



Mr George Passmore
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane QLD 4001

Aurizon Network – Annual review of Reference Tariffs – FY2023

Update to assumptions relating to the recovery of APS Capital Expenditure

5 May 2022

Dear George,

Aurizon Network's Annual Review of Reference Tariffs (**ARRT**) for the Financial Year commencing 1 July 2022 and ending 30 June 2022 (**FY23**) was submitted to the QCA on 28 February 2022 in accordance with Schedule F, Clause 4.1 of the 2017 Access Undertaking (**UT5**). Aurizon Network's FY23 ARRT submission included assumptions relating to the QCA's forthcoming decision on its FY21 Capital Expenditure Claim (**FY21 Capex Claim**).

The QCA received one submission on the FY23 ARRT from the Queensland Resources Council (**QRC Submission**). The QRC Submission raised concerns relating to the financial impact of recovering capital expenditure associated with the Advanced Planning and Scheduling system (**APS Capex**). Despite Aurizon Network calculating the recovery of APS Capex in accordance with the QCA-approved methodology and asset life, the QRC Submission proposed that the APS Capex be recovered over an extended period. Aurizon Network provided its response to the QRC Submission to the QCA on 19 April 2022, proposing that APS Capex be recovered over an extended period from FY23 to FY27.

On 21 April 2022, the QCA approved Aurizon Network's FY21 Capex Claim. Consistent with the QCA's approval of the FY21 Capex Claim, and Aurizon Network's response to the QRC Submission, the purpose of this submission is to update the following assumptions within the FY23 ARRT in-line with Aurizon Network's 19 April response to the QRC, as follows:

1. Remove the impact of APS Capex from the 'Capital Expenditure Allowable Revenue Adjustment'; and
2. Provide for the recovery of APS Allowable Revenues on a forward-looking basis, from FY23 to FY27.

Aurizon Network reiterates that it is not seeking to amend the QCA-endorsed Asset Life for Computer Systems, it is only volunteering to extend the recovery period.

Aurizon Network has outlined all required updates within the following Appendix A and has provided amended copies of UT5 in clean and mark-up form. Updated financial models supporting the proposed amendments will be provided directly to the QCA. Aurizon Network claims confidentiality over the financial models as they contain customer specific information.

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,

A handwritten signature in black ink, appearing to read 'Jon Windle', written in a cursive style.

Jon Windle
Manager Regulation Network
Aurizon Network Pty Ltd

Appendix A: Updates to the FY23 ARRT submission

The FY23 ARRT was submitted in compliance with all QCA-approved regulatory requirements. It proposed adjustments to Allowable Revenues and Reference Tariffs to reflect the requirements of UT5 including FY23 volume forecasts, forward looking maintenance and capital indicators, applicable pass-through costs and various revenue adjustments.

As part of those revenue adjustments, Aurizon Network sought the recovery and reconciliation of Allowable Revenues associated with the FY21 Capex Claim, including APS Capex. The asset life applicable to APS Capex is three (3) years, which reflects the QCA-endorsed life for 'Computer Systems'. The application of this asset life results in the recovery of all APS Capex in FY23, noting that the reconciliation of FY21 and FY22 Allowable Revenues associated with APS are included within the Capital Expenditure Allowable Revenue Adjustment.

Aurizon Network confirms that the APS software will have an operational life that exceeds the QCA-approved regulatory asset life. Furthermore, Aurizon Network acknowledges the impact that the recovery of APS Capex over a 3-year period will have on the FY23 Allowable Revenues and Reference Tariffs.

Recognising the concerns raised in the QRC Submission, Aurizon Network proposes to extend the period over which the APS Capex is recovered. To give effect to this, Aurizon Network proposes to update the FY23 ARRT submission as outlined below.

1. Remove APS Capex from the 'Capital Expenditure Allowable Revenue Adjustment'

At the time of drafting the FY23 ARRT, Aurizon Network had not received the QCA's final decision on the FY21 Capex Claim. Consequently, Aurizon Network prepared the FY23 ARRT using an indicative value of the Capital Expenditure Allowable Revenue Adjustment. This was calculated with regard to the submitted value of Aurizon Network's FY21 Capex Claim and the QCA-endorsed lives for each type of asset.

With the approval of the FY21 Capex Claim by the QCA, the indicative value of the Capital Expenditure Allowable Revenue Adjustment has become the 'final' value for the purpose of the FY23 ARRT. The size of this adjustment is primarily driven by the reconciliation of FY21 and FY22 Allowable Revenues associated with APS Capex.

To address the concerns raised in the QRC Submission about the financial impact of this adjustment on FY23 Allowable Revenues and Reference Tariffs, Aurizon Network proposes to update the Capital Expenditure Allowable Revenue Adjustment by removing the amounts associated with the approved APS Capex. This reduces the value of the adjustment to be considered by the QCA.

