Queensland Competition Authority

Final decision

Aurizon Network's revenue adjustment amounts for 2014–15

February 2016

Level 27, 145 Ann Street, Brisbane Q 4000
GPO Box 2257, Brisbane Q 4001
Tel (07) 3222 0555
www.qca.org.au

Table of Contents

THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Contacts

Enquiries regarding this project should be directed to:

ATTN: Pag Arao-Arao
Tel (07) 3222 0560
general.enquiries@qca.org.au
www.qca.org.au

1 BACKGROUND

1.1 Process to date

On 30 September 2015, Aurizon Network submitted a total revenue adjustment amount of $27.6 million for 2014–15 for approval.

Aurizon Network also requested an extension of time for their increment claim for 2014–15, and requested guidance from the QCA on the evidence required for a claim to be approved. Aurizon Network said it would engage with industry on the appropriate quantum of the increment claim for 2014–15, once this guidance was received. Aurizon Network indicated it may be able to claim an increment of up to $9.6 million.

On 20 November 2015, we refused to approve Aurizon Network's request for an extension in respect of the increment claim, as the QCA must determine the revenue adjustment amounts and increments together under clause 3.4.2 of Part B of Schedule F of the 2010 undertaking. We requested Aurizon Network resubmit a complete claim for 2014–15 by 21 December 2015.

Aurizon Network resubmitted its revenue adjustment amounts on 21 December 2015, and stated it was not claiming an increment for 2014–15.

We have published Aurizon Network’s original and resubmitted proposals and invited stakeholders to comment. We received submissions from Queensland Resources Council (QRC), Vale, Asciano, and Anglo American. We published those submissions and provided Aurizon Network with an opportunity to respond.

1.2 The 2010 undertaking

The revenue cap adjustment and increment provisions that apply to the Central Queensland Coal Network (CQCN) are contained in Part B of Schedule F of the 2010 access undertaking (2010 AU). Among other things, these provisions provide for Aurizon Network to:

- annually submit to us proposed revenue adjustment amounts for the AT2-4 and AT5 tariff components for each system in the central Queensland coal network, including adjustment amounts relating to rebates
- incorporate adjustments for differences between actual and forecast electric traction costs
- incorporate adjustments to allowable revenues from components relating to the recovery of operating and maintenance costs (actual indices against forecasts)
- incorporate a performance increment for each system (where it is reasonably satisfied it is warranted).

Aurizon Network is required to return to (or recover from) access holders the revenue adjustment amounts, being the difference between revenue earned (total actual revenues, or TAR) and revenues allowed (system allowable revenues, SAR) for the relevant reference tariff components.

The provisions state that we will approve the revenue adjustment amounts and increments if we are reasonably satisfied these were calculated in accordance with the relevant provisions of Part B of Schedule F of the 2010 AU.

2 AURIZON NETWORK'S PROPOSAL

Aurizon Network proposed a total revenue adjustment amount in 2014–15 of $27.6 million (Table 1).

Table 1 Revenue adjustment amounts 2014–15 ($m)

Systems	***Non-Electric Revenues***	***Electric Revenues***	***Total Adjustment Amount 2012–13***
Blackwater	(8.3)	4.6	(3.7)
Goonyella	(19.1)	(7.0)	(26.1)
Moura	2.8	-	2.8
Newlands	(0.6)	-	(0.6)
GAPE	-	-	-
Total Adjustment Amount	**(25.3)**	**(2.3)**	**(27.6)**

This $27.6 million proposed revenue adjustment comprised:

(a) a net $25.3 million over-recovery in non-electric reference tariffs (AT2-4)—with returns to access holders of $8.3 million for the Blackwater system, $19.1 million Goonyella system and $0.6 million for the Newlands system offset by a $2.8 million shortfall in the Moura system

(b) a net $2.3 million over-recovery in electric reference tariffs (AT5)—with a return to access holders of $7 million in the Goonyella system offset by a $4.6 million shortfall in the Blackwater system.

Aurizon Network calculated the revenue adjustment amounts by subtracting actual revenues from its adjusted approved system allowable revenues for the applicable reference tariffs.

