



**Decision**

**QR's Draft Amending  
Access Undertaking**

**Coal System Maintenance Costs**

**November 2007**

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**PREAMBLE**

On 3 May 2007, Queensland Rail (QR) sought approval to increase its reference tariffs in the central Queensland coal region on the basis that the maintenance cost forecasts incorporated into the approved reference tariffs were flawed. In particular, QR argued that the maintenance costs it had previously sought approval to have incorporated into reference tariffs, and which the Authority had approved, grossly underestimated its maintenance expenditures observed to date and expected in the future. QR claimed that it could not continue to absorb the resulting losses without compromising its underlying commercial position.

In September 2007, the Authority released a draft decision that proposed to accept most, but not all, of QR's claims for increased maintenance expenditure. In particular, the Authority did not accept QR's revised allowance for ballast undercutting – and therefore required QR to revise its ballast claim and recalculate reference tariffs accordingly. In reaching this decision, the Authority had particular regard for the fact that, in general, stakeholders reluctantly supported an increase in maintenance cost to the extent the Authority considered the resulting costs were reasonable.

Stakeholders generally accepted that the draft decision provided a 'pragmatic solution' to resolve this matter in a timely manner. At the same time, they expressed concern about QR's approach to amending the undertaking in general and about QR's lack of transparency and consultation in developing and submitting its proposed amendments in this case.

The Authority considers it appropriate that the specific proposal raised by stakeholders should be considered further in the development of the next access undertaking and not in this limited re-opening of the current undertaking.

QR did not oppose the Authority's proposals while the Authority's technical advisor did not alter his opinion in any substantive way following his consideration of stakeholder submissions.

Accordingly, the Authority considers that nothing has been raised which convinces it to alter its draft decision.

In making its decision at this time, the Authority is satisfied that the efficient cost of maintenance has increased since QR originally developed its maintenance forecasts and, following full consideration of QR's initial submission, stakeholders submissions and the advice of its technical consultant, the Authority is willing to approve revised maintenance costs of \$98.2 million in 2007-08 and \$102.5 million in 2008-09. This would provide QR with an additional \$38.6 million for maintenance for the remainder of the regulatory period and is around \$2.5 million less than QR's proposal.

If QR were to submit a new draft amending access undertaking based on these amended maintenance cost estimates, with corresponding reference tariffs backdated to 1 July 2007 then, subject to no new issues being raised by the consultation and consideration process required under the Queensland Competition Authority Act 1997 (the QCA Act), the Authority would currently be minded to approve it.

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## 1. INTRODUCTION

*QR's 2006 access undertaking came into effect on 30 June 2006. It sets out the terms and conditions under which QR will provide access to those parts of its rail infrastructure that are covered by the undertaking. This includes reference tariffs for coal-carrying services in the central Queensland coal region that are based on efficient costs, including maintenance costs.*

*QR has identified that the allowance for maintenance costs incorporated into reference tariffs was significantly below its actual cost of maintenance in 2005-06 and 2006-07 and is expected to remain significantly lower than the actual cost of maintenance for the remainder of the regulatory period.*

*Accordingly, QR has submitted a draft amending access undertaking to the Authority seeking to revise the allowance for maintenance costs for 2007-08 and 2008-09 and to incorporate revised reference tariffs for those years in its access undertaking. In doing so, QR has not sought to recoup any maintenance cost "shortfalls" to date, nor the additional costs of changes in its maintenance practices adopted to maintain service quality given higher throughput.*

*In accordance with the Queensland Competition Authority Act 1997, the Authority must consider a draft amending access undertaking submitted to it for the purpose of amending an approved access undertaking and either approve, or refuse to approve, that draft amending access undertaking.*

### 1.1 Declaration of Third Party Access

In 1998, the use of rail transport infrastructure managed by QR was declared under Part 5 of the *Queensland Competition Authority Act 1997* (the QCA Act), and is therefore subject to the third party access provisions of the QCA Act. These provisions require QR to allow other train operators to use its intrastate rail infrastructure on agreed terms and conditions.

While Part 5 of the QCA Act imposes broad obligations on an access provider, it also provides for the development and the Authority's approval of an access undertaking. An access undertaking sets out the terms and conditions under which QR will provide access to the parts of its rail infrastructure that are covered by the undertaking.

Among other things, the access undertaking includes provisions that define the characteristics of the reference train and the associated reference tariffs for coal-carrying services on the central Queensland coal region (CQCR).

