

# Queensland Competition Authority

Final Decision

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## Aurizon Network 2015 extension DAAU

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June 2015

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## THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

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The Queensland Competition Authority (QCA) is an independent statutory authority, established to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Aurizon Network Pty Ltd (Aurizon Network) owns and operates the rail network in central Queensland—the Central Queensland Coal Network (CQCEN). The network is mainly used to carry coal to export ports near Gladstone, Mackay and Bowen.

The CQCEN is a natural monopoly—meaning it is uneconomic to duplicate the network's physical infrastructure. Businesses can compete to provide 'above-rail' services (i.e. trains carrying freight) but all parties must use the 'below-rail' infrastructure.

By virtue of being a natural monopoly, Aurizon Network has a privileged position which could be used to set unjustifiably high prices for access to the network or prevent or hinder access in above-rail services.

To provide access seekers and holders with protection from these possibilities, the CQCEN has been regulated as a declared service under Queensland's access regime since 1998.

Under section 136 of the *Queensland Competition Authority Act 1997* (QCA Act), Aurizon Network can provide us with an undertaking setting out the terms and conditions of access to the network. We must either approve or reject this undertaking. If we do not approve the undertaking, we must explain how it should be amended to secure approval.

Since 2001, we have approved three undertakings for the CQCEN. The latest undertaking, known as the '2010 AU', was approved on 1 October 2010 and was scheduled to expire on 30 June 2013. It has since been extended to 30 June 2015, including by a draft amending undertaking accepted by the QCA in 2014 ('2014 Extension DAAU'). The 2010 AU is now due to expire on 30 June 2015.

On 23 March 2015, Aurizon Network submitted a draft amending access undertaking to the QCA for approval in accordance with section 142 of the QCA Act. Addendums were provided by Aurizon Network on 15 April and 11 May 2015. The consolidated document is referred to as the '2015 Extension DAAU'.

We have assessed and consulted upon the draft amending access undertaking in accordance with sections 142 and 143 of the QCA Act and publish our final decision accordingly.

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# 1 OVERVIEW

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Aurizon Network's 2010 access undertaking (2010 AU) is due to expire on 30 June 2015.

The 2015 Extension DAAU seeks to, amongst other things:

- (a) extend the term of the 2010 AU from 30 June 2015 to 29 February 2016 (which we refer to as '2015-16' even though this period is not the full 12 months)
- (b) finalise transitional revenues, volume forecasts and reference tariffs for the period 1 July 2014 to 30 June 2015 (which we refer to as '2014-15')
- (c) confirm the basis upon which any variation between actual and allowable revenues for 2014-15 will be returned to, or collected from, access holders; and
- (d) establish transitional revenues, volume forecasts and reference tariffs for 2015-16, subject to potential reconciliation payments.

The 2015 Extension DAAU and supporting material was published on the QCA website and submissions sought from interested stakeholders. Submissions were received from Asciano, Vale, the Queensland Resources Council (QRC) and QCoal.

We note that there are a range of assumptions which have been made by Aurizon Network to propose transitional tariffs for 2015-16, having reference to our Draft Decision on the Maximum Allowable Revenue, September 2014 (MAR Draft Decision). We also note that Aurizon Network has made some of its own assumptions to develop tariffs, including an assumption that the costs of the Wiggins Island Rail Projects (WIRP) are socialised into the Blackwater and Moura system tariffs.

In deciding whether to approve or refuse to approve the 2015 Extension DAAU we have been conscious that the merits of various assumptions that underpin Aurizon Network's proposal are being considered separately as part of our Final Decision on the 2014 DAU.

As a consequence, and in the interests of expedience and providing stakeholders with certainty, our general approach is to allow the 2010 AU to continue in operation until a Final Decision on the 2014 DAU can be implemented.

In reaching this conclusion we have had regard to the matters mentioned in section 138(2) of the QCA Act as required by section 143(2) of the QCA Act. We consider that an extension of the 2010 AU will ensure certainty on the detailed terms and conditions of access in the interim period pending the 2014 DAU Final Decision.

