



AURIZON NETWORK
T +61 7 3019 7480
F +61 7 3235 3439
E michael.carter@aurizon.com.au
W aurizon.com.au

Level 17, 175 Eagle Street
Brisbane Qld 4000

GPO Box 456
Brisbane Qld 4001



Dr. Malcolm Roberts
Chairman
Queensland Competition Authority
Level 19
12 Creek Street
BRISBANE QLD 4000

Dear Malcolm

Aurizon Network Pty Ltd – Draft Amending Access Undertaking to extend the term of the 2010 Access Undertaking

As you are aware, Aurizon Network Pty Ltd's (Aurizon Network's) 2010 Access Undertaking (2010AU) will expire on 30 June 2013.

It is considered unlikely that Aurizon Network's 2013 (UT4) Undertaking (2013AU) will be finalised on or before this date. Aurizon Network understands, and appreciates, that stakeholders (and Aurizon Network) are seeking certainty around the process for setting Reference Tariffs for the 2014 financial year.

In view of the above, Aurizon Network submits for approval by the QCA a Draft Amending Access Undertaking (DAAU), under section 142 of the *Queensland Competition Authority Act 1997 (Qld) (Act)*, to extend the term of the 2010AU to 30 June 2014. Clean and mark-up versions of the DAAU are provided in soft copy form concurrently with this submission.

A summary discussion of the key elements of this DAAU is provided below.

General Principles

As indicated above, Aurizon Network has been contacted by a number of stakeholders with concerns regarding the need for certainty around the process for setting access charges for the 2014 year.

Aurizon Network notes that transitional tariffs have been applied in the 2005 and 2010 Access Undertakings and is seeking to apply this process for the 2013 financial year. In particular, the 2010 process provided for the collection of under-recovery of allowable revenues by way of an Adjustment Charge mechanism contained in Schedule F. Calculations supporting the Adjustment Charge were prepared by Aurizon Network (then QR Network) and then approved by the QCA. Adjustment Charge amounts were then collected by Aurizon Network via the usual billing arrangements in place with Access Holders. Other calculations, such as revised Take or Pay and rebates, were calculated separately (but consistently) and handled via the normal contractual arrangements.

In view of the above, Aurizon Network proposes the following approach for 2014:

- System Allowable Revenues for 2013 are rolled forward to 2014 consistent with UT3 roll-forward processes (i.e. for Consumer Price Index (CPI) and revenue cap);
- 'Transitional' Reference Tariffs are then derived based on the adjusted System Allowable Revenues and System Forecasts;
- System Allowable Revenues are reset prior to the end of the 2014 year as part of the UT4 process; and

- Over (or under) collections of allowable revenues, representing the difference between the transitional System Allowable Revenue and the System Allowable Revenues approved by the QCA for UT4, are recovered from (or returned to) Access Holders through an Adjustment Charge mechanism.

The Adjustment Charge mechanism would be based substantially on the UT3 mechanism but modified for UT4 as part of the UT4 process.

Aurizon Network recommends that in the event it becomes unlikely that Reference Tariffs for the 2015 year will be approved by the QCA prior to 1 July 2014 as part of UT4, then we will consult with the QCA and stakeholders regarding the recovery (or return) of allowable revenues for 2014 and transitional Reference Tariffs for 2015.

Aurizon Network notes that stakeholders have indicated they expect transitional Reference Tariffs to reduce due to lower cost-of-capital parameters such as the risk-free rate. However, there are a number of other inputs which will put upward and downward pressure on Reference Tariffs for 2014:

- Forecast CPI;
- Variance between Revenue Adjustment Amounts for the 2009/10 and 2011/12 revenue cap processes;
- System Tonnage Forecasts for 2014 which are aligned with UT4 but are relatively unchanged compared with 2013 (and are less excluding the Goonyella to Abbot Point Expansion (GAPE));
- Capital charges associated with net increases in the Regulatory Asset Base;
- Operating and maintenance allowances associated with an expanded rail network, increased tonnage and revised benchmark corporate allocations; and
- Changes in tax policy including the taxation of dividends.

