

## Aurizon Network Access Undertaking (2010)



## 2013 Flood Review Event Moura System Adjustment Charge

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# 1. Introduction

## 1.1 Purpose

This submission is provided to the Queensland Competition Authority (QCA) following the approval of reference tariff adjustments associated with Aurizon Network's 2013 Flood Review Event submission (Flood Submission), provided to the QCA in November 2014.

This submission details the methodology, data and assumptions used to determine Adjustment Charges for the Moura system for financial year (FY) 2015.

Further, Aurizon Network seeks approval for the recovery of Adjustment Charges, totalling \$0.94 million, from Access Holders in the Moura system in accordance with the provisions outlined in Schedule F of Aurizon Network's 2010 Access Undertaking (2010AU).

If approved by the QCA, Aurizon Network proposes that the Adjustment Charges will be recovered in July 2015 in conjunction with the invoices for volumes railed in June 2015.

## 1.2 Background

In January 2013, the East coast of Queensland suffered heavy rain and wide-spread flooding as a result of tropical cyclone Oswald. Aurizon Network incurred significant costs restoring the Blackwater and Moura systems, and submitted the 2013 Flood Review Event Claim to the QCA for approval to recover these costs.

In July 2014, the QCA published a final decision on the amount of flood costs that were recoverable, approving \$16.1 million (\$FY2013) of Aurizon Network's 2013 Flood Review Event Claim and noting that its "...preference for recovery is in 2014-15..."<sup>1</sup>

In November 2014, Aurizon Network made a submission to the QCA seeking the approval of reference tariff adjustments to recover costs associated with the 2013 Flood Review Event. In light of the time elapsed since the costs were incurred (2013), Aurizon Network's Flood Submission sought to recover the full costs attributable to the Blackwater and Moura systems during the remaining six (6) months of FY2015. Aurizon Network proposed that the recovery be affected via an adjustment to Reference Tariffs from 1 January 2015 to 30 June 2015.

In its final decision to approve the Flood Submission, the QCA noted that costs attributable to:

- the Blackwater system are to be recovered over the remainder of FY2015; and
- the Moura system, are to be recovered over the period (commencing 1 January 2015) to the end of FY2016.

The QCA's final decision also provides for an Adjustment Charge to be levied as per the requirements of the 2010AU (Schedule F, Clause 2.3). This will be discussed in further detail below.

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<sup>1</sup> QCA; Final Decision: 2013 Flood Review Event Claim; File Ref: 756627

## 2. Recovery of Approved Costs

### 2.1 Purpose

As noted above, the QCA's final decision provides for:

- costs attributable to the Blackwater system to be recovered over the remainder of FY2015;
- costs attributable to the Moura system, to be recovered over the period (commencing 1 January 2015) to the end of FY2016; and
- an Adjustment Charge to be levied as per the requirements of the 2010AU.

This section describes how Aurizon Network will give effect to the QCA's final decision.

### 2.2 Blackwater System

As noted above, Aurizon Network's Flood Submission sought the approval of reference tariff adjustments, to be applied from 1 January 2015. The QCA's final decision was made after the commencement date of the proposed reference tariff adjustment. In these circumstances and subject to the approval of the QCA, an Adjustment Charge would be applicable in accordance with the provisions of the 2010AU (Schedule F, Part A, Clause 2.3).

Nevertheless, in consultation with the Queensland Resources Council (QRC) on behalf of end customers in the Blackwater system, and with the agreement of the QCA, Aurizon Network calculated an alternative reference tariff adjustment for the Blackwater system. This alternative reference tariff will be applicable to volumes railed in the remaining three (3) months of FY2015; i.e. from 1 April to 30 June 2015.

Consistent with the QCA's final decision, Aurizon Network expects to recover the full costs attributable to the Blackwater system through an adjustment to Reference Tariffs effective 1 April to 30 June 2015. In doing so, there is no requirement for an Adjustment Charge for Access Holders in the Blackwater system.

In light of the above, the remainder of this Adjustment Charge submission relates to the Moura system only.

### 2.3 Moura System

The QCA's final decision provides for the costs attributable to the Moura system to be recovered over the period to the end of FY2016. As Aurizon Network's Flood Submission sought to adjust Reference Tariffs from 1 January 2015, the practical impact of the QCA's final decision is for Aurizon Network to recover these costs over an eighteen (18) month period; commencing 1 January 2015 to 30 June 2016. As a result Aurizon Network is entitled to recover:

- one-third (1/3) of the Moura flood claim costs in FY2015 (\$2.79m); and
- two-thirds (2/3) in FY2016 (\$5.98m).