Importantly, stakeholders should be aware that we are approving Aurizon Network's proposed tariffs in the 2015 Extension DAU for 2015-16 only on a transitional basis during the extension period. Our approval for the extension period is limited to the 2015 Extension DAU and does not imply that any decision has been taken by the QCA to how these matters will be treated as part of the Final Decision on the 2014 DAU (or that our decision in relation to the 2014 DAU will be the same or similar to this final decision). This includes how the WIRP infrastructure will be treated for pricing purposes.

Moreover, Aurizon Network has undertaken that any over- (or under-) recovery of revenues during the extension period will be returned to (or recouped from) access holders consistent with our Final Decision on the 2014 DAU.

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## 2 AURIZON NETWORK PROPOSAL

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The 2015 Extension DAAU seeks to:

- extend the term of the 2010 AU from 30 June 2015 to 29 February 2016
- finalise transitional revenues, volume forecasts and reference tariffs for 2014-15 (see Appendix A, Table 1)
- confirm the basis upon which any variation between actual and allowable revenues for 2014-15 will be returned to, or collected from, access holders
- establish transitional revenues, volume forecasts and reference tariffs for 2015-16, which will apply until such time as the proposed access undertaking (2014 DAU) is approved (see Appendix A, Table 2); and
- deal with a range of other matters.

### 2.1 Extension to 29 February 2016

Aurizon Network proposed an eight month extension to the 2010 AU to allow for the QCA's Final Decision on the 2014 DAU to be implemented prior to the expiry of the 2010 AU.

Aurizon Network's proposed new termination date is based on several assumptions. These assumptions include that a QCA Final Decision on the 2014 DAU will be made by 30 October 2015 to reject the 2014 DAU, and that Aurizon Network will subsequently submit a further access undertaking that will ultimately be accepted by QCA by 29 February 2015.

If these assumptions were to change, it would be possible for Aurizon Network to submit a further draft amending access undertaking.

### 2.2 2014-15 transitional revenues, volumes and reference tariffs

Aurizon Network proposed that, for 2014-15:

- transitional allowable revenues, volumes and reference tariffs will remain unchanged from the 2014 Extension DAAU, except to update transitional allowable revenues for recovery of 2013 flood costs, such that:
  - the costs attributable to the Blackwater system are to be recovered through reference tariff adjustments for the remainder of 2014-15.
  - the costs attributable to the Moura system are to be recovered through reference tariff adjustments over an eighteen month period from 1 January 2015 to 30 June 2016.
  - as a result, the non-electric SAR (AT<sub>2,4</sub>) and reference tariffs (AT<sub>3</sub> and AT<sub>4</sub>) for the Blackwater and Moura systems will be increased.
- the resulting adjusted reference tariffs would be confirmed as final reference tariffs.

#### 2.2.1 Volumes—actual vs forecast volumes

As noted above, Aurizon Network proposed to retain the volumes in its 2014 Extension DAAU and previously approved by the QCA, of 214.6 million tonnes.

However, Aurizon Network noted that it expected total railings for 2014-15 to exceed these forecasts based on information to date. By system:

- Goonyella and Blackwater systems—actual railings would exceed those forecast in both systems
- Moura—volumes are expected to be lower than the system forecast as a result of the flooding in February 2015 associated with Cyclone Marcia. Take-or-pay may be payable as the system forecast less actual gross-tonne-kilometres (gtks), adjusted for Force Majeure and Aurizon Network cause, is close to the system trigger
- Newlands—volumes are expected to be close to the system trigger. A small over-recovery of allowable revenues is expected
- GAPE—volumes will be lower than the system forecast. Take-or-pay amounts will be payable up to the system cap. Therefore an under-recovery of allowable revenues is expected on AT1 only.

### 2.2.2 Returns to (collection from) access holders

Consistent with the process outlined in the 2010 AU, the difference between actual and revised transitional allowable revenues is intended to be returned to, or recovered from, access holders via an adjustment to future allowable revenues. Aurizon Network proposed that this adjustment be effected via the revenue cap process if not otherwise approved by the QCA as part of the finalisation of the 2014 DAU.

