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Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Draft Amending Access Undertaking - Electric Energy Charge for Financial Year (FY) 2023

8 June 2022

Dear George,

Aurizon Network's 2017 Access Undertaking (**UT5**) allows for the recovery of electric energy costs and Variable Connection Charges through the electric energy charge component of the approved Reference Tariffs (**EC Tariff**).

The purpose of this Draft Amending Access Undertaking (**DAAU**) is to:

- propose a new EC Tariff for FY2023, having regard to the current volatility in the electricity market and the pricing recommendations from electricity market expert Edge2020;
- outline Aurizon Network's commitment to engage with stakeholders during FY2023 in relation to electricity pricing movements and coal volume forecasts; and
- confirm Aurizon Network's commitment to review and if required, submit a further update to the FY2023 EC Tariff and other regulatory inputs potentially including Coal Volumes to the QCA no later than Q4 of FY2023 via a further DAAU.

Background

Aurizon is one of Queensland largest individual energy consumers and its progressive Electricity Supply Agreement (**ESA**) expires in June 2022.

Engagement with Customers earlier this year, indicated support for the inclusion of renewables into the energy portfolio and that many of Aurizon Network's Customers were taking similar steps in their own organisations.

During FY2022, Aurizon Network has undertaken a competitive procurement process to investigate alternative energy procurement options. This included options to incorporate renewable (green) energy within the energy mix. Engagement with the Rail Working Group and Operators indicated that while cost was an important consideration, Customers were generally supportive of Aurizon Network's approach, as this would assist them to reduce their 'Scope 3' emissions and help meet their emission targets.

The change in procurement approach to allow for the purchase of electricity from renewable sources required Aurizon Network to execute a new ESA. Following a competitive procurement process, CleanCo Queensland was appointed as the preferred electricity

supplier. Over the term of the ESA, Aurizon's green electricity requirements will increase to a total of 25%. This will directly support the development of renewable projects across Australia, and maybe increased over the life of the ESA.

Separate from the above procurement process, Aurizon Network's Annual Review of Reference Tariffs (**ARRT**) for FY2023 was submitted to the QCA on 28 February and was approved on 26 May 2022. The ARRT submission included an estimate of the EC Tariff for FY2023 that was based on forecast assumptions and financial inputs from electricity retailers in early February 2022. This resulted in a forecast EC Tariff for FY2023 of \$1.11 (\$ per eGTK'000).

Material market-driven increase in the wholesale electricity costs

Aurizon Network's ARRT submission noted that it was seeing a significant increase in wholesale electricity rates.¹ The Australian Energy Regulator (**AER**) attributes volatility in the electricity market to factors including thermal plant outages, higher thermal coal and gas prices (due to international events), slowing of investment in new capacity and increasingly peaky demand.²

The AER's Wholesale Markets Quarterly Q1 2022 report also notes that:

- Volume weighted average prices in Queensland during Q1 2022 quadrupled to \$171/MWh compared to the same quarter last year;
- La Nina conditions contributed to relatively high humidity and elevated overnight temperatures, causing Queensland demand to reach near record highs on multiple occasions;
- Outages in black coal generators reduced capacity available, with Queensland becoming a net importer of electricity for the first time since the Queensland-NSW Interconnector (QNI) was commissioned in 2001; and
- QNI constraints means that Queensland had limited access to cheaper generation from New South Wales.³

An update to the EC Tariff is required

Under Schedule F, clause 2.2(a) of the 2017 Access Undertaking (**UT5**), Aurizon Network can seek Queensland Competition Authority (**QCA**) approval for a new electric energy and Variable Connection Charge (taking into account any over or under recovery in the previous year) and publish it on its website on or about 31 May each year.

Although a forecast EC Tariff for FY2023 was estimated within the ARRT, and there is the ability under UT5 to reconcile any under or over recovery of the EC Tariff from a previous year, Aurizon Network considers that a further update to the FY2023 EC Tariff is required.

Given the increase in wholesale pricing and the ongoing volatility within the electricity market, Aurizon Network considers that submission via a Draft Amending Access Undertaking (**DAAU**) is the most appropriate regulatory process in this instance. A DAAU will allow for Aurizon Network to recover the efficient costs of providing access to the service, as required under s168 of the *Queensland Competition Authority Act, 1997* (Qld). Furthermore, it will mitigate the

¹ Aurizon Network (2022), 2017 Access Undertaking, Review of Reference Tariffs – FY2023, 28 February, pg. 19.

