

File Ref: 822490

22 May 2015

Mr Alex Kummant
Executive Vice President
Aurizon Network Pty Ltd
GPO Box 456
Brisbane QLD 4001


Dear Mr Kummant

Approval: Aurizon Network's 2013-14 capital expenditure claim

On 21 May 2015, we approved Aurizon Network's revised 2013-14 capital expenditure claim for \$326.7 million to be included in the regulatory asset base (RAB), in accordance with Schedule A of the 2010 Access Undertaking (2010 AU). The breakdown of the approved claim is provided in **Table 1**, attached to this letter.

In October 2014, Aurizon Network submitted its 2013-14 capital expenditure claim for \$339.1 million (including interest during construction (IDC)). We engaged CMT Solutions to undertake an engineering assessment and RSM Bird Cameron to undertake an accounting assessment of the claim.

Overall, we found \$12.4 million of reductions were required to ensure the claim was prudent (see **Table 2**). On 8 April 2015, Aurizon Network submitted a revised claim of \$326.7 million. We found the revised claim to be prudent in scope, standard and cost.

We consider the assessment process has proceeded smoothly, and we appreciate the support and cooperation extended by Aurizon Network staff during the process. We also note there seems to be some potential to streamline future years' assessment processes, by ensuring information required to assess projects' prudence is easily accessible. Other recommendations about approaches which would improve the process are included in our consultants' reports.

We will publish the consultants' reports and this letter on our website.

If you have any questions in relation to this matter, please contact Farhana Chowdhury on 07 3222 0554.

Yours sincerely



John Hindmarsh
Chief Executive Officer

Table 1 Initial and revised claim (\$ million)

<i>Project Discipline</i>	<i>Initial claim</i>			<i>Adjustments</i>		<i>Revised Claim</i>
	<i>Capex as incurred</i>	<i>IDC</i>	<i>Commissioned</i>	<i>Capex as incurred</i>	<i>IDC</i>	<i>Commissioned</i>
Signalling & track side	15.573	0.239	15.812	(2.207)	(0.052)	13.553
Expansions	117.180	7.270	124.450	(0.018)	3.538	127.970
Track & civil	96.984	(0.402)	96.582	(8.547)	0.063	88.097
Corridor	11.525	(0.002)	11.523	(0.123)	0.008	11.407
Electrical	9.725	(0.016)	9.709		(0.026)	9.683
Telecoms	13.973	0.054	14.026	(5.826)	0.006	8.207
Other	0.150	(0.002)	0.149			0.149
Subtotal	265.11	7.141	272.251	(16.721)	3.537	259.066
Feasibility studies	56.573	10.255	66.828	(2.949)	3.763	67.642
TOTAL	321.683	17.396	339.079	(19.671)	7.300	326.708

Source: CMT Solutions, RSM Bird Cameron reports, and Aurizon Network revised submission

Table 2 Adjustments to the initial claim (\$ million)

<i>Issue</i>	<i>Adjustment</i>
A number of projects were either not: completed; or commissioned during 2013-14.	(7.37)
These costs relate to ballast undercutting, which we understand were inadvertently claimed.	(7.14)
These costs were approved in prior years and therefore should not be included in the claim.	(2.29)
Freehold land (from discontinued feasibility studies) Aurizon Network can dispose of, and therefore reduced from the claim.	(1.58)
Expenditure rejected/excluded from prior years' claims.	(1.23)
As Aurizon Network's reference tariffs and RAB are GST exclusive, the capital expenditure claim should not include GST.	(0.03)
Local community sponsorships and advertising in the areas of construction, not deemed to be capital expenditure.	(0.02)
Revised calculation of interest during construction using the WACC prevailing in the year capital expenditure is incurred.	7.30
Total	(12.37)

Source: CMT Solutions, RSM Bird Cameron reports, and Aurizon Network revised submission