

Aurizon Network's 2023-24 capital expenditure claim

19 December 2024

The Queensland Competition Authority has approved Aurizon Network's revised 2023-24 capital expenditure claim of \$337.0 million, including interest during construction, for inclusion into its regulatory asset base. The reasons are set out in this decision in accordance with Aurizon Network's 2017 access undertaking.

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). Aurizon Network's 2017 access undertaking (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 is intended to be used by Aurizon Network to provide the declared service.¹

On 10 September 2024, Aurizon Network submitted its 2023-24 capital expenditure claim for \$335.9 million, including interest during construction (IDC).² The claim relates to expenditure for assets commissioned in the 2023-24 financial year. This includes expenditure that was included in the 2023-24 renewals strategy and budgets (RSBs) in each system, works that were planned for delivery in previous years but were subsequently deferred for operational reasons, and additional (or substitute) scope that was identified as requiring prioritisation during 2023-24.

On 3 December 2024, Aurizon Network revised its claim, updating its IDC calculations to address errors identified in its previous calculations.³ The revised claim totalled \$337.0 million (including IDC), accounting for the corrected calculations.

¹ UT5, sch E, cl 2.2(a).

² Aurizon Network, [Aurizon Network FY2024 capital expenditure claim](#), September 2024 (Aurizon Network proposal).

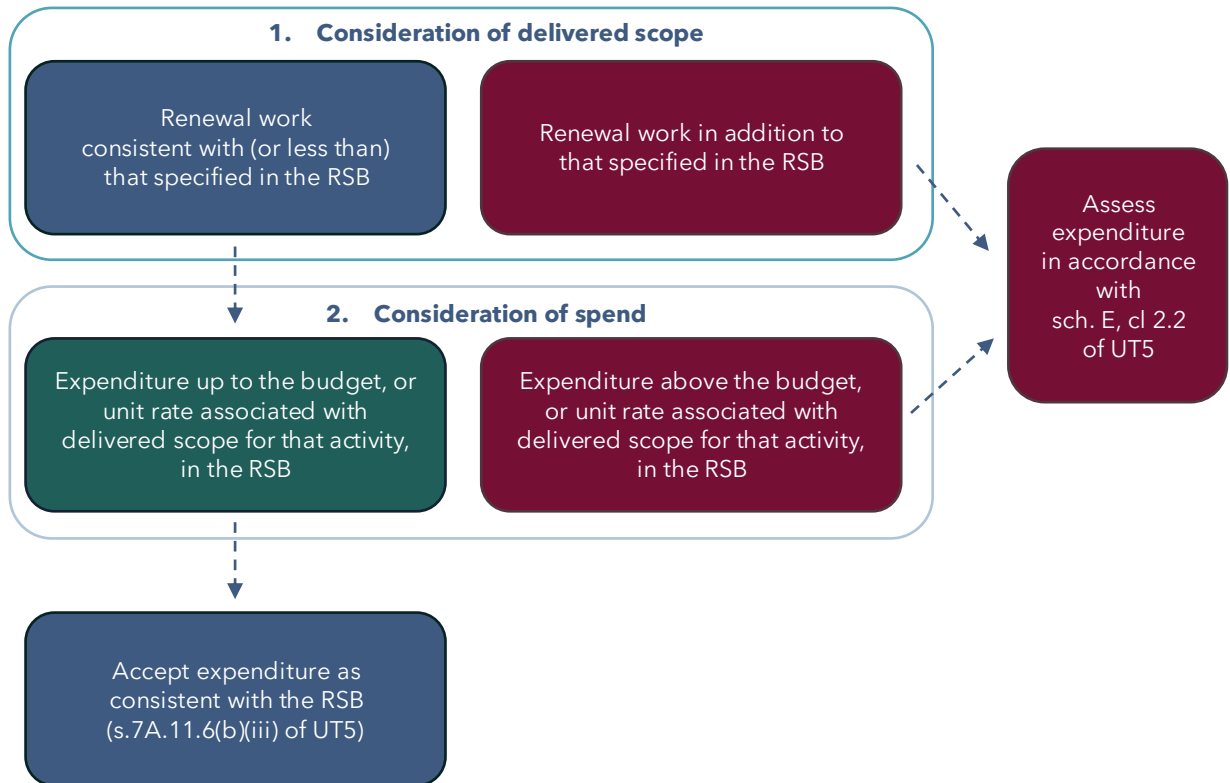
³ Aurizon Network, [FY2024 Capex Claim](#), letter to the QCA, 3 December 2024 (Aurizon Network revised proposal).

Our assessment approach

We have assessed Aurizon Network's 2023-24 capital expenditure claim in accordance with UT5.

UT5 requires us to accept asset replacement and renewal expenditure that is consistent with an approved RSB (Figure 1).⁴ To the extent Aurizon Network's claim departs from an approved RSB, we assess the prudence and efficiency of additional expenditures, having regard to the framework outlined in schedule E of UT5, which relates to the scope, standard and cost of the works.

Figure 1: Approach for assessing expenditure under an approved RSB



This year users approved a renewals strategy and budget (RSB) for 2023-24 for the Blackwater, Goonyella and Moura systems.⁵ Users did not approve an RSB for the Newlands/GAPE system for 2023-24 – raising concerns regarding the allocation of renewals costs.⁶ Aurizon Network also undertook projects not included in the RSB (relating to its Automated Track Inspection System (ATIS) and customer-specific connection works at Olive Downs).

As part of its claim, Aurizon Network provided a comparison of actual cost and scope of work delivered against the RSB for each coal system. In some cases, the completed works included the partial completion of planned works and the completion of additional works. We note that Aurizon

⁴ UT5, cl 7A.11.6(b).