Aurizon Network's actual revenues are based on what it was entitled to earn, regardless of whether or not it collected this amount. This includes revenues associated with reference train services, take-or-pay obligations and other revenues (including revenue adjustments).

2.1 System allowable revenues

Aurizon Network's 2014–15 system allowable revenues were based on transitional revenues for 2014–15 as contained in the 2015 Extension DAAU approved by the QCA in June 2015.

The 2010 AU allows adjustments to system allowable revenues in calculating the revenue adjustment amounts. Aurizon Network noted the adjustments to system allowable revenues for 2014–15 were limited to the cost of electric energy for traction (electric traction costs), with the remaining adjustments to be dealt with in the 2014 DAU process.

Aurizon Network proposed a net return to access holders of $3.2 million for electric traction costs from the difference between:

(a) amounts paid to Origin Energy Limited for electric traction costs as per invoices and

(b) the corresponding revenues for 2014-15 for Goonyella and Blackwater.

Aurizon Network submitted that as WIRP segments are fully integrated with the existing mainline Blackwater infrastructure, it is difficult to separate these costs and revenues. Therefore, WIRP electric traction costs and revenues have been included in the net adjustment.

2.2 Total actual revenues

Aurizon Network's total actual revenues for 2014–15 were based on what was it is entitled to earn, including revenues associated with:

(a) reference train services including cross-system train services

(b) the review event associated with central Queensland flooding in 2013

(c) take-or-pay amounts, cross-system revenues, transfer fees ($0.9 million in 2014–15) and rebates (a $6.6 million adjustment in 2014–15)

(d) revenues which Aurizon Network has actually earned over the relevant year (whether or not actually collected by Aurizon Network).

3 STAKEHOLDERS' COMMENTS

We published Aurizon Network's proposal on our website and requested submissions from stakeholders. We received submissions from Asciano, Queensland Resources Council (QRC), Vale and Anglo American.

A summary of stakeholder comments on Aurizon Network's revenue adjustment amounts (and Aurizon Network's response) is provided in Table 2 below.

Comments relating to references in Aurizon Network's original submission to a potential increment claim are in **Appendix B.** As noted above, Aurizon Network's final submission did not make an increment claim.

Table 2 Stakeholder Comments on Revenue Adjustment Amounts for 2014-15

Stakeholder Comments	***Aurizon Network's Response***
Electric traction costs and WIRP	
Asciano noted that Aurizon Network has calculated a return to Blackwater access holders of $0.1 million for electric traction costs. While Asciano recognises that the dollar amounts are insignificant Asciano is concerned that Aurizon Network has combined Blackwater and Wiggins Island calculations. 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 submitted that WIRP costs should be kept separate. The QRC noted any separation of over-recovery would be required only in regard to Rolleston's share of the $0.1m. The QRC suggested that, for UT4, variations be adjusted against future EC charges.[1]	Aurizon Network is billed for actual electricity usage by Origin Energy, however, Origin Energy does not have any means of determining whether the electricity was consumed by a Train Service travelling to the Wiggins Island Coal Export Terminal or to the other Gladstone terminals. As a result, any attempts to conduct a separate true-up for WIRP and Non-WIRP Train Services would require an estimated cost allocation, which would add unnecessary complexity into the process for immaterial benefit. Aurizon Network noted that its 2014 DAU proposes to remove this particular true-up from the revenue adjustment process. Any variation would flow directly through to the forecast EC charge for the next year.
Rebates	
Asciano noted that rebate arrangements are commercial arrangements separate from the regulatory process, but Aurizon Network seeks to recover over-paid rebates by socialising the recovery of these over-payments through the regulatory revenue and pricing process. Asciano submitted that the QCA should consider more equitable rebate adjustment methods in future access undertakings. The QRC considered that socialising rebate under or over-recovery is inequitable. QRC recognised Aurizon Network's proposed treatment is consistent with (and required by) Clause 3.2.3(c) of Part B of Schedule F, and the approach has been applied and approved in previous years. QRC submitted a solution to the problem should be achieved in UT4.	Aurizon Network noted stakeholders concerns over the treatment of rebates, in particular, the fact that any under or over payment of rebates is trued up through the revenue adjustment amount process. The primary concern is that the under the 2010 AU, the impact of rebate adjustments are not quarantined between Aurizon Network and the rebate holder. Similar concerns have been raised in the 2014 DAU process. Aurizon Network anticipates that the QCA will address this matter in that process. For this submission, however, the 2010 AU process applies. Aurizon Network's treatment of rebates in this submission is consistent with the terms of the 2010 AU and should be approved.

