

Queensland Competition Authority

Draft decision

Aurizon Network's 2017–18 revenue adjustment

November 2018

We wish to acknowledge the contribution of the following staff to this report:

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SUBMISSIONS

Closing date for submissions: 29 November 2018

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of Aurizon Network's 2017–18 revenue adjustment. The QCA will take account of all submissions received within the stated timeframes.

Submissions, comments or inquiries regarding this paper should be directed to:

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The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is available on request. We encourage stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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EXECUTIVE SUMMARY

The QCA's draft decision on Aurizon Network's proposed revenue adjustment for 2017–18 is to refuse to approve the proposal. The way the QCA assesses the revenue adjustment is set out in the 2016 access undertaking, in clause 4.3 of schedule F.

The QCA is satisfied with Aurizon Network's:

- revenue calculations using the reference and cross-system tariffs
- take-or-pay calculations
- rebates
- condition-based assessments
- adjustments proposed to occur under UT5.

However, the QCA is refusing to approve the costs of the ground penetrating radar (schedule F, cl. 4.3(c)(vi)) on the basis of prudence and efficiency. The QCA considers the prudent and efficient ground penetrating radar costs would be \$1.2 million, compared with the amount of \$1.36 million Aurizon Network submitted. The QCA's draft decision is to reduce the external contract cost of the ground penetrating radar claim to account for the lack of competitive tension in the tendering process. The QCA is satisfied with all other costs included in the ground penetrating radar claim.

The QCA has estimated a return to stakeholders of \$0.7 million.

The QCA has issued a notice of its draft decision to Aurizon Network, who has 30 days to amend the revenue adjustment amount and resubmit its claim (under schedule F, cl. 4.3(n)(ii)).

In addition, the QCA is seeking stakeholder feedback with responses due by Thursday 29 November 2018.

1 INTRODUCTION

Aurizon Network's pricing for access to its declared services is based on a system allowable revenue (SAR) for each coal system in the Central Queensland coal network. Specific reference tariffs for each system, AT2–AT4 and AT5, are estimated based on the QCA-approved SAR and volume forecasts.

1.1 Revenue adjustment assessment process

The 2016 access undertaking (UT4) outlines that Aurizon Network will submit its proposal to refund or recoup any over- or under-recovery of its allowable revenues by 30 September each year (sch. F, cl. 4.3(h)). The revenue adjustments are the difference between the maximum allowable revenue (MAR) plus any allowable adjustments (collectively termed the adjusted allowable revenue (AAR)), and the total actual revenue (TAR) accrued in that year from the AT2–AT5 tariffs.

The QCA's assessment process of Aurizon Network's revenue adjustment application is set out in schedule F, clause 4.3 of UT4. We approve the application if we are reasonably satisfied that the adjustment amounts have been calculated in accordance with clause 4.3(m). Once the adjustment amount has been approved, it is reflected in the reference tariffs AT2–AT5 two years after the financial year to which the adjustment relates (sch. F, cl. 4.4).

If the QCA is not reasonably satisfied that the revenue adjustment amount is calculated in accordance with clause 4.3, we must refuse to approve it (sch. F, cl. 4.3(n)(ii)). We then issue a notice to Aurizon Network, explaining what Aurizon Network is required to resubmit, for the QCA to be able to approve the application (sch. F, cl. 4.3(n)(ii)).

Through the revenue assessment process, we have closely checked Aurizon Network's application and supporting models on volumes, tariffs and take-or-pay calculations, and the adjustment calculations, against all available information (publicly available and confidentially provided), to determine whether the calculations have been performed in accordance with the 2016 access undertaking.

1.2 Aurizon Network's proposal

On 28 September 2018, Aurizon Network submitted its revenue adjustment proposal for a net refund of \$0.5 million for the 2017–18 financial year.¹ The system-specific over- and under-recoveries are outlined in Table 1.

¹ Aurizon Network, sub. 2, pp. 3–4.

