

Aurizon Network's 2021–22 capital expenditure claim

15 December 2022

The Queensland Competition Authority is considering refusing to approve part of Aurizon Network's 2021–22 capital expenditure claim for inclusion into its regulatory asset base. The reasons are set out in this draft decision, in accordance with the 2017 access undertaking (UT5).

Aurizon Network's 2021–22 capital expenditure claim

We conduct an annual assessment of the prudence and efficiency of Aurizon Network's capital expenditure, to determine if it should be included in the regulatory asset base (RAB) for the central Queensland coal network (CQCEN). 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 19 September 2022 Aurizon Network submitted its 2021–22 capital expenditure claim for \$253.7 million (including interest during construction (IDC)). The claim consists of asset replacement and renewal expenditures for assets commissioned in the 2021–22 financial year. This includes expenditures that were included in the 2021–22 renewals strategy and budgets (RSBs) in each system, expenditure from 2020–21 for assets commissioned in 2021–22, and technology project expenditure that was not included in the 2021–22 RSB.

Our assessment approach

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

This requires us to accept asset replacement and renewal expenditure that is consistent with an approved renewals strategy and budget (RSB)². The renewals strategy and budgets (RSBs) for 2021–22 were approved for the Blackwater, Goonyella and Moura systems coal systems. Users did not approve the 2021–22 RSB for Newlands and GAPE—they raised concerns around the cost allocation of renewals (to be built within the Newlands system but which GAPE services use) as well as the proposed scope of Newlands work.

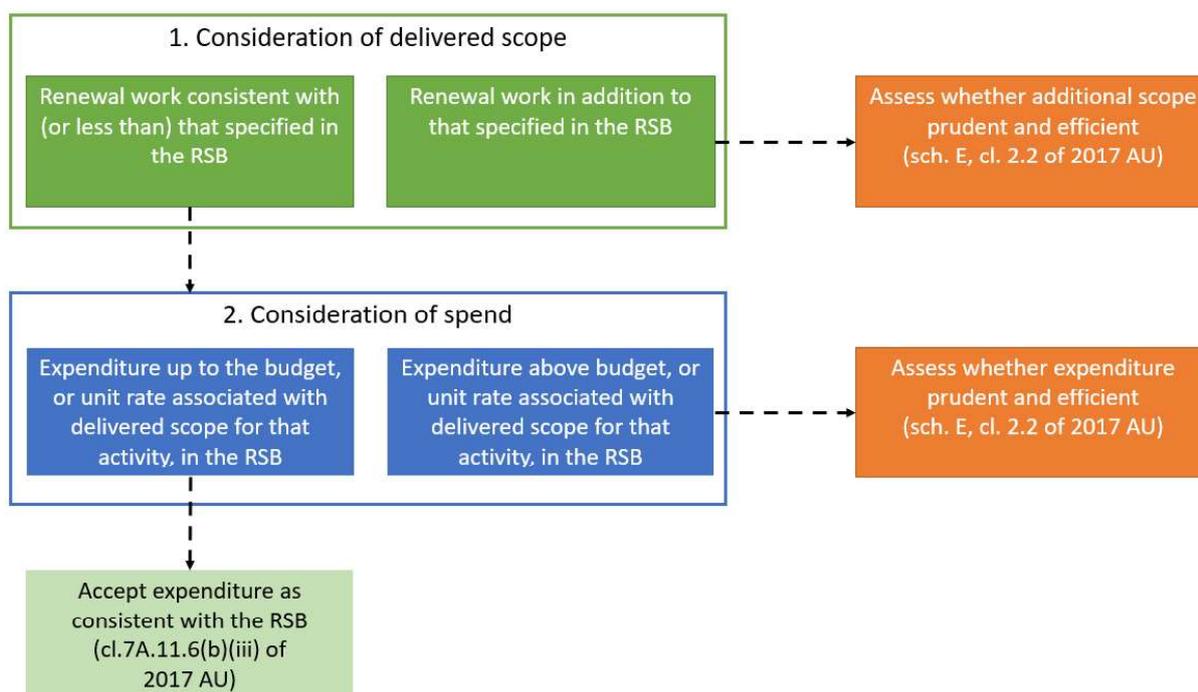
¹ UT5, sch. E, cl. 2.2(a).

² UT5, cl. 7A.11.6(b).

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

As part of its claim, Aurizon Network provided a comparison of actual cost and scope of work delivered against the RSB it had implemented for each coal system.³ Where there was an approved RSB, we have considered whether work delivered for each renewal item is within the approved scope and agreed budget for that renewal item. Where the delivered scope is lower than that specified in the approved RSB, we have considered the renewal unit rate for delivering that renewal activity.