[1] EC is the electric energy charge for the nominated reference train service in clauses 5 and 6, Part B of Schedule F of the 2010 access undertaking.

Stakeholder Comments	***Aurizon Network's Response***
Both Asicano and the QRC submitted that, for the remaining term of UT3, the tonnage forecasts adopted for mines which are subject to rebates should be closely reviewed by the QCA, so that the risk of substantial rebate adjustments is minimised.	Aurizon Network welcomed greater input and engagement with regards to volume forecasts, but noted that it is the QCA that ultimately approves the regulatory volume forecasts. The approved forecasts are applied to rebate calculations.
Forecasting volumes	
Asciano recognised forecasting is problematic, however there is scope for improvement in forecasting approaches. Increased consultation with miners and train operators should result in improved forecasting.	Aurizon Network welcomed greater input and engagement on volume forecasts, noting the QCA ultimately approves the regulatory volume forecasts.
Transparency and modelling	
Given the lack of granularity in the information provided by Aurizon Network, Anglo American is unable to make detailed submissions on whether the escalation approach adopted by Aurizon Network is justifiable. For flood costs as well as the other components of the calculations, Anglo American requested the QCA to: (a) review to ensure the proposed adjustment is calculated correctly and the appropriate methodology applied; and (b) review any escalation calculations across the relevant period to ensure they are consistent with the QCA Consolidated Draft Decision (December 2015) regarding the treatment of escalation for UT4 Reference Tariffs, (i.e. mid-point of period, as opposed to end of year). The QRC noted it relies on the QCA to assess Aurizon Network's claims as there is not adequate information to comment on the Revenue Adjustment Amounts. Vale noted that it is constrained in its ability to assess the adjustments. There is a need for greater transparency in reporting in future. In the meantime, the process of independent verification by the QCA is critical.	Aurizon Network did not specifically respond to this issue.
The QRC supported an approach in which the revenue adjustment amounts are applied as part of the QCA's finalisation of the 2014 DAU. It preferred a smoothed tariff for the years of the final approved undertaking which remain following its approval, rather than the application of revenue adjustment amounts to specific years.	Aurizon Network did not specifically respond to this issue.

4 QCA ANALYSIS AND FINAL DECISION

In assessing Aurizon Network's proposal, we have considered the relevant obligations contained in the 2010 AU. We have also had regard to the comments made by stakeholders.

Part B of Schedule F of the 2010 AU provide that we will approve the revenue adjustment amounts if we are reasonably satisfied they have been calculated in accordance with the relevant provisions.

4.1 System allowable revenues

We have assessed Aurizon Network's 2014–15 system allowable revenues to be consistent with the approved 2015 Extension DAAU (which includes adjustments for the 2013 flood review event).

Adjustments for electric traction costs against revenues

Aurizon Network calculated a net return to access holders of $3.16 million for electricity traction costs, consisting of $0.14 million to Blackwater users and $3.02 million to Goonyella users. This net return is the difference between the amounts paid to its electricity supplier (Origin Energy), as per invoices received, and the forecast EC revenues for the Goonyella and Blackwater electric systems.

The over-recovery in both systems was due to actual electric volumes (egtks) exceeding system forecasts. The result of this over-recovery is an adjustment to electric system allowable revenues, reflecting the difference (net return) between actual energy revenues received ($39.7 million) and EC forecast costs ($36.5 million).

We have accepted Aurizon Network's proposal to adjust the electric system allowable revenues to reflect actual revenues received against forecasts. This is with the knowledge that it is consistent with previous years' adjustments and consistent with the 2010 AU provisions. We are also satisfied that the calculations have been conducted accurately.

As WIRP railings are minimal, we consider the inclusion of electric traction costs and revenues for WIRP services is likely to have an immaterial impact on the revenue adjustment amounts. Given the difficulty in allocating these costs we accept Aurizon Network's approach in this instance.

