

File Ref: 1467539

21 April 2022

Ms Pam Bains
Group Executive Network
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Ms Bains

Aurizon Network's 2020–21 capital expenditure claim

I wish to advise that the QCA has approved Aurizon Network's 2020–21 capital expenditure claim for inclusion in the regulatory asset base. The total approved amount is \$310,721,501 (including interest during construction).

The basis of our decision is set out in the attached decision notice, in accordance with schedule E, clause 2.3(c) of the 2017 access undertaking (UT5). This letter and decision notice will be published on the QCA website for stakeholders' information.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries, please direct them in the first instance to Richard Creagh, tel (07) 3222 0552 or email richard.creagh@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

cc: *Jon Windle, Network Regulation Manager, Aurizon Network*

Queensland Competition Authority

Decision notice

Aurizon Network's 2020–21 capital expenditure claim

21 April 2022

The Queensland Competition Authority accepts Aurizon Network's 2020–21 capital expenditure claim as prudent and efficient, and approves its inclusion into the regulatory asset base (RAB). The reasons for the decision are set out in this notice, in accordance with the 2017 access undertaking (UT5).

Aurizon Network's 2020–21 capital expenditure claim

We conduct an assessment every year of the prudence and efficiency of Aurizon Network's capital expenditure, to determine if it should be included in the RAB for the central Queensland coal network (CQCN). UT5 requires us to approve the inclusion of Aurizon Network's capital expenditure into the RAB, if the expenditure is for the prudent and efficient value of the assets used or intended to be used by Aurizon Network to provide the declared service.¹

On 17 September 2021, Aurizon Network submitted its 2020–21 capital expenditure claim of \$310.7 million including interest during construction (IDC). The claim consists of three parts, relating to:

- asset replacement and renewal expenditures (\$241.3 million)
- the delivery of Aurizon Network's advanced planning and scheduling (APS) project (\$60 million)
- the Starlee passing loop project (\$9.4 million).

Our assessment approach

We have assessed Aurizon Network's capital expenditure claim, in accordance with UT5.

Following the UT5 DAAU (19 December 2019), UT5 requires us to accept asset replacement and renewal expenditure that is consistent with an approved renewals strategy and budget (RSB).² The 2020–21 RSB has been approved by the Rail Industry Group for all coal systems in the CQCN.³

In assessing Aurizon Network's claim, we have determined the extent that Aurizon Network's claim is consistent with the approved RSB. In doing so, we have considered whether the claimed works are consistent with the approved scope and budget for each renewal item in the RSB by system.

As part of its claim, Aurizon Network provided a comparison of actual cost and scope of work delivered against the approved RSB for each coal system. We considered whether work delivered for each renewal item is within the

