

File ref: 2019841

23 May 2024

Ms Pam Bains  
Group Executive Network  
Aurizon Network  
GPO Box 456  
BRISBANE QLD 4001

Dear Ms Bains

**Annual review of reference tariffs, 2024-25**

On 23 May 2024, the Queensland Competition Authority approved Aurizon Network's proposed 2024-25 allowable revenues and reference tariffs (as submitted in its 28 February 2024 application, which was updated on 30 April 2024).

The attached notice sets out the basis for the QCA's decision, in accordance with schedule F, clause 5.5(d)(i) of the 2017 access undertaking.

Aurizon Network's proposal, including its updates, are available on our website. We will also publish this letter and decision for stakeholders' information.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries, please direct them in the first instance to Pag Arao-Arao by email [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

# Annual review of reference tariffs, 2024-25

23 May 2024

The Queensland Competition Authority has approved Aurizon Network's proposed adjustments impacting its allowable revenues and reference tariffs for 2024-25.

Schedule F of Aurizon Network's 2017 access undertaking (UT5) provides for Aurizon Network to seek our approval for adjustments to key inputs in its system allowable revenues and reference tariffs to be applied in the following financial year.

On 28 February 2024, Aurizon Network submitted its proposed allowable revenues and reference tariffs for 2024-25 for approval in accordance with clauses 5.1(a)(ii)(B) and 4.1 of schedule F.<sup>1,2</sup> It subsequently revised this proposal to reflect the impact of recent regulatory decisions and correct minor transpositional errors it had identified.<sup>3</sup>

## Aurizon Network's proposal

Aurizon Network has applied adjustments to volumes, allowable revenues and reference tariffs for each coal system. These adjustments are based on schedule F provisions that allow for:

- adjusting for any under- or over-recovery of the revenues (revenue cap), and the difference between approved capital expenditures and the capital indicator in previous years (cls 4.1(a)(i)-(ii))
- updating volume forecasts – used to determine reference tariffs (cl 4.1(b)(i))
- updating the maintenance and capital indicators for each coal system to reflect the approved maintenance and renewals strategies and budgets (cls 4.1(b)(v) and 4.1(b)(vi))
- updating the tax allowance to reflect the changes proposed to revenues (cl 4.1(b)(vii)(F))

<sup>1</sup> Aurizon Network, [2017 Access Undertaking Review of Reference Tariffs – FY25](#), February 2024 (Aurizon Network proposal).

<sup>2</sup> The clause references included in this decision refer to provisions in schedule F of UT5, unless otherwise noted.

<sup>3</sup> Aurizon Network, [Aurizon Network – Update to FY2025 Annual review of Reference Tariffs](#), 30 April 2024 (Aurizon Network updated proposal).

- incorporating the forecast of the independent expert pass-through costs (cl 4.1(b)(viii)) and an estimate of the QCA levy
- updating the forecast connection and transmission charges to reflect the latest rates for 2023–24, escalated by CPI.<sup>4</sup>

As it had foreshadowed in its initial proposal, Aurizon Network has also incorporated the impact of private incremental costs (PIC) associated with Pembroke Resource’s Olive Downs Complex, based on the QCA’s draft position<sup>5,6</sup> – which has now been finalised, without change.

Aurizon Network provided the methods, data and assumptions it used to determine the proposed variations to support its initial proposal and subsequent update.

## Stakeholder comments

We published details of Aurizon Network’s original proposal and invited and considered comments from stakeholders. We received a submission from Glencore regarding the treatment of infrastructure rebates and approved PICs as they relate to revenue adjustment amounts and the calculation of reference tariffs for particular loading facilities.<sup>7</sup> We published Aurizon Network’s updated proposal in the interests of transparency but did not invite submissions, given the nature of the updates made.