Table 1 2017–18 revenue adjustment amounts (\$ million)

<i>System</i>	<i>Non-electric</i>	<i>Electric</i>	<i>Total</i>
Blackwater	17.2	8.1	25.3
Goonyella	-13.6	-3.2	-16.8
Moura	0.04	0	0.04
Newlands	-9.1	0	-9.1
GAPE	0.1	0	0.1
Total	-5.4	4.9	-0.5

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

Source: Aurizon Network, 2017–18 Revenue Adjustment Explanatory Memorandum, September 2018, p. 4.

1.3 Stakeholder consultation

The QCA invited stakeholder submissions on Aurizon Network's 2017–18 revenue adjustment proposal and received two submissions, from Pacific National and the Queensland Resources Council (QRC). The submissions, including Aurizon Network's submission of its revenue adjustment application, are listed and numbered in Appendix A.

Pacific National raised concerns² with Aurizon Network's socialisation of rebate adjustments in the revenue adjustment process and the reliability of Aurizon Network's revenue forecasts. Pacific National noted there was scope for improvement in Aurizon Network's forecasting methods.

The Queensland Resources Council commented³:

- on the size of the revenue shortfall in the Blackwater system, given that take or pay was triggered
- that the approval of the 2017–18 revenue adjustment amounts under UT4 should not prevent the QCA from making a determination of allowable revenues under UT5 that takes into consideration the changes implemented by Aurizon Network in February 2018

² Pacific National, sub. 3, pp. 1–2.

³ Queensland Resources Council, sub. 4, pp. 1–2.

2 TOTAL ACTUAL REVENUE

The TAR represents the actual revenue that Aurizon Network collects from access holders. It is largely made-up of system and cross-system AT2–AT5 tariffs (schedule F, cl. 4.3(d)–(g)). Based on our assessment of the material provided by Aurizon Network, the QCA found the TAR was calculated accurately for its use in determining the 2017–18 revenue adjustment amount.

2.1 Monthly access charges

Aurizon Network submitted detailed monthly data to the QCA demonstrating the calculation of the TAR. The TAR is mainly made up of system and cross-system AT2–AT5 tariffs (schedule F, cl. 4.3(d)–(g)).

The QCA is satisfied that Aurizon Network calculated its system and cross-system tariff revenues in accordance with the transitional tariffs established under the April 2017 extension DAAU, the June 2017 electric charge DAAU⁴, and the September 2017 extension DAAU.

The gross tonne kilometres, net tonnes, net tonnes kilometres and electric gross tonne kilometres submitted by Aurizon Network were reconciled to publicly available information in Aurizon Network's quarterly performance reports.⁵

Take or pay

Aurizon Network provided detailed information on how it calculated the take or pay under its access contracts. The QCA was able to confirm that Aurizon Network had correctly calculated the take or pay that applied for agreements signed during each undertaking period (schedule F, cl. 4.3(d)(ii)).

Take-or-pay amounts were triggered in the Blackwater, GAPE and Moura systems in 2017–18. The QCA is satisfied that the take-or-pay revenues were accurately estimated on the basis that:

- railings within a nominated month, for the purposes of annual and variable take or pay, were consistently treated, including being consistent with previous years' treatment, and that any cancellations (if any) due to a 'Aurizon Network Cause' were appropriately attributed
- the methodology in standard access agreements for various access undertakings (UT1, UT2 and UT3) has been applied correctly.

The Queensland Resources Council commented⁶ on the size of the revenue shortfall in the Blackwater system, given that take or pay was triggered. Aurizon Network indicated that the Blackwater system did not reach the SAR after take or pay, resulting in the revenue shortfall.⁷

The QCA is satisfied with Aurizon Network's calculations of the take or pay in the Blackwater system.

⁴ The June 2017 electric charge DAAU incorporated the approved Goonyella 2016 flood claim into the Goonyella transitional reference tariffs.

⁵ Aurizon Network, *Public Quarterly Performance Reports: 1st quarter 2017–18, 2nd quarter 2017–18, 3rd quarter 2017–18 and 4th quarter 2017–18, FY17/18*.

⁶ Queensland Resources Council, sub. 4, p. 1.

⁷ Aurizon Network, sub. 2, p. 8.