⁵ See Aurizon Network, *Central Queensland Coal Network FY24 Final Draft Proposal Maintenance and Renewals Strategy and Budget*, January 2023.

⁶ Users indicated their willingness to support the RSB if the cost allocation was resolved. Aurizon Network addressed this issue as part of its GAPE and Newlands pricing draft amending access undertaking that was approved by the QCA on 22 February 2024. See Aurizon Network proposal, p 3.

Network has continued to notify the Rail Industry Group of changes and variations across the year through quarterly meetings and reports.

This year, we engaged an independent engineering consultant (Arcadis) to assist with our assessment. Arcadis assessed the prudence and efficiency of a selection of projects that departed from the approved RSBs (either as a non-RSB project or as an RSB project that has failed to deliver the agreed scope or budget (Box 1)).⁷ While we had regard to Arcadis' advice, we have not simply adopted Arcadis' views, recommendations or analysis. Rather, we used that as one input into our assessment task.

Box 1: Arcadis review of Aurizon Network's 2023-24 capital expenditure claim

Arcadis reviewed a selection of items from Aurizon Network's capital expenditure claim that involved expenditure that departed from the approved RSBs.

This included a prudence and efficiency assessment of the connection works at Olive Downs (a non-RSB project), as well as turnout renewals in Blackwater and formation renewals in Moura.

Arcadis performed a desktop assessment of prudence and efficiency (of scope, standard and cost), in line with the matters set out in cl 7A.11.6 and Schedule E of UT5. Arcadis used information provided by Aurizon Network (including in response to requests for additional information and further clarification), along with Arcadis' experience on similar projects, and its annual commercial research on global and national construction costs.

Arcadis found the scope, standard and cost of the connection works at Olive Downs and formation renewals in Moura were prudent and efficient. It recommended that the QCA accept those items in full.

Arcadis found the scope and standard of the turnout renewals in Blackwater were prudent and efficient – but not the cost. In particular, Arcadis considered that the rescoping of concept and detailed design (where two concept designs and detailed designs were undertaken, following an error in the initial design that had not been noted earlier) was not efficient. On that, Arcadis proposed a \$0.55 million reduction to the claim, based on its estimate of the additional costs it incurred. That said, Arcadis accepted these were unavoidable (after the error was identified) and had been communicated with customers through the quarterly RIG updates.

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

Consultation

We provided stakeholders with an opportunity to comment on the prudence and efficiency of Aurizon Network's capital expenditure claim. This included providing their views on the consistency of expenditure with the approved 2023-24 RSBs and the prudence and efficiency of expenditure that was either inconsistent with these RSBs or had otherwise been undertaken. We received a response from the Queensland Resources Council (QRC) that identified potential inconsistencies with the approved RSBs (raising concerns about the scope of some of the works that had been undertaken and increasing costs in general) and highlighted specific concerns over elements of the claim (turnout replacements, contracting and material costs).⁸

We have taken these views into account when making our decision.

QCA assessment and decision

Capital expenditure

Based on the information available, including Arcadis' review, we consider it is appropriate to accept Aurizon Network's revised 2023-24 capital expenditure claim in full.⁹

We are satisfied that \$183.6 million of the claimed expenditure (excluding IDC)¹⁰ is consistent, both in terms of scope and cost, with the approved 2023-24 RSBs. The remainder of the approved amount (\$147.1 million, excluding IDC) has otherwise been assessed as prudent and efficient. This is largely made up of expenditure for works from previous years (\$69.5 million) or works that either exceeded the budget, or failed to deliver the scope agreed to, in the 2023-24 RSBs (\$42.4 million). It also includes expenditure for works completed for projects that were outside the RSB processes (\$35.2 million¹¹).

For expenditure outside of the approved RSBs, we had regard to information provided by Aurizon Network in support of its claim and Arcadis' advice. We consider that there were reasonable grounds to undertake the works and the standard of works is fit for purpose – and that the total spend is reasonable given the circumstances. In particular, we are satisfied that there were extenuating circumstances that Aurizon Network managed appropriately, including significant input and labour cost increases, procurement and resourcing issues, and inclement weather either necessitating remobilisation or preventing completion of the full scope of works.

While Arcadis had proposed an adjustment to the claim of \$0.55 million (relating to its estimate of the redesign costs for turnout renewals in the Blackwater system), we note the costs were required to correct the initial design, and parties were advised of the redesign by Aurizon Network.

Aurizon Network's revised capital expenditure claim calculated the IDC consistent with previous years using the approved methodology.

⁸ QRC, [Aurizon Network's capital expenditure claim 2023-24](#), submission to the QCA, 11 October 2024.

⁹ Our assessment was informed by information from the relevant RSBs, information Aurizon Network provided in support of its claim, information used in previous assessments of projects and past QCA decisions, and Arcadis' review.

¹⁰ The following assessed amounts exclude IDC.

¹¹ This includes all of Newlands/GAPE system expenditure for 2023-24 and the non-RSB projects listed in Aurizon Network's claim.

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

Table 1: Approved capital expenditure amounts for 2023-24

Asset type	Approved expenditure (\$m, excl IDC)	IDC (\$m)	Approved expenditure (\$m, incl IDC)
Permanent way	\$95.0	\$2.0	\$97.0
Ballast cleaning	\$98.0	\$0.5	\$98.5
Structures	\$33.4	\$1.0	\$34.4
Civil renewals	\$38.6	\$0.8	\$39.4
Control systems	\$35.8	\$1.3	\$37.1
Electrical assets	11.0	\$0.6	\$11.6
Non-RSB	\$18.8	\$0.2	\$19.0
Total	\$330.6	\$6.4	\$337.0

Note: Totals may not add due to rounding. Relevant approved expenditure for the Newlands/GAPE system is included in the totals for each asset type.