## 2017 AU criteria and QCA assessment

We are required to assess Aurizon Network’s proposal against the requirement for the annual review of reference tariffs (cl 4.1). This includes having regard to whether the revised volume forecasts are reasonable (with no errors made); the submitted maintenance and capital indicators are consistent with the approved indicators; the revised tax allowance has been calculated correctly; and no errors have been made in adjustments to allowable revenues or reference tariffs.

## Volume forecasts

Aurizon Network proposed to increase Central Queensland coal network (CQCEN) volume forecasts from 207.8 million net tonnes (mnt) to 216.7 mnt.

We consider that Aurizon Network’s proposed updated 2024–25 volume forecasts and associated gross tonne kilometre (gtk) forecasts are reasonable, noting the forecasts have been established with the benefit of stakeholder feedback on proposed raiing and regulatory forecasts for each of their respective origin–destination pairings. We consider that the proposed revised volumes are thus likely to better reflect current conditions.

Accordingly, we approve Aurizon Network’s proposed volume forecasts.

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<sup>4</sup> Aurizon Network did not seek to amend the 2024–25 EC tariff. It has instead used the EC charge approved as part of the QCA’s consideration of Aurizon Network’s Reset Schedule F values (October 2023). It intends to submit an update to the EC charge on or about 31 May (in accordance with Schedule F, cl 2.2(a)).

<sup>5</sup> QCA, *Private incremental cost – Olive Downs Complex*, draft decision notice, April 2024.

<sup>6</sup> Aurizon Network updated proposal, p 2.

<sup>7</sup> Glencore’s [submission](#) is available on our website.

**Table 1: Volume forecasts, 2024-25**

	Current (mnt)	Proposed (mnt)	Variance (mnt)
<b>Blackwater</b>	54.3	58.6	4.3
<b>Goonyella</b>	108.0	107.1	(0.9)
<b>Moura</b>	11.8	14.8	2.9
<b>Newlands</b>	16.4	19.5	3.1
<b>GAPE</b>	17.2	16.7	(0.5)
<b>Total</b>	207.8	216.7	8.9

mnt: million net tonnes

Source: Aurizon Network proposal, pp 3, 9.

## Capital expenditure

UT5 allows for an adjustment to reconcile the difference between the approved capital expenditure and the capital indicator for the year in which that relevant capital expenditure was incurred (cl 4.1(a)(ii) and calculated in accordance with sch E, cl 5(b)).

At the time of its original submission, Aurizon Network calculated an indicative value of the capital expenditure allowable revenue adjustment, which reflected the difference between the 2022-23 capital indicator and the Aurizon Network's 2022-23 capital expenditure claim. It also had regard to the extent to which the 2024-25 allowable revenues associated with the 2022-23 capital indicator was impacted by the preliminary reset values.<sup>8</sup>

We approved Aurizon Network's 2022-23 capital expenditure claim in full.<sup>9</sup> We note that the regulatory asset base roll-forward assessment for the 2022-23 approved capital expenditure would fully account for asset base changes. Aurizon Network submitted its 2022-23 roll-forward on 16 May 2024.

## Capital indicator

Aurizon Network proposed capital indicator allowances that reflect:

- its user-approved renewals strategy and budgets for all systems<sup>10</sup>
- the costs of approved transitional arrangements associated with the installation of the expansion of remote-control signalling (RCS) between Collinsville and Newlands Junction (\$22 million, to be commissioned in July 2024, applied to the GAPE capital indicator) (Table 2).<sup>11</sup>

<sup>8</sup> Aurizon Network proposal, p 14.

<sup>9</sup> QCA, *Aurizon Network's 2022-23 capital expenditure claim*, decision notice, April 2024.

<sup>10</sup> Aurizon Network, *FY25 Final Draft Proposal Maintenance and Renewals Strategies and Budgets*, January 2024 (Aurizon Network MRSB).

<sup>11</sup> Aurizon Network proposal, pp 14-17, Aurizon Network updated proposal, p 4.