Aurizon Network proposes that consistent with the UT3 annual Reference Tariff variation process, only the variances associated with the Revenue Adjustment Amounts and the System Tonnage Forecasts for 2014 are reflected in the 2014 transitional Reference Tariffs. As indicated below, if approved by the QCA some of the Reference Tariff components will decrease for 2014 relative to 2013.

Aurizon Network recommends that the other inputs are re-considered in due course by the QCA as part of the UT4 process. As indicated above, Aurizon Network is pleased for any variation between transitional allowable revenues and those approved by the QCA for UT4 to be handled via the Adjustment Charge mechanism.

Terminating Date

As per prior extension processes, Aurizon Network proposes a Terminating Date of the earlier of 30 June 2014 or the date on which the 2010AU is withdrawn in accordance with the Act.

Basis of Roll-Forward

The basis of the adjustment is summarised below for the respective Reference Tariff components for the following Central Queensland coal systems:

- Blackwater - AT₁₋₅ and Electric Charge (EC)
- Goonyella - AT₁₋₅ and EC
- Moura - AT₁₋₄
- Newlands - AT₁₋₄

Aurizon Network confirms that with respect to GAPE AT₁₋₄, the GAPE Reference Tariffs for 2014 will be provided as part of a separate, re-submitted DAAU provided concurrently with this submission. No escalation of the QCA Levy is proposed under this DAAU.

The 'base' 2013 System Allowable Revenues referred to below are those approved by the QCA as part of the annual Reference Tariff variation for 2012/13 plus the part-year impact of adjustments for the 2011 Review Event (flood costs) and 2012 Endorsed Variation Event (transmission costs)

submissions approved by the QCA. The Reference Tariffs which are current as at the date of this submission are derived from these System Allowable Revenues.

Provided concurrently with this submission (but not for publication) are soft copies of financial models supporting the transitional System Allowable Revenues and Reference Tariffs. As with prior submissions, Aurizon Network requests that these models are not published as they contain pricing information associated with specific Train Services. A summary of the methodologies on which the modelling is based is provided below.

Goonyella, Blackwater, Moura and Newlands AT₁ and Goonyella and Blackwater EC

The 2013 components have been escalated by a forecast CPI of 2.5%.

Goonyella, Blackwater, Moura and Newlands AT₂₋₄

These components have been determined by adjusting the relevant 2013 System Allowable Revenue by:

- Escalating the base System Allowable Revenues for forecast CPI;
- Deducting the Revenue Adjustment Amounts arising out of the 2010/11 revenue cap process;
- Adding the Revenue Adjustment Amounts arising out of the 2011/12 revenue cap process;
- Deducting the full year impact of adjustment amounts per the 2011 Review Event (flood costs) submission approved by the QCA in October 2012 (Blackwater and Moura only); and
- Allocating those System Allowable Revenues across the relevant Reference Tariff components based on the System Forecasts.

Blackwater AT₅

This component has been determined by adjusting the relevant 2013 System Allowable Revenue by:

- Escalating the base System Allowable Revenues for forecast CPI;
- Deducting the Revenue Adjustment Amounts arising out of the 2010/11 revenue cap process;
- Adding the Revenue Adjustment Amounts arising out of the 2011/12 revenue cap process;
- Deducting the full year impact of adjustment amounts per the 2011 Review Event (flood costs) submission approved by the QCA in October 2012; and
- Reducing the increment associated with the full year effect of the Endorsed Variation Event (transmission costs) submission approved by the QCA in November 2012.

Please note that Aurizon Network is currently working with its customers, stakeholders and QCA in preparing an alternative DAAU for electric traction services, due to be submitted in early April 2013. Aurizon Network remains committed to electric traction as providing the lowest supply chain cost solution for customers, and would like to work with the QCA in passing through any adjustments to AT₅ that may arise from a decision on the alternative DAAU.

Goonyella AT₅

This component has been determined by adjusting the relevant 2013 System Allowable Revenue by:

- Escalating the resulting System Allowable Revenues for forecast CPI;
- Deducting the Revenue Adjustment Amounts arising out of the 2010/11 revenue cap process;
- Adding the Revenue Adjustment Amounts arising out of the 2011/12 revenue cap process; and
- Reducing the increment associated with the full year effect of the Endorsed Variation Event (transmission costs) submission approved by the QCA in November 2012.

