

File Ref: 1487393

23 March 2023

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

Dear Ms Bains

**Notice of decision: Aurizon Network's 2021–22 revenue adjustment amount**

The Queensland Competition Authority (QCA) has approved Aurizon Network's 2021–22 revenue adjustment amount, for a net recovery of \$35.8 million, as proposed by Aurizon Network on 20 January 2023.

The QCA is satisfied that the resubmitted proposal complies with QCA's December 2022 decision on Aurizon Network's original proposal, in particular that the WACC adjustment is now made on the basis that the approved WACC increased (from 5.9% to 6.3%) on 14 March 2022.

The QCA has therefore approved the resubmitted amount under clause 4.3(u) of schedule F of the 2017 access undertaking (UT5). This amount will then adjust the second-year's system allowable revenues and corresponding AT2–AT5 reference tariffs.

The QCA's assessment of the elements of the approved revenue adjustment amounts is attached. This sets out the review and assessment process and the QCA's main findings.

The QCA's decision reflects its position on the meaning of the term 'report date' under UT5. Although the construction of the definition of the 'report date' is now the subject of legal proceedings in the Supreme Court of Queensland, the QCA considered it appropriate to progress the assessment of the resubmission. This was, in part, in recognition of Aurizon Network's request, so that the approved adjustments can come into effect without delay. I note Aurizon Network is operating on the basis that this decision is legally effective, unless and until the court makes a different determination—and it will seek a true-up of amounts in that event.

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 decision notice, please direct them in the first instance to Pag Arao-Arao on 07 3222 0560, or by email at [pag.arao-arao@qca.org.au](mailto:pag.arao-arao@qca.org.au).

Yours sincerely



Charles Millstead  
Chief Executive Officer

cc: Jon Windle, Network Regulation Manager, Aurizon Network

## AURIZON NETWORK'S 2021–22 REVENUE ADJUSTMENT AMOUNTS

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23 March 2023

The Queensland Competition Authority's (QCA) has approved Aurizon Network's 2021–22 revenue adjustment amount of \$35.8 million under cl. 4.3(u) of schedule F of 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 of UT5.

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Each year Aurizon Network submits a proposal to refund or recoup any over- or under-recovery of its allowable revenues. The proposed adjustments are the difference between Aurizon Network's 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.

On 4 November 2022,<sup>1</sup> Aurizon Network submitted its revenue adjustment proposal for a net recovery of \$44.6 million for 2021–22.<sup>2</sup>

On 15 December 2022, we advised Aurizon Network that we had refused to approve this proposal.<sup>3</sup> We determined that Aurizon Network had appropriately calculated all the revenue adjustments, except for its proposed WACC adjustment. We required Aurizon Network to amend and resubmit its proposal, recalculating the proposed WACC adjustment on the basis that the approved WACC increased (from 5.9% to 6.3%) on 14 March 2022.<sup>4</sup>

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<sup>1</sup> UT5 requires Aurizon Network to submit its yearly revenue adjustment amounts by 31 October—but also provides for the QCA to grant an extension of time, upon written request, should the extension be reasonable or necessary (UT5, sch. F, cls. 4.3 (m), (o)). The QCA agreed to a short extension for Aurizon Network to provide its 2021–22 revenue adjustment amounts (to 4 November 2022).

<sup>2</sup> Aurizon Network, *FY2022 Revenue Adjustment Amounts – Explanatory Memorandum*, November 2022. This is available on our [website](#).

<sup>3</sup> UT5, sch. F, cl 4.3(s)(ii).

<sup>4</sup> QCA, [Aurizon Network's 2021–22 revenue adjustment amounts](#), decision notice, December 2022.

On 20 January 2023,<sup>5</sup> Aurizon Network resubmitted its revenue adjustment amounts for 2021–22, consistent with our decision.<sup>6</sup>

### Revenue adjustment assessment process

UT5 (sch. F, cl. 4.3) sets out a process for assessing Aurizon Network's proposed revenue adjustment.