**Table 2: Capital indicator 2024–25, by coal system (start of year)<sup>a</sup>**

	Current (\$m)	Proposed (\$m)	Variance (\$m)
<b>Blackwater</b>	147.1	142.2	(4.9)
<b>Goonyella</b>	126.4	106.2	(20.2)
<b>Moura</b>	20.3	21.4	1.2
<b>Newlands<sup>b</sup></b>	19.7	28.8	9.1
<b>GAPE</b>	9.7	23.1	13.4
<b>Total</b>	323.2	321.7	(1.4)

a In its updated proposal, Aurizon Network made minor amendments to the capital indicators to correct transpositional errors. These changes are now appropriately reflected in Aurizon Network’s submitted models. b This value includes forecast capital expenditure in the Newlands shared rail corridor. The QCA-approved allocation approach will see allowable revenues associated with about \$17.3m of capital expenditure allocated between Newlands and GAPE train services.

Source: Aurizon Network updated proposal, p 4.

We are required to approve a capital indicator allowance where it is consistent with an approved renewals strategy and budget as described in clause 7A.11.4(c)(ii) of UT5 (cl. 4.1(e)(iii)). We also accept the additional costs are consistent with our decision on the transitional arrangements.<sup>12</sup>

We therefore approve the revised capital indicator for 2024–25.

## Maintenance indicator allowance

UT5 provides for adjustments to the maintenance indicators to reflect approved maintenance strategies and budgets (cl 4.1(b)(v)), and in accordance with cls 7A.11.3 and 7A.11.4 of UT5).

Aurizon Network proposed maintenance indicator allowances that are consistent with its user-approved maintenance strategy and budget (Table 3).<sup>13,14</sup>

**Table 3: Maintenance indicator direct 2024–25, by coal system<sup>a</sup>**

	Current (\$m)	Proposed (\$m)	Variance (\$m)
<b>Blackwater</b>	83.0	87.4	4.4
<b>Goonyella</b>	79.0	82.8	3.7
<b>Moura</b>	14.1	17.9	3.7
<b>Newlands</b>	6.1	7.6	1.4
<b>GAPE</b>	10.5	10.6	0.1
<b>Total</b>	192.9	206.3	13.4

a In its updated proposal, Aurizon Network made minor amendments to the maintenance indicators to correct transpositional errors. These changes are now appropriately reflected in Aurizon Network’s submitted models. Source: Aurizon Network updated proposal, p 3.

<sup>12</sup> QCA, *Transitional arrangements for Aurizon Network to address existing capacity deficits: determination*, decision notice, November 2022.

<sup>13</sup> Aurizon Network MRSB.

<sup>14</sup> Aurizon Network proposal, p 15, Aurizon Network updated proposal, p 3.

We are required to approve a proposed maintenance indicator allowance where it is consistent with an approved maintenance strategy and budget as described in clause 7A.11.4(a)(ii) of UT5 (cl 4.1(e)(ii)).

Accordingly, we approve Aurizon Network's proposed maintenance indicator allowances.

## Other proposed adjustments

### Revenue cap

Aurizon Network has proposed adjustments relating to our approval of its 2022–23 revenue adjustment proposal.<sup>15</sup>

We note these adjustments are permitted under clause 4.1(a)(i) and consider that Aurizon Network has accurately calculated the adjustment amounts.

### Electric connection and transmission costs

The proposed electric transmission and connection costs are used to determine AT5 allowable revenues. This year, Aurizon Network has based its cost estimates on the final rates for 2023–24, escalated at the regulatory inflation forecast (2.90%).<sup>16, 17</sup>

We consider this is an appropriate estimate. While we would usually anticipate that Aurizon Network would update its cost estimates to reflect updated pricing from its transmission network service provider if it has the opportunity to do so, we note that in this instance Aurizon Network has confirmed that incorporating the updated information will have no material effect on pricing.<sup>18</sup>

### Independent expert pass-through costs and QCA levy

Aurizon Network has proposed to pass through the forecast cost to operate CNCCo (the independent expert), adjusted for an over-recovery in previous periods. This pass-through is permitted under cl 4.1(b)(viii), and in accordance with cl 7A.3.4 of UT5. We consider that Aurizon Network has accurately calculated the amount.