Aurizon Network proposes to amend Table 13 within the FY23 ARRT submission to reflect the following:

Table 1 – Update to FY23 ARRT Table 13 Capital Expenditure Allowable Revenue Adjustment (\$m)

System	Original FY23 ARRT		Proposed Update (\$m)		Aggregated Variance (\$m)^
	AT2-4 (\$m)	AT5 (\$m)	AT2-4 (\$m)	AT5 (\$m)	
Blackwater	19.8	(0.0)	(1.6)	(0.0)	(21.4)
Goonyella	23.8	(0.1)	0.6	(0.1)	(23.3)
Moura	1.0	--	(1.5)	--	(2.5)
Newlands	2.3	--	(2.6)	--	(4.8)
GAPE	--	--	3.2	--	3.2
Total (\$m)	46.9	(0.1)	(1.9)	(0.1)	(48.8)

^ For illustrative purposes, this column shows the overall change in the value of this adjustment for each system for AT2-4 and AT5. Please note that the above table excludes all capital expenditure associated with APS Capex.

2. Smoothed recovery of Allowable Revenues associated with APS Capex

With the removal of APS Allowable Revenues from the Capital Expenditure Allowable Revenue Adjustment, Aurizon Network must update its proposal for recovering APS Allowable Revenues, including the:

- › reconciliation of APS Allowable Revenues that were recoverable in FY21 and FY22; and
- › recovery of FY23 APS Allowable Revenues.

Aurizon Network proposes to smooth the recovery of Allowable Revenues associated with APS on a forward-looking basis from FY23 to FY27. Figure 1 and Figure 2 below illustrates Aurizon Network’s original proposal, as outlined in the FY23 ARRT, and the impacts of Aurizon Network’s updated proposal.

Figure 1 Aurizon Network’s original FY23 ARRT proposal

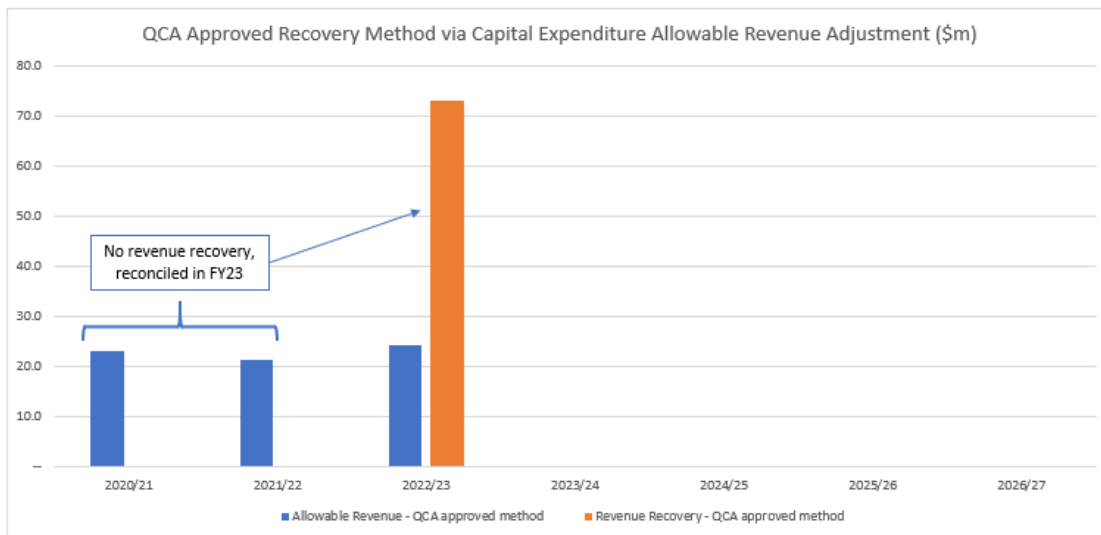
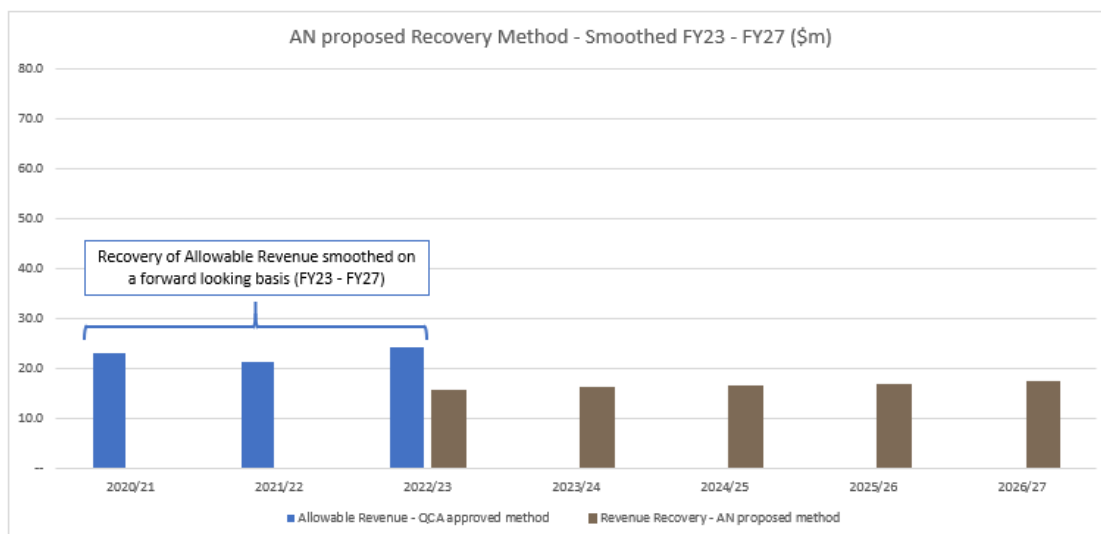


