



George Passmore
Director – Business Performance
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Updated Electric Energy Charge for Financial Year (FY) 2025

31 May 2024

Dear George,

Aurizon Network's 2017 Access Undertaking (**UT5**) allows for the recovery of electric energy costs and Variable Connection Charges through the electric energy charge component of the approved Reference Tariffs (**EC Tariff**).

This submission seeks the approval of the Queensland Competition Authority (**QCA**) for a new EC Tariff for FY2025, reflecting:

- Aurizon Network's forecast electric energy costs for FY2025;
- an adjustment to reconcile any over or under recovery of actual electric energy costs in a prior year; and
- FY2025 volume forecasts approved by the QCA in their Decision on the FY2025 Annual Review of Reference Tariff (**FY25 ARRT**).¹

Having regard to the above, Aurizon Network proposes a revised EC Tariff for FY2025 of \$1.24 per thousand electric Gross Tonne Kilometres (**eGTK'000**).

Background

Aurizon is one of Queensland's largest individual energy consumers and procures electricity through an Electricity Supply Agreement (**ESA**) with CleanCo Queensland. This ESA provides for a 'progressive purchasing' arrangement, whereby electricity is procured in a series of block purchases, with the timing of those purchases guided by the recommendations from electricity market expert Edge2020.

Aurizon Network's FY25 ARRT submission included an indicative EC Tariff of \$1.66 per eGTK'000; a value consistent with the approved FY2024 electric energy charge, but noting that "Aurizon Network intends to submit an update to the EC charge in line with UT5."

¹ QCA (2024), Decision Notice, Annual review of reference tariffs, 2024–25, 23 May 2024. Accessed on 27 May 2024, and available at: <https://www.qca.org.au/wp-content/uploads/2024/05/aurizon-network-review-of-reference-tariffs-2024-25-decision-notice-final.pdf>

In accordance with Schedule F, clause 2.2(a) of UT5, Aurizon Network submits a new FY2025 EC Tariff for QCA approval. The proposed EC Tariff also accounts for an expected over-recovery of electric energy charges based on a forecast to June 2024.

Electricity Market Commentary

Electricity market expert Edge2020 provides Aurizon Network with ongoing strategic advice relating to the execution, management and pricing of electricity supply agreements. Aurizon Network continues to purchase electricity under the terms of its ESA, having regard to the advice received from Edge2020.

On 18 April 2024, the Australian Energy Regulator's (**AER**) released its Wholesale Markets Quarterly Report for Q1 (January to March) 2024. The report cites seasonal changes and weather-related events as contributing towards increased wholesale electricity and gas prices compared with the previous quarter.

In relation to Queensland specifically:

- weather related high price events drove up quarterly average prices as hot and humid weather (leading to higher air conditioning requirements) drove a material increase in demand from the last week of December through to February 2024;
- maximum daily demand exceeded the previous record three times during the quarter; and
- high electricity demand saw Queensland become a net importer of 58 GWh during the quarter. Queensland is typically a net exporter, and along with Victoria, has historically provided surplus baseload energy to NSW and South Australia.

Forward base futures prices illustrate price expectations for electricity spot prices in future periods. In relation to forward prices, the AER notes that:

- weather conditions drove Queensland's third highest Q1 final base future price. Outcomes for Q1 2024, were much higher than other quarters during the year. Q1 2024 outcomes are also reflected in increased Q1 2025 prices;
- While southern regions often experience higher prices during winter, Queensland expects higher prices in summer due to its warmer climate and lower need for space heating in winter; and
- Overall, forward prices for 2024 and 2025 are below forward prices seen in 2022 but remain higher than 2020 and 2021. While this suggests expectations for future prices continue to shift downwards, contract markets remain sensitive to market conditions.²

At the time of writing this submission, and in accordance with the advice received from Edge2020, Aurizon Network has purchased 82% of the total electric energy needs for FY2025.

The proposed EC Tariff reflects the combination of actual electricity purchases made to date, and the projected costs of procuring electricity from the NEM for the remainder of FY2025

² AER (2024), Wholesale markets quarterly Q1 2024 January – March, April 2024, pages 4 – 16.

based on the prevailing forward prices as at 27 May 2024. Noting the above observations from the AER, further purchases will be made as the market recalibrates.