The reference tariffs consist of a number of parts, including an incremental maintenance charge (AT<sub>1</sub>), capacity and allocative components (AT<sub>2</sub> - AT<sub>4</sub>) and an electric access tariff (AT<sub>5</sub>). The tariffs are derived to allow QR to recover the efficient costs of providing network services, including efficient maintenance costs.

#### *QR's Approved Access Undertakings*

The Authority approved QR's first access undertaking in December 2001, the 2001 access undertaking, and then a replacement to this in June 2006, the 2006 access undertaking. As approved, each undertaking included reference tariffs that incorporated estimates of efficient maintenance costs.

- For the 2001 access undertaking, the estimate of efficient maintenance costs for each system was determined following a detailed analysis of maintenance costs for QR and overseas rail systems. The estimates included an efficiency factor to take account of

QR's operational inefficiencies at that time and anticipated productivity improvements over the regulatory period.

- For the 2006 access undertaking, the Authority approved the estimate of maintenance costs submitted by QR but made adjustments to exclude costs attributable to non-coal traffic and to account for the approved volume forecasts. The estimates accepted by the Authority had no further efficiency factor built in. Apart from these adjustments, the Authority accepted QR's proposed maintenance allowance because it was reasonable in comparison to the approved allowance in earlier years.

In June 2007, the Authority approved a new regulatory regime for coal-carrying services in the CQCR. The new regime, and the amended access undertaking which put it into effect, provided for a hybrid revenue cap for coal-carrying services based on approved system allowable revenues, which in turn were constructed from estimates of efficient costs. Nevertheless, reference tariffs remain an important feature of the access undertaking to the extent that QR is required to apply a consistent access charge to all train services operating between a nominated cluster of origins and destinations, subject to differences in cost or risk, and to the extent that approved reference tariff components are passed through to end users within the above-rail rail haulage contract.

QR's current access undertaking will apply until 30 June 2009. However, aspects of it can be amended via provisions in the undertaking, or by QR or the Authority under the amending arrangements contained in the QCA Act.

In particular, s 142 of the QCA Act allows QR to voluntarily submit a draft amending access undertaking (DAAU) to amend its approved access undertaking at anytime. Under these arrangements, the Authority is required to consider a DAAU given to it by QR and either approve, or refuse to approve, that DAAU.

## 1.2 QR's Draft Amending Access Undertaking

On 3 May 2007, QR submitted a DAAU to the Authority seeking to revise the maintenance cost forecasts for 2007-08 and 2008-09 and incorporate revised reference tariffs for those years.

In doing so, QR has argued that the maintenance cost forecasts incorporated into the 2006 access undertaking's reference tariffs were flawed – and grossly underestimated maintenance expenditures observed to date.

QR's UT2 maintenance allowance is significantly below the actual cost of maintenance in 2005-06 and is expected to remain significantly lower than the actual cost of maintenance throughout the period of UT2 ... By the end of 2006-07, QR will have already incurred maintenance costs estimated to be approximately \$52 million higher than its maintenance allowance in the first two years of UT2 and will expect to incur similar losses in the last two years of UT2 if revenues do not increase. (QR, sub. no. 1:7)

QR claimed that it cannot continue to absorb losses of this magnitude without compromising its underlying commercial position (QR, sub. no. 1:4).

QR constructed a revised provision for maintenance costs for 2007-08 and 2008-09 that is based on an 'efficient base' estimate of maintenance costs derived from the maintenance costs incorporated into reference tariffs by the Authority as part of QR's 2001 access undertaking. QR used the 2004-05 maintenance cost estimates as its base cost and adjusts this to account for volume changes, increased input costs and the increased cost of ballast undercutting. QR did not seek to recover any maintenance cost "shortfalls" for 2005-06 and 2006-07, nor the additional costs of changes in its maintenance practices adopted to maintain service quality in the face of higher throughput.

QR used the revised estimate of efficient maintenance costs to derive new reference tariffs for 2007-08 and 2008-09. In determining its revised reference tariffs, QR increased the incremental maintenance component of its reference tariffs (AT<sub>1</sub>) by 10% to maintain the integrity of its past modelling approach. On this basis, QR will recover the majority of the increase in maintenance costs, non-electric, through the AT<sub>2-4</sub> reference tariff components. The increase associated with maintenance costs for electric assets has been recovered entirely through the electric access tariff (AT<sub>5</sub>) in the Blackwater and Goonyella systems.

QR has also sought to amend a typographical error in Schedule F of its undertaking with respect to the AT<sub>5</sub> (electric access) reference tariff component in Central Goonyella.

