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Dr. Malcolm Roberts
Chairman
Queensland Competition Authority
Level 19
12 Creek Street
BRISBANE QLD 4000

Dear Malcolm,

Aurizon Network Pty Ltd – Draft Amending Access Undertaking to extend the term of the 2010 Access Undertaking

I refer to my letter dated 26 April 2013 regarding the withdrawal of Aurizon Network Pty Ltd's (Aurizon Network's) Draft Amending Access Undertaking (DAAU) that was submitted to the Queensland Competition Authority (QCA) on 4 April.

The original submission proposed to extend the term of Aurizon Network's 2010 Access Undertaking (2010AU) to 30 June 2014, and provided a set of 'transitional' Reference Tariffs which would apply until such time as the QCA approved a new set of Reference Tariffs as part of the process for Aurizon Network's 2013 (UT4) Access Undertaking.

In light of comments received from stakeholders subsequent to the original submission, and in the interest of expediting the QCA's approval process for the transitional Reference Tariffs, Aurizon Network withdrew the DAAU and has made a number of adjustments. The adjustments are agreed between Aurizon Network and the Queensland Resources Council (QRC).

In view of the above, Aurizon Network submits for approval by the QCA a new DAAU, under section 142 of the *Queensland Competition Authority Act 1997* (Qld) (Act), to extend the term of the 2010AU to 30 June 2014. Clean and mark-up versions of the DAAU are provided in soft copy form concurrently with this submission.

A summary discussion of both the key elements of this DAAU and the key differences between this and the previous DAAU are outlined below.

General Principles

As indicated in the original submission, Aurizon Network was contacted by a number of stakeholders with concerns regarding the need for certainty around the process for setting access charges for the 2013/14 year.

Aurizon Network noted that transitional tariffs were applied in the 2005 and 2010 Access Undertakings and sought to apply this process for the 2013/14 financial year. In particular, the 2010 process provided for the collection of under-recovery of allowable revenues by way of an Adjustment Charge mechanism contained in Schedule F.

With respect to AT₁₋₄, Aurizon Network proposes a similar approach for 2013/14:

- The 'building blocks' for 2012/13 (being the last year of UT3) are rolled forward to 2013/14 consistent with the process agreed with the QRC (i.e. for a forecast Consumer Price Index (CPI) of 2.5%, capital expenditure and revenue cap). This approach generates allowable revenues for 2013/14 totalling \$722m (excluding the impact of revenue cap and variation events approved by the QCA; \$739m inclusive of 2011/12 revenue cap). These allowable revenues will be used as the basis for any Adjustment Charge calculations for 2013/14 (see below);

- Transitional Reference Tariffs for 2013/14 are then derived for each system using the Reference Tariff pricing model based on a set of forecasts for each Reference Tariff parameter including the System Forecasts;
- Allowable revenues are reset prior to the end of the 2014 year as part of the UT4 process; and
- Over (or under) collections of allowable revenues, representing the difference between actual revenues (access charges and Take or Pay based on the transitional Reference Tariffs) and the allowable revenues approved by the QCA for UT4, are recovered from (or returned to) Access Holders through an Adjustment Charge mechanism.

The key difference between this and the original approach is as follows:

- The original approach derived allowable revenues by rolling forward the 2012/13 Reference Tariffs for CPI and multiplying these tariffs by the Reference Tariff parameters implicit in the System Forecasts.
- This approach derives Reference Tariffs by rolling forward the building blocks inherent in the 2012/13 allowable revenues, consistent with the process agreed with the QRC, and dividing system revenues by the Reference Tariff parameters implicit in the System Forecasts.

With respect to AT₅, the 2012/13 building blocks are rolled forward to 2013/14 consistent with the process agreed with the QRC. Blackwater AT₅, has been further adjusted based on the pricing methodology outlined in Aurizon Network's DAAU for AT₅ submitted to the QCA on 24 April 2013. The Goonyella AT₅ has also been calculated consistent with the process agreed with the QRC but using the existing 'average price' methodology.

With respect to EC, this Reference Tariff component applies to Goonyella and Blackwater only and is rolled forward from the currently published Reference Tariff for 2012/13 at forecast CPI consistent with the original submission.