Aurizon Network proposed that:

- given the nature of the recovery mechanism above (subject to the QCA not proposing an alternative mechanism as part of the finalisation of the 2014 DAU), a full revenue cap submission will be required, which would address:
  - the variation between total actual revenues (less revenue associated with WIRP and Rolleston electric train services) and the transitional system allowable revenues (SAR) for AT<sub>2-4</sub> and AT<sub>5</sub>;
  - the variation between actual and forecast payments attributable to rebateable assets; and
  - the variation between actual electric charge (EC) revenues (based on the transitional EC reference tariff for 2014-15) and electric energy costs.
- there should be no adjustment associated with the Maintenance Cost Index (MCI) and Consumer Price Index (CPI) i.e. the difference between the actual and forecasts, and between actual and forecast feeder station connection costs. Aurizon Network recommended that any variation in these indices and the allowance be reflected in the reference tariff modelling approved by the QCA's Final Decision for UT4 rather than the revenue cap process.
- the final treatment of the AT<sub>1</sub> over/under recovery be a matter for the 2014 DAU finalisation rather than the 2015 DAAU, per its 2014 DAAU proposal, as the UT3 revenue cap process excludes any variation associated with AT1 access charges.

Aurizon Network proposed that the revenue cap adjustment calculated for 2014-15 would be incorporated into any final wash-up as part of the 2014 DAU finalisation.

## 2.3 2015-16 transitional revenues, volumes and reference tariffs

Aurizon Network based its proposal for 2015-16 transitional revenues on the QCA's MAR Draft Decision for 2015-16, revenue cap adjustment amounts for 2013-14 and the remaining 2013 flood costs (Tables 1 and 2 below).

**Table 1 Transitional MAR for 2015-16**

	<i>Total \$m</i>
MAR (as per QCA Draft Decision)	1,065.4
2014-15 revenue cap adjustment	8.1
2013 Flood Review Event (remaining)	6.0
<b>Adjusted transitional MAR</b>	<b>1,079.5</b>

**Table 2 Transitional MAR by system**

<i>System</i>	<i>Non-electric AT<sub>2-4</sub></i>	<i>Electric AT<sub>5</sub></i>	<i>Total</i>
Blackwater	363.4	105.8	469.2
Goonyella	291.6	79.9	371.5
Moura	56.7	na	56.7
Newlands	57.5	na	57.5
GAPE	124.6	na	124.6
<b>Total</b>	<b>893.7</b>	<b>185.7</b>	<b>1,079.5</b>

### 2.3.1 Volumes - 2015-16 forecasts

Aurizon Network submitted that the volume forecasts in the MAR Draft Decision were understated. Aurizon Network proposed a higher forecast based on strong railings to date (Table 3), noting this would result in a lower transitional tariff.

Aurizon Network proposed that volume forecasts for 2015-16 be considered transitional and will not form the basis on which take-or-pay amounts are triggered (and calculated).

**Table 3 2015-16 volume forecasts (full year forecasts)**

<i>System</i>	<i>QCA Decision</i>	<i>Aurizon Network Proposal</i>
Blackwater	57.6	70.4
Goonyella	102.8	112.1
Moura	12.7	13.5
Newlands	16.2	13.9
GAPE	15.2	17.5
WIRP Stage 1	6.7	-
<b>Total</b>	<b>211.1</b>	<b>227.4</b>

*Note: The QCA's Draft Decision on MAR presented WIRP volume forecasts separately from the Blackwater and Moura systems. Consistent with Aurizon Network's WIRP Pricing Proposal, volume forecasts for WIRP Train Services have been combined with the forecasts of the aforementioned coal systems.*

### 2.3.2 Other matters

Aurizon Network addressed a number of issues which impact upon the transitional reference tariffs for 2015-16. In particular:

- $AT_1$  and  $AT_2$  should be set at the values in the QCA's January 2015 Draft Decision on the 2014 DAU.
- transitional reference tariffs should continue to be based on 2010 AU principles, including system premiums and discounts and rebates (noting the QCA January 2015 Draft Decision on the 2014 DAU includes system premiums and discounts but excludes rebates).

Upon finalisation of UT4 (and assuming the QCA approves the UT4 proposal to net off rebates against access charges) Aurizon Network proposed to:

- recover rebates paid for the period 1 July 2015 to the date the UT4 approved reference tariffs come into effect; and
- refund the portion of access charges attributable to rebateable assets.