3 ADJUSTMENT FOR GROUND PENETRATING RADAR COSTS

The QCA's final decision on UT4 stated:

There is uncertainty about the timing and costs of future GPR runs. Aurizon Network's submission acknowledged this by stating that the next GPR run would occur 'most likely' in 2016–17. Further, Aurizon Network has changed the number and cost of proposed GPR runs since its previous submissions. We therefore consider that these costs should be recovered through the revenue cap process, once costs and timing are known.⁸

Consequently, Aurizon Network can include a component related to cost-recovery for ground penetrating radar measurement in its calculation for the adjusted allowance revenue (schedule F, cl. 4.3(c)(vi)).

Aurizon Network's claim for the 2017–18 revenue adjustment was previously included in its 2016–17 revenue adjustment, but was subsequently removed. The QCA assessed Aurizon Network's inclusion of this claim as part of the 2017–18 revenue adjustment and found it not appropriate to approve, as outlined in this chapter.

3.1 Aurizon Network submission

Aurizon Network may recover the costs of ground penetrating radar (GPR) measurement, to the extent that the costs are prudently and efficiently incurred and are not already recoverable by Aurizon Network elsewhere in UT4 (schedule F, cl. 4.3(c)(vi)).

2016–17 claim

In the 2016–17 adjustable allowable revenue, Aurizon Network submitted a claim for \$40.5 million, which included a \$1.3 million⁹ claim for the costs associated with the GPR. Aurizon Network submitted the GPR project close-out report and the breakdown of the costs to support this claim.

The QCA engaged rail consulting firm B&H Strategic Services (B&H) to provide a review of the GPR claim. The QCA then gathered further information from Aurizon Network via the request for information process.

On 5 December 2017, Aurizon Network submitted a revised adjustable allowable revenue claim which removed the GPR costs from the claim. This revised net recovery of \$39.1 million was approved by the QCA on 15 December 2017. In submitting the revised 2016–17 adjustable allowable revenue claim, Aurizon Network reserved the right to claim for the GPR costs within a future regulatory recovery process.

2017–18 claim

On 20 June 2018, Aurizon Network submitted further information to the QCA on the 2016–17 GPR costs to address the points raised by the B&H report. Aurizon Network indicated that it planned to include the costs of the GPR in the 2017–18 adjustable allowable revenue claim.

⁸ Queensland Competition Authority, *Aurizon Network 2014 Access Undertaking—Volume IV—Maximum Available Revenue*, final decision, April 2016, p. 161.

⁹ The GPR claim has been revised up, from \$1.3 million in the initial 2016–17 revenue adjustment submission, to \$1.36 million in 2017–18 revenue adjustment submission.

As part of the 2017–18 revenue adjustment, Aurizon Network submitted a claim for \$1.36 million for the costs associated with the GPR work in 2016–17.

3.2 Assessment criteria

The costs associated with the GPR are driven by contractor costs, labour, equipment and other costs. In order to assess this claim (schedule F, cl. 4.3(c)(vi)), the QCA needs to assess whether the costs are:

- prudent and efficient—that is, justified with reference to identified and defensible scope, standard and/or cost drivers
- not already recovered by Aurizon Network in UT4.

3.3 QCA draft decision

Draft decision 3.1

- The QCA considers the appropriate way for Aurizon Network to amend its 2017–18 revenue adjustment amount is to revise the ground penetrating radar claim to \$1.2 million.
- A claim of \$1.2 million reflects the prudent and efficient cost estimates of the ground penetrating radar.

The QCA has assessed each cost component of Aurizon Network's GPR claim in making this draft decision as set out below.

The QCA's draft decision reflects the result of adjustments to the external contractor costs incurred in Aurizon Network's GPR costs.