### **1.3 The Authority's Assessment Process**

In May 2007, the Authority published QR's proposal, invited submissions on it and received two submissions – from Pacific National (PN) and the Queensland Resources Council (QRC).

In September 2007, the Authority released a draft decision to not approve QR's proposal. However, the draft decision indicated that the Authority accepted most, but not all, of QR's claims for increased maintenance expenditure. The draft decision also indicated how QR should amend its maintenance claim for the Authority to approve it.

The Authority received 4 submissions in response to the draft decision – from Asciano (formerly PN), the Australian Rail Track Corporation (ARTC), QR and the QRC.

In assessing QR's claims, the Authority reviewed QR's proposal and its supporting documents, including confidential information on the key cost drivers of maintenance activities, and had regard for the matters raised by stakeholders in their submissions in response to QR's proposal and to the Authority's draft decision.

The Authority also engaged independent consultants, GHD Pty Ltd (GHD), to provide independent advice on certain technical aspects of QR's proposal. GHD prepared a draft report, which the Authority published on its website with its draft decision. On the basis of the issues raised in stakeholders' submissions, GHD has prepared a final report which is available on the Authority's website.

### **1.4 The Authority's Considerations**

The QCA Act requires the Authority to consider a DAAU submitted to it for the purpose of amending an approved access undertaking having regard s 138(2) of the QCA Act. Under s 138(2) on the QCA Act, the Authority may approve a draft access undertaking only if it considers it appropriate to do so having regard to:

- the legitimate business interests of the owner or operator of the service;
- the public interest, including the public interest in having competition in markets;
- the interests of people who may seek access to the service; and
- any other matter the Authority considers relevant.

The Authority's assessment of QR's proposal reflects the information that QR has provided and the circumstances under which it submitted its proposal – including QR's commitment to undertake a detailed review of its maintenance costs prior to submitting a replacement draft access undertaking in 2008.

In the Authority's view, it is inappropriate for QR to seek to continually amend its approved access arrangements, although it recognises that there may be circumstances that justify amendments to an undertaking part-way through its term. Under the QCA Act, QR is entitled to submit a voluntary DAAU at any time – and the Authority must consider it on its merits, having regard to the matters mentioned in s 138 of the QCA Act.

Regulatory certainty and stability are important to all parties affected by an access undertaking, including QR Network Access, QR National, other access holders, access seekers and end customers. A key reason for having an access undertaking is to provide all stakeholders with stability and certainty in their dealings and negotiations with one another during the period of the undertaking. Uncertainty will be introduced if the approved arrangements are continually subject to amendments, particularly unexpected amendments.

Such uncertainty could discourage new entrants into the rail haulage markets as well as new access seekers. The situation is exacerbated by the fact that, under the current QCA Act, only QR has the right to seek changes to agreed arrangements. The fact that access holders, access seekers and end users have no similar right to seek changes means the Authority is cautious about accepting amendments from QR without having regard to the wider operation of the access undertaking to date.

Given the time and effort that all parties put into the initial undertaking process, and the need to ensure that they address all issues openly with each other prior to final decisions being taken, a fundamental and substantial change in circumstances is likely to be required to justify compromising regulatory certainty by amending the undertaking part-way through its term.

Furthermore, the views of all stakeholders adversely affected by any such proposals will be particularly important.

In respect of this particular DAAU, the Authority accepts that efficient cost of maintenance has increased since QR originally developed its maintenance forecasts and that this increase has substantial implications for QR's commercial interests and was a response to changes in circumstances that were not entirely within QR's control. It also notes that it is in the interests of service users, coal producers and the general public that QR continues to provide sufficient rail infrastructure capacity to meet the demands of coal producers and exporters. Indeed, the Authority notes that, despite some concerns, stakeholders supported finding a 'pragmatic solution' to resolve these matters in a timely manner.

The Authority notes stakeholders' recommendation that its assessment of QR's claim should focus on efficient costs. While a detailed 'bottom up' evaluation of all factors making up QR's maintenance claim might provide greater insights, the Authority considers that it would be inappropriate to undertake such a review at this time. Instead, the Authority has used a 'top down' approach that focuses on the reasonableness of the inputs and quantum of costs and how these costs are then translated into the system allowable revenues and reference tariffs.

The Authority considers that this approach provides a reasonable and fair interim solution, pending a future full-scale review of QR's maintenance allowance. The Authority notes that QR's current claims and the Authority's considerations of them should not form the basis for future evaluations – but should be recognised as an interim one-off solution.