We will approve a proposal if we are satisfied that it has been calculated in accordance with UT5—or we will issue a notice requiring Aurizon Network to resubmit its proposal, with amendments (sch. F, cls 4.3(r), (s)).

We may approve a resubmitted proposal (provided in response to notice requiring amendments) if we are satisfied that the resubmitted proposal has been amended or developed in accordance with that notice (sch. F, cl. 4.3(u)).<sup>7</sup>

In making our assessment, we closely considered Aurizon Network's proposal(s)<sup>8</sup>, supplementary information and supporting models<sup>9</sup> against all available information (both publicly available and confidentially provided).

### Stakeholder consultation

We invited stakeholder submissions on Aurizon Network's initial 2021–22 revenue adjustment proposal and received a submission from the Queensland Resources Council (QRC).<sup>10</sup>

We published our December decision, so that stakeholders could be informed of our position on the meaning of the term 'report date' under UT5, given the disagreement that existed around the timing of the approved WACC increase.

### Resubmitted revenue adjustment amounts for 2021–22

Aurizon Network's resubmitted revenue adjustment proposal provides for a net recovery of \$35.8 million for the 2021–22 financial year (see Table 1 for system-specific over- and under-recoveries).

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<sup>5</sup> UT5 requires Aurizon Network to resubmit a compliant proposal within 30 days—but also provides for the QCA to grant an extension of time, upon written request, should the extension be reasonable or necessary (UT5, sch. F, cls. 4.3(o), (s)(ii)(B), (t)). We agreed to a short extension for Aurizon Network to provide its resubmitted 2021–22 revenue adjustment amounts (to 20 January 2023).

<sup>6</sup> Aurizon Network, *Amended FY2022 Revenue Adjustment Amounts – Explanatory Memorandum*, January 2023. This is available on our [website](#).

<sup>7</sup> Approval is also subject to consultation requirements. We have undertaken requisite consultation (UT5, sch. F, cls. 4.3(q) and (u)(i)).

<sup>8</sup> In this case, Aurizon Network's original and resubmitted proposals.

<sup>9</sup> Aurizon Network provided models for take or pay, WACC adjustment, rebate adjustment, transfers, electricity connection cost adjustments, and the revenue cap adjustment calculations.

<sup>10</sup> The QRC's submission is available on our [website](#).

**Table 1 Revenue adjustment amounts 2021–22 (\$ million)**

<i>System</i>	<i>AT2–4 (non-electric)</i>	<i>AT5 (electric)</i>	<i>Total</i>
Blackwater	14.3	(1.2)	13.1
Goonyella	(1.8)	10.7	8.9
Moura	2.4	--	2.4
Newlands	0.9	--	0.9
GAPE	10.4	--	10.4
<b>Total</b>	<b>26.2</b>	<b>9.6</b>	<b>35.8</b>

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

*Source: Aurizon Network, Amended FY2022 Revenue Adjustment Amounts – Explanatory Memorandum, January 2023, p. 4.*

We are satisfied that the resubmitted proposal reflects our December decision and includes the required amendments to the WACC adjustment consistent with that decision. We have set out our assessment across each element of the approved adjustment amounts in the interests of completeness.

### 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, any take or pay amounts payable, and any transfer and relinquishment fees received.

Aurizon Network submitted detailed monthly data to demonstrate the calculation of the TAR.

#### Take or pay, relinquishment or transfer fees, 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 and Moura systems in 2021–22, with the take or pay recovering the full amount of AT2AT4 shortfall. Take or pay was not triggered in the Blackwater, Newlands and GAPE systems (where actual volumes exceeded system forecasts, when adjusted for Aurizon Network cause and force majeure cancellations).

