

File Ref: 1434712

17 December 2020

Ms Pam Bains  
Group Executive Network  
Aurizon Network Pty Ltd  
GPO Box 456  
Brisbane Qld 4001

Dear Ms Bains

**Notice of final decision: Aurizon Network's 2019–20 revenue adjustment**

The Queensland Competition Authority has determined that Aurizon Network has appropriately calculated all of the revenue adjustments proposed on 30 October 2020. The QCA has therefore decided to approve Aurizon Network's revenue adjustment amount for 2019–20 under clause 4.3(u) of schedule F of the 2017 access undertaking (UT5).

The QCA's review of the revenue adjustment is summarised in the attached decision notice. The notice includes a brief overview of the basis of our assessment and our main findings. This is a written notice for the purpose of clause 4.3(s)(i) in schedule F of UT5.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries on the attached paper, please direct them in the first instance to Zoe Wyatt on 07 3222 0547, or by email at [zoe.wyatt@qca.org.au](mailto:zoe.wyatt@qca.org.au).

Yours sincerely



Charles Millstead  
Chief Executive Officer

cc: *Jon Windle, Network Regulation Manger, Aurizon Network*



## DECISION NOTICE

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### AURIZON NETWORK'S 2019–20 REVENUE ADJUSTMENT AMOUNTS

17 December 2020

The Queensland Competition Authority has made a decision to approve the 2019–20 revenue adjustment amount of \$3.0 million, proposed by Aurizon Network on 30 October 2020 under the 2017 access undertaking (UT5). The QCA considers that Aurizon Network has calculated the adjustment amounts in accordance with clause 4.3 of schedule F.

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#### Revenue adjustment assessment process

The 2017 access undertaking (UT5) requires that Aurizon Network submit a proposal to refund or recoup any over- or under-recovery of its allowable revenues by 31 October each year (sch. F, cl. 4.3(m)).

The revenue adjustments are the difference between the maximum allowable revenue (MAR) plus any allowable adjustments (collectively termed the adjusted allowable revenue (AAR)), and the total actual revenue (TAR) collected in that year from the approved AT2–AT5 reference tariffs.

Clause 4.3 of schedule F sets out the assessment process for a revenue adjustment application. We will approve the application if we are reasonably satisfied that the adjustment amount is calculated in accordance with clause 4.3 (sch. F, cl. 4.3(r)). The approved revenue amounts then adjust the second-year's system allowable revenues and corresponding AT2–AT5 reference tariffs (sch. F, cl. 4.4).

If we are not reasonably satisfied that the revenue adjustment amount is calculated in accordance with clause 4.3, we must refuse to approve it. In that case, we must then issue a notice to Aurizon Network, explaining our reasons for the refusal and the way Aurizon Network is required to amend its proposal for resubmission (sch. F, cl. 4.3(s)(ii)).

We have closely checked Aurizon Network's application and supporting models<sup>1</sup> against all available information (publicly available and confidentially provided), to determine whether the calculations in this revenue assessment process have been performed in accordance with UT5.

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<sup>1</sup> Aurizon Network provided models for: take or pay, WACC adjustment, rebate adjustment, transfers, electricity connection cost adjustments, and the revenue cap adjustment calculations.

## Aurizon Network's proposal

On 30 October 2020, Aurizon Network submitted its revenue adjustment proposal for a net recovery of \$3.0 million for the 2019–20 financial year (see Table 1 for system-specific over- and under-recoveries).

**Table 1 Revenue adjustment amounts 2019–20 (\$ million)**

<i>System</i>	<i>AT2–4 (non-electric)</i>	<i>AT5 (electric)</i>	<i>Total</i>
Blackwater	6.6	(2.7)	3.8
Goonyella	(6.1)	6.2	(0.0) <sup>a</sup>
Moura	2.1	–	2.1
Newlands	(1.6)	–	(1.6)
GAPE	(1.4)	–	(1.4)
<b>Total</b>	<b>(0.5)</b>	<b>3.4</b>	<b>3.0</b>

*a There is a net recovery for Goonyella but it is less than \$0.1m.*

*Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a refund.*

*Source: Aurizon Network, 2019–20 Revenue Adjustment Explanatory Memorandum, October 2020, p. 5.*

## Stakeholder consultation

We invited stakeholder submissions on Aurizon Network's 2019–20 revenue adjustment proposal, but did not receive any responses.