Figure 2 Aurizon Network’s updated FY23 ARRT proposal



Please note that the values represented in Figure 2, (specifically for FY24 – FY27) are based on the current UT5 assumptions, and do not account for any updated assumptions that may be relevant to the Reset Period.

The impact of Aurizon Network’s proposal relating to APS Capex on FY23 Allowable Revenues is outlined in Table 2 below.

Table 2 – Impact of smoothed APS recovery on FY23 Allowable Revenues

System	AT2-4 (\$m)	AT5 (\$m)
Blackwater	7.0	--
Goonyella	7.4	--
Moura	0.8	--
Newlands	0.5	--
GAPE	--	--
Total (\$m)	15.7	--

Proposed adjustments to FY23 Allowable Revenues and Reference Tariffs

Aurizon Network notes that the updates outlined above will impact the FY23 Allowable Revenues and Reference Tariffs outlined in the FY23 ARRT.

Aurizon Network’s proposed Allowable Revenues for FY2023 were outlined in Table(s) 2 and 28 of the FY23 ARRT submission. Aurizon Network has updated these Allowable Revenues to reflect the relevant amendments outlined above.

Aurizon Network submits the following updated FY23 Allowable Revenues to the QCA for approval:

Table 3 - Updates to FY23 ARRT Table 2 and Table 28 Proposed Allowable Revenues

System	AT2-4 (\$m)	AT5 (\$m)
Blackwater	353.3	92.8
Goonyella	279.2	82.9
Moura	53.5	--
Newlands	29.6	--
GAPE	107.8	--
Total (\$m)	823.4	175.7

Aurizon Network’s proposed Reference Tariffs for FY2023 were outlined in Table(s) 3 and 29 of the FY23 ARRT submission. Aurizon Network has amended these Reference Tariffs to reflect the relevant amendments outlined above.

Aurizon Network submits the following adjusted Reference Tariffs to the QCA for approval:

Table 4 - Updates to FY23 ARRT Table 3 and Table 29 Proposed Reference Tariffs

System	AT1	AT2	AT3	AT4	AT5	EC	QCA Levy	IE Pass Through Costs
Blackwater	1.01	2,487.34	7.15	2.56	3.56	1.11	0.00274	0.01868
Goonyella	0.70	1,575.88	5.22	1.07	2.32	1.11	0.00274	0.01868

System	AT1	AT2	AT3	AT4	AT5	EC	QCA Levy	IE Pass Through Costs
Moura	1.87	736.68	12.23	1.99	--	--	0.00274	0.01868
Newlands	1.95	333.12	5.90	0.79	--	--	0.00274	0.01868
GAPE	1.57	15,464.32	0.17	1.05	--	--	0.00274	0.01868

For completeness, section 6.2 of Aurizon Network’s FY23 ARRT included a summary showing the aggregated impact on FY2023 Allowable Revenues. Aurizon Network has provided an update to Table 27 of the FY23 ARRT submission reflecting the updated proposal.

Table 5 - Updates to FY23 ARRT Table 27 – Aggregate adjustments – FY2023

System	AT2-4 (\$m)	AT5 (\$m)	Total (\$m)
Blackwater	(4.5)	10.4	5.8
Goonyella	(1.9)	11.8	9.9
Moura	5.6	--	5.6
Newlands	(4.8)	--	(4.8)
GAPE	(15.0)	--	(15.0)
Total (\$m)	(20.6)	22.2	1.6