4.2 Total actual revenues

Total actual revenues are based on what Aurizon Network is entitled to earn, including revenues associated with reference tariffs, revenues from review events, take or pay amounts, rebates and transfer fees received.

Rebates

Aurizon Network adjusted actual revenues downwards by $6.6 million, due to actual volumes being above forecasts. **Appendix A** summarises.

Fundamentally, this adjustment results when a mine which is subject to a rebate agreement rails tonnage in excess of forecast, resulting in rebates being paid which exceed the revenue which Aurizon Network earns from the relevant assets.[2]

Under the existing undertaking, Aurizon Network's treatment of this adjustment is consistent with clause 3.2.3(c) of Part B of Schedule F, and that the approach has been applied and approved in previous years.

We have assessed Aurizon Network's proposal with regard to rebates and are satisfied the rebate amounts proposed have been accurately calculated. More specifically, we are satisfied that the proposed amounts to be recovered are consistent with rebates repaid to customers in 2014-15, on the basis that:

- railings within a nominated month, for the purpose of calculating rebates payable, were consistently treated and consistent with previous years' treatment
- rebates for particular mines, that are payable irrespective of whether take or pay is triggered, have been determined separately and correctly
- modelling provided by Aurizon Network indicates the treatment of rebates, and associated proposed recovery of revenues, has been determined in accordance with the relevant provisions of the 2010 AU.

While we are satisfied the rebate calculations have been determined consistent with the 2010 AU, we share stakeholders' concerns that Aurizon Network's treatment of rebates in its revenue cap adjustment claim may be inequitable for certain access holders. This issue is part of our assessment of the 2014 DAU.

Transfer fees, cross system traffics and take-or-pay adjustment amounts

We have assessed Aurizon Network's proposal with regard to transfer fees, cross system traffic and take or pay adjustments are satisfied the amounts proposed have been accurately calculated. More specifically:

- transfer fee revenues were invoiced and received, with $0.89 million collected in the Blackwater system ($0.04 million), and Newlands system ($0.85 million)
- cross system tonnages were invoiced and $34.1 million received in the Blackwater and Goonyella non-electric and electric systems
- take-or-pay revenues were invoiced and received from the non-electric system.

4.3 Other considerations

We note stakeholders suggestions that the method of forecasting proposed volumes requires improvement and there is a need for greater transparency. As in previous years, these issues have stemmed from stakeholders' continued concern about their inability to replicate or verify elements within the revenue cap adjustment proposal. In particular, the lack of transparency of the available information for customers to properly make meaningful year-on-year comparisons.

We note these issues are being addressed in our assessment of the 2014 DAU.

[2] The mine is earning a return on the assets exceeding the regulated return. Aurizon Network's resulting net revenue shortfall is recovered from all users via the revenue adjustment amounts. The reverse will be true in the case where a mine is subject to a rebate agreement rails less than its forecast volumes.

In our June 2015 Decision on Aurizon Network's March 2015 DAAU, we approved transitional volume forecast of 214.6 million tonnes for 2014–15, consistent with the approved May 2014 DAAU and Aurizon Network's December 2014 response to our MAR Draft Decision.

Aurizon Network's actual volumes for 2014–15 in its billing model reconcile with volumes published in its public quarterly reports and the 2014-15 annual report.

Table 3 2014-15 volumes

System	*Forecast volumes (mt)* #	*Actual volumes (mt)* ^
Blackwater	60.2	62.8
Goonyella	106.4	119.6
Moura	13.1	12.2
Newlands	14.0	14.7
GAPE	20.9	15.3
Total	**214.6**	**224.7**

 # 2014-15 forecast tonnages approved as part of the May 2014 DAAU.

^ Source: Aurizon Network's submission. Confirmed against published Quarterly Reports, Aurizon Network 2014-15 Annual Report. Excludes WICET (0.9 mt). Totals may vary due to rounding.

Both Anglo American and QRC requested confirmation that adjustment amounts are correctly calculated with escalation reflecting mid-year (not end of year) values.

Per Aurizon Network's claim in their submission, we can confirm that no further escalation adjustments to system allowable revenues were made. No escalation or indexation was applied to adjustments amounts. Adjustment amounts to revenues including flood costs are consistent with previously approved amounts.

