access seekers and non-coal traffics, who are not necessarily represented by the coal producers that developed consensus positions. Our broader considerations have also included the public interest.

Submission list

We received the following submissions from stakeholders during our assessment of Aurizon Network's Revised UT5 DAAU.

<i>Stakeholder</i>	<i>Submission</i>	<i>Sub. number</i>	<i>Date submitted</i>
Aurizon Network	Aurizon Network 2019 Draft Amending Access Undertaking, 4 December 2019	1	4 December 2019
Pacific National	Submission on Aurizon Network's Revised UT5 DAAU	2	9 December 2019
Coal producer submission	Submission on Aurizon Network's Revised UT5 DAAU	3	10 December 2019

All submissions are available on our website.

⁵ Pacific National, sub. 2.