The QCA Levy is not amended by this DAAU consistent with the original submission. The QCA Levy provided in the DAAU mark-up is instead equivalent to that recently approved by the QCA as part of the normal roll-forward process.

Aurizon Network also proposes that in the event it becomes unlikely that Reference Tariffs for the 2014/15 year will be approved by the QCA prior to 1 July 2014 as part of UT4, then a further DAAU will be submitted prior to 30 June 2014 which:

- Recovers the difference between the total of the 'transitional' allowable revenues for 2013/14 (i.e. \$722m) and the revenue actually collected, as an Adjustment Charge; and
- Establishes transitional Reference Tariffs for 2014/15.

The UT4 process would then be finalised during the 2014/15 financial year such that Aurizon Network recovers (or returns) the difference between the transitional allowable revenues for 2013/14 and 2014/15 and the 2013/14 and 2014/15 allowable revenues approved by the QCA for UT4 as one or more Adjustment Charges.

The Adjustment Charge mechanism(s) will be based substantially on the UT3 mechanism but modified for UT4 as part of the UT4 process. One of the modifications will be to calculate interest on the Adjustment Charge by reference to Aurizon Network's Weighted Average Cost of Capital (WACC) rather than the Bank Bill Swap Rate. Aurizon Network proposes that if the UT4 document is approved by 30 June 2014 then WACC will be that approved for UT4, however if it is not approved then WACC will that approved for UT3.

This approach is as agreed between Aurizon Network and the QRC. Pricing data supporting the approach was provided to the QRC and has been independently verified as being consistent with the proposed approach.

Terminating Date

As per the original submission, Aurizon Network proposes a Terminating Date of the earlier of 30 June 2014 or the date on which the 2010AU is withdrawn in accordance with the Act.

System Allowable Revenues and System Forecasts

System Allowable Revenues for AT_{2,4} are presented in Schedule F of the DAAU and are based on the methodology agreed with the QRC.

Transitional Reference Tariffs for 2013/14 are also presented in Schedule F and have been determined by dividing the relevant allowable revenues by the Reference Tariff component parameters (i.e. gtps, egtks, ntks) consistent with a forecast of 186 million tonnes (mt) excluding the Goonyella to Abbot Point system (GAPE). This forecast is as per the System Forecast approved by the QCA for 2012/13.

Aurizon Network notes that the QCA is undertaking its own review of System Forecasts, and would like to confirm that the System Forecasts will be aligned to those recommended by the QCA as part of its Draft Decision on the DAAU.

Transitional Reference Tariffs

The transitional Reference Tariff components are detailed in Schedule F for the Goonyella, Blackwater, Moura and Newlands systems. As indicated in the original submission, transitional Reference Tariffs for GAPE are provided in the GAPE DAAU submitted to the QCA on 12 April 2013. Temporary Reference Tariffs currently in place will roll forward until such time as the transitional GAPE Reference Tariffs, together with revised provisions establishing the GAPE system, are approved by the QCA.

In addition, current (2012/13) and 2013/14 average prices are summarised in the tables below for the AT₁₋₄ and AT₅ Reference Tariff components on 2 bases:

- Revenue (in \$) per forecast net tonne (\$/nt) and electric net tonne (\$/elec nt), for the AT₁₋₄ and AT₅ Reference Tariff components respectively; and
- Revenue (in cents) per forecast net tonne kilometre (c/ntk), for the AT₁₋₄ and AT₅ Reference Tariff components,

and are compared to the equivalent rates as per the 2012/13 Annual Review of Reference Tariffs.

In addition, for each basis the Reference Tariffs are presented excluding the impacts of the revenue caps and adjustments approved by the QCA.