3.4 Overview of the ground penetrating radar

Aurizon Network approach to ground penetrating radar

Aurizon Network indicated that the GPR survey is primarily to gather datasets relating to track condition metric over time¹⁰ and that GPR is the primary source for quantifying ballast condition.¹¹

Aurizon Network has previously conducted GPR survey work in 2010, 2011, 2012, and 2014.¹²

QCA's approach to assessment

The QCA's role is to assess the ground penetrating costs proposed by Aurizon Network against schedule F, clause 4.3(c)(vi). The QCA undertook a detailed and thorough investigation into Aurizon Network's GPR claim, to test the prudence and efficiency of these costs. In doing so, our approach involved:

- reviewing Aurizon Network's GPR costs
- developing an alternative estimate, using a 'bottom-up, cost build-up' approach, of GPR costs

¹⁰ Aurizon Network, sub. 1, p. 6.

¹¹ Aurizon Network, sub. 1, p. 6.

¹² Aurizon Network, sub. 1, p. 6.

- assessing Aurizon Network's expenditure against the alternative estimates.

To assist in its assessment, the QCA engaged rail consultant B&H to review all relevant information, including Aurizon Network's claim in order to assist the QCA's decision-making process. The QCA considered B&H's analysis and recommendations, and the information provided by Aurizon Network in response to the B&H report, in making its draft decision. Both the B&H report and Aurizon Network's response to the B&H report are available on the QCA's website.

During the course of the investigation, further information was requested from, and supplied by, Aurizon Network. This significant additional information has informed our assessment.

Alternate bottom-up approach

The B&H report provided a bottom up estimate of a prudent and efficient GPR program of work costing \$0.9 million.¹³ The B&H report indicated that a prudent and efficient GPR program would provide lower costs in the contract, through a more comprehensive tendering approach, reduced costs in equipment and lower labour costs.¹⁴

3.5 Contractor costs

Aurizon Network

The GPR work requires the operation of the technical equipment over the survey track. Aurizon Network engaged an external contractor to provide and operate the equipment.

B&H report

B&H's review of the tendering approach indicated that 'the method of procurement is irregular and would not provide best value for money.'¹⁵ The B&H report also indicated that 'a 10 day period is insufficient for work of such complexity for reasonable responses from tenders other than the incumbent'.¹⁶ B&H concluded that the timeframe in the tendering process resulted in a lack of competitive tension and the costs are not efficient.¹⁷

Aurizon Network response

Aurizon Network indicated, in response to the issues raised by the B&H report, that it facilitated a fair and correct procurement process when tendering for the GPR survey.¹⁸ Aurizon Network invited four companies known to provide GPR survey services to tender for this contract¹⁹; it considered a 10-day tender period was sufficient, given the potential providers' experience.²⁰

¹³ B&H Strategic Services Pty Ltd, *Assessment of AN GPRS Submission*, December 2017, p. 7.

¹⁴ B&H Strategic Services Pty Ltd, December 2017, p. 7.

¹⁵ B&H Strategic Services Pty Ltd, December 2017, p. i.

¹⁶ B&H Strategic Services Pty Ltd, December 2017, p. 4.

¹⁷ B&H Strategic Services Pty Ltd, December 2017, p. i.

¹⁸ Aurizon Network, sub. 1, p. 6.

¹⁹ Aurizon Network, sub. 1, p. 6.

²⁰ Aurizon Network, sub. 1, p. 6.

QCA analysis

The supporting documentation²¹ provided by Aurizon Network indicates the external contractor performed a calibration of GPR data to per cent void contamination values at an Aurizon Network test track constructed in 2011. This effectively made this contractor a sole supplier for reporting GPR per cent void contamination values. The Aurizon Network supporting documentation indicates that other ground penetrating radar service providers could also construct a GPR per cent void contamination calibration tracks.

Aurizon Network acknowledged the external contractor is effectively a sole supplier.²² Aurizon Network would have known if any other potential contractor had constructed and used a test track within the Central Queensland coal network to calibrate GPR captured data and per cent void contamination values.

If the external contractor was a sole supplier of calibration of ground penetrating radar capture data to per cent void contamination values, Aurizon Network could have split the contract to offer multiple vendors to tender on the GPR data capture only option. The contract for the calibration of GPR capture data to per cent void contamination values would have stayed with the sole supplier.