### *QR's Approach to Consultation with Stakeholders*

The Authority shares stakeholders' concerns regarding the apparent lack of consultation undertaken by QR before submitting its proposal – and notes industry's preference for 'genuine engagement' by QR with its customers and stakeholders.

The Authority sees significant benefits in QR seeking to engage with stakeholders in developing future proposals and, indeed, considers that, in many respects, adopting such an approach is a matter of common sense given that the Authority must consider any submissions received from such stakeholders in determining whether to approve such proposals. By effectively engaging with its stakeholders, QR can bring together different views on relevant matters to identify key priorities and to assist in resolving issues before these matters are brought to the Authority. It also has an important role in improving the legitimacy of QR's proposals – to secure and maintain support for, and confidence in, the process from all involved. That said, the Authority can only encourage such engagement and cannot require that QR engages with its stakeholders when developing its proposals.

## **1.5 Written Notice of the Authority's Decision**

This decision constitutes a written notice for the purposes of s 142(3) of the QCA Act.

It sets out the Authority's reasons for refusing to approve QR's proposed arrangements and the way in which the Authority considers it appropriate to amend the proposal.

## 2. ASSESSMENT OF QR'S PROPOSAL – MAINTENANCE CLAIM

QR has proposed a revised estimate of maintenance costs that combines a re-estimated allowance for ballast undercutting with a roll-forward for other tasks for each coal system in the central Queensland coal region. The estimate of non-ballast maintenance costs has been calculated by QR escalating maintenance costs that had been deemed efficient by the Authority in the past to reflect changes in QR's operating environment – i.e. it does not necessarily reflect actual information on the cost, type and frequency of maintenance activities performed by QR at this time.

The Authority assessed QR's proposal having regard to the views presented by stakeholders in submissions, technical advice it has received from GHD and its own analysis.

The Authority's assessment has been based on the criterion of efficient costs – that is, the Authority considers that QR should only be compensated for costs and practices to the extent that they are efficient. However, given the circumstances under which QR submitted its proposal and the type of information QR provided, the Authority considers that, at this time, it is most appropriate to adopt a broad approach to assessing QR's proposal, pending an extensive review in the future. On this basis, the Authority focused on the reasonableness of the inputs and quantum of costs and how these costs are then translated into reference tariffs.

The Authority adopted this approach in this instance with the view to seeking a reasonable and fair *interim* solution, pending a full-scale review of QR's maintenance costs as part of the next access undertaking.

The Authority considers that QR's proposed maintenance costs for tasks other than ballast undercutting are broadly consistent with other industry benchmarks, but it does not accept QR's revised rate for ballast undercutting and accordingly requires QR to adjust this element of its claim.

### 2.1 QR's Maintenance Claim

#### *QR's Proposal*

QR proposed revised maintenance costs for 2007-08 and 2008-09 based on maintenance costs that were approved by the Authority in 2001 that are then adjusted for increased volume forecasts, input cost escalations and a systemic change to the cost of ballast undercutting.

Using this approach QR proposed maintenance cost forecasts for 2007-08 and 2008-09 that are around \$20 million greater than those approved by the Authority in June 2006 – but are nevertheless around \$12 million below QR's revised forecasts based on its updated Network Maintenance Plan (Table 1).

**Table 1: Proposed Maintenance Allowance: 2007-08 and 2008-09 (\$million)**

	2007-08	2008-09
2007 Network Maintenance Plan	111.4	115.9
<b>Proposed Maintenance Costs</b>	<b>99.5</b>	<b>103.8</b>
2006 Access Undertaking	77.9	84.2

QR, sub. no. 1:32

While QR did not undertake an extensive review of its maintenance activities, it expects that 'a detailed review of its maintenance costs will show that the true 'efficient cost' of operation is close to the latest 2007 Network Maintenance Plan (NMP) estimate' (QR, sub. no. 1:5).

QR did not seek to recover the cost "shortfalls" experienced in 2006-06 and 2006-07 nor the additional costs relating to changed maintenance practices.<sup>1</sup>

#### Estimate Revised 'Efficient Base' Maintenance Costs

QR used the maintenance costs incorporated into 2004-05 reference tariffs as its base cost. These maintenance costs were approved by the Authority as part of its consideration and approval of QR's 2001 access undertaking. QR indicated that its base cost includes the 15% efficiency factor which was built into the maintenance cost forecasts over the 2001 regulatory period. QR argued that, as a result, this provides a 'benchmark for the efficient cost of maintaining the network as at 2004-05, given the 2004-05 forecast tonnage profile' (QR, sub. no. 1:8).