Figure 1 Approach for determining whether expenditure is consistent with an approved RSB



We have then assessed the prudence and efficiency of all claimed capital expenditure that is not consistent with the approved RSBs, including all expenditure claimed for the Newlands system and GAPE. For this part of our assessment, we have had regard to the framework outlined in schedule E of UT5, which considers the prudence and efficiency of the scope, standard and cost of the works.

Stakeholder consultation

On 26 September 2022, we published Aurizon Network's 2021–22 capital expenditure claim and invited submissions from stakeholders. We received a submission from the Queensland Resources Council, which raised a number of concerns, including the apparent inconsistencies between some elements of the claim and the approved RSBs, including where the delivered scope goes beyond the approved scope and where the observed unit rates were materially higher than the approved unit rates.

We have taken these views into account in making our draft decision.

³ These were the approved RSBs for Blackwater, Goonyella and Moura, and the interim RSB for Newlands and GAPE.

QCA assessment and decision

Capital expenditure

Based on the information provided, and stakeholder views, we consider it is appropriate to accept most of the capital expenditure (\$231.9 million excluding IDC) included in Aurizon Network's 2021–22 capital expenditure claim.

We are satisfied that \$175.3 million of the claimed expenditure is consistent with approved 2021-22 RSBs. The remainder of the approved amount has otherwise been assessed as prudent and efficient. We consider there is reasonable grounds for undertaking the scope and standard of the assessed works, and the costs for those works are reasonable, having regard to information from the relevant RSB, information provided by Aurizon Network in support of its claim, information gathered in previous assessments of projects by engineering consultants, and past decisions by the QCA.

We are not proposing to accept the full amount Aurizon Network has claimed for ballast undercutting. Instead, we are proposing a \$18.3 million reduction to reflect the portion of Aurizon Network's claim that we consider Aurizon Network has failed to sufficiently justify. In particular, given the information before us, we do not consider the amount claimed by Aurizon Network for ballast undercutting⁴ to be prudent and efficient as the unit rates claimed are substantially higher than have previously been agreed to with industry or have otherwise been assessed as prudent and efficient by us. We propose to approve an amount for ballast undercutting that reflects the unit rates agreed with industry through the RSB and Rail Industry Group processes.

The full list of capital expenditure that we are considering approving, by asset type, is provided in Attachment 1.

Interest during construction

In its claim, Aurizon Network calculated IDC using a 'composite' WACC to account for an uplift to the approved WACC (from 5.9% to 6.3%) that is provided for under UT5 and that Aurizon Network considers had occurred on 12 November 2021.

While we agree in principle to the use of a composite WACC for the purpose of calculating IDC, we consider that the conditions for the uplift were met at a later date (14 March 2022); accordingly, the composite WACC (and subsequent IDC) should be recalculated based on that date.

Our full consideration of the appropriate uplift date, including our detailed reasoning, is set out in our draft decision on [Aurizon Network's 2021–22 revenue adjustment amount proposal](#).⁵

Way forward

UT5 provides for Aurizon Network to revise its capital expenditure claim and/or provide additional information supporting its view that the capital expenditure or revised amount claimed should be included in the RAB within 20 business days of this draft decision,⁶ which is by 20 January 2023.

⁴ In Blackwater, Goonyella and Moura.

⁵ QCA, *Aurizon Network's 2021–22 revenue adjustment amounts*, draft decision, December 2022.

⁶ UT5, sch. E, cl. cl. 2.3(d)(ii).

We will consider any proposed revision and/or additional information when deciding whether to approve or refuse to approve the inclusion of the capital expenditure into the RAB.⁷ If we do not receive a response to this draft decision, we will proceed to a final decision based on the available information outlined in this draft decision.

We expect Aurizon Network will provide updated calculations of its IDC, incorporating an updated WACC.

⁷ UT5, sch. E, cl. cl. 2.3(d)(iii).

ATTACHMENT 1: PROPOSED APPROVED CAPITAL EXPENDITURE AMOUNTS FOR 2021–22

<i>Asset type</i>	<i>Approved expenditure (\$ (excl. IDC)</i>
Ballast undercutting	54.3
Bridge ballast	6.4
Control systems	31.4
Corridor assets	1.3
Electricals	10.2
Formations	13.9
Level crossings	6.5
Structures	19.6
Track upgrade	64.0
Turnouts	14.0
Technology	10.3
Total	231.9