Aurizon Network said that the effect of this arrangement is that the bulk of any variation in rebates associated with the difference between actual and forecast volumes should be recovered from, or returned to, producers rather than incorporated within the 2015-16 revenue cap adjustment amounts.

- the transitional pricing arrangements for WIRP train services should be aligned to the reference tariffs in Blackwater and Moura. In the context of the 2015 Extension DAAU, access charges and volumes associated with WIRP train services (expected to rail in 2015-16) will be quarantined from the Blackwater and Moura systems, until such time as the QCA makes a final determination with respect to the WIRP pricing proposal.

Aurizon Network considered this provided regulatory certainty to all stakeholders (particularly WIRP customers) and allowed the QCA to make a decision on the transitional WIRP tariffs via a separate process. Aurizon Network reiterated that this treatment is a transitional arrangement only and would be subject to later reconciliation.

- Caval Ridge reference tariffs as approved by the QCA in October 2014 should apply on an interim basis, until such time as a final decision is made on the 2014 DAU, and subject to subsequent reconciliation over the UT4 period.



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## 3 STAKEHOLDER CONSULTATION

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We published Aurizon Network's 2015 Extension DAAU and supporting material on our website and sought submissions from stakeholders. Four submissions were received—from Asciano, Vale, the Queensland Resource Council (QRC) and QCoal. Key issues raised by stakeholders regarding the extension DAAU are outlined below.

### 3.1 Extension

Vale and Asciano supported an extension by way of draft amending access undertaking to allow reasonable time for a new access undertaking to be approved by the QCA prior to the expiry of the current 2010 AU.

### 3.2 Volumes

Vale said it would be more appropriate to use the volumes in the QCA's MAR Draft Decision for 2014-15 and 2015-16, as this reflects the best available information.

The QRC preferred the simplicity of Aurizon Network's proposal to retain existing forecasts for 2014-15, as to change the volumes to reflect those in the QCA's MAR Draft Decision would require updating 2014-15 tariffs, rather than confirming the transitional tariffs. The QRC's view was based on the expectation that the QCA's final approved volumes under UT4 will be adopted in the calculation of any volume-dependent cost allowances, including for 2014-15. QRC did not comment on 2015-16 volumes.

Asciano raised concerns with Aurizon Network's proposed system forecasts for 2015-16:

- that the increase in Aurizon Network's proposed Blackwater system volume forecasts is the result of the inclusion of Wiggins Island train services. Greater transparency in the derivation of these forecasts is needed
- forecasts used for determining reference tariffs and take-or-pay triggers must be identical
- Aurizon Network's proposal may favour UT1 access holders over UT2 and UT3 access holders
- Aurizon Network has adjusted its approach to forecasting between 2014-15 and 2015-16. The approach should be consistent.

### 3.3 2013 flood recovery

With regard to the 2013 flood cost recovery, QRC said that all decisions regarding transitional tariffs will only affect the timing of cash flows and not the NPV of cash flows in the long run. In particular, flood recovery costs are incurred at various points in time, escalated and then recovered over future periods, requiring further escalation. QRC requested that the QCA verify that the final net present value of flood recovery revenues less costs is zero.

QRC said the proposed 2015-16 transitional tariffs for Moura system reflected Aurizon Network's proposal for flood recovery costs to be billed over an 18 month period commencing 1 January 2015 and Moura customers are seeking an arrangement which reduces the short term impact of the event on tariffs. QRC noted that affected QRC members may make submissions on this point.

Asciano submitted that until a final variation of reference tariffs for flood costs is approved by the QCA they should not be included in 2015-16 transitional reference tariffs.

### 3.4 WIRP

Asciano supported Aurizon Network's position of excluding Wiggins Island related revenues and volumes from 2014-15 system allowable and total revenues, as the treatment of these revenues and volumes are being assessed as part of a separate process.

### 3.5 Other matters

Stakeholders also submitted that:

- 2015-16 reference tariffs should be exclusive of rebates from 1 July 2015 (Asciano)
- the maintenance and consumer price indices variations and allowances should reflect the QCA Draft Decision on MAR (Asciano)
- they had concerns that all of the revenue related to the Rolleston train service (rather than just the revenue from the electric component) may be excluded (Asciano)
- NAPE (Newlands to Abbot Point Expansion) revenues and volumes should be excluded from the Newlands system transitional allowable revenues and volumes for 2015-16 (QRC and QCoal).