We also accept that escalation and indexation for allowable revenues will be adopted and applied as part of the true-up process once 2014 DAU is finalised.

In response to QRC's comments, we note that the application of the revenue adjustment amounts will be dealt with in the 2014 DAU process.

4.4 Final decision

For the reasons outlined above, we have decided to approve Aurizon Network's proposed 2014-15 revenue adjustment amounts.

Final decision

4.1 Our final decision is to accept Aurizon Network's proposed 2014–15 revenue adjustment amounts. This represents a return to access holders of $27.6 million, consisting of $25.3 million for non-electric revenues and $2.3 million for electric revenues.

APPENDIX A: DETAILS OF THE REVENUE ADJUSTMENT AMOUNTS ($M)

	Approved System Allowable Revenues	***EC Adjustments***	***Total Adjusted System Allowable Revenues***		***Reference tariff revenues (Actual)***	***Other (Cross System, transfer fees, and Take or Pay)***	***Rebates***	***Total Actual Revenues***	***Revenue Cap Adjustment 2014-15***
Non-electric									
Blackwater	247.2	-	247.2		249.5	8.9	(2.9)	255.5	(8.3)
Goonyella	234.8	-	234.8		243.4	13.8	(3.3)	253.9	(19.1)
Moura	40.6	-	40.6		37.8	-	-	37.8	2.8
Newlands	35.4	-	35.4		35.4	0.8	(0.3)	36.0	(0.6)
GAPE	114.6	-	114.6		81.6	33.1	-	114.6	-
Sub-total	**672.6**	**-**	**672.6**		**647.8**	**56.6**	**(6.5)**	**697.9**	**(25.3)**
Electric									
Blackwater	94.2	(0.14)	94.0		80.7	8.7		89.4	4.6
Goonyella	75.0	(3.02)	71.9		76.2	2.8	(0.05)	78.9	(7.0)
Sub-total	**169.1**	**(3.16)**	**166.0**		**156.9**	**11.5**	**(0.05)**	**168.3**	**(2.3)**
Totals	**841.8**	**(3.16)**	**838.6**		**804.6**	**68.1**	**(6.6)**	**866.2**	**(27.6)**

#Totals may vary due to rounding.

APPENDIX B: STAKEHOLDER COMMENTS ON INCREMENTS

Stakeholder comments
Asciano noted that Aurizon Network are not seeking claims for increments in the 2014-15 revenue cap adjustment process but are requesting that the QCA clarify what evidence is needed 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. In relation to increments, Asciano has previously taken a position 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 the threshold is met, then the claim for increments should be assessed using an agreed KPI regime. Asciano stated that both a volumes 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.
Vale did not support the provision of an extension of time for Aurizon Network to provide an increment claim as it is inconsistent to apply a 2010 access undertaking approach to revenue for a period that effectively forms part of the UT4 period revenue purposes. It is intended that maximum allowable revenues and tariff related matters for the FY2015 year will be assessed as part of UT4 and, if necessary, adjusted over the remaining UT4 term. Vale believed the question of whether Aurizon Network can claim an increment for FY2015 should therefore be assessed under the final UT4 provisions similar to the Aurizon Network's proposed approach regarding adjustments to FY2015 maintenance costs, MCI, electricity connection costs, and operating costs. The final adjustments for these matters will be determined based on UT4 terms, including, the use of UT4 approved escalation mechanisms. Therefore, Vale believed Aurizon Network's proposal to claim an increment for FY2015 based on UT3 terms is inconsistent with this approach. While Vale generally supported the development of incentives that will encourage efficient behaviour by Aurizon Network and within the coal chain generally, they were also cognisant of the difficulty in establishing appropriate incentives and the performance required to be achieved under a revenue cap environment. Key to the development of these incentives will be the establishment of baselines that are measurable and transparent to all stakeholders to allow alignment across the coal chain and visibility with its interaction to the revenue provided under the revenue cap. Vale's strong view has always been that the incentives must be set with regard to the contractual position and provide symmetrical outcomes.
The QRC noted that Aurizon Network has sought guidance from the QCA on the information which Aurizon Network would need to provide in order to gain approval of an Increment based on the terms of UT3. The QRC considered that it is inappropriate, and inconsistent with the approach being taken to revenue related matters under UT4, to claim an Increment under UT3 terms during FY2015 (which, for the purposes of revenue related matters, is effectively part of the UT4 period). It is intended that Maximum Allowable Revenues and tariff related matters for the FY2015 year will be assessed as part of UT4 and, if necessary, adjusted over the remaining term of UT4. The question of whether Aurizon Network can claim an Increment for FY2015 should therefore be assessed under UT4, based on the final approved terms of UT4.
QRC generally supported the QCA's views regarding incentives, as set out in the QCA's Draft Decision on the 2014 DAU. This included a requirement to remove the proposed increment provision from the DAU, and to insert a commitment to develop an incentive arrangement during the term of UT4 which would comply with certain criteria. The criteria included that any mechanisms be based on properly assessed 'baselines' against which improvements in performance can be measured. QRC would seek meaningful baselines such that improvement on these measures is evidence of strong performance. QRC welcomes the efficiency initiatives which have been documented by Aurizon Network. We remain supportive of an incentive regime under UT4 which rewards Aurizon Network for exceptional performance, while including a reciprocal mechanism for performance shortfalls.
Anglo American agreed with the QRC on the basis that it is intended that Aurizon Network's Maximum Allowable Revenues and tariff adjustments for the FY2015 year will be assessed as part of UT4 and, where necessary, adjusted over the remaining term of UT4. Further, Anglo American supported the QCA's consolidated draft decision on UT4 to remove the framework for an incentive mechanism. In its submission to the QCA's draft decision, Anglo American noted that an incentive mechanism is inappropriate under the current revenue cap form of regulation and that the QCA may move to a