Aurizon Network has updated the forecast QCA levy for 2024–25 to reflect the QCA's estimated regulatory fees for 2023–24 and the proposed 2024–25 volume forecast, noting that at this point in time, the QCA has not announced its forecast regulatory fees for 2024–25. We consider it appropriate that further variation to the QCA levy be applied as part of an endorsed variation event application once current year fees and forecast fees for 2024–25 are finalised.

### Olive Downs PIC

On 18 April 2024, we advised Pembroke Resources, Aurizon Network and other stakeholders that we were considering approving \$125.2 million for Pembroke Resources' PIC application for its Olive

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<sup>15</sup> QCA, [Aurizon Network's 2022–23 revenue adjustment amounts](#), decision notice, November 2023.

<sup>16</sup> Aurizon Network proposal, p 18.

<sup>17</sup> While Aurizon Network received updated transmission pricing from Powerlink in March, it did not seek to update its proposal as it considered the impact of this pricing advice was immaterial.

<sup>18</sup> Aurizon Network updated proposal, p 1.

Downs Complex. Aurizon Network updated its proposed 2024–25 allowable revenues and reference tariffs to reflect this indicative PIC discount for Olive Downs.

We have now approved the Olive Downs PIC amount without change from our initial view.

Accordingly, we approve this adjustment, which provides for the 2024–25 reference tariff inputs to be based on the most up-to-date information available.

## **Newlands and GAPE causation-based allocators**

Aurizon Network has updated the proposed 2024–25 allowable revenues and reference tariffs to reflect the impact of the causation-based allocator on forecast capital expenditures.<sup>19</sup>

In line with our December 2023 final decision,<sup>20</sup> Aurizon Network sought to apply this approach to allocate future asset replacement and renewals expenditure in the shared rail corridor in Newlands and allow for allocation of allowable revenues between GAPE and Newlands train services, including amounts associated with Newlands system infrastructure enhancements (NSIE).<sup>21</sup>

We consider it is appropriate that Aurizon Network reflects the impact of the December 2023 decision on allowable revenues and reference tariffs for 2024–25. Aurizon Network provided its methodology in its updated submission. We have verified Aurizon Network’s inclusion of allocators for assets associated with these capital expenditures in its submitted modelling.

## **Additional matters that may affect final 2024–25 reference tariffs**

Aurizon Network has also flagged a number of matters that it said may impact the final 2024–25 tariffs, but which are not included as part of its current claim (and are not part of this decision). These are listed below for stakeholders’ information.

- The electric energy charge (EC) tariff is set to recover the forecast costs relating to the consumption of electric energy. Aurizon Network has not sought to amend the EC tariff as part of this review<sup>22</sup> –and instead intends to submit an update to the charge on or about 31 May 2024.<sup>23</sup> We note that any over-or-under recovery in EC amounts will be considered in accordance with Schedule F, clause 2.2 (a), submitted for approval to us.
- Aurizon Network said that the anticipated completion of the transitional arrangements relating to the installation of RCS between Collinsville and the Newlands Junction<sup>24</sup> will end the deferral of complementary prior investment (made in RCS on the Goonyella to Newlands Connection (GAPE Link)) and allow for its inclusion in the GAPE allowable revenues and reference tariffs for 2024–25.

Aurizon Network has not sought to include an adjustment to account for ending the deferral of GAPE Link RCS capital expenditure as part of this review<sup>25</sup> – and has flagged that a

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<sup>19</sup> Aurizon Network proposal, p 21, Aurizon Network updated proposal, p 1.

<sup>20</sup> QCA, [December 2023 GAPE and Newlands pricing DAAU](#), final decision, February 2024.