Forecast CPI

Aurizon Network proposes that 2013 Reference Tariffs (for AT₁ and EC) and System Allowable Revenues (for AT₂₋₅) be escalated for 2014 at a forecast CPI of 2.5%. Escalation at this rate is consistent with the CPI underlying the UT3 Reference Tariffs (subject to subsequent variations for actual CPI). Any variations between actual and forecast CPI will be adjusted either against:

- As per the UT3 annual variation process, Reference Tariffs for 2015/16; or
- As part of the UT4 carry forward across the 2015 to 2017 years.

Aurizon Network's preferred method of variation will be confirmed as part of the UT4 process.

Aurizon Network believes that a CPI escalation of 2.5% is reasonable and appropriate on the following grounds:

- The December 2011 to December 2012 change in CPI was 2.2%.
- The Reserve Bank of Australia's (RBA's) February 2013 Statement of Monetary Policy notes that while annual inflation was running at 2.25%, it continues to expect the annual inflation rate at June 2013 to be 2.5%.
- UT3 Reference Tariffs are based on CPI escalation from 1 July 2009. If Reference Tariffs had been escalated on the basis of actual CPI the tariff escalation would have been an annual 2.5% based on the geometric annual average of 2.54% for the period December 2009 to December 2012.
- The RBA's latest forecasts are for year-on-year median inflation to December 2013 and December 2014 of 2.5% for both years.

System Tonnage Forecasts

Reference Tariffs have been determined by allocating the adjusted System Allowable Revenues between the relevant Reference Tariff components based on the System Tonnage Forecasts. By way of comparison, the forecast tonnages for 2013/14 are provided below along with the regulatory forecast tonnages for 2012/13.

System	2012/13 mt	2013/14 mt	Change %
Blackwater	57.7	53.7	(7)
Goonyella	99.0	98.0	(1)
Moura	13.5	12.5	(7)
Newlands	15.8	14.8	(6)
Total	186.0	179.0	(4)

Note: Blackwater and Goonyella include allocations of cross-system traffic (Vermont and Gregory via Goonyella).

Aurizon Network confirms that the 2014 System Forecast tonnages above will be as per those to be submitted to the QCA as part of the UT4 process. The relatively flat tonnage growth reflects lower demand across the Central Queensland coal network for both thermal and metallurgical coal due to international market conditions.

Reference Tariffs

Both current (2013) and 2014 Transitional Tariffs are summarised in the tables below for the AT₁₋₄ and AT₅ Reference Tariff components on 2 bases:

- \$ per net tonne (\$/nt)
- Cents per net tonne kilometre (c/ntk)

Blackwater and Goonyella tonnages reflected in the numerators below are based on total tonnages forecast for the relevant system (ie. include electric and non-electric traffics).

In addition, for each basis the Reference Tariffs are presented including and excluding the impacts of adjustments already approved by the QCA, being the 2011 Flood Event, the Endorsed Variation Event and the 2010/11 and 2011/12 revenue caps.

\$/nt

System	Including Approved Adjustments			Excluding Approved Adjustments		
	2012/13 (published) \$/nt	2013/14 (proposed) \$/nt	Change %	2012/13 (published) \$/nt	2013/14 (proposed) \$/nt	Change %
AT ₁₋₄						
Blackwater	5.08	4.72	(7.0)	4.58	4.59	0.2
Goonyella	2.85	2.93	2.6	2.88	2.95	2.6
Moura	3.76	3.22	(14.6)	3.67	3.63	(1.1)
Newlands	2.54	2.60	2.3	2.34	2.37	1.2
AT ₅						
Blackwater	1.74	1.44	(16.8)	1.43	1.50	4.9
Goonyella	0.93	1.01	8.0	0.83	0.84	1.4
Average	4.62	4.45	(3.8)	4.30	4.35	1.2

c/ntk

System	Including Approved Adjustments			Excluding Approved Adjustments		
	2012/13 (published) c/ntk	2013/14 (proposed) c/ntk	Change %	2012/13 (published) c/ntk	2013/14 (proposed) c/ntk	Change %
AT ₁₋₄						
Blackwater	1.43	1.35	(5.2)	1.29	1.31	2.2
Goonyella	1.34	1.38	2.5	1.36	1.39	2.5
Moura	2.24	1.95	(12.9)	2.18	2.20	0.9
Newlands	1.82	1.89	3.6	1.67	1.72	2.5
AT ₅						
Blackwater	0.49	0.41	(15.1)	0.40	0.43	7.1
Goonyella	0.44	0.48	7.9	0.39	0.40	1.3
Average	1.87	1.82	(2.4)	1.74	1.78	2.6