For FY2015, the reference tariff adjustments below are calculated using the 'transitional' volume forecast, on the basis that they are applicable to railings for a six (6) month period, i.e. from 1 January to 30 June 2015.

**Table 1: Adjustments to Moura system Reference Tariffs in FY2015**

Moura system Reference Tariff Adjustments	FY2015
AT3 (\$ per '000 NTK)	1.30
AT4 (\$ per NT)	0.22

The revised Transitional Reference Tariffs for the Moura system for FY2015 are outlined in table 2 below.

**Table 2: Moura system Transitional Tariffs for FY2015, excluding and including Flood Costs**

FY2015 Reference Tariffs (incl 1213 Revenue Cap)	AT <sub>1</sub>	AT <sub>2</sub>	AT <sub>3</sub>	AT <sub>4</sub>
Excluding Flood Costs	1.64	620.00	8.24	1.35
Including Flood Costs	1.64	620.00	9.54	1.57

Aurizon Network understands that the recovery of Moura costs over a three (3) month period (akin to the arrangement agreed for the Blackwater system) results in a reference tariff increase that is unacceptable to Moura system end customers. Accordingly, the Reference Tariffs outlined in table 2 above (calculated for a 6 month period) will be applied when calculating Access Charges for railings from 1 April to 30 June 2015.

As per the requirements of the 2010AU (Schedule F, Part A, Clause 2.3), an Adjustment Charge is also applicable where a Reference Tariff variation takes effect on a date prior to the date of QCA approval. The “Effective Date” of Aurizon Network’s Reference Tariff adjustment is 1 January 2015. Aurizon Network has calculated Adjustment Charges on the basis of the Reference Tariffs outlined in table 2 and seeks to recover the shortfall in Access Charges received between 1 January and 31 March 2015.

In summary, Aurizon Network expects to recover one-third of the flood costs attributable to the Moura system in FY2015. The recovery will be affected through:

- an Adjustment Charge applicable to volumes railed between 1 January and 31 March 2015; and
- an adjustment to Reference Tariffs effective 1 April to 30 June 2015.

The remaining two-thirds of costs attributable to the Moura system will be recovered via an adjustment to Reference Tariffs in FY2016. These adjustments are incorporated in Aurizon Network’s 2015 Draft Amending Access Undertaking submission, which is current under consideration by the QCA.

The following sections outline the process followed to calculate the Adjustment Charge applicable to the Moura system.

# 3. Adjustment Charge

## 3.1 Purpose

This section sets out the methodology, data and assumptions used to determine Adjustment Charges applicable to Access Holders in the Moura system for FY2015.

## 3.2 Schedule F Provisions

Schedule F, Part A, Clause 2.3, provides that the difference between:

- the Access Charges paid by Access Holders under the current transitional Reference Tariffs; and
- the Access Charges payable by Access Holders under the 'flood adjusted' transitional Reference Tariffs approved by the QCA for FY2015,

is to be reimbursed to, or recovered from, Access Holders in proportion to their Access Charges paid in the relevant system.

Clause 2.3 also stipulates that Aurizon Network will be required to submit a Reference Tariff variation as an Adjustment Amount. Once approved, the Adjustment Amounts including interest are reimbursed to, or recovered from, Access Holders as an Adjustment Charge.

Clause 2.3.4(a) requires that where Aurizon Network submits an Adjustment Amount in accordance with Clause 2.3.3, the submission must:

- identify, subject to Clause 2.3.9, the Access Holders in respect of whom the proposed Adjustment Charges are to be applied;
- set out the proposed Adjustment Charges for each Access Holder including details of how those proposed Adjustment Charges were calculated; and
- indicate the billing period(s) in respect of which the proposed Adjustment Charges are to be applied.

The Adjustment Amounts cover the Access Charges for track infrastructure (AT<sub>2-4</sub>) for the Moura system.

The proposed Adjustment Charges to be recovered from Access Holders in the Moura system are applicable to volumes railed between 1 January to 31 March 2015, and are summarised in table 3 below:

**Table 3: Moura system Adjustment Charge**

FY2015 Adjustment Charge (\$)	AT <sub>2-4</sub>
Moura system	943,737

Aurizon Network proposes that the Adjustment Charges will be recovered as part of the invoices for June 2015 railings.

