

Projects

Aurizon Access Undertaking (UT4) Review

NineSquared was engaged by the Queensland Resource Council (QRC) to review Aurizon's proposed approach to costing its maintenance and operating expenditures



LOCATION

Brisbane, QLD

CLIENT

Queensland Resources Council

REGULATORY ECONOMICS

INFRASTRUCTURE PRICING

Background

Aurizon Network operates that below rail network in central Queensland that serves around 30 miners and transport over 200mtpa of coal to four major coal ports. The network is regulated by the Queensland Competition Authority (QCA) and is periodically subject to review of the Access Undertaking that defines how the rail network will be operated and priced.

In August 2013, Aurizon Network released its Draft Access undertaking (2013) for the UT4 period (2012/13 – 2016/17) to the QCA.

Our role

NineSquared was engaged by the Queensland Resource Council (QRC) to review Aurizon's proposed approach to costing its maintenance and operating expenditure which together account for a budget of around \$1 billion over 4 years.

Our review included a detailed analysis of Aurizon's consultants' reports into its proposed activities over the period and the estimate of costs. We reassessed the key benchmarks presented and highlighted a range of material variations from previously stated positions and costing estimates. Key issues identified were:

- weaknesses in the benchmarking data presented based on the difficulty associated with finding reasonable comparators for the Aurizon Network maintenance operation of a narrow gauge heavy haul railway
- a lack of clarity over how the ballast undercutting scope was derived and how its effectiveness would be assessed
- a requirement to introduce an increased level of transparency and detail to maintenance cost reporting through the development of annual budgets and reporting against these budgets to the QCA or industry

- inconsistencies between the proposed application of a gross replacement value (GRV) asset pricing approach to determine a return on assets required to maintain the network (e.g. resurfacing machines) and the productivity of those machines in practice
- a requirement to introduce key performance indicators (KPIs) which would allow the effectiveness of Aurizon's maintenance activities to be assessed over time.

The results of the analysis were summarized in QRC's maintenance and operating cost submissions. Subsequently, the QCA's draft decision significantly reduced Aurizon's maintenance and operating budgets and resulted in the introduction of regular quarterly reporting of maintenance performance to the QCA and industry which eventually transformed into the Rail Infrastructure Group maintenance and renewals strategy and budget approval process that was included in the final UT5 agreement.

FOR FURTHER INFORMATION

For more information, find one of our experts at ninesquared.com.au/people