QR's efficient base maintenance costs exclude the cost of ballast undercutting from 'other tasks' (see below).

#### Roll Forward QR's Base Cost

QR adjusted, or rolled forward, the efficient base cost for 'other tasks' to take account of variations in volumes between the previous and current regulatory period and input cost escalations in excess of CPI.

To adjust the base cost for variations in volumes, QR used the relationship between gross tonne kilometres (gtks) and maintenance costs that was specified in the Bovis Lend Lease Review (December 2004) and subsequently used by the Authority in its December 2005 Decision. That is, to increase maintenance costs by 40% of the proportional increase in volumes. For example, if volumes increase by 10%, maintenance costs would increase by 4%.

QR argued that this approach is 'broadly consistent with international rail experience' but that it expects that this assumption will be reviewed as part of a broader review of its maintenance costs as part of its next access undertaking (QR, sub. no. 1:9).

QR excluded the gtks associated with the Hail Creek and Rolleston spur in Goonyella and Blackwater respectively to make this adjustment for volume variations. QR argued that the methodology is not applicable to these hauls – i.e. these hauls were not included in the 2004-05 forecast and were covered by a specific maintenance allowance in the 2006 access undertaking (QR, sub. no. 1:10).

QR then adjusted these estimates to account for the higher escalation of input costs that have resulted from the export coal boom and the expansion in mining activity in the CQCR. QR argued that, at the time the approved (2006 access undertaking) maintenance costs were developed, the full extent of the inflationary pressures now being experienced was not 'reasonably foreseeable' – so QR's key maintenance cost inputs have increased by more than what was anticipated at that time (QR, sub. no. 1:11).

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<sup>1</sup> Since 2004-05, QR has implemented a number of changes to the way it undertakes certain key maintenance activities 'to maintain service quality in the face of a higher than anticipated level of track defects and higher anticipated throughput'. QR argues that neither the full scope, nor cost, of these changed maintenance practices were fully anticipated when the 2006 forecasts were being developed (QR, sub. no. 1:21).

QR adjusted the nominal maintenance cost estimate upwards by a further 10% to take into account input cost escalation above CPI growth in the CQCR between 2003-04 and 2005-06. This factor is based on a study commissioned by QR which was prepared by Booz Allen Hamilton (as seen in Appendix 1 of QR's submission). QR claimed that its proposed 10% increase may be 'conservative' given the results of another report prepared for QR on increases in wage costs in the mining sector and other reported increases in building cost indices (QR, sub. no. 1:13).<sup>2</sup>

At the same time, QR assumed that input cost escalation for the remainder of the current regulatory period will be in line with CPI growth. QR argued that this position 'is considered to be conservative' given the pressure on input costs are expected to continue for the remainder of the regulatory period (QR, sub. no. 1:13).

#### Ballast Undercutting Costs

Ballast undercutting accounted for almost 25% of QR's maintenance spend in 2005-06 and is anticipated to remain the dominant individual maintenance activity for the remainder of the regulatory period (QR, sub. no. 1:14).

QR proposed a revised ballast undercutting allowance in 2007-08 and 2008-09. This revised allowance was based on a revised unit rate per kilometre for ballast undercutting which was multiplied by the average number of kilometres of ballast undercutting forecast for the entire regulatory period. QR argues that this is a 'more equitable alternative' than using the approved activity for those years, as using the forecast activity will bias the cost of maintenance in any one individual system (QR, sub. no. 1:15).

QR proposed a step increase in the unit rate of ballast undercutting from \$115,000 per km in December 2003 dollar terms to \$141,894 per km in June 2006 dollar terms. From June 2006 to the end of the undertaking, QR escalated this unit rate by assumed CPI growth of 2.5%.

QR's revised ballast undercutting allowance was then added to its revised efficient maintenance allowance which QR then presented as its revised maintenance allowance proposal for 2007-08 and 2008-09.

#### Quantum of Costs

In summary, QR has proposed a revised maintenance allowance for 2007-08 and 2008-09 – the allowance for 2005-06 and 2006-07 remains unchanged (Table 2).

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<sup>2</sup> A report undertaken for QR by Hill and Associates indicated that the average wage costs in the mining sector (including on-costs and inducements) increased by between 35% and 40% in the 5 year period to 2005-06. Brisbane's building construction index rose by an annual average of 10 percentage points per annum above CPI growth between June 2003 and June 2006, resulting in the index being over 40% higher than the CPI index at the end of the period (QR, sub. no. 1:13).

