



Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4001

Aurizon Network – FY20 Maintenance and Cross System Voting Draft Amending Access Undertaking

4 September 2020

Dear Charles,

Aurizon Network is pleased to submit this Draft Amending Access Undertaking (**DAAU**) to the Queensland Competition Authority (**QCA**) for consideration.

The purpose of this DAAU is to address two drafting issues that have been identified in Aurizon Network's 2017 Access Undertaking (**UT5**). Specifically:

- › Clause 7A.11.5(b)(ii), relating to the QCA approval of actual maintenance costs for the financial year ended 30 June 2020 (**FY2020**); and
- › Amending the definition of **End User Voting Rights (Coal System)** and **End User Voting Rights (Network)** to include Cross System Train Services.

Aurizon Network confirms that it has engaged with the Queensland Resources Council (**QRC**) prior to making this submission. The QRC has indicated that it is generally supportive of the proposed amendments, subject to the QCA's own review.

The remainder of this submission discusses the considerations pertaining to each issue and provides the drafting amendments that are recommended to address them.

1. Clause 7A.11.5(b)(ii) - QCA approval of actual maintenance costs

Clause 7A.11.5(b)(ii) of UT5 states that the QCA must:

“for each Coal System for the Year ending 30 June 2020 approve the lower of:

(A) the actual Direct Maintenance Costs incurred by Aurizon Network with respect to the Coal System during the Year; and

(B) the Direct Maintenance Cost allowance for the Coal System in the QCA's 2018 Decision.”

The operation of this clause gives effect to a reconciliation¹ of Direct Maintenance Costs where the actual maintenance costs are lower than the relevant approved maintenance forecast for that year. A history of those QCA approved changes is outlined in the following table:

Table 1: Timeline of amendments to the QCA's 2018 Decision

Milestone	Relevance to FY2020 maintenance cost forecast	Maintenance allowance adjustment (\$m)
QCA's 2018 Decision December 2018	Set the initial FY2020 maintenance cost forecast for each coal system	146.7
Reference Tariff Variation DAAU May 2019	Adjusted the FY2020 maintenance cost forecast to correct modelling errors within the QCA's 2018 Decision. Errors included the non-coal cost allocations and 'double-discounting' of ballast undercutting expenditure. Approved by the QCA on 24 June 2019.	+0.2
UT5 DAAU May 2019	Included FY2020 maintenance cost forecast that was based on the error-corrections proposed in the Reference Tariff Variation DAAU and reflected the Customer-agreed position that specified Ballast Undercutting costs (depreciation and return on plant) be included in the Direct and Indirect Maintenance Cost allowances respectively, rather than the Capital Indicator. The UT5 DAAU was approved by the QCA on 19 December 2019.	+8.1
2019 Volume Reset DAAU September 2019	Proposed a reduction in FY2020 volume forecasts. The FY2020 maintenance cost forecast was also reduced to reflect the assumed reduction in variable maintenance costs (AT1) attributable to the lower volume forecasts. On 20 December 2019, the QCA issued a preliminary position to accept, in principle the key aspects of the 2019 Volume Reset DAAU; including the adjustment to the FY2020 Maintenance Forecast.	(2.1)
Consolidation DAAU December 2020	Submitted to consolidate the UT5 DAAU (approved by the QCA on 19 December 2019) and the QCA's preliminary position on the 2019 Volume Reset DAAU. The FY2020 maintenance cost forecast for each coal system reflects the cumulative adjustments of the above DAAU's. The Consolidation DAAU, including the FY2020 maintenance cost forecast for each Coal System, was approved by the QCA on 21 February 2020.	152.9[^]

[^] Variances may exist due to rounding.

¹ Schedule F, Clause 4.3(c)(ii)(A), the Revenue Adjustment Amounts (Revenue Cap) submission.

Ultimately, the outcome of the above is that while the Direct Maintenance Cost Allowance for FY2020 was initially based on the QCA's 2018 Decision, it has subsequently been adjusted and approved by the QCA over time via multiple DAAUs.