The QCA requested from Aurizon Network the tender documents and proposals from all tenderers. The tender documents have not been supplied. Aurizon Network supplied the proposal documents from the only tenderer and subsequent contractor.

These limitations resulted in only one compliant tender and a lack of competitive tension in the contracting process. B&H estimated that with competitive tension a 20 per cent price reduction could have been achieved.²³

QCA draft decision

The QCA is not satisfied that a prudent and efficient tendering process was used by Aurizon Network. Therefore, the QCA draft decision is to remove 20 per cent of the contract costs (approximately \$0.2 million) in costs from the external contract claim associated with the GPR.

3.6 Labour costs

The efficient cost (Mt) in the maximum available revenue calculation in clause 6.6.3(c) of the 2016 undertaking is defined as:

including operating and maintenance costs, business and corporate overheads and the QCA levy, reasonably expected to be incurred for the Stand Alone provision of access for the Train Services in each year of the Evaluation Period.

The GPR labour project costs include the cost of the development of the project scope, tendering, submission review, contracting and review of the final report. The costs of the GPR can be claimed under the adjustable allowable revenue, provided they are not already recoverable by Aurizon Network elsewhere in the undertaking.

²¹ Aurizon Network, *GPR 2016 project —Phase 2—Civil and Electrical Engineering Close-out Report* (commercial in confidence), May 2017.

²² Aurizon Network, *GPR 2016 project —Phase 2—Civil and Electrical Engineering Close-out Report* (commercial in confidence), May 2017.

²³ B&H Strategic Services Pty Ltd, *Assessment of AN GPRS Submission*, December 2017, p. 7.

Aurizon Network

Aurizon Network supplied through the RFI process detailed information on the labour costs incurred in the GPR claim. Aurizon Network provided a detailed breakdown of the labour hours spent on the project by:

- high-level project code
- unique employee
- hours worked by unique employee day
- billable hourly rate by employee.

The costing methodology gives a separate cost per employee. The total number of hours consumed on the project was over 2,100.

B&H report

The B&H report estimated that the efficient number of labour hours would be approximately 900 hours for the Aurizon Network equipment operations team (assuming a high-rail truck) and the support areas for pre-planning, administration and post-analysis.²⁴ B&H Strategic Services provided a bottom-up estimate of a billable hourly rate of \$150 per hour, which includes on-costs.²⁵

Aurizon Network response

Aurizon Network's response to the B&H report indicated that 'costs are only charged on the basis of the activities actually performed'.²⁶ Aurizon Network indicated that costs are collated at the project level and a 'review of costs is undertaken by the project manager and finance business partner prior to the finalisation of costs'.²⁷

QCA analysis

The GPR is used by Aurizon Network as part of a planning process to determine the ballast management plan. The costs associated with the ballast undercutting is separately allowed for under the maximum available revenue. To determine whether these labour costs are not already included elsewhere in UT4, the underlying costs incurred in the GPR need to be compared to costs already approved elsewhere in UT4. The QCA is satisfied that the internal labour costs incurred in the GPR are not included in the MAR and these costs are eligible to be considered for prudence and efficiency under schedule F, clause 4.3(c)(vi).

Aurizon Network provided a detailed labour costing analysis. The QCA compared the labour hours and costs against the project deliverables and timelines. The labour hours incurred on the project initially appeared high. While we are concerned about the efficiency of the total number of employee labour hours, upon further analysis we are not proposing to adjust the amount of labour hours in the project costs. While Aurizon Network has previously undertaken ground penetrating survey work (in 2010, 2011, 2012, and 2014²⁸), we understand the 2016 survey involved a different approach to mapping the GPR data to the track across the Central Queensland coal network. Assuming more hours were needed in planning and analysis for the

²⁴ B&H Strategic Services Pty Ltd, *Assessment of AN GPRS Submission*, December 2017, p. 7.

²⁵ B&H Strategic Services Pty Ltd, December 2017, p. 7.

²⁶ Aurizon Network, sub. 1, p. 8.

²⁷ Aurizon Network, sub. 1, p. 8.

²⁸ Aurizon Network, sub. 1, p. 6.