## Total actual revenues and adjustments

The TAR represents the collected revenues made up of the system reference tariffs—including cross-system AT2–AT5 tariffs (sch. F, cl. 4.3(d)–(k))—billed to access holders on all railed volumes in the financial year, and any take or pay amounts payable.

Aurizon Network submitted detailed monthly data demonstrating the calculation of the TAR.

### Take or pay and cross-system revenues

Aurizon Network provided billing information on how it calculated the take or pay revenues under its access contracts.

Take or pay amounts were triggered in the Goonyella system and Moura system in 2019–20. Aurizon Network's total cross-system and take or pay revenue for 2019–20 was \$52.6 million, comprising \$44.8 million from non-electric customers and \$7.8 million from electric customers.

We are satisfied that:

- the take or pay revenues were accurately estimated on the basis that railings within a nominated month, for the purposes of annual and variable take or pay, were consistently treated
- any cancellations (if any) due to an 'Aurizon Network Cause' were appropriately attributed, and the methodology in standard access agreements for various access undertakings has been applied correctly.

We confirm that Aurizon Network has correctly calculated the take or pay revenues that applied for agreements signed during each undertaking period (sch. F, cl. 4.3(d)(ii)).

#### Total actual revenues

Aurizon Network submitted TAR of \$966 million for 2019–20, including all take or pay and cross-system traffic revenues received (see Table 2).

**Table 2 Total actual revenues 2019–20 (including take or pay and cross-system revenues) (\$ million)**

<i>System</i>	<i>AT2–AT4 (non-electric)</i>	<i>AT5 (electric)</i>	<i>Total</i>
Blackwater	362.0	82.7	444.7
Goonyella	284.3	53.5	337.8
Moura	42.3	–	42.3
Newlands	18.0	–	18.0
GAPE	122.6	–	122.6
<b>Total</b>	<b>829.3</b>	<b>136.3</b>	<b>965.6</b>

*Note: Numbers may not sum due to rounding.*

*Source: Aurizon Network, 2019–20 Revenue Adjustment Explanatory Memorandum, October 2020, p. 15.*

The QCA is satisfied that Aurizon Network calculated its system and cross-system tariff revenues in accordance with the approved reference tariffs established under the Consolidation DAAU<sup>2</sup>.

#### Volumes

Aurizon Network's total actual revenues collected are based on amounts billed against each customer's actual railings achieved in that period (see Table 3).

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<sup>2</sup> The QCA approved the Consolidation DAAU on 21 February 2020.

**Table 3 Forecast and actual volumes 2019–20 (million net tonnes)**

<i>System</i>	<i>Approved forecasts</i>	<i>Actual tonnages</i>
Blackwater	65.4	62.6
Goonyella	126.1	117.7
Moura	16.5	13.6
Newlands	13.2	14.1
GAPE	18.9	18.8
<b>Total</b>	<b>240.0</b>	<b>226.9</b>

Source: Aurizon Network, 2019–20 Revenue Adjustment Explanatory Memorandum, October 2020, p. 8.

The gross tonne kilometres (gtk) and net tonnes (nt) submitted by Aurizon Network were reconciled to Aurizon Network's monthly performance summary on its Power BI portal and its 2019–20 annual report.

### System allowable revenues and adjustments

Annual system allowable revenues represent the approved amounts Aurizon Network is set to recover in each year during the term of its approved undertaking. Each system's allowable revenues are published in schedule F of UT5.

Under the revenue adjustment process (sch. F, cl. 4.3(c)), Aurizon Network can submit adjustments to the annual allowable revenues. Aurizon Network's 2019–20 proposal outlined its claim for the following cost adjustments to the allowable revenue under schedule F, cl. 4.3(c).

