

File ref: 2028705

22 August 2024

Ms Pam Bains
Group Executive Network
Aurizon Network
GPO Box 456
BRISBANE QLD 4001

Dear Ms Bains

Infrastructure rebates and GAPE RCS DAAU

On 22 August 2024, the Queensland Competition Authority (QCA) decided to refuse to approve Aurizon Network's Infrastructure rebates and GAPE RCS DAAU, as submitted on 7 June 2024.

While the QCA is largely satisfied with the proposal, it considers that additional drafting is required to operationalise the proposed new arrangements. In light of the revised drafting required, the QCA does not consider it is appropriate to approve the DAAU. However, the QCA would be minded to approve an amended DAAU which also incorporated the revised drafting proposed by Aurizon Network in its submission of 26 July 2024.

The attached notice sets out the reasons for the QCA's decision, including the amendments required for the DAAU to be considered appropriate to approve.

This letter and the decision will be published on the QCA website for stakeholders' information.

I am happy to discuss any questions you may have on this decision or any other matters. Should your staff have any specific queries on the attached notice, please direct them in the first instance to Pag Arao-Arao by email (pag.arao-arao@qca.org.au).

Yours sincerely



Charles Millstead
Chief Executive Officer

cc: Dan Kearney, Head of Finance and Regulation – Aurizon Network
Jon Windle, Network Regulation Manager – Aurizon Network

Infrastructure rebates and GAPE RCS DAAU

22 August 2024

We have refused to approve Aurizon Network's Infrastructure rebates and GAPE RCS draft amending access undertaking under section 142(2) of the *Queensland Competition Authority Act 1997* (QCA Act).

We consider that the proposal, amended to include revised drafting to implement the proposed price discount for infrastructure rebate customers, would be appropriate to approve.

On 7 June 2024, Aurizon Network submitted a draft amending access undertaking (the infrastructure rebates and GAPE RCS DAAU) seeking to amend various system volume forecasts, allowable revenues and reference tariff inputs included in Schedule F of its 2017 access undertaking (UT5).

The proposed amendments reflect:

- proposed new arrangements for the treatment of mine-specific infrastructure that has been funded by customers under an access facilitation deed (AFD) – in particular, providing a price discount at nominated load points for some AFD customers
- the inclusion of previously deferred investment relating to installation of remote control signalling (RCS) in the GAPE allowable revenue and reference tariffs from 1 July 2024
- the outcomes of the 2024–25 annual review of reference tariffs, along with the 2024–25 annual electricity energy charge.^{1,2}

The infrastructure rebates and GAPE RCS DAAU deals with matters that have been previously raised in separate regulatory processes, including as part of the 2024–25 annual review of reference tariffs.³

¹ Aurizon Network, [Infrastructure rebates and GAPE RCS DAAU](#), June 2024 (Aurizon Network proposal).

² Aurizon Network, [Infrastructure Rebates and GAPE RCS DAAU – cover letter](#), June 2024 (Aurizon Network cover letter).

³ Information relating to the 2024–25 annual review of reference tariffs, including Aurizon Network's proposal, stakeholder submissions and our decision, is available [here](#).

That said, we have considered the infrastructure rebates and GAPE RCS DAAU afresh, and in accordance with the requirements of the *Queensland Competition Authority Act 1997* (QCA Act).

Our statutory obligations

Under the QCA Act, Aurizon Network can submit a voluntary DAAU to amend the approved access undertaking.⁴

We are required to consider the DAAU and either approve, or refuse to approve, the DAAU⁵ having regard to the matters in s. 138(2) and other conditions in the QCA Act, including that the DAAU has been published and submissions have been sought and considered.⁶

If we refuse to approve a DAAU, we must provide our reasons for the refusal and state the way in which we consider it is appropriate to amend the DAAU.⁷

Stakeholder submissions

We received 3 submissions in response to Aurizon Network's proposal.

- While the QRC supported the QCA's consideration of these issues at this time, it raised a number of questions and concerns about Aurizon Network's proposal, including regarding the amount Aurizon Network proposed to recover as previously deferred RCS expenditure.⁸
- Glencore supported providing for a price discount (for both Hail Creek and Rolleston) conditional on the execution of changes to the relevant rebate deeds and a review of the rebate calculations.⁹
- Aurizon Network provided a new drafting amendment that it considered was necessary to implement the proposed price discount for some AFD customers, but that had not been included in its original proposal, nor discussed with stakeholders.¹⁰

We provided stakeholders with an opportunity to comment on the issues raised in the submissions we received. In response, Aurizon Network provided further information to support its view that it should recover the full amount of the RCS deferral.¹¹

We have considered the matters raised by stakeholders and Aurizon Network in our assessment.