## 4 QCA ANALYSIS AND FINAL DECISION

### 4.1 Assessment criteria

We must either approve, or refuse to approve, the 2015 Extension DAAU, under section 142(2) of the QCA Act. Under section 143(3), we may approve the 2015 Extension DAAU only if we have published the DAAU and invited persons to make submissions, then considered any submissions received within the stated time. Under section 143(2) we may approve the 2015 Extension DAAU only if we consider it appropriate to do so having regard to the matters mentioned in section 138(2) of the QCA Act.

Section 138(2) of the QCA Act states that we may approve a draft access undertaking only if we consider appropriate to do so having regard to each of the matters set out in section 138(2) of the QCA Act. The drafting of section 138(2) sets out the matters to which we must have regard (Box 1).

#### Box 1: The legal framework

The QCA may approve a draft access undertaking only if the QCA considers it appropriate to do so having regard to each of the matters set out in section 138(2) of the QCA Act:

The Authority may approve a draft access undertaking only if it considers it appropriate to do so having regard to each of the following —

- (a) the object of this part;
- (b) the legitimate business interests of the owner or operator of the service;
- (c) if the owner and operator of the service are different entities—the legitimate business interests of the operator of the service are protected;
- (d) the public interest, including the public interest in having competition in markets (whether or not in Australia);
- (e) the interests of persons who may seek access to the service, including whether adequate provision has been made for compensation if the rights of users of the service are adversely affected;
- (f) the effect of excluding existing assets for pricing purposes;
- (g) the pricing principles mentioned in section 168A;
- (h) any other issues the authority considers relevant.

The 'object of this part' as referred to in section 138(2)(a) is set out in section 69E:

The object of this part is to promote the economically efficient operation of, use of and investment in, significant infrastructure by which services are provided, with the effect of promoting effective competition in upstream and downstream markets.

The section 168A pricing principles are:

The pricing principles in relation to the price of access to a service are that the price should —

- (a) generate expected revenue for the service that is at least enough to meet the efficient costs of providing access to the service and include a return on investment commensurate with the regulatory and commercial risks involved; and
- (b) allow for multi-part pricing and price discrimination when it aids efficiency; and
- (c) not allow a related access provider to set terms and conditions that discriminate in favour of the downstream operations of the access provider or a related body corporate of the access provider, except to the extent the cost of providing access to other operators is higher; and
- (d) provide incentives to reduce costs or otherwise improve productivity.

## 4.2 General approach and condition

In deciding whether to approve or refuse to approve the 2015 Extension DAAU we have been conscious that the merits of various assumptions that underpin Aurizon Network's proposal are being considered in depth as part of our Final Decision on the 2014 DAU.

As a consequence, our focus is to ensure that the 2015 Extension DAAU provides for the 2010 AU to continue in operation until a Final Decision on the 2014 DAU can be implemented. If that Final Decision were to refuse to approve the 2014 DAU, Aurizon Network would have the opportunity to further extend the 2010 AU while any 2015 DAU was considered by the QCA.

We consider this approach has regard to the matters mentioned in section 138(2) of the QCA Act because it involves a continuation of the 2010 AU, an access undertaking that was historically approved by us having regard to those factors. Having regard to those matters, there are significant benefits in providing certainty on a transitional basis on the detailed terms and conditions of access in the interim period pending the 2014 DAU Final Decision.

These benefits outweigh any detriments in continuing the 2010 AU arrangement on a transitional and interim basis, particularly as a reconciliation mechanism is contemplated in the 2010 AU and 2014 DAU. Moreover, this approach does not alter or affect our consideration of the 2014 DAU and the issues that we have already raised in that context.

The implication of adopting this approach is that we have sought to provide clarity on the assumptions adopted in Aurizon Network's proposal so that any final true-up can be performed once the 2014 DAU (or any successor DAU) has been approved as UT4 (see Appendix A for that detail).