#### WACC adjustment

The WACC adjustment accounts for the difference between the actual approved WACC and the approved WACC that was used to determine the relevant reference tariff for the year (sch. F, cl. 4.3 (c)(i) of UT5).

The approved WACC used in determining 2019–20 reference tariffs was 6.03%. This assumed that the report date milestone under UT5<sup>3</sup> would be met by 1 March 2020. However, as this did not occur, the approved WACC for 2019–20 reference tariffs was actually 5.9%.

To account for the difference in the approved WACC, Aurizon Network has calculated a net return to access holders of \$8.9 million (see Table 4 for system-specific adjustments).

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<sup>3</sup> The date when the Independent Expert has completed the initial capacity assessment, and Aurizon Network has provided its detailed report on proposed solutions to any identified existing capacity deficit.

**Table 4 WACC adjustment by system (\$ million)**

<i>System</i>	<i>AT2–AT4 WACC adjustment</i>	<i>AT5 WACC adjustment</i>	<i>Total</i>
Blackwater	(3.4)	(0.6)	(4.1)
Goonyella	(2.4)	(0.4)	(2.7)
Moura	(0.5)	–	(0.5)
Newlands	(0.3)	–	(0.3)
GAPE	(1.3)	–	(1.3)
<b>Total</b>	<b>(8.0)</b>	<b>(1.0)</b>	<b>(8.9)</b>

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, 2019–20 Revenue Adjustment Explanatory Memorandum, October 2020, p. 12.

Aurizon Network provided a detailed model of the WACC adjustment. We verified Aurizon Network's modelling and are satisfied with Aurizon Network's claim under the WACC adjustment.

#### Maintenance cost adjustment

The maintenance cost adjustment accounts for the difference between the approved maintenance indicator and actual maintenance costs for the year, where actual maintenance costs are lower (sch. F, cl. 4.3 (c)(ii) of UT5). Following our approval of the Maintenance and Cross System Voting DAAU<sup>4</sup>, the maintenance indicator was approved to refer to the most recent maintenance cost allowances— as provided for in the approved Consolidation DAAU (cl. 7A.11.5(b)(ii) of UT5).

As actual maintenance costs for 2019–20 were lower than the maintenance indicator for 2019–20, Aurizon Network has calculated a net return to access holders of \$4.6 million (see Table 5 for system-specific adjustments).

**Table 5 Maintenance cost adjustment by system (\$ million)**

<i>System</i>	<i>Maintenance indicator</i>	<i>Actual maintenance costs</i>	<i>Difference—where actual is less than the indicator</i>	<i>AT2–AT4 maintenance adjustment</i>	<i>AT5 maintenance adjustment</i>
Blackwater	64.5	64.5	(0.1)	(0.1)	–
Goonyella	62.2	58.7	(3.5)	(3.1)	(0.4)
Moura	11.6	12.2	n/a	–	–
Newlands	3.2	3.0	(0.2)	(0.2)	–
GAPE	11.4	10.6	(0.8)	(0.8)	–
<b>Total</b>	<b>153.0</b>	<b>148.9</b>	<b>(4.6)</b>	<b>(4.2)</b>	<b>(0.4)</b>

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, 2019–20 Revenue Adjustment Explanatory Memorandum, October 2020, pp. 12–13.

<sup>4</sup> The QCA approved the Maintenance and Cross System Voting DAAU on 22 October 2020.

We confirmed that the actual maintenance costs are consistent with those included within the 2019–20 annual maintenance report, the Maintenance Indicator is consistent with the approved Consolidation DAAU values, and we verified Aurizon Network's modelling. Therefore, we are satisfied with Aurizon Network's claim under the maintenance cost adjustment.

### Electricity connection costs

The electricity connection cost adjustment accounts for the difference between forecast and actual costs incurred in connecting to an electric transmission or distribution network (sch. F, cl. 4.3 (c)(iv) of UT5). This adjustment is only applicable to Aurizon Networks electrified systems.

To account for the difference between forecast electricity connection costs for 2019–20 and the actual electricity connection costs paid to Powerlink Queensland and Ergon Energy in 2019–20, Aurizon Network has calculated a net recovery from access holders of \$0.2 million.