Composition of the FY2025 EC Tariff

The EC Tariff is comprised of several components, namely:

- Consumption and Supply charges, which include:
 - Consumption charges (Peak / Off-Peak / Flat rates per MWh), based on the forward wholesale market and subject to oversight by the Australian Energy Regulator (**AER**);
 - Market Charges, set by Australian Energy Market Operator (**AEMO**);
 - Fixed Service/Metering Charges, set by the retailer and metering provider;
- Environmental Compliance charges, which are a function of Australian Government (Clean Energy Regulator) targets and the associated environmental certificates, with the price of those certificates determined by the wholesale market; and
- Variable Connection Charge, which are regulated by the AER.

While the prices associated with each cost component of the EC Tariff aren't the direct result of regulatory determinations, it should be noted that each component is subject to oversight (and if required, intervention) by regulatory bodies, including the AER, Australian Energy Market Operator (**AEMO**) and Australian Energy Market Commission (**AEMC**).

Aurizon Network has summarised the calculation approach for each of the main cost categories.

Consumption and Supply Charges

The forecast electricity consumption and supply charges for FY2025 reflect the:

- actual cost of Aurizon Network's electricity purchases for FY2025 YTD, representing 82% of the total electric energy needs for the year; and
- forecast cost of procuring the remaining electric energy requirement from the NEM. Using data sourced on 27 May 2024³ Aurizon Network has calculated an average price for FY2025, having regard to the wholesale prices prevailing for each quarter. This equates to an average price of \$101.19 per MWh as outlined in Table 1 below.

Table 1 Average Wholesale Price as at 27 May 2024

Average Wholesale Price	\$ per MWh
Q1 – July to Sept	105.91
Q2 – October to December	89.84
Q3 – January to March	113.57
Q4 – April to June	95.44
Average Price – FY2025	101.19

³ Australian Securities Exchange Ltd 2004, *ASX Energy website*, Queensland FY25 Settled Price. Accessed 27 May 2024, and available at: https://www.asxenergy.com.au/futures_au

Environmental Compliance Charges, AEMO Market and Other Charges

Aurizon Network's forecast of environmental compliance charges, market and administration charges is based on the most recently billed rates, escalated at the Reset Inflation Rate of 2.90%

Variable Connection Charges

Aurizon Network has updated the variable connection charges to reflect the latest notification of prescribed transmission prices for FY2025, which were issued by the Transmission Network Service Providers (TNSP) on 15 March 2024 (Powerlink) and 10 May 2024 (Ergon).

Prior year Adjustment

The prior year adjustment reflects the difference between the EC access charges paid by access holders and the actual electric energy costs incurred by Aurizon Network. Aurizon Network has estimated a cumulative over-recovery (approximately \$1.8 million) of the electric energy charges in prior years and has incorporated this adjustment within the proposed cost base for the FY2025 EC Tariff.

Proposed FY2025 EC Tariff

Aurizon Network proposes a reduction in forecast EC Tariff from \$1.66 to \$1.24 (\$ per eGTK'000).

Table 2 sets out each of the components used to set the proposed EC Tariff in accordance with UT5, Schedule F, clause 2.2. For clarity, the electric gross tonne kilometres (eGTKs) used to derive the EC Tariff are consistent with the FY2025 volume forecasts approved by the QCA on 23 May 2024.

Table 2 Proposed EC Tariff for FY2025

EC Cost Component	\$m	\$ per eGTK'000
Forecast eGTK'000 (Blackwater and Goonyella)		58,080,349
Consumption and Supply	56.2	0.97
Environmental Compliance Charge	7.8	0.13
Variable Connection Charge	8.2	0.14
EC Cost	72.1	
Proposed EC Tariff for FY2025 (\$ per eGTK'000)		1.24

Concluding Remarks

Aurizon Network will continue to procure the remaining electricity requirement for FY2025 diligently, having regard to the advice of Edge2020, with the objective of obtaining favourable outcomes for its customers. To the extent that any such purchases result in a material difference from the forecasts relied upon in this submission, Aurizon Network will, if appropriate, seek to provide an update to the QCA prior to their approval of this FY2025 EC Tariff submission.

In the event that there are any movements in the spot market resulting in material changes in electricity costs, Aurizon Network may (after engagement with customers) look to submit a Draft Amending Access Undertaking (DAAU) to the QCA for approval later in FY2025 to address any material differences in electricity costs.

Should you have any questions or queries, please direct them in the first instance to Michael Bray by email: Michael.Bray@aurizon.com.au

Sincerely,



Jon Windle
Manager Regulation