Table 1: Indicative Price per NT (\$/NT) (excluding Revenue Cap and Approved Adjustments)

System	2012/13	2013/14
	(Published: 186 mt)	(186 mt; with AT ₅ deferral)
	Excl 10/11 Rev Cap; Flood Claim; Endorsed Variation	Excl 11/12 Rev Cap
AT₁₋₄ (\$/nt)		
Blackwater	4.58	4.10
Goonyella	2.88	2.54
Moura	3.67	3.17
Newlands	2.34	2.53
AT₅ (\$/electric NT)		
Blackwater	2.25	1.93
Goonyella	0.83	0.77

Table 2: Indicative Price per NTK (cents / NTK) (excluding Revenue Cap and Approved Adjustments)

System	2012/13	2013/14
	(Published: 186 mt)	(186 mt; with AT ₅ deferral)
	Excl 10/11 Rev Cap; Flood Claim; Endorsed Variation	Excl 11/12 Rev Cap
AT₁-AT₄ (cents / NTK)		
Blackwater	1.29	1.15
Goonyella	1.36	1.20
Moura	2.18	1.89
Newlands	1.67	1.81
AT₅ (cents / NTK¹)		
Blackwater	0.40	0.37
Goonyella	0.39	0.36

The revised proposal results in an average net reduction in the AT₁₋₄ transitional Reference Tariff components across the network of \$0.34/net tonne or 0.14c/ntk and in the AT₅ component of \$0.11/electric net tonne or 0.03c/ntk compared to 2012/13 tariffs. As per the table above, these reductions are exclusive of the impacts of the revenue caps and the variations.

2013AU Amendments

The amendments for which the QCA's approval is sought are as marked up in the **attached** marked-up copy of the 2010AU.

In summary, the relevant amendments are as follows:

Reference	Amendment
Clause 12.1, 'Terminating Date'	Reference to '30 June 2013' is replaced by '30 June 2014'.
Clause 12.4(h)	This clause is intended to remove any retrospective liability created by the amendment to the Terminating Date, so that Aurizon Network is excused from compliance with obligations (if any): <ul style="list-style-type: none"> • which would not have arisen but for the amendment to the Terminating Date; and • where the date for compliance has passed by the date on which the QCA approves the DAAU.
Schedule F, Part B, Clauses 5.3, 6.3, 7.3 and 8.3	System Allowable Revenues, System Forecasts and Monthly System Forecasts are provided for 2013/14 as an extension of the existing tables.
Schedule F, Part B, Clauses 5.4(a), 6.4(a), 7.4 and 8.4	Transitional Reference Tariffs are provided for 2013/14 as an extension of the existing tables.

¹ The denominator of the cents/NTK figure includes both electric and non-electric NTK.
Aurizon Network Pty Ltd ACN 132 181 116

Other Matters

In respect of the QCA's consideration of this DAAU (including the matters under sections 138(2) and (3) of the Act), Aurizon Network submits the following:

- This DAAU gives Access Holders and Access Seekers, Aurizon Network, the QCA and other interested parties certainty around process in relation to 3rd party access to the relevant declared service. It would be in the interests of all interested parties to extend the 2010AU rather than to have its detailed processes and provisions fall away leaving 3rd party access to the declared service subject only to the negotiate and arbitrate framework under the Act.
- The amendments should not give rise to retrospective liability in the part of Aurizon Network. For example, without the extension of the Terminating Date, Aurizon Network's obligations for the annual review of Reference Tariffs referred to under clause 2.2.1(b)(ii), Part A and clause 3.1.1, Part B of Schedule F would not apply as there would be no next Year in the Term for those provisions to operate in respect of. However, once the DAAU is approved, there will be a next Year in the Term. Accordingly, if this matter was not dealt with by the proposed new clause 12.4(h), Aurizon Network could potentially be made retrospectively responsible for a failure to comply with those provisions (even though the time frames for compliance have lapsed and the DAAU has achieved substantial compliance by setting Reference Tariff inputs, System Forecasts and System Allowable Revenues for the 2014 year) and suffer the consequences such as a QCA tariff review. Any such retrospective liability is inappropriate. For this reason, Aurizon Network has inserted a new clause 12.4(h).
- The proposed extension of the 2010AU will not have the effect of excluding existing assets for pricing purposes within the meaning section 138(2)(f) of the Act.
- Nothing in the proposed extension of the 2010AU as proposed offends the pricing principles in section 168A of the Act.
- This DAAU is not inconsistent with any access code, or ruling by the QCA under Division 7A of the Act.

Should you have any queries in relation to this DAAU, please do not hesitate to contact Matthew Cronin on

[REDACTED]

Yours sincerely

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Michael Carter
Chief Executive Officer
Aurizon Network Pty Ltd

8 May 2013