Our analysis confirms that the costs associated with electricity connection charges from electric infrastructure providers have been appropriately tracked, and invoices supplied by Aurizon Network reflect actual costs incurred. We consider this cost pass-through is appropriate.

### Rebates adjustment

The rebates adjustment accounts for the difference between forecast and actual rebate payments made to access holders who have provided Aurizon Network with funds to underwrite capital investments (sch. F, cl. 4.3 (c)(viii) of UT5).

To account for the difference between forecast and actual rebate payments made in 2019–20, Aurizon Network has calculated a net return to access holders of \$3.5 million for AT2–4 and a net recovery from access holders of \$0.1 million for AT5 (see Table 6 for system-specific rebates).

**Table 6 Aurizon Network rebates by system (\$ million)**

<b>System</b>	<b>AT2–AT4 rebate adjustment</b>	<b>AT5 rebate adjustment</b>	<b>Total</b>
Blackwater	(2.8)	–	(2.8)
Goonyella	(0.7)	0.1	(0.6)
Newlands	0.0 <sup>a</sup>	–	0.0 <sup>a</sup>
<b>Total</b>	<b>(3.5)</b>	<b>0.1</b>	<b>(3.4)</b>

*a There is a net recovery for Newlands but it is less than \$0.1m.*

*Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a return. There are no rebate arrangements covering mines in the Moura and GAPE systems, or rebate arrangements for electric infrastructure in the Blackwater system.*

*Source: Aurizon Network, 2019–20 Revenue Adjustment Explanatory Memorandum, October 2020, p. 14.*

Aurizon Network provided a detailed model of the rebate adjustments. We verified Aurizon Network's modelling and are satisfied with Aurizon Network's claim under the rebate adjustments.

## Decision

For the reasons discussed above, the revenue adjustment amount application submitted by Aurizon Network on 30 October 2020 satisfies the requirements of UT5. The QCA's decision is therefore to approve the total adjustment.

Table 7 shows a summary of 2019–20 revenue adjustment amounts for each system and all adjustments made to total revenues received and allowable revenues.

**Table 7 Approved allowable revenues and adjustments 2019–2020 (\$ million)**

<i>System</i>	<i>Allowable revenues in schedule F</i>	<i>WACC</i>	<i>Maintenance costs</i>	<i>Electricity connection costs</i>	<i>Rebates</i>	<i>Adjusted allowable revenues</i>	<i>Total actual revenues (per Table 2)</i>	<i>Revenue adjustment amount 2019–20</i>
Non-electric								
Blackwater	374.8	(3.4)	(0.1)	–	(2.8)	368.5	362.0	6.6
Goonyella	284.3	(2.4)	(3.1)	–	(0.7)	278.2	284.3	(6.1)
Moura	44.9	(0.5)	–	–	–	44.4	42.3	2.1
Newlands	17.0	(0.3)	(0.2)	–	0.0 <sup>a</sup>	16.4	18.0	(1.6)
GAPE	123.4	(1.3)	(0.8)	–	–	121.2	122.6	(1.4)
Subtotal	<b>844.4</b>	<b>(8.0)</b>	<b>(4.2)</b>	<b>–</b>	<b>(3.5)</b>	<b>828.8</b>	<b>829.3</b>	<b>(0.5)</b>
Electric								
Blackwater	80.6	(0.6)	–	0.1	–	80.0	82.7	(2.7)
Goonyella	60.3	(0.4)	(0.4)	0.1	0.1	59.7	53.5	6.2
Subtotal	<b>140.9</b>	<b>(1.0)</b>	<b>(0.4)</b>	<b>0.2</b>	<b>0.1</b>	<b>139.7</b>	<b>136.3</b>	<b>3.4</b>
TOTAL	<b>985.3</b>	<b>(8.9)</b>	<b>(4.6)</b>	<b>0.2</b>	<b>(3.4)</b>	<b>968.6</b>	<b>965.6</b>	<b>3.0</b>

*a There is a net recovery for Newlands but is less than \$0.1m.*

*Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery, and thus a return.*