

Friday, 6 November 2015

Professor Roy Green  
Chair  
Queensland Competition Authority  
PO Box 2257  
Brisbane Queensland 4001

Dear Professor Green

### **Asciano Response to the Aurizon Network Submission on 2014-15 Revenue Adjustment Amounts and Increments to the QCA**

Asciano welcomes the opportunity to provide comment on the Aurizon Network submission to the Queensland Competition Authority (QCA) on 2014-15 Revenue Adjustment Amounts and Increments (the Submission). Areas of concern to Asciano are outlined below.

#### **Asciano Position on the Aurizon Network Proposed Treatment of Rebates**

Asciano has previously raised concerns that Aurizon Network's treatment of rebates in its revenue cap adjustment<sup>1</sup>. As outlined in the Submission (page 14) Aurizon Network is seeking \$6.6 million of rebate recovery from access holders as Aurizon Network has over paid rebates as 2014-2015 actual volumes have been above forecast.

Asciano is concerned as these rebate arrangements are commercial arrangements separate from the regulatory process, but Aurizon Network seek to recover over paid rebates by socialising the recovery of these over payments through the regulatory revenue and pricing process. Asciano continues to hold these concerns and believes that the QCA should consider a more equitable rebate adjustment method in future access undertakings.

Asciano recognises that previously the QCA has accepted Aurizon Network's treatment of rebates as this treatment is consistent with the 2010 Access Undertaking<sup>2</sup>. However, Asciano notes that the QCA has previously indicated<sup>3</sup> that the issue of the Aurizon Network treatment of rebates in the revenue cap mechanism will be subject to review as part of the broader QCA review of the Aurizon Network 2014 Draft Access Undertaking. Asciano welcomes this QCA position and seeks that the QCA review this matter as it finalises its Final Decision on the Aurizon Network 2014 Draft Access Undertaking

#### **Asciano Position on the Aurizon Network Proposed Treatment of Increments**

Asciano notes that Aurizon Network are not seeking claims for increments in the 2014-2015 revenue adjustment process but are requesting that the QCA clarify what evidence is needed to for Aurizon Network to substantiate a claim. Asciano supports Aurizon Network's request for clarity from the QCA in relation to the increment process as the process for substantiating increment claims is not well defined.

<sup>1</sup> See the 7 November 2014 "Asciano Response to the Aurizon Network Submission on 2013-14 Revenue Adjustment Amounts and Increments to the QCA"

<sup>2</sup> "QCA Final Decision Aurizon network Revenue Cap Adjustment Application 2013-14" May 2015

<sup>3</sup> "QCA Draft Decision Aurizon Network Revenue Cap Adjustment Application 2013-14" February 2015

In relation to increments Asciano has previously taken a position<sup>4</sup> that:

- an agreed KPI regime is needed in order to allow the QCA to make an objective assessment of any increments sought; and
- increments should only be claimed when actual volumes are above contracted volumes (as opposed to a situation where actual volumes are above forecast volumes but below contracted volumes). (If this threshold is met then the claim for increments should be assessed using an agreed KPI regime).

Asciano believes that both a volume threshold set at the contracted volume level and an agreed KPI regime should be included in any QCA documentation clarifying the regulatory processes relating to increments.

### **Other Issues**

Several other issues of concerns to Asciano are outlined below.

#### *Diesel and Electric Power Forecasting*

Asciano has concerns regarding the lack of transparency surrounding the forecast diesel and electric gross tonnes per kilometre in the Blackwater system. These forecasts have a strong impact on the Aurizon Network recovery of the AT5 tariff and should be made more transparent. In particular Asciano notes that in the Blackwater system actual total volumes were higher than forecast but actual AT5 volumes were lower than forecast. This indicates that the Aurizon Network forecast of the diesel / electric split in the Blackwater system could be improved.

Given previous Aurizon Network concerns regarding the ability of the AT5 tariff to recover costs in the Blackwater system, Asciano believes that the forecasting approach and assumptions relating to the electric and diesel split should be more transparent.

#### *Reliability of Forecasting*

In recent years Aurizon Network has either under-recovered or over-recovered revenue by a substantial amount<sup>5</sup>. These substantial fluctuations in under recovery and over recovery are essentially attributable to differences between forecast and actual volumes. Asciano recognises that forecasting is problematic, however these fluctuations indicate that there is scope for improvement in Aurizon Network's forecasting approaches. Asciano believes that increased consultation with miners and train operators should result in improved forecasting.

#### *Recovery of WIRP Electric Costs*

In the Submission Aurizon Network has calculated a return to Blackwater access holders of \$0.1million for EC costs. While Asciano recognises that the dollar amounts are insignificant Asciano is concerned that Aurizon Network has combined Blackwater and Wiggins Island calculations stating (Submission page 13):

*Aurizon Network notes that as WIRP segments are fully integrated with the existing*

<sup>4</sup> See the 7 November 2014 and 20 March 2015 "Asciano Response to the Aurizon Network Submission on 2013-14 Revenue Adjustment Amounts and Increments to the QCA"

<sup>5</sup> For example in 2102-13 Aurizon Network under recovered revenue by \$39.1 million, in 2013-14 Aurizon Network over recovered revenue by \$71.1 million and in 2014-15 Aurizon Network over recovered revenue by \$27.6 million.

*mainline Blackwater infrastructure, it is difficult to separate EC costs and revenues. Therefore destination WICET EC costs and revenues have been included in the calculation of the net return EC adjustment.*

Asciano's concern is that WIRP users were originally intended to operate non-electric train services and therefore should not receive the benefit of this recovery. Asciano believes (and has previously argued in WIRP regulatory processes) that WIRP costs should be kept separate from Blackwater costs. Asciano believes that by combining WIRP and Blackwater recoveries the Aurizon approach acts against WIRP and Blackwater cost separation.

### **Conclusion**

Asciano is seeking that the QCA:

- considers the treatment of rebates in future regulatory processes including the QCA assessment of the 2014 Draft Access Undertaking;
- clarifies the processes and evidence for substantiating increments. Asciano believes that both a volume threshold set at the contracted volume level and an agreed KPI regime should be included in any QCA documentation clarifying the regulatory processes relating to increments; and
- seeks improved transparency in Aurizon Network's forecasting approach.

If you wish to discuss this submission further please contact me on 02 8484 8056 or Ying Yeung on 07 3002 3726.

Yours faithfully

A handwritten signature in black ink, appearing to read "SR", followed by a long horizontal line.

Stuart Ronan  
Manager Access and Regulation