Our assessment

We have decided to refuse to approve Aurizon Network's infrastructure rebates and GAPE RCS DAAU.

While we accept the general premise and intent of each element of the proposal – and have confirmed that the related revenue and tariff modelling reflects this intent, and the proposed

⁴ QCA Act, s 142(1).

⁵ QCA Act, s 142(2).

⁶ QCA Act, s 143.

⁷ QCA Act, s 142(3).

⁸ QRC, [Aurizon Network – Infrastructure rebates and GAPE RCS DAAU](#), submission, July 2024.

⁹ Glencore, [Aurizon Network – Infrastructure Rebates and GAPE RCS DAAU](#), submission, July 2024. Glencore also supported the QRC's comments regarding the inclusion of previously deferred RCS expenditure.

¹⁰ Aurizon Network, [Infrastructure Rebates and GAPE RCS DAAU – submission](#), July 2024 (Aurizon Network submission).

¹¹ Aurizon Network, [Infrastructure Rebates and GAPE RCS DAAU – response](#), August 2024 (Aurizon Network response).

amendments accurately reflect this modelling – there is an outstanding issue regarding the implementation and operation of the proposed new price discount for AFD customers.

We do not consider it in the interests of Aurizon Network, access holders or access seekers, to progress the proposed amendments until this matter is resolved. We are satisfied that the additional drafting proposed in Aurizon Network’s submission would be suitable to address this outstanding issue.¹²

Applying a discount on access charges for AFD customers

Aurizon Network has proposed to apply a discount to the access charges paid by some AFD customers (replacing the longstanding rebate arrangements that apply to infrastructure owned by Aurizon Network which was funded by the customer through an AFD). It said that its proposed approach is a ‘simple and effective’ way to promote equivalence between AFD customers and private infrastructure owners¹³, and that it is unlikely to have any substantial adverse impacts on other system users.¹⁴

The proposed AFD discounts will apply to nominated load points in the Blackwater and Goonyella systems (in Schedule F).¹⁵ The discounts only apply where the AFD customers have endorsed their application – and are subject to the relevant AFD customers agreeing to corresponding and complementary amendments to relevant agreements to give effect to the discount.¹⁶ Aurizon Network has also proposed revised drafting (to clause 1.1(f) of Schedule E) it considers is required to operationalise its approach.¹⁷

On balance we consider it appropriate that Aurizon Network provide for AFD customers to receive a discount (rather than a rebate) where they have elected to do so, and where they have agreed to corresponding and complementary amendments to relevant AFD agreements. We consider that:

- providing an option for a discount for AFD customers is appropriate, given the changes in regulatory arrangements over time, including the introduction and application of PIC discounts
- aligning the treatment of AFDs with PIC discounts provides for consistency and transparency.

We are satisfied that there will be no material adverse impacts on other access seekers. As individual AFD holders are opting in, there is no direct effect on other access holders who may choose to stay with an AFD. Where a minor difference exists, this may be due to individual take or pay arrangements and system forecast volumes versus actuals (forecast utilisation rates), and these differences do not appear to be material.¹⁸

PIC and rebated assets are treated as customer (or mine) specific assets, and in essence, do not change Aurizon Network’s system allowable revenues or the way reference tariffs are set. Thus, Aurizon Network is indifferent between an AFD discount and a rebate (notwithstanding a lower administrative burden of discounts).¹⁹

¹² Aurizon Network submission, July 2024.

¹³ Under UT5 private infrastructure owners can receive a discount to the reference tariff to reflect the approved value of private incremental costs (PIC) associated with private infrastructure.

¹⁴ Aurizon Network proposal, June 2024, pp 13-17.

¹⁵ Aurizon Network has proposed discounts apply in respect of the AFD infrastructure for part of the Rolleston branch line; South Walker Creek spur and balloon loop; Hail Creek spur line and balloon loop; and Isaac Plains spur and balloon loop.

¹⁶ Aurizon Network proposal, June 2024, pp 17-21.

¹⁷ Aurizon Network submission, July 2024, p 1.

¹⁸ Aurizon Network proposal, June 2024, p 16.

¹⁹ Aurizon Network proposal, June 2024, p 14.

We have verified that Aurizon Network has implemented the discount on the access charges for the nominated AFD holders, which includes adjusting mine specific allowable revenues and the relevant reference tariff discount.