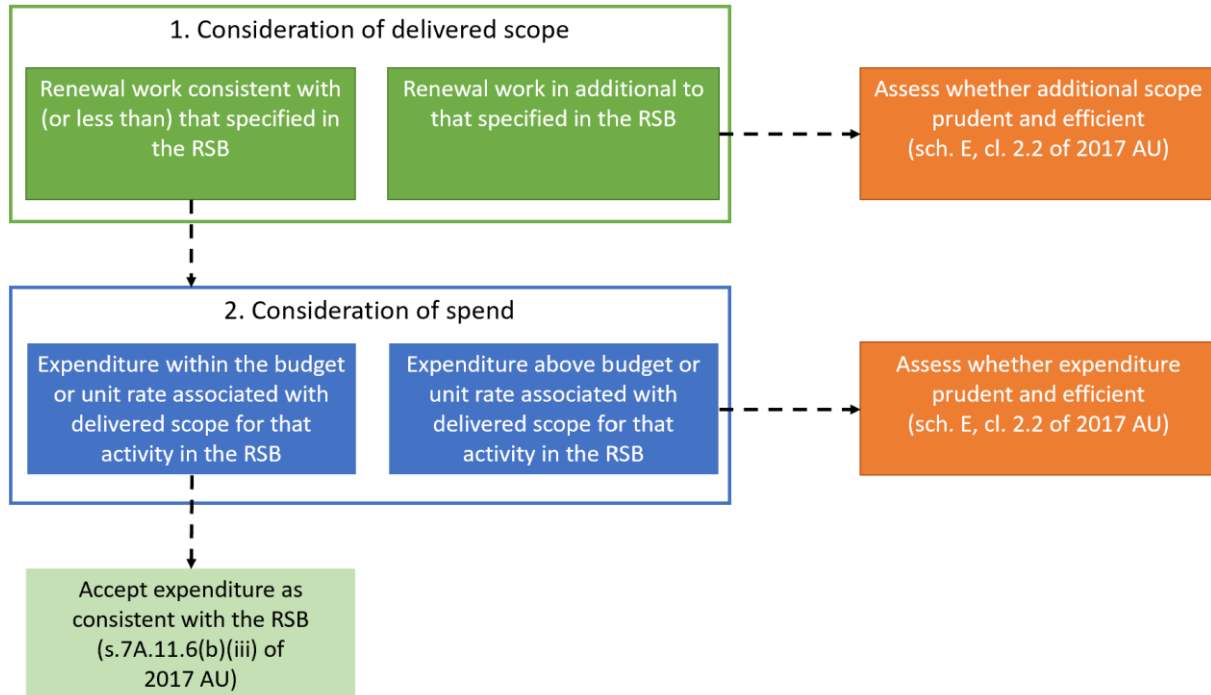
¹ UT5, sch. E, cl. 2.2(a).

² UT5, cl. 7A.11.6(b).

³ As part of the approved Maintenance and Renewal Strategy and Budget for 2020–21.

approved scope and agreed budget for that item. Where the delivered scope is lower than that specified in the RSB, we considered the renewal unit rate for delivering that renewal activity.

Figure 1 Approach for determining whether expenditure is consistent with the approved renewals strategy and budget



We then assessed the prudence and efficiency of all claimed capital expenditure that is not consistent with the approved RSB. This includes for renewals expenditure beyond the RSB, the APS project and the Starlee passing loop project.

Here, we had regard to the framework outlined in schedule E of UT5, which relates to the scope, standard and cost of the works. In doing so, we sought to adopt a pragmatic and proportionate approach to assessing Aurizon Network's claim, including engaging an independent engineering consultant (Arcadis) to provide advice on the APS project.

Consultation

We provided stakeholders with an opportunity to comment on Aurizon Network's claim, focusing on the proposed asset replacement and renewal expenditures. We did not receive any submissions in response.

We provided Aurizon Network with an opportunity to respond to our preliminary view of its proposal, including identifying amounts relating to the APS project that we were considering refusing to approve.^{4,5} In response,

⁴ UT5, sch. E, cl. 2.2(d).

⁵ Based on the information available at the time, our preliminary view was that \$5.9 million in costs for the APS project had not been satisfactorily justified or was attributed to inefficient practices.

Aurizon Network provided additional information to support its claim that these amounts are prudent and efficient.⁶

In making this decision, we had regard to all information Aurizon Network provided as part of its original claim and in its responses to our preliminary view and additional requests for information throughout our assessment.

Engineering consultant's assessment

We engaged Arcadis to provide engineering advice on the prudence and efficiency of Aurizon Network's capital expenditure claim for its APS project. Arcadis' assessment was based on a desktop review of information provided by Aurizon Network.⁷

Arcadis' assessment identified several factors in Aurizon Network's approach that had a significant impact on the scheduled delivery of the project, the quality of work delivered in the interim stages and the final project costs.

Arcadis nevertheless considered the scope and standard of the completed works to be prudent, given the demands for capacity increases and operational supply efficiencies in the CQCN, the supply chain complexity and the requirement to deliver a modern, integrated planning and scheduling platform to replace Aurizon Network's legacy processes.