<sup>21</sup> Aurizon Network updated proposal, p 1.

<sup>22</sup> We approved the EC tariff in our October 2023 decision on Aurizon Network’s reset Schedule F values.

<sup>23</sup> Aurizon Network proposal, pp 18–19, Aurizon Network updated proposal, p 1.

<sup>24</sup> The GAPE capital indicator for 2024–25 includes amounts relating to the expected completion of these works.

<sup>25</sup> Aurizon Network said that there is no provision for the adjustment of the allowable revenue associated with the ending of a capital deferral under the Schedule F provisions.

subsequent draft amending access undertaking will be required to include the GAPE-Link RCS assets in allowable revenues and reference tariffs.<sup>26</sup>

- Aurizon Network flagged a potential inconsistency in UT5 if take-or-pay were to trigger in the 2023–24 financial year. This is primarily due to how preliminary values (currently in effect for 2023–24) and final values (approved in October 2023) would be reconciled.<sup>27</sup>

We note Aurizon Network stated that this inconsistency would occur if take-or-pay is triggered. In such a case, it may be necessary for changes to the undertaking, but the changes would be largely administrative in nature.<sup>28</sup>

## **Rebate mechanism under existing rebate deeds**

In its submission, Glencore raised concerns about the existing treatment of infrastructure rebates – given the changes in regulatory arrangements over time, including the introduction of PIC provisions and the application of PIC discounts – and requested that we provide guidance on alternative approaches.

We consider that any proposal to change longstanding infrastructure rebate arrangements under UT5 are best dealt with in a process separate to this annual review of reference tariffs. Such a proposal would be instigated between Aurizon Network and the parties affected (potentially not limited to Glencore). Accordingly, it would be pre-emptive for us to provide specific support for any changes more broadly until we are able to assess any proposal more fully, including implications for all access holders.

In our view, the absence at this stage of QCA endorsement or support for a change provides no barrier to Glencore working with Aurizon Network to identify alternative arrangements that better meet parties' needs.

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<sup>26</sup> Aurizon Network proposal, pp 20–21.

<sup>27</sup> Aurizon Network proposal, pp 21–22.

<sup>28</sup> Aurizon Network proposal, p 21.



## System allowable revenues

We consider that Aurizon Network's updates to key variables are reflected in its financial models, its supporting materials and the corresponding changes to the system allowable revenues for 2024-25 (Table 4).

**Table 4: System allowable revenues, 2024-25**

	AT1 (\$)	AT2-4 (\$)	AT5 (\$)	Total
<b>Blackwater</b>	36.3	436.0	109.9	582.2
<b>Goonyella</b>	25.2	364.2	92.8	482.1
<b>Moura</b>	7.4	67.2	0.0	74.6
<b>Newlands</b>	9.0	46.7	0.0	55.6
<b>GAPE</b>	14.2	139.8	0.0	154.0
<b>Total</b>	92.2	1,053.8	202.7	1,348.7

## Reference tariffs

We consider that Aurizon Network's updates to key variables are reflected in its financial models, its supporting materials and the corresponding changes to the reference tariffs for 2024-25 (Table 5).

**Table 5: System reference tariffs, 2024-25**

	AT1 (\$)	AT2 (\$)	AT3 (\$)	AT4 (\$)	AT5 (\$)	EC (\$)	QCA levy (\$)	IE passthrough costs (\$)
<b>Blackwater</b>	1.07	2,633.70	10.11	3.29	4.45	1.66	0.0042	0.0126
<b>Goonyella</b>	0.74	1,668.60	7.73	1.60	2.90	1.66	0.0042	0.0126
<b>Moura</b>	1.98	780.03	13.62	2.16	–	–	0.0042	0.0126
<b>Newlands</b>	2.06	352.72	9.15	1.28	–	–	0.0042	0.0126
<b>GAPE</b>	1.66	15,464.32	1.58	3.39	–	–	0.0042	0.0126