We consider that the additional drafting that Aurizon Network has proposed will also be required to operationalise this proposal.²⁰ We consider that Aurizon Network's revised drafting provides a clearer distinction between the asset values included for pricing purposes versus the values (record) of all assets rolled into the RAB.

It may also be useful for Aurizon Network to clarify that the proposed discounts will only apply upon execution of the required changes to relevant agreements.²¹

Including previously deferred RCS investment

Aurizon Network has proposed to include previously deferred RCS investment (on the Goonyella to Newlands Connection (GAPE Link)) in the GAPE pricing RAB from 1 July 2024. It said this investment had been deferred for pricing purposes as part of our assessment of Aurizon Network's 2017 access undertaking – and that the completion of complementary RCS (between Collinsville and the Newlands junction) determined the timing to end the deferral.²²

The carried forward value of the previously deferred RCS expenditure as of 1 July 2024 is \$23.6 million – which results in an increase in allowable revenue of around \$2.8 million each year.²³

While the QRC supported determining the treatment of the deferred expenditure at this time, they raised concerns around the proposed amount, given the costs were incurred in 2013-14 (but not required for a full decade after installation), the asset was 'well into its useful life' (but being treated as though it was new) and the apparent reduction in the expected capacity benefit of more recent RCS expenditure.²⁴ It also questioned whether the timing for inclusion now had been driven by commercial agreements 'dampening' Aurizon Network's incentive to recover the deferred revenue earlier.²⁵

We consider that it is reasonable for Aurizon Network to recover an amount equivalent to the full value of the GAPE RCS deferral, to compensate Aurizon Network for the deferral. We are satisfied that Aurizon Network has sought to recover this amount using a methodology in line with our previous decisions²⁶ – and at the earliest reasonable opportunity to do so. We note that our decision to defer the RCS investment for pricing purposes did not also defer its inclusion in Aurizon Network's regulatory asset base.

We do not consider it appropriate to make any adjustments as suggested by the QRC given the nature of the assets, the expected life of the assets, and their treatment. Moreover, any reduction in the asset value would potentially affect incentives to invest in future prudent and efficient capacity

²⁰ Aurizon Network submission, July 2024, p 1.

²¹ Although we would not require this amendment be made in order for the DAAU to be considered appropriate to approve.

²² Aurizon Network proposal, June 2024, pp 4-5; Aurizon Network response, August 2024, p 1.

²³ Aurizon Network proposal, June 2024, p 4; Aurizon Network has also proposed to update GAPE system allowable revenues to reflect 2 recent regulatory decisions.

²⁴ QRC 2024, pp 1-2.

²⁵ QRC 2024, pp 1-2.

²⁶ The deferred amount for GAPE RCS reflects costs, which were found to be prudent in scope, standard and cost through the capital expenditure review processes in place at the time, and were approved to be deferred for pricing purposes until all the RCS works in the Newlands system have been completed (i.e. with no time constraint on when the deferral should end). QCA, [Aurizon Network 2014 Access Undertaking – Volume IV – Maximum Allowable Revenue](#), final decision, April 2016, p 182.

expansions. We also note that UT5 includes a separate regulatory process to consider impacts on capacity from more recent RCS investment.

We have verified that the proposed amount is consistent with the value of the deferred RCS capital, in line with our usual practice for deferrals and the roll-forward principles set out in clause 1.1 of Schedule E of UT5.

Other adjustments

Aurizon Network has proposed to update the volume forecasts, allowable revenues and reference tariff inputs across all systems for the remaining term of UT5 to reflect the values and inputs that underpinned our 2024-25 annual review of reference tariffs. It has also updated the electric energy charge (EC) tariff for 2024-25 to reflect the EC tariff we approved on 20 June 2024.²⁷

We consider that it is in all parties' interests to use the most recent and accurate information and forecasts where available, as this is more likely to better reflect current conditions and expectations. We note that these forecasts will be considered (and possibly updated) as part of future reference tariff review processes.

We have verified that Aurizon Network has updated these inputs in line with these decisions.

Way forward

Aurizon Network is not required to resubmit a voluntary DAAU consistent with our decision.

If Aurizon Network wishes to have a new or modified version of its infrastructure rebates and GAPE RCS DAAU it will need to submit a further DAAU, which we will then consider.

Subject to no new issues being raised, our view is Aurizon Network's proposal, amended to include revised drafting to implement the proposed AFD discount, would be appropriate to approve.

²⁷ Aurizon Network cover letter, 2024, pp 2-3.