

The QCA has assessed Aurizon Network's 2017 Draft Access Undertaking (2017 DAU) proposed operating and maintenance cost allowances and considers it appropriate to approve total allowances of \$1.53 billion for the UT5 pricing period.

In total, the QCA's allowance is around 14% lower than Aurizon Network's proposal.

Maintenance costs

Aurizon Network proposed a forecast maintenance cost allowance of \$921 million for the UT5 pricing period. Aurizon Network's proposed maintenance costs relate primarily to ballast undercutting, rail grinding and resurfacing, maintenance of signalling and traction power assets and general maintenance activities. The proposed allowance also includes a return on assets and costs for holding inventory.

The QCA considers it appropriate to approve a maintenance cost allowance of \$739 million for the UT5 pricing period.

The QCA's allowance is lower than Aurizon Network's proposed allowance. This is the net result of:

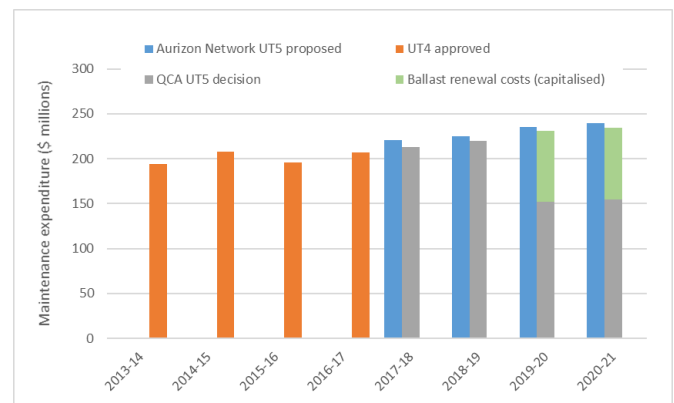
- adopting resurfacing costs derived from Aurizon Network's model;
- providing an allowance for one ground penetrating radar run;
- applying 2016–17 base year costs to all non-mechanised maintenance activities (excluding traction power);
- revised allowances for depreciation, return on maintenance assets and inventory;
- an allocation of costs to non-coal train services; and
- adopting ballast undercutting renewal costs derived from Aurizon Network's model and the reclassification of ballast undercutting renewal costs to capital expenditure from 2019–20 onwards (reduction of \$159 million, largely offset by a corresponding increase in the capital indicator).

The QCA's maintenance allowance, in combination with the increased capital indicator, provides a total indicative allowance of \$898 million for maintenance and ballast undercutting renewal activities during the UT5 pricing period.

This is around 2.5% lower than Aurizon Network's 2017 DAU proposed allowance, and around 12% higher than the allowance approved for the UT4 pricing period.

During the investigation, the QCA raised concerns with the efficiency of Aurizon Network's proposed ballast undercutting renewal costs. In light of these concerns, ballast undercutting renewal costs will be capitalised from 2019–20 onwards and subject to the *ex post* prudence and efficiency assessment as well as capital expenditure carry-over account provisions under its 2017 DAU. The QCA considers this will present Aurizon Network with appropriate incentives to incur efficient costs.

UT5 maintenance cost allowance and ballast undercutting renewals (capitalised)



Operating costs

Operating costs include all other expenditures such as the costs of managing the network assets, network train control and safety, business management and commercial functions, insurance, shared corporate overheads and electricity transmission network costs. Aurizon Network proposed a total operating cost allowance of \$855 million for the UT5 pricing period.

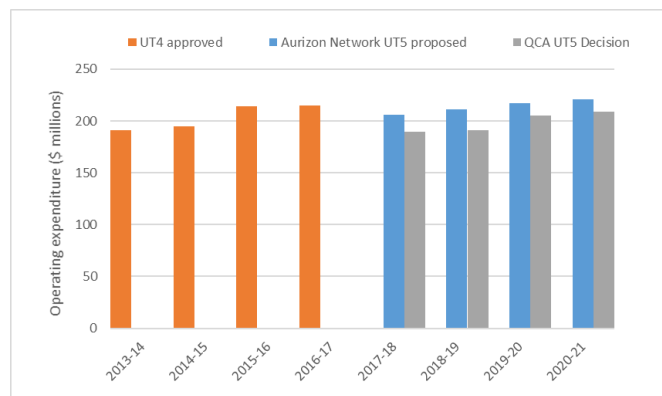
The QCA considers it appropriate to approve an operating cost allowance of \$795 million for the UT5 pricing period.

The QCA's allowance is \$60 million or 7% lower than Aurizon Network's proposed allowance.

Of this net reduction, over \$36 million (60%) is attributable to projected decreases in electricity transmission network costs. The remaining difference reflects the net impact of implementing incremental step increases and decreases in costs, revised allocation rates, reduced insurance and corporate overhead costs, and a general allocation of overall operating costs to non-coal services.

Aurizon Network's 2017 DAU also included proposed reference tariff components to recover the costs of supplying electricity to electric traction customers. These costs have increased significantly since Aurizon Network submitted its 2017 DAU. The QCA's decision includes updated electric energy cost projections, noting that Aurizon Network's approach to purchasing electric energy has the endorsement of industry, and costs are subject to a symmetrical *ex post* true-up under the 2017 DAU.

UT5 operating cost allowance



Further information

The QCA's decision on Aurizon Network's 2017 DAU, along with all stakeholder submissions and other relevant materials can be accessed at www.qca.org.au