Transfer fees were collected in the Goonyella and GAPE<sup>11</sup> systems and included in the relevant TAR.<sup>12</sup> The transfer fees received, total cross-system proceeds and take or pay revenues for 2021–22 were \$63.7 million, comprising \$57.1 million from non-electric customers and \$6.6 million from electric customers.

We are satisfied that:

- the take or pay revenues were accurately calculated based on railings within a nominated month, for the purposes of annual and variable take or pay and were treated consistently.

<sup>11</sup> The repayment of the GAPE transfer fee amount relates to the AT3 tariff and will be included in 2023–24 reference tariffs.

<sup>12</sup> Aurizon Network noted that the GAPE transfer fee amount relates to the AT3 tariff (that relates to specific Goonyella system enhancements paid by GAPE access holders). Aurizon Network requested that the QCA approves the repayment of this transfer fee within AT3 in the 2023–24 reference tariffs.

- adjustments for Aurizon Network cause and force majeure events were appropriately attributed, and the methodology in the relevant access undertakings were 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 resubmitted TAR of \$942.6 million for 2021–22, including all take or pay and cross-system traffic revenues received (see Table 2).

**Table 2 Total actual revenues 2021–22 (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	332.1	74.7	406.8
Goonyella	277.3	59.6	336.9
Moura	51.9	–	51.9
Newlands	33.2	–	33.2
GAPE	113.7	–	113.7
<b>Total</b>	<b>808.3</b>	<b>134.3</b>	<b>942.6</b>

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

*Source: Aurizon Network, Amended FY2022 Revenue Adjustment – Explanatory Memorandum, January 2023, p. 9.*

We are satisfied that Aurizon Network calculated its system and cross-system tariff revenues in accordance with the 2021–22 annual review of reference tariffs<sup>13</sup> and the current approved undertaking.

### Volumes

Aurizon Network's TAR is based on amounts billed against each customer's actual railings achieved in that period (see Table 3). All coal systems recorded actual railings that were lower than the system forecast.

**Table 3 Forecast and actual volumes 2021–22 (million net tonnes)**

<i>System</i>	<i>Approved forecasts</i>	<i>Actual tonnages</i>	<i>Variance (%)</i>
Blackwater	62.6	58.3	–7%
Goonyella	117.7	105.6	–10%
Moura	13.6	12.0	–12%
Newlands	14.1	13.9	–1%
GAPE	18.8	16.8	–11%
<b>Total</b>	<b>226.9</b>	<b>206.5</b>	<b>–9%</b>

*Source: Aurizon Network, Amended FY22 Revenue Adjustment Amounts – Explanatory Memorandum, January 2023, p. 8.*

The gross tonne kilometres and net tonnes submitted by Aurizon Network were reconciled to performance reporting data on its customer portal and Aurizon Network's 2021–22 report on full-year results.

<sup>13</sup> QCA, [Annual review of reference tariffs](#), decision notice, 28 May 2020.

## 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 2021–22 proposal outlined its claim for the following cost adjustments to the allowable revenue (under sch. 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 (UT5, sch. F, cl. 4.3 (c)(i)).

The approved WACC used in determining 2021–22 reference tariffs was 6.3%. This assumed that the 'report date', which triggers the increase of the approved WACC (from 5.9% to 6.3%)<sup>14</sup>, would occur by 1 July 2021.<sup>15</sup> However, as this did not occur, an adjustment is required to reflect that the approved WACC remained at 5.9% for part of the year.

Aurizon Network proposed a WACC adjustment of \$18.2 million, on the basis that the 'report date' was 14 March 2022 (Table 4). This is consistent with our view that the 'report date' occurred when Aurizon Network provided its detailed report to the independent expert, as set out in our December decision.<sup>16</sup>

Notwithstanding this, Aurizon Network does not accept our view as to the meaning of the 'report date'—and has commenced proceedings in the Supreme Court of Queensland seeking a declaration from the Court about the construction of the term. We note Aurizon Network intends to seek a true-up of its 2021–22 revenue adjustment amount should these proceedings result in a determination that a different interpretation is to apply.<sup>17</sup>

We consider that Aurizon Network has developed (and correctly applied) the WACC adjustments to the 2021–22 allowable revenues in accordance with our December decision. We verified Aurizon Network's modelling and are satisfied with Aurizon Network's resubmitted claim under the WACC adjustment.