2016 run for the GPR, we anticipate that the labour hours associated with future GPR projects will decline over time.

The QCA analysed the billable hourly rate used by Aurizon Network against each employee involved in the GPR work and against the B&H estimate. The billable hourly rate across both field and non-field work used by Aurizon varied from \$94 per hour to \$213 per hour, with a weighted average rate of \$154 per hour. The B&H bottom-up estimated hourly rate is \$150 per hour. The QCA is satisfied with the billable hourly rate used by Aurizon Network in the GPR claim.

QCA draft decision

The QCA does not propose to make any adjustments to the labour costs in the GPR claim.

3.7 Plant and equipment costs

The GPR work requires the equipment to be operated over the track to capture the relevant information. This requires the mounting of the equipment to a vehicle capable of operating along the track.

Aurizon Network

Aurizon Network used a dynamic track stabiliser (DTS) machine fitted with the contractor's GPR equipment.

B&H report

B&H indicated the DTS machine is highly specialised for the role and that other alternatives would have been available to be used at a more efficient cost. B&H proposed the utilisation of a high-rail truck would provide advantages in reliability, flexibility in transport and alternate use between GPR surveys.²⁹

Aurizon Network response

Aurizon Network supplied the QCA with further information on its decision to use the DTS machine and alternative vehicles that were evaluated. Aurizon Network indicated that it has also evaluated a railmotor and a high-rail truck.³⁰ Aurizon Network deemed the DTS as a more efficient choice. Aurizon Network estimated the total costs under the project would have been higher if using a high-rail truck—doing so would have resulted in an extra 13 days of data capture, which would have increased the project's total costs, due to the external contractor charging a daily rate for their time and equipment.³¹

QCA analysis

We considered the B&H analysis and Aurizon Network's response. While, maybe other vehicles could have been cheaper, Aurizon Network chose to use its existing DTS after considering other vehicles and provided further justification for it, so on balance, we are satisfied that the plant and equipment costs incurred by Aurizon Network for the GPR are prudent and efficient.

²⁹ B&H Strategic Services Pty Ltd, *Assessment of AN GPRS Submission*, December 2017, p. 5.

³⁰ Aurizon Network, sub. 1, pp. 1–5.

³¹ Aurizon Network, sub. 1, p. 3.

QCA draft decision

The QCA does not propose to make any adjustments to the plant and equipment costs in the GPR claim.

3.8 Other costs

Travel and consumables were the other costs incurred in the project, representing less than one per cent of the total project costs. The QCA is satisfied that the other costs incurred by Aurizon Network for the GPR are prudent and efficient.

4 OTHER ADJUSTMENTS TO ALLOWABLE REVENUE

Aurizon Network's proposal outlined its claim for the following cost adjustments to the allowable revenue under schedule F, clause 4.3(c). On assessment, the QCA found these adjustments appropriate to approve, as detailed in this chapter.

4.1 Rebate adjustments

Schedule F, clause 4.3(c)(vii)(A)–(B) of UT4 allows for an adjustment to be made for the difference in the actual and forecast payment of rebates. The system-specific rebates are outlined in Table 2.

Table 2 Aurizon Network rebates, by system (\$ million)

<i>System</i>	<i>AT2–AT4 rebate adjustment (\$ million)</i>	<i>AT5 rebate adjustment (\$ million)</i>
Blackwater	2.0	–
Goonyella	3.5	0.3
Moura	–	–
Newlands	0.6	–
GAPE	–	–
Total	6.1	0.3

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

Source: Aurizon Network, 2017–18 Revenue Adjustment Explanatory Memorandum, September 2018, p. 12.

Aurizon Network provided the QCA with a detailed model of the rebate adjustments. The QCA verified Aurizon Network's modelling and is satisfied with Aurizon Network's claim under the rebate adjustments.

In its submissions, Pacific National stated it had raised concern with the rebate approach since its submission to Aurizon Network's 2013–14 revenue adjustment.³² Pacific National acknowledged Aurizon Network's approach to rebates for this 2017–18 revenue adjustment appears consistent with UT4, but it requested the QCA reconsider this approach in UT5.³³ The QCA acknowledges that Pacific National has raised the treatment of rebates under the revenue adjustment process on multiple occasions. For this submission, however the treatment of rebates is consistent with UT4 and the QCA is satisfied that it should be approved.

