

24 April 2015

Dr Malcolm Roberts
Chair
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4000
By email: Malcolm.roberts@qca.org.au
cc: [Tania Homan](#)

Dear Dr Roberts

QRC submission on Aurizon Network's Extension DAAU

The Queensland Resources Council (**QRC**) welcomes the opportunity to provide this submission on Aurizon Network's March 2015 Draft Amending Access Undertaking which proposes to finalise FY2015 tariffs, extend the termination date of the 2010 Undertaking, and establish transitional reference tariffs for FY2016 (the "Extension DAAU").

Aurizon Network consulted with the QRC prior to finalising the Extension DAAU and adopted elements of our feedback. As a result, we are generally supportive of this DAAU. We thank Aurizon Network for its constructive approach in this case.

QRC supports the finalisation of FY2015 tariffs based on the transitional tariffs. The finalisation of volumes based on the volumes which were used to calculate transitional tariffs is discussed below. We also generally support the establishment of transitional FY2016 tariffs as proposed by Aurizon Network, subject to comments below.

Finalisation of transitional volumes

Aurizon Network proposes to finalise FY2015 volumes, for take or pay purposes, based on the volumes contained in the April 2014 Extension DAAU. The April 2014 Extension DAAU stated that these volumes would be used only for the purposes of calculating transitional tariffs, and not as take or pay triggers. This was based on an expectation that UT4 would be finalised during FY2015, so that allowable revenues, tariffs and volume forecasts could be adjusted during the year. We note that the QCA's draft decision of September 2014 included a draft decision on FY2015 volumes, and that an alternative approach could be taken which updates volumes based on the draft decision. However we also understand that this would involve significant complexity, including the need to update FY2015 tariffs for consistency with the revised volumes, rather than confirming the transitional tariffs.

On balance, we prefer the simplicity of Aurizon Network's proposal, although we ask that QCA consider this issue. This is based on our understanding that the QCA's final approved volumes under UT4 will still be adopted in the calculation of any volume-dependant cost allowances, including for FY2015.

NPV neutrality of cashflows, including flood recovery costs

In supporting these arrangements, we assume that the QCA will review Aurizon Network's modelling prior to final approval of UT4, to ensure that the Net Present Value of revenues over the regulatory period is equal to the NPV of the allowable revenues reflected in the final decision. That is, we assume that all decisions regarding transitional tariffs will only affect the timing of cashflows and not the NPV of cashflows in the long run. For example, flood recovery costs are incurred at various points in time, are escalated from those dates to a common future date, approved for recovery at the resulting value, and then recovered over future periods, requiring further escalation. We request that the QCA verify that the final net present value of flood recovery revenues less costs is zero.

Adjustment for under/over recovery of FY2015 revenues

Aurizon Network proposes that any difference between final FY2015 actual revenue and the final approved Maximum Allowable Revenue under UT4 be recovered via the revenue cap arrangements (i.e. during FY2017) unless determined otherwise through the finalisation of the 2014DAU. QRC's preference is that the adjustment be taken into account when settling final tariffs over the remaining years of UT4 (i.e. the years for which tariffs have not been finalised, being FY16 and FY17) rather than being carried forward for recovery in FY17 alone. We understand that this is not a matter which needs to be resolved in order for the Extension DAAU to be approved.

Transitional FY2016 tariff for Newlands

Regarding tariffs for the Newlands system, we note that the proposed increase is 42% and that this arises, at least in part, from the inclusion of allowable revenues relating to NAPE Train Services, which have not yet commenced raiing. At this stage there is significant uncertainty regarding the pricing of NAPE and Newlands services, noting that the QCA's draft decision:

- Rejects the proposed allocation of NAPE costs to Newlands.
- Proposes separate pricing for NAPE.
- Proposes to set initial pricing for NAPE at a level which reflects volumes at full operation, despite initial volumes being low, with the resulting shortfall in revenue to be capitalised.

Given this uncertainty, and given that the proposals within the QCA's draft decision would reduce any increase in the Newlands tariff (compared to the 42% increase proposed in the Extension DAAU), we suggest that it is appropriate to exclude NAPE revenues and volumes from the Newlands system transitional allowable revenues for FY2016. We note that Aurizon Network indicated in its covering submission to the DAAU that it would consider this approach if stakeholders considered this appropriate.

Flood recovery costs, Moura system

The proposed FY2016 transitional tariffs for Moura system reflect Aurizon Network's proposal that flood recovery costs be billed over an 18 month period commencing 1 January 2015. We are aware that Moura customers are seeking an arrangement which reduces the short term impact of the event on tariffs, and understand that affected QRC members may make submissions on this point.

Thank you for your consideration of our submission.

Yours sincerely



Michael Roche
Chief Executive

