



Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

13 February 2017

Dear Mr Millsteed

**2017 Draft Access Undertaking - Weighted Average Cost of Capital and Inflation
Averaging Period**

Aurizon Network is seeking the Queensland Competition Authority (**QCA**)'s approval for the averaging period to be used for the 2017 Draft Access Undertaking (**UT5**) which covers the regulatory term from 1 July 2017 to 30 June 2021.

The use of an averaging period allows for the smoothing of any daily market volatility and enables regulated businesses to undertake hedging activities which will assist in minimising interest rate risk. Specifically this approach is used for the risk-free rate, debt risk premium and to a lesser extent the market risk premium.

In addition, for UT5 Aurizon Network proposes to use a breakeven inflation forecast which is derived from traded Commonwealth Government Securities. This forecast is also sensitive to market timing. Therefore, if this approach is approved by the QCA as part of its consideration of UT5, Aurizon Network proposes that the averaging period used for the other Weighted Average Cost of Capital parameters be applied in the calculation the inflation forecast.

Standard regulatory practice sees the averaging period being set close to the start of the regulatory period. Aurizon Network proposes to follow this precedent and seeks approval for a 20 day averaging period from 2 June 2017 to 30 June 2017. Aurizon Network notes that this period includes the Queen's Birthday public holiday (Monday 12 June 2017) on which the bond market is not open. As a result, Aurizon Network has excluded this date from the averaging period.

Aurizon Network requests this nominated averaging period be confidential and not disclosed publicly until after 30 June 2017 to allow for the efficient implementation of any hedging plans.

Could the QCA confirm that this approach is acceptable by 31 March 2017?

Should you have any queries in relation to this request for approval, please do not hesitate to contact Jon Windle on networkregulation@aurizon.com.au.

Yours sincerely,

Prue Mackenzie
Vice President Network Regulation

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