Importantly, stakeholders should be aware that we do not consider that the acceptance of Aurizon Network's proposed tariffs for this interim period should be interpreted as signalling that any decision has been taken to how these matters will be treated as part of the Final Decision on the 2014 DAU. This includes how the WIRP infrastructure will be treated for pricing purposes. Importantly, stakeholders should be aware that reconciliation payments in UT4 may be calculated to replicate the economic effect of applying UT4 costing and pricing methodology (including WIRP cost socialisation) in the interim period, hence the transitional revenues, volume forecast and reference tariffs are also transitional in this respect as well.

In taking this approach, our consideration of this 2015 Extension DAAU relies on Aurizon Network's proposition that any over- (or under-) recovery of revenues during the extension period will be returned to (or recouped from) access holders consistent with our Final Decision on the 2014 DAU (or any successor DAU). We note the use of reconciliation payments is consistent with the 2014 DAU, which states that a reconciliation payment will be calculated as if approved reference tariffs (as approved in the undertaking on the approval date) are to be effective from the commencing date of 1 July 2013 (see clause 2.1 and related definitions).

That is, if 2014 DAU were accepted, it would not be 'backdated' with legal effect from 1 July 2013. Rather, the 2014 DAU contains reconciliation mechanisms that replicate the economic effect of backdating by making adjustments to charges in the present period that are calculated by reference to charges in historic periods. We intend to address this issue in our Final Decision on the 2014 DAU.

We consider that the potential inclusion of a reconciliation mechanism of this nature in UT4 enables us to be satisfied that the 2015 Extension DAAU meets the matters mentioned in section 138(2) of QCA Act.

### 4.3 Final Decision

For the reasons and on the assumptions detailed in this decision document, we have decided to approve Aurizon Network's 2015 Extension DAAU.

#### Decision

**In accordance with section 142(2) of the QCA Act, we have decided to approve Aurizon Network's 2015 Extension DAAU.**

**We highlight that:**

- (a) any over- (or under-) recovery of revenues will be dealt with in our Final Decision on the 2014 DAU**
- (b) our decision relates to the 2010 AU and does not limit our consideration of matters under our Final Decision on the 2014 DAU.**

## APPENDIX A: KEY ELEMENTS OF AURIZON NETWORK'S PROPOSAL & QCA'S OBSERVATIONS

**Table 1 2014-15 transitional arrangements**

<i>Summary of Key Elements of Aurizon Network's Proposal</i>	<i>QCA Comment</i>
<p><b>Allowable Revenues</b></p> <p>As approved in the May 2014 DAAU, increased to recover one-third of approved flood repair costs for the Moura system and all the flood costs for the Blackwater system.</p> <p>The 2014 DAAU was based on a roll-forward of transitional revenue for 2013-14 as agreed with the QRC and QCA, except for:</p> <ul style="list-style-type: none"> <li>(a) GAPE revenues were aligned to the (lower) expected UT4 revenue allowance</li> <li>(b) revenues for Blackwater electric assets excluded capital expenditure associated with the electrification of the Rolleston line</li> <li>(c) revenues for the Blackwater and Moura systems excluded any allowance for WIRP.</li> </ul>	<p>The 2014-15 revenues we approved are set out in our Final Decision on the 2014 Extension DAAU.</p> <p>Our review of Aurizon Network's models indicates that the revenues for 2014-15 reflect changes for flood costs.</p> <p>We have approved Aurizon Network's proposed recovery of approved flood costs in a separate decision.</p> <p>We are continuing to investigate the proposed incorporation of Rolleston electrification works into the build-up of reference tariffs, as part of the UT4 approval process</p> <p>We note Aurizon Network's exclusion of WIRP transitional 2014-15 revenues from Blackwater and Moura.</p>
<p><b>Volumes</b></p> <p>As approved in the May 2014 DAAU and as submitted in Aurizon Network's December 2014 response to MAR Draft Decision: 214.6 million net tonnes.</p>	<p>We note that the approved May 2014 DAAU and Aurizon Network's December 2014 response to MAR Draft Decision provided transitional volumes of 214.6 million tonnes for 2014-15.</p> <p>We note that in those, Aurizon Network's transitional forecasts in 2014-15 for Blackwater and Moura exclude volumes associated with WICET train services.</p>
<p><b>Tariffs</b></p> <p>To reflect transitional revenues and transitional volumes above.</p>	<p>In the March 2015 Extension DAAU, the reference tariffs in Blackwater and Moura include the approved flood recovery amounts.</p>
<p><b>Revenue Cap Adjustment 2014-15</b></p> <ul style="list-style-type: none"> <li>• Any over or under recovery of revenues for 2014-15 be done via the revenue cap process per Schedule F under the 2010 AU.</li> <li>• Revenue cap adjustment for 2014-15, if approved by the QCA would be applied to 2016-17 system allowable revenues via the 2 year lag unless the QCA proposes otherwise as</li> </ul>	<p>We consider that the revenue cap adjustment process proposed for any under or over recovery for 2014-15 is critical for ensuring that final allowable revenues match up correctly.</p> <p>We note that any methodology to be applied to the revenue cap adjustment process is also subject to outcomes of our Final Decision on the 2014 DAU, in particular, but not necessarily</p>

