



George Passmore
Director – Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

2 October 2018

Dear George,

Endorsed Variation Event: Queensland Competition Authority Regulatory Fees 2018-19

Background

Aurizon Network's April 2018 Extension Draft Amending Access Undertaking (**Extension DAAU**) set transitional pricing arrangements, which would apply until the earlier of 31 December 2018, or the date on which a replacement undertaking takes effect. A transitional QCA Levy for H1 FY2019 was also approved by the QCA as part of this process.

On 19 June 2018, Aurizon Network received a letter from the Queensland Competition Authority (**QCA**), advising estimated fees for regulatory services in FY2019. On 11 September 2018, Aurizon Network received further correspondence from the QCA, which confirmed the final amount of its regulatory fees for FY2018.

This submission seeks QCA approval to vary the transitional QCA Levy for H1 FY2019 in a manner that takes into consideration:

- › the QCA's final approved regulatory fees for FY2018;
- › the QCA's proposed regulatory fees for FY2019;
- › the actual over-collection of QCA Levy billed under transitional arrangements during FY2018; and
- › the estimated over-collection of QCA Levy billed under transitional arrangements during FY2019 year to date (YTD).

Aurizon Network proposes that from 1 November 2018, the QCA Levy be reduced to \$Nil until the earlier of 31 December 2018, or the date on which a replacement undertaking takes effect.

Regulatory requirements

The review of the QCA Levy is specified as an Endorsed Variation Event as per 2016 Access Undertaking (2016AU) Schedule F, clause 5.2 (c).

In accordance with the 2016AU Schedule F clause 5.1, a Reference Tariff variation must be submitted within 60 days of receiving notice of the Endorsed Variation Event.

As per the requirements in 2016AU Schedule F, clause 5.4 Aurizon Network must:

- › Nominate the Reference Tariff to be varied;
- › Include evidence that the Endorsed Variation Event has occurred; and
- › Include details of the methodology, data and assumptions used to vary the Reference Tariff.

For clarity, the regulatory requirements pertaining to the QCA Levy are consistent between both the 2016AU and the 2017 Draft Access Undertaking (UT5).

The relevant Reference Tariff to be varied is the transitional QCA Levy for FY2019. The QCA's written notification of both the final FY2018 and forecast FY2019 regulatory fees provides evidence that the Endorsed Variation Event has occurred. This submission outlines the way in which Aurizon Network proposes to vary the transitional QCA Levy for FY2019.

Calculating the Reference Tariff Variation

Methodology

The methodology for calculating the variation to the QCA Levy is set out below:

1. Aurizon Network receives notification from the QCA of both:
 - a. final regulatory fees for the previous financial year (i.e. FY2018); and
 - b. proposed regulatory fees for the new financial year (FY2019)
2. Calculate variance between forecast and actual regulatory fees for FY2018;
3. Calculate variance between QCA Levy collected through Access Charges during FY2018, and the QCA's final regulatory fees for FY2018;
4. Adjust regulatory fees proposed for FY2019 to reflect any over (or under) recovery of QCA Levy during FY2018;
5. Forecast the over (or under) collection of QCA Levy for FY2019 YTD based on the regulatory volume forecast YTD and the Extension DAAU QCA Levy tariff;
6. Calculate QCA Levy for the remainder of the year with reference to both the adjusted regulatory fees and the regulatory volume forecast; and
7. Submit Endorsed Variation Event proposal to the QCA for approval.

Calculations

The fees are expressed in \$ and excluding GST.

FY2019 regulatory fees	2,651,477
Adjustment: QCA over recovery in regulatory fees for FY2018	(529,627)
Adjusted FY2019 regulatory fees	2,121,850
QCA Levy YTD billing estimate (1 July to 31 October 2018) as per 2016AU	3,223,990
Estimated over-collection of QCA Levy YTD (1 July to 31 October 2018)	(1,102,140)
Estimated QCA Levy (\$/nt) for FY2019 (1 November 2018 – 30 June 2019)	(\$0.0068)
Proposed QCA Levy (\$/nt): 1 November to 31 December 2018	\$0.00

A detailed financial model supporting these calculations has been provided to the QCA concurrently with this submission.

The volume forecasts used to calculate the adjusted QCA Levy are consistent with those used in the approved Extension DAAU; i.e. an aggregate forecast for the Central Queensland Coal Network of 244.18 million tonnes.

Proposed FY2019 QCA Levy

Given the substantial reduction in the QCA's regulatory fees between FY2018 and FY2019, Aurizon Network proposes to reduce the QCA Levy to \$Nil, with an effective date of 1 November 2018. Aurizon Network considers this approach to be appropriate because:

- › it prevents a material over-recovery of the QCA Levy during FY2019; and
- › a forward-looking effective date (i.e. 1 November), avoids the need to commence a separate regulatory process (i.e. an Adjustment Charge submission) to reconcile any difference between:
 - QCA Levy billed YTD (1 July to 31 October 2018); and
 - QCA Levy due, had the FY2019 regulatory fees been known when the Extension DAAU was approved.

To the extent a variance exists between the QCA's final regulatory fees for FY2019, and the total QCA Levy billed via Access Charges, a similar reconciliation will take place when setting the QCA Levy for FY2020.

This letter is presented in such a way as to facilitate publication by the QCA should it choose to do so. Should you have any concerns relating to this Endorsed Variation Event submission, please contact Sandra Xia at: Sandra.xia@aurizon.com.au.

Yours sincerely,



Donna Bowman
Manager Network Regulation (Access Undertaking)
Aurizon Network