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<sup>14</sup> See the definition of the approved WACC (UT5, Part 12).

<sup>15</sup> Aurizon Network, *Amended FY2022 Revenue Adjustment*, January 2023, p. 11.

<sup>16</sup> QCA, *Aurizon Network's 2021–22 adjustment amounts*, December 2022, pp. 4–5.

<sup>17</sup> Aurizon Network, *Amended FY2022 Revenue Adjustment*, January 2023, p. 11.

**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	(7.0)	(1.2)	(8.2)
Goonyella	(5.0)	(0.7)	(5.7)
Moura	(1.1)	–	(1.1)
Newlands	(0.8)	–	(0.8)
GAPE	(2.5)	–	(2.5)
<b>Total</b>	<b>(16.2)</b>	<b>(1.9)</b>	<b>(18.2)</b>

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, Amended FY2022 Revenue Adjustment – Explanatory Memorandum, January 2023, p. 11.

#### 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.<sup>18</sup>

Aurizon Network's actual maintenance costs are those included in the annual maintenance costs claim it submitted on 23 September 2022<sup>19</sup> (which we approved on 16 November 2022<sup>20</sup>). Overall, actual maintenance costs for 2021–22 were higher than the maintenance indicator for 2021–22. Aurizon Network has calculated a net recovery from access holders of \$9 million (see Table 5 for system-specific adjustments).

**Table 5 Maintenance cost adjustment by system, AT2–AT5 (\$ million)**

<i>System</i>	<i>Maintenance indicator</i>	<i>Actual maintenance costs</i>	<i>Variance</i>	<i>Variable maintenance</i>	<i>Total maintenance adjustments</i>
Blackwater	65.0	66.2	1.2	1.7	2.9
Goonyella	61.1	62.5	1.4	2.3	3.7
Moura	12.4	12.2	(0.1)	0.7	0.6
Newlands	3.8	4.0	0.2	0.1	0.3
GAPE	8.8	9.2	0.5	1.0	1.5
<b>Total</b>	<b>151.1</b>	<b>154.2</b>	<b>3.1</b>	<b>5.9</b>	<b>9.0</b>

Note: Numbers may not sum due to rounding.

Source: Aurizon Network, Amended FY2022 Revenue Adjustment – Explanatory Memorandum, January 2023, p. 12.

We confirmed that actual maintenance costs are consistent with those included within the 2021–22 annual maintenance report and the maintenance indicator is consistent with the values approved. Therefore, we are satisfied with Aurizon Network's claim under the maintenance cost adjustment.

<sup>18</sup> UT5, sch. F, cl. 4.3 (c)(ii).

<sup>19</sup> Aurizon Network, [FY22 Maintenance costs claim](#), September 2022.

<sup>20</sup> QCA, [Aurizon Network's 2021–22 maintenance costs claim](#), November 2022.

### Non-electric operating expenditure allowance

Commencing 1 July 2021, Aurizon Network calculates an adjustment to the component of allowable revenues relating to the recovery of non-electric operating expenditure allowance (NOEA)<sup>21</sup>. This adjustment to the NOEA is based on the difference between actual and the forecast consumer price index (CPI) in UT5.