<b>Summary of Key Elements of Aurizon Network's Proposal</b>	<b>QCA Comment</b>
<p>part of UT4 finalisation.</p> <ul style="list-style-type: none"> <li>• Adjustment for variations in total actual revenues (TAR) and transitional system allowable revenues (SAR), would exclude WIRP and Rolleston electric train</li> <li>• Address actual and forecasts payments attributed to rebateable assets</li> <li>• Adjust for variations between electric charge EC revenues and actual energy costs</li> <li>• Deal with variations in cost indices and allowances as part of QCA Final Decision for UT4 rather than the revenue cap. Therefore, no adjustment between actual and forecast feeder station connection costs or against forecast MCI or CPI, as these allowances are not yet approved for UT4.</li> </ul>	<p>limited to:</p> <ul style="list-style-type: none"> <li>• WACC escalation applied to final revenue cap adjustment</li> <li>• indices used for costs allowance</li> <li>• treatment of WIRP and Rolleston electric trains</li> <li>• treatment of actual and forecasts payments attributed to rebateable assets</li> <li>• treatment of adjustments for variations in EC revenues</li> <li>• any other variations arising from differences in forecasts and actuals.</li> </ul>
<p><b>2013-14 and 2014-15 transitional revenues</b></p> <p>Treatment of 2013-14 and 2014-15 transitional revenues and the final allowable revenues approved by QCA's Final Decision on UT4, be incorporated into any final wash up. Aurizon Network to consult with stakeholders with respect to the final wash-up.</p>	<p>We consider any adjustments incorporating final revenues approved for UT4 and the existing transitional arrangements are an important part of the reconciliation process. Any definitive treatment on these adjustments is part of our consideration in our Final Decision on the 2014 DAU.</p>
<p><b>Model</b></p> <p>Aurizon Network attached a model to support its proposal.</p>	<p>We note that QRC queried whether the final net present value of flood recovery revenues less costs is zero. The QCA has reviewed the model and can attest that the net present value of flood recovery revenues less costs is zero.</p>

