

QRC

submission

Working together for a shared future

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**QRC submission to the QCA
Aurizon Network May 2016 Extension DAAU
June 2016**

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1. Overview:

The Queensland Resources Council (**QRC**) provides this submission on behalf of its coal members.

QRC members have differing views regarding the proposed timing of revenue recovery across FY16 and FY17, and therefore the level at which final FY16 and interim FY17 tariffs are to be set. Those views are discussed in section 2.

QRC supports the following aspects of the DAAU:

- Finalisation of FY16 tariffs through a DAAU, rather than leaving these tariffs open for determination under UT4 (subject to comments regarding the level of these tariffs). This will ensure that producers with financial years ending in June can finalise accounts without facing an uncertain adjustment amount to be determined at the time of final approval of UT4.
- Extension of the 2010 Access Undertaking to 30 September 2016. Aurizon Network is yet to submit its next draft of UT4, and our understanding is that the draft will contain a number of amendments to the version prepared by the QCA and included in the Final Decision of April 2016. It seems clear that approval of UT4 ahead of June 30 is not possible.
- Establishment of interim tariffs for FY17 (subject to comments regarding the level of these tariffs).
- Use of System Allowable Revenue numbers which correct for any errors identified by Aurizon Network in the QCA's April 2016 Final Decision (subject to QCA confirming that the adjustments are necessary and correct).
- The adjustment of FY17 tariffs for over-recovery of EC (subject to comments in Section 3).

2. Timing of revenue recovery: FY16 and FY17

Aurizon Network has proposed to determine final System Allowable Revenues (SARs) and tariffs for FY16, and interim SARs and tariffs for FY17, based on the QCA's final decision, adjusted:

- By correcting a number of errors identified in the Final Decision (as discussed in Section 1).
- By including revenue true-ups for FY14 and FY15 entirely within FY17, rather than partially within FY16.

The second of these adjustments has the following material impacts:

- Blackwater and Goonyella system: Transfer of revenue from FY16 to FY17, reducing the Adjustment Charge (additional payment required from Access Holders) in FY16, and causing the FY17 tariff to be substantially higher than under the QCA's final decision, and substantially higher than previous years.
- Newlands system: Delayed recognition of past over-recoveries, reducing the Adjustment Charge (refund to Access Holders) in FY16, and causing the FY17 tariff to be substantially lower than under the QCA's final decision, and substantially lower than previous years.

Aurizon Network has stated that "a majority of stakeholders expressed support for this process". QRC understands that a significant number of producers, particularly in the Blackwater and Goonyella systems, support Aurizon Network's proposed approach. These producers support the approach primarily because it reduces the size of the Adjustment Charges to be applied to railings from 1 July 2015, which have been difficult to estimate and reflect in budgets. Aurizon's approach allows producers to finalise FY16 with a reduced Adjustment Charge, and to plan for the resulting higher Access Charges over the coming year.

However, some producers have concerns with the proposal to shift the FY14 and FY15 adjustments into FY17. These concerns are discussed below:



a. Varying volumes across years

Under Aurizon's proposal, any producer in the Blackwater or Goonyella system which rails a greater proportion of system tonnage in FY17 compared to its share of FY16 tonnage will incur a greater additional cost in FY17 than the reduction in Adjustment Charges which it receives in FY16 (and the reverse will apply in the Newlands system). This means that the proposal to shift all adjustments relating to FY14 and FY15 into FY17 is more than a timing issue, and will create winners and losers amongst access holders.

b. Effects where a System Premium exists

QRC and members are unsure of whether shifting revenue between years will have unintended consequences on particular customers where System Premiums exist. Of particular concern is the Rolleston case, where a System Premium exists in FY16, but is not expected to apply in FY17. It is not clear in this case whether shifting revenue recovery into FY17 is merely a timing exercise, or will have a material impact on the total costs of Rolleston over the two year period.

c. Large variations across years

Under the Final Decision approach, in which FY14 and FY15 adjustments are smoothed across FY16 and FY17, the SARs are relatively stable across FY16 and FY17, with the change between these years ranging from a 1% reduction (Blackwater and Goonyella, inclusive of AT5) to a 14% increase (GAPE). In contrast, Aurizon's proposal produces a 23% year on year increase in Blackwater (from a lower FY16 base), and a 48% decrease in Newlands (from a higher FY16 base). Aurizon's proposal results in FY17 tariffs in these systems being a significant departure from 'normal' levels, which may distort the reported results of affected customers, distort decision making and potentially effect competition.

3. Adjustment for over-recovery of EC

Aurizon Network has stated, in the note to table 5 on page 6 of its submission, that the transitional SARs for FY17 have been adjusted for "the over-recovery of EC revenue in FY2014 and FY2015". QRC considers that any over-recovery of EC revenue should be reflected in a reduced EC charge in FY17, rather than through a reduced AT5. Adjusting an EC over-recovery through AT5:

- Risks creating unintended consequences.
- Is inconsistent with the QCA's Final Decision, which requires that EC be set each year at a level which takes into account any under or over-recovery in the previous year (Schedule F, 2.2(a)).

However, on the basis that this issue impacts only on the FY17 transitional tariffs and SARs, and will be adjusted/corrected in the final UT4, QRC suggests that:

- This issue should not be a basis on which the DAAU is not approved.
- If the DAAU is not approved for other reasons, Aurizon should amend the treatment of the EC adjustment in any subsequent DAAU.