4.2 Condition-based assessment costs

Aurizon Network indicated that it did not incur costs in relation to condition-based assessments and no claim has been submitted under schedule F, clause 4.3(c)(v). The QCA is satisfied with this claim.

³² Pacific National, sub. 3, p. 1.

³³ Pacific National sub. 3, p. 1.

4.3 Adjustments to occur under UT5

Aurizon Network did not submit a claim for the following cost adjustments (outlined in schedule F of UT4) and instead proposed for these to occur as part of UT5:

- (a) maintenance cost index (cl. 4.3(c)(i))
- (b) consumer price index (CPI) for its operating costs (cl. 4.3(c)(ii))
- (c) electricity connection costs (cl. 4.3(c)(iii))
- (d) audit costs (cl. 4.3(c)(iv))
- (e) GPR costs incurred in 2017–18 (cl. 4.3(c)(vi))
- (f) compliance costs (cl. 4.3(c)(viii)).³⁴

Aurizon Network indicated that items (a) and (b) will be included as an actual cost for the 2017–18 financial year in UT5.³⁵ Aurizon Network specified any further adjustments for items (c) to (f) would be submitted under the 2018–19 revenue adjustment as part of UT5.³⁶ The QCA accepts the approach for items (a) to (f).

³⁴ Aurizon Network, sub. 2, pp. 10–12.

³⁵ Aurizon Network sub. 2, p. 10.

³⁶ Aurizon Network sub. 2, pp. 11–12.

5 DRAFT DECISION

The QCA's draft decision is to refuse to approve Aurizon Network's 2017–18 revenue adjustment (schedule F, cl. 4.3(n)(ii)). The QCA has determined that Aurizon Network:

- should adjust the claim associated with the GPR
- has appropriately calculated all of the other proposed revenue adjustments.

Table 3 shows the breakdown of the QCA's draft decision against the criteria set out in the 2016 undertaking.

Table 3 Aurizon Network's 2017–18 revenue adjustment amounts (\$ million)

	<i>Clause in UT4</i>	<i>QCA draft decision</i>
Transitional allowable revenue		992.5m
Condition-based assessment costs	cl. 4.3(c)(v)	0
Ground penetrating radar costs	cl. 4.3(c)(vi)	1.2
Rebates	cl. 4.3(c)(vii)	6.4
Other costs	cl. 4.3(c)(ix)	0
Transitional adjusted allowable revenue (AAR)		1,000.1
Less: total actual revenue (TAR)		
AT2–4	cl. 4.3(d)(i)	786.6
AT5	cl. 4.3(g)	163.0
Cross-system and take or pay	cl. 4.3(d)(i)(B), cl. 4.3(d)(ii), cl. 4.3(g)	51.2
Total actual revenue (TAR)		1,000.8
Revenue adjustment amount (AAR minus TAR)		(0.7)

Cost adjustment claims that will be assessed under UT5 have been excluded from Table 2. A negative value indicate an over-recovery, and thus, a refund

APPENDIX A: SUBMISSIONS AND REFERENCES

Submissions

The QCA received the following submissions during its investigation of Aurizon Network's 2017–18 revenue adjustment. The submission numbers below are used in this draft decision for referencing purposes. The submissions are available on the QCA website.

Stakeholder	Sub no.	Type of submission	Date
Aurizon Network	1	2016–17 GPR Submission	June 2018
	2	Aurizon Network's 2017–18 revenue adjustment	September 2018
Pacific National	3	Submission on Aurizon Network's 2017–18 revenue adjustment	October 2018
Queensland Resource Council	4	Submission on Aurizon Network's 2017–18 revenue adjustment	October 2018

References

Aurizon Network, Aurizon Network, GPR 2016 Project —Phase 2—Civil and Electrical Engineering Close-out Report (commercial in confidence), May 2017.

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