A detailed financial model has been prepared by Aurizon Network and provided to the QCA in electronic form in support of this submission and in accordance with Clause 2.3.4. The information includes:

- calculations supporting the AT<sub>2-4</sub> Adjustment Amounts for the Moura system, being revenues collected less the relevant amounts payable;
- extracts from Aurizon Network's billing system on the actual revenues collected; and
- calculations supporting the allocation of the Adjustment Amounts across each Access Holder.

In addition, extracts of the financial model have been provided separately to Access Holders (Aurizon Operations Coal and Cockatoo Coal) in advance of this submission.

Apart from the financial model, this submission is presented in a format which is suitable for publication, should the QCA elect to do so, in accordance with Paragraph 2.3.4(b). The financial model contains specific information on individual Train Services and accordingly Aurizon Network requests that it is not published. Outputs from both the model and the billing system are summarised in this submission.

### 3.3 Calculation of Adjustment Amounts

Within Schedule F, clause 2.3.1(f) provides the methodology detailing how Aurizon Network will calculate the Adjustment Amount and recover from, or reimburse to (as applicable), each relevant Access Holder.

The methodology is based on the differences between Actual and Allowable Revenues, the interest calculated on the total differences, and the allocation of the differences and interest between actual Access Charges paid (on a pro-rata basis).

#### 3.3.1 Differences between Actual and Allowable Revenues

The total value of the actual revenues (Access Charges paid) and the Allowable Revenues (Access Charges payable including flood costs) for AT<sub>2-4</sub> are summarised in table 4 below:

**Table 4: Difference between Access Charges Paid and Payable**

System	Access Charges Paid (\$)	Access Charges Payable (\$)	Under-Recovery (\$)
Moura	6,334,553	7,278,290	943,737

Aurizon Network confirms that:

- Access Charges paid are per Aurizon Network’s billing system.
- Access Charges payable are calculated by applying the adjusted Reference Tariffs (inclusive of flood costs)<sup>2</sup> to actual volumes railed between 1 January and 31 March 2015.

The Access Charges payable by Access Holders for individual Train Services, are set out in detail in the financial model supporting the calculation of the Adjustment Charges. The model has been provided to the QCA with this submission.

#### 3.3.2 Interest

Clause 2.3.1(f), Part A of the Schedule F of the 2010AU prescribes that interest must be added to the FY2015 Adjustment Charge. Clause 2.3.2 sets out the basis of the calculation of any interest payable. In principle, interest is calculated at the Bank Bill Swap Rate by reference to the difference between the amounts actually due and payable and the amounts which would have been due and payable had the approved Reference Tariffs been in place from the commencement of the relevant period.

Aurizon Network has calculated interest applicable to the Moura system Adjustment Charge and notes that the amount payable under Clauses 2.3.2 is very small (circa \$4,000). In recognition of this and the fact that the Moura system will also be subject to additional costs associated with the 2015 flood, Aurizon Network intends to waive the interest payable in this instance. For clarity, the Adjustment Charge recovered from Access Holders remains as outlined in tables 3 and 4 above.

Aurizon Network notes that this proposal is of benefit to Access Holders in the Moura system, which is subject to an under-recovery of Access Charges. Furthermore, this offer is made without prejudice and is not intended to create a precedent with regards to the recovery (or payment of) any future interest amounts.

<sup>2</sup> As outlined in table 2.

### 3.3.3 Adjustment Amounts – by Access Holder

The total Adjustment Amounts, exclusive of interest, are summarised for each Access Holder in table 5 below.

Table 5: Adjustment Amounts – by Access Holder

Access Holder	AT <sub>2-4</sub> Under-recovery (\$)	Interest (\$)	Total (\$)
██████████	██████	█	██████
██████████	██████	█	██████
<b>Total</b>	<b>943,737</b>	<b>--</b>	<b>943,737</b>

In accordance with Schedule F, the total difference between Access Charges paid and Access Charges payable for AT<sub>2-4</sub> for the Moura system has been allocated between Access Holders, and between Train Services linked to those Access Holders, on a pro-rata basis according to Access Charges paid.

## 3.4 Recovery of Adjustment Amounts

If approved by the QCA, Aurizon Network proposes that the Adjustment Charges outlined above will be recovered from Access Holders in July 2015 in conjunction with the invoices for volumes railed during June 2015.