The tables above indicate that, the average increase attributable to adjustments associated with the change in System Forecasts between 2013 and 2014 and the Forecast CPI for 2014 is around 1% and 3% on a \$/nt and c/ntk basis, respectively. The net reduction in Moura is associated with a change in the traffic mix in the System Forecast between shorter and longer hauls.

Overall, the transitional Reference Tariffs for 2014 represent a 4% and 2% reduction, respectively, on 2013 inclusive of the full-year impact of adjustments already approved by the QCA.

2013AU Amendments

The amendments for which the QCA's approval is sought are as marked up in the **attached** marked-up copy of the 2010 Access Undertaking. In summary, the relevant amendments are as follows:

Reference	Amendment
Clause 12.1, 'Terminating Date'	Reference to '30 June 2013' is replaced by '30 June 2014'.
Clause 12.4(h)	This clause is intended to remove any retrospective liability created by the amendment to the Terminating Date, so that Aurizon Network is excused from compliance with obligations (if any): <ul style="list-style-type: none"> • which would not have arisen but for the amendment to the

Reference	Amendment
	<p>Terminating Date; and</p> <ul style="list-style-type: none"> where the date for compliance has passed by the date on which the QCA approves the DAAU.
Schedule F, Part B, Clauses 5.3, 6.3, 7.3 and 8.3	Transitional System Allowable Revenues and Monthly System Forecasts from the 2010AU are provided for 2014, as an extension of the existing tables.
Schedule F, Part B, Clauses 5.4(a), 6.4(a), 7.4 and 8.4	Transitional Reference Tariffs are provided for 2014, as an extension of the existing tables.

Other Matters

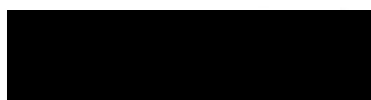
In respect of the QCA's consideration of this DAAU (including the matters under sections 138(2) and (3) of the Act), Aurizon Network submits the following:

This DAAU gives Access Holders and Access Seekers, Aurizon Network, the QCA and other interested parties certainty around process in relation to 3rd party access to the relevant declared service. It would be in the interests of all interested parties to extend the 2010AU rather than to have its detailed processes and provisions fall away leaving 3rd party access to the declared service subject only to the negotiate and arbitrate framework under the Act.

- The amendments should not give rise to retrospective liability in the part of Aurizon Network. For example, without the extension of the Terminating Date, Aurizon Network's obligations for the annual review of Reference Tariffs referred to under clause 2.2.1(b)(ii), Part A and clause 3.1.1, Part B of Schedule F would not apply as there would be no next Year in the Term for those provisions to operate in respect of. However, once the DAAU is approved, there will be a next Year in the Term. Accordingly, if this matter was not dealt with by the proposed new clause 12.4(h), Aurizon Network could potentially be made retrospectively responsible for a failure to comply with those provisions (even though the time frames for compliance have lapsed and the DAAU has achieved substantial compliance by setting Reference Tariff inputs, System Forecasts and System Allowable Revenues for the 2014 year) and suffer the consequences such as a QCA tariff review. Any such retrospective liability is inappropriate. For this reason, Aurizon Network has inserted a new clause 12.4(h).
- The proposed extension of the 2010AU will not have the effect of excluding existing assets for pricing purposes within the meaning section 138(2)(f) of the Act.
- Nothing in the proposed extension of the 2010AU as proposed offends the pricing principles in section 168A of the Act.
- This DAAU is not inconsistent with any access code, or ruling by the QCA under Division 7A of the Act.

Should you have any queries in relation to this draft amending access undertaking, please do not hesitate to contact Matthew Cronin on 07 3019 5695.

Yours sincerely,



Michael Carter
Chief Executive Officer
Aurizon Network Pty Ltd

4 April 2013