**Table 2 2015-16 transitional arrangements**

<i>Summary of Key Elements of Aurizon Network's Proposal</i>	<i>QCA Comment</i>
<p><b>Allowable Revenues</b></p> <p>Based on allowable revenues for 2015-16 from the QCA's Draft Decision on MAR (November 2014), adjusted for the revenue cap adjustment 2013-14 (escalated) and the remaining two thirds of the 2013 flood review event costs for Moura (escalated)</p>	<p>Aurizon Network's allowable revenues for 2015-16 is consistent with our published November 2014 update on the MAR Draft Decision.</p> <p>Aurizon Network's inclusion of the 2013-14 revenue cap adjustment amount and remaining flood costs for Moura is consistent with the amounts we approved on our May 2015 Final Decisions on these matters.</p>
<p><b>Volumes</b></p> <ul style="list-style-type: none"> <li>• Aligned with Aurizon Network's response to QCA Draft MAR Decision (227.4 million net tonnes for 2015-16)</li> <li>• WIRP Stage 1 - forecast volumes be combined with Blackwater and Moura</li> <li>• Newlands - exclude volumes which are not expected to rail in 2015-16</li> <li>• Volumes are only necessary for the purpose of establishing transitional reference tariffs and not the basis on which take-or-pay amounts are triggered or calculated. (i.e. UT1 liabilities for take-or-pay should not be confirmed until UT4 is finalised.)</li> </ul>	<p>Aurizon Network's proposed volume for 2015-16 is consistent with their submission in response to our MAR Draft Decision.</p> <p>While we note Aurizon Network's transitional volume treatment for WIRP Stage 1, we also note, that Aurizon Network's (separate) WIRP transitional submission has proposed:</p> <ul style="list-style-type: none"> <li>• socialisation of costs associated with WIRP into the Blackwater system, as well as the associated volumes</li> <li>• that Moura pay the system premium, as it has not passed the system test.</li> </ul>
<p><b>Tariffs</b></p> <p>Transitional reference tariff reflect transitional revenues and transitional volumes proposed.</p>	<p>As previously noted, any consideration of alternative pricing approaches is subject to finalisation of the 2014 DAU.</p>
<p><b>AT<sub>1</sub> and AT<sub>2</sub> reference tariffs level</b></p> <p>Set the AT<sub>1</sub> and AT<sub>2</sub> reference tariffs to the values set out in the QCA's mark-up 2014 DAU.</p>	<p>We note Aurizon Network's proposal to set AT1 and AT2 tariffs to values set out in QCA's mark-up 2014 DAU.</p>
<p><b>System premiums and rebates</b></p> <p>For 2015-16 transitional reference tariffs, system premiums and discounts be consistent with Schedule F of the 2010 AU (whereby system premiums and discounts are inclusive of rebates).</p> <p>Upon finalisation of UT4, and if the QCA approves the proposal to net off rebates against access charge, Aurizon Network will recover rebates paid for the period 1 July 2015 to the date of the UT4 approved reference tariffs come into effect and refund the portion of access charges attributable to rebateable assets.</p>	<p>We note that Aurizon Network proposed to treat system premium and discount per Schedule F of the 2010 AU, until UT4 finalisation, whereby the potential impacts to relevant access charge (to recover rebates) apply for the period 1 July 2015 to the date the UT4 approved reference tariffs takes effect.</p>



<b>Summary of Key Elements of Aurizon Network's Proposal</b>	<b>QCA Comment</b>
<p><b>Electric Charge (EC) and QCA levy</b></p> <p>2015-16 EC reference tariff component and QCA Levy reflect Schedule F of QCA's mark-up of 2014 DAU</p>	<p>We note that Aurizon Network's proposed 2015-16 EC and QCA levy reflects Schedule F of the QCA's mark-up of 2014 DAU.</p>
<p><b>Caval Ridge</b></p> <p>The private incremental cost discount continue to be recognised and applied (as approved by QCA in October 2014), on an interim basis until a final decision is made in the 2014 DAU, and subject to subsequent reconciliation</p>	<p>We note Aurizon Network's proposal to continue to apply existing cost discount for Caval Ridge for the 2015-16 transitional period until a Final Decision on 2014 DAU and any subsequent reconciliation is applied.</p>
<p><b>WIRP</b></p> <p>Transitional pricing arrangements for WIRP Train Services in 2015-16 should be aligned with reference tariffs applicable in the Blackwater and Moura systems.</p> <p>Access charges and volumes associated with WIRP train services raling in 2015-16 be quarantined from Blackwater and Moura system, until the QCA makes a final decision on the WIRP pricing proposal.</p> <p>This treatment is a transitional arrangement only, subject to later reconciliation with reference tariffs finalised in accordance with the QCA final decision on the 2014 DAU.</p>	<p>As discussed, we note Aurizon Network's proposed treatment for WIRP train services for 2015-16 while also noting, that in Aurizon Network's WIRP transition submission it has:</p> <ul style="list-style-type: none"> <li>• proposed socialisation of costs associated with WIRP into the Blackwater system, as well as the associated volumes included in Blackwater</li> <li>• proposed that Moura pay the system premium, as it has not passed the system test.</li> </ul> <p>We note the above to ensure that stakeholders are aware that our assessment of 2015 Extension DAAU does not pre-empt future pricing proposal for WIRP train services or our final decision on the 2014 DAU.</p>
<p><b>General</b></p> <p>The difference between 2015-16 transitional and final reference tariffs be collected via an adjustment charge process to be implemented following the QCA's Final Decision.</p>	<p>For consideration in the finalisation of the 2014 DAU.</p>