Stakeholder comments
truer form of regulation for Aurizon Network's below rail operations, being a price cap regulation for future undertakings. Anglo American was agreeable to the absence of an Increment forming part of Aurizon Network's FY2014-15 Revenue Cap Adjustment
Anglo American noted Aurizon Network's assertion that it would have been entitled to an Incremental claim up to $9.6 million (being 2% of its System Allowable Revenue across both the Blackwater and Goonyella systems). Further, Aurizon Network claimed that the tonnes railed significantly exceeded the QCA-approved transitional systems forecast in the Blackwater and Goonyella systems and that such performance reflects the sustained efforts and aligned planning by all supply chain participants including mines, port, train operators and Aurizon Network. Whilst Anglo American recognised the coordination of the supply chain as a whole this should not transcend into the adoption of an incentive mechanism for Aurizon Network. This is, most notably, because: (a) the revenue cap form of regulation that applies to the Aurizon Network business, specifically the CQCN; (b) increased volume does not demonstrated efficiency gains. As previously identified, the best way to identify efficiency gains would be through the identification and implementation of supply chain stakeholder activities by Aurizon Network in addition to Aurizon Network providing its current contracted below rail services; (c) any Increment would serve to simply reward Aurizon Network for delivering existing capacity (which we note Aurizon Network has already been rewarded for through both actual revenue and Take or Pay Revenue in relation to contracted capacity); and (d) users and Train Operators bear the risks involved with volatility of demand and pricing in relation to coal export through the CQCN. Regulatory mechanisms, such as Review Events for CAPEX, OPEX and maintenance payments for the 2011, 2013 and 2015 floods, 100% Take or Pay contracts on the CQCN, and this Revenue Adjustment Process protect and indemnify Aurizon Network against risk and it is assured of its regulated return on its investment in the CQCN. As such, it is inappropriate that users and Train Operators pay an incentive payment to Aurizon Network to deliver what it has already contracted to deliver.
Similar to the QRC, Anglo American supported the QCA's consolidated draft decision on UT4 to remove the framework for an incentive mechanism. In its submission to the QCA's draft decision, Anglo American noted that an incentive mechanism is inappropriate under the current revenue cap form of regulation and that the QCA may move to a truer form of regulation for Aurizon Network's below rail operations, being a price cap regulation for future undertakings. Anglo American therefore is agreeable to the absence of an Increment forming part of Aurizon Network's FY2014-15 Revenue Cap Adjustment.