² Australian Energy Regulator (2022), <https://www.aer.gov.au/news-release/aer-sets-energy-price-cap-to-protect-consumers>, Accessed 26 May 2022.

³ Australian Energy Regulator (2022), Wholesale Markets Quarterly - Q1 2022, May, pg. iv.

likelihood that a material adjustment to the FY2024 EC Tariff will be required as a result of a FY2023 cost under-recovery.

Proposed basis of calculating EC for FY2023

Electricity market expert Edge2020 provides Aurizon Network with ongoing strategic advice relating to the execution, management and pricing of electricity supply agreements.

Following selection of the energy supplier CleanCo Queensland, Edge2020 have provided Aurizon Network with a pricing recommendation, which will form the basis of the proposed EC Tariff calculation. At the time of drafting, Edge2020 has advised a 12-month forward price of \$242 / MWh for FY2023 based on current market rates.⁴ For clarity, Aurizon Network has applied this rate when calculating the forecast consumption and supply charges for FY2023.

This results in an increase in the EC Tariff from \$1.11 to \$2.82 (\$ per eGTK'000).

Recognising the current price volatility in the electricity market, Aurizon Network has not sought to lock in the full anticipated demand for FY2023 at this time. Aurizon Network has:

- purchased electricity blocks for FY23 Q1 (i.e. 1 July to 30 September 2022); and
- left the remaining three (3) quarters of FY23 subject to purchase at a later date.

Aurizon Network commits to engage with Customers during FY2023 to provide updates on electricity price expectations for the remainder of the year. As part of this engagement, Aurizon Network commits to review the FY2023 EC Tariff and other regulatory inputs including Coal Volumes with a view to submitting revised values to the QCA no later than Q4 of FY2023 via a further Draft Amending Access Undertaking.

Table 1 sets out Aurizon Network's proposed EC Tariff for FY2023 in accordance with UT5, Schedule F, clause 2.2(a). For clarity, the electric gross tonne kilometres (eGTKs) used to derive the EC Tariff are based on the FY23 ARRT volume forecasts approved by the QCA on 26 May 2022.

Table 1 Proposed EC Tariff for FY2023

	\$m
Total Electric Energy and Variable Connection Charge Cost	172.4
Expected (over) or under recovery from Prior Year	3.3
Adjusted EC Cost	175.7
Forecast eGTK'000 (Blackwater and Goonyella)	62,359,945
Proposed EC Tariff for FY2023 (\$ per eGTK'000)	2.82

In compliance with Schedule F, clause 2.2(e), the composition of EC is outlined in Table 2.

Table 2 Composition of the proposed EC Tariff

Cost Component	\$m	\$ per eGTK'000
Consumption and Supply	157.9	2.53
Environmental Compliance Charge	13.3	0.21

⁴ https://www.asxenergy.com.au/futures_au, Queensland FY23 Settled Price, Accessed Friday 3 June, 2022.

Cost Component	\$m	\$ per eGTK'000
Variable Connection Charge	4.5	0.07
Total	175.7	2.82

While the prices associated with each cost component of the EC Tariff aren't the direct result of regulatory determinations, it should be noted that each component is subject to oversight (and if required, intervention) by regulatory bodies, including the AER, Australian Energy Market Operator (**AEMO**) and Australian Energy Market Commission (**AEMC**).

As outlined in Table 2, the EC Tariff is comprised of:

- Consumption and Supply charges, which includes:
 - Consumption charges (Peak / Off-Peak / Flat rates per MWh), based on the forward wholesale market and subject to oversight by the AER;
 - Market Charges, set by AEMO;
 - Fixed Service/Metering Charges, set by the retailer and metering provider;
- Environmental Compliance charges, which are a function of Australian Government (Clean Energy Regulator) targets and the associated environmental certificates, with the price of those certificates determined by the wholesale market; and
- Variable Connection Charge, which are regulated by the AER.

Should you have any questions or require further information, please do not hesitate to contact Jon Windle at: Jon.Windle@aurizon.com.au

Sincerely,

Dan Kearney

Dan Kearney
Head of Finance & Regulation