**Table 6 Non-electric operating expenditure allowance 2021–22 (\$ million)**

<i>System</i>	<i>Non-electric operating expenditure allowance</i>	<i>NOEA adjustment</i>
Blackwater	53.9	2.7
Goonyella	12.9	0.6
Moura	58.8	2.9
Newlands	5.8	0.3
GAPE	3.6	0.2
<b>Total</b>	<b>135.1</b>	<b>6.7</b>

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

*Source: Aurizon Network, Amended FY2022 Revenue Adjustment – Explanatory Memorandum, January 2023, p. 13.*

We have confirmed that both forecast and actual CPI used to calculate the NOEA adjustment amount are correctly applied as required in the undertaking, and that actual CPI corresponds to published information.<sup>22</sup>

### 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.<sup>23</sup> This adjustment is only applicable to Aurizon Network's electrified systems.

Aurizon Network has calculated a net return to access holders of \$0.4 million. This is the difference between the amounts paid to Powerlink Queensland and Ergon Energy for the connection of Aurizon Network's electric infrastructure to their respective electricity networks and the forecast costs (used for determining the AT5 reference tariff components for 2021–22).

We consider these costs have been appropriately tracked, and invoices Aurizon Network supplied reflect actual costs incurred.

### Rebates adjustment

To account for the difference between forecast and actual rebate payments made in 2021–22, Aurizon Network has calculated a net return to access holders of \$4.9 million (see Table 7 for system-specific rebates).

This adjustment is 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).

<sup>21</sup> UT5, sch. F, cl. 4.3(c)(iii).

<sup>22</sup> Australian Bureau of Statistics, 'Tables 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes' [time series spreadsheet], *Consumer Price Index*, Australia, September quarter 2022, accessed 30 September 2022.

<sup>23</sup> UT5, sch. F, cl. 4.3 (c)(iv).



**Table 7 Aurizon Network rebates by system totals (\$ million)**

<b>System</b>	<b>Total</b>
Blackwater	(4.2)
Goonyella	(1.0)
Newlands	0.3
<b>Total</b>	<b>4.9</b>

*Note: Numbers may not sum due to rounding. Negative values indicate an over-recovery.*

*Source: Aurizon Network, Amended FY2022 Revenue Adjustment – Explanatory Memorandum, January 2023, p. 13.*

Aurizon Network provided a detailed model of the rebate adjustments. We have verified these amounts and are satisfied with the adjustments made.

## Summary

Table 8 shows a summary of the approved 2021–22 revenue adjustment amounts for each system and all adjustments made to total revenues received and allowable revenues.

**Table 8 Approved allowable revenues and adjustments 2021–22 (\$ million)**

<i>System</i>	<i>Allowable revenues in schedule F</i>	<i>WACC</i>	<i>Maintenance costs</i>	<i>NOEA and electricity connection costs</i>	<i>Rebates</i>	<i>Adjusted allowable revenues</i>	<i>Total actual revenues (per Table 2)</i>	<i>Revenue adjustment amount 2021–22</i>
<b>Non-electric (AT2-AT4)</b>								
Blackwater	352.2	(7.0)	2.7	2.7	(4.2)	346.4	332.1	14.3
Goonyella	277.3	(5.0)	3.5	0.6	(0.9)	275.5	277.3	(1.8)
Moura	51.9	(1.1)	0.6	2.9		54.4	51.9	2.4
Newlands	34.0	(0.8)	0.3	0.3	0.3	34.1	33.2	0.9
GAPE	124.9	(2.5)	1.5	0.2		124.1	113.7	10.4
Subtotal	840.3	(16.2)	8.6	6.7	(4.8)	834.5	808.3	26.3
<b>Electric (AT5)</b>								
Blackwater	74.8	(1.2)	0.2	(0.3)		73.5	74.7	(1.2)
Goonyella	71.0	(0.7)	0.2	(0.1)	(0.08)	70.4	56.6	13.7
Subtotal	145.9	(1.9)	0.4	0.4	(0.08)	143.9	134.3	10.4
<b>Total</b>	<b>986.2</b>	<b>(18.2)</b>	<b>9.0</b>	<b>6.3</b>	<b>(4.9)</b>	<b>978.4</b>	<b>942.6</b>	<b>35.8</b>

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