In terms of costs, Arcadis found that Aurizon Network ran a reasonable procurement process and implemented processes, where it could, to minimise the impact on performance requirements and operational efficiencies for access holders and end users in delivering the project. Accordingly, Arcadis considered the overall costs of the project to be prudent, except for four cost items,⁸ where it proposed adjustments to the claim. While we had regard to the advice provided by Arcadis, we have not simply adopted Arcadis' proposed views, recommendations, or analysis. Rather, we used that as one input into our assessment task.

QCA assessment and decision

We consider it is appropriate to accept the capital expenditure included in Aurizon Network's 2020–21 capital expenditure claim. The full list of approved capital expenditure, by asset type, is provided in Attachment 1.

We are satisfied that \$196.3 million of the claimed expenditure is consistent with the approved RSB.

The remainder of the approved amount was otherwise assessed as prudent and efficient, having regard to the scope, standard and cost of works.

We consider there are reasonable grounds for undertaking the scope and standard of the assessed works. We also consider the associated costs for those works to be reasonable, having regard to the scope and standard.

Our assessment of Aurizon Network's claim for the APS project was informed by advice Arcadis provided. While Arcadis had proposed adjustments to four cost items in the APS claim totalling around \$6 million,⁹ we are now satisfied that there is sufficient justification to accept Aurizon Network's APS claim in full.¹⁰ In particular, we consider:

⁶ A copy of Aurizon Network's response is available on our [website](#).

⁷ A copy of Arcadis' report is available on our [website](#).

⁸ This included amounts for contingency and extension of time payments made to the principal contractor (GE).

⁹ Based on the information Aurizon Network provided as part of its original claim.

¹⁰ Also having regard to in Aurizon Network's responses to our preliminary view.

- The claimed contingency costs relate to variations that reflect required scope changes, which were incurred in accordance with the contractual arrangements. We consider the total contingency amount claimed is reasonable and prudent industry practice in view of the nature and potential complexity of the project.
- The payments to the principal contractor (GE) for extension of time are not related to project inefficiencies or an inability by GE to deliver the product on time and have been made in accordance with the contractual arrangements.
- Other adjustments Arcadis proposed reflect issues with Aurizon Network's data aggregation and presentation, and do not reflect project inefficiencies.

References

Arcadis, *Part B: Aurizon Network Capital Expenditure Claim 2020–21: Advanced Planning and Scheduling (APS) system*, February 2022 (Arcadis report).

Aurizon Network, *Maintenance and Renewal Strategy and Budget*, January 2020.

Aurizon Network, *FY2021 Capital Expenditure Claim*, September 2021.

Aurizon Network, *Response to the QCA's Draft Decision on Aurizon Network's FY2021 Capital Expenditure Claim*, March 2022.

ATTACHMENT 1: APPROVED 2020–21 CAPITAL EXPENDITURE AMOUNTS

<i>Asset type</i>	<i>Approved expenditure (\$ (excl. IDC)</i>	<i>IDC (\$)</i>	<i>Approved expenditure (\$ (incl. IDC)</i>
Ballast undercutting	65,561,267	223,273	65,784,539
Bridge ballast	6,098,067	25,995	6,124,062
Control systems	29,988,008	687,479	30,675,487
Corridor assets	2,450,329	49,029	2,499,358
Electricals	10,740,864	326,991	11,067,855
Formations	10,866,309	110,667	10,976,976
Level crossings	3,457,676	45,411	3,503,087
OneSAP	3,394,841	96,240	3,491,081
Structures	24,926,258	266,458	25,192,715
Track upgrade	68,143,037	326,968	68,470,006
Turnouts	13,109,566	363,900	13,473,466
APS project	49,418,928	10,637,164	60,056,092
Starlee passing loop	9,037,805	368,971	9,406,775
Total	297,192,955	13,528,546	310,721,501