Consequently, the QCA's 2018 Decision is no longer relevant for the purpose of clause 7A.11.5(b)(ii). Rather, the relevant amounts are the Direct Maintenance Cost allowances for each Coal System that were included in the FY2020 Allowable Revenues and Reference Tariffs approved by the QCA in its final decision on the Consolidation DAAU.²

The application of the QCA's 2018 Decision for the purpose of clause 7A.11.5(b)(ii) is inconsistent with the maintenance cost forecast subsequently approved by the QCA – an unintended oversight as a result of multiple regulatory processes running in parallel.

Proposed Drafting Amendments – 7A.11.5(b)(ii)

Aurizon Network has engaged with the QRC in relation to this matter and has proposed minor drafting amendments to correct this unintended oversight. The intent of the drafting amendments is to ensure that the QCA has regard to the most up-to-date Direct Maintenance Cost allowance when determining the 'approved' maintenance costs for FY2020.

Aurizon Network's proposed drafting amendments for clause 7A.11.5(b)(ii) are as follows:

“(b) The QCA must with respect to the direct maintenance cost allowance:

(ii) for each Coal System for the Year ending 30 June 2020 approve the lower of:

(A) the actual Direct Maintenance Costs incurred by Aurizon Network with respect to the Coal System during the Year; and

(B) the Direct Maintenance Cost allowance for the Coal System provided for in the ~~QCA's 2018 Decision~~ QCA Consolidation DAAU Decision.”

Aurizon Network also proposes to add the following definition to UT5, Part 12:

“QCA Consolidation DAAU Decision: *The QCA's decision to approve Aurizon Network's Consolidation DAAU issued on 21 February 2020.*”

2. Definition of End User Voting Rights (Coal System) and End User Voting Rights (Network)

On 27 July 2020, Aurizon Network received correspondence from the QRC, which highlighted that cross-system paths are excluded from the definitions of 'End User Voting Rights (Coal System)' and 'End User Voting Rights (Network)' outlined in Part 12 of UT5. Consequently, relevant Access Holders (or their Customers) do not hold voting rights for RIG matters where their Train Service Entitlements (**TSE**) are for cross-system services.

While the intention behind the original drafting was that a cross-system TSE should not create a voting right in both the origin and destination system, UT5 currently does not create a voting right in either system.

² QCA, Aurizon Network's Consolidation DAAU – Decision, 21 February 2020.

In general, cross-system TSEs typically travel most of their total haul distance within the destination system. Aurizon Network is, therefore, proposing to include drafting amendments that would give cross-system TSEs a right to vote in the **destination** system only.

Proposed Drafting Amendments – Part 12 Definitions and Interpretation

Aurizon Network is seeking to update UT5 to reflect the following amendments to **MCT** as it appears within the definitions of both:

- › End User Voting Rights (Coal System); and
- › End User Voting Rights (Network).

It should be noted that the following drafting amendments were requested by the QRC after consultation with the Rail Working Group. The drafting amendments are supported by Aurizon Network.

*“**MCT** means the highest volume of the End User’s Access Rights across all Coal Systems (expressed on a contracted tonnage basis) under existing Access Agreements:*

(a) assuming Renewals occur in respect of the Access Rights under those Access Agreements;

(b) excluding any Access Rights that are conditional on the construction of a Customer Specific Branch Line or an Expansion; ~~and~~

(c) excluding any Access Rights in respect of the Origin System for a Cross System Train Service; and

(d) including any Access Rights in respect of the Destination System for a Cross System Train Service.

in any Year during the 5 Year Forecast Period;”

Next Steps

Aurizon Network welcomes the QCA’s consideration of the above matters.

Aurizon Network has appended a revised Access Undertaking, in clean and marked-up form, to this submission.

Should you have any queries in relation to this submission, please do not hesitate to contact Michael Bray on michael.bray@aurizon.com.au.

Yours sincerely,



Peter Long
Head of Finance and Regulation Network
Aurizon Network Pty Ltd

Appendix A: Draft Amending Access Undertaking – Clean

Appendix B: Draft Amending Access Undertaking – Mark-up