**Table 2: Proposed Revised Maintenance Costs (Nominal end of year \$million)**

<i>Nominal end of year \$million</i>	<i>2007-08</i>		<i>2008-09</i>	
	<i>Maintenance Allocation (excl Ballast)</i>	<i>Ballast Undercutting</i>	<i>Maintenance Allocation (excl Ballast)</i>	<i>Ballast Undercutting</i>
Blackwater (excl Rolleston spur)	33.9	5.9	35.3	6.0
Goonyella (excl Hail Creek spur)	33.5	8.5	34.5	8.7
Moura	7.8	0.0	8.7	0.0
Newlands	6.6	1.2	6.8	1.2
Rolleston spur	0.9		1.5	
Hail Creek spur non electric	1.1		1.0	
Hail Creek spur electric	0.2		0.2	
<b>Total</b>	<b>83.9</b>	<b>15.5</b>	<b>87.9</b>	<b>15.9</b>

QR, sub. no. 1:14,16

### *Draft Decision*

In its draft decision, the Authority considered the reasonableness of QR's proposed costs using a 'top down' approach. In doing so, the Authority accepted that a detailed 'bottom up' evaluation of all factors making up QR's maintenance claim might provide greater insights into efficient costs, but that it would be inappropriate to undertake such a review at this time.

The Authority accepted most of QR's proposed maintenance costs but required QR to adjust its ballast undercutting claim. The Authority considered this to be a reasonable interim solution, pending a full-scale review of QR's maintenance allowance in the next undertaking. In particular, the Authority:

- accepted QR's proposed maintenance costs for items other than ballast undercutting on the basis that the costs were broadly consistent with (albeit somewhat higher than) other relevant industry benchmarks; and
- did not accept QR's revised allowance for ballast undercutting as the Authority was not satisfied that QR has acted prudently in dealing with the coal fouling issue. Therefore, the Authority required that QR revises its ballast claim so that it would provide QR with the quantum of ballast undercutting implied by the 2006 access undertaking, but also take into account the subsequent increased cost (unit rates) of undertaking that task. This provided for a total ballast cost allowance that was less than QR's proposal by around \$1.3 million each year.

On this basis, the Authority proposed a revised maintenance cost provision (including ballast undercutting) of \$98.2 million in 2007-08 and \$102.5 million in 2008-09.

### *Stakeholders' Comments on the Draft Decision*

Stakeholders' responses to the Authority's draft decision were mixed.

QR accepted the draft decision but did not accept the Authority's concerns relating to QR's approach to dealing with the coal fouling issue (QR, sub. no. 6:2). The ARTC considered that QR's claims for an increased maintenance allowance were 'reasonable' noting recent cost increases for some construction, labour and materials to be running in excess of inflation (ARTC, sub. no. 5:1).

While the QRC and Asciano both suggested that the draft decision represented a pragmatic solution to resolve these matters (Asciano, sub. no. 4:1, QRC, sub. no 7:5), their submissions raised a number of concerns with QR's approach and the Authority's assessment.

The ARTC also provided more recent information on unit costs for maintenance activities on its interstate network – which were higher than those used for benchmarking purposes in GHD's draft report (ARTC, sub. no. 5:2).<sup>3</sup>

#### Introducing an Appropriate 'x-factor' Adjustment

The QRC and Asciano recommended that the Authority should explore whether it is appropriate to introduce an x-factor adjustment in accordance with the recommendation of the Authority's technical advisor (of between 0.5% to 1% per annum) (Asciano, sub. no. 4:1, QRC, sub. no 7:8).

In effect, the adoption of the recommended x-factor would recognise the fundamental principles of efficient costs and the purposes of the incentive regime. (QRC, sub. no 7:9)

It was noted that, while it may have previously been appropriate to set an x-factor of zero (i.e. when QR's maintenance costs were found to include substantial reductions from the 2001 regulatory period and appropriate saving during the 2006 regulatory period), this is now no longer the case. In particular, QR is now proposing costs based on the 2001 access undertaking and not on the 2006 access undertaking.

#### Ballast Undercutting Costs

QR did not accept the Authority's concerns relating to QR's approach to dealing with the coal fouling issue. Rather, QR noted that it has spent 'considerable resources researching this issue' which have lead to a number of changes to coal handling arrangements that seek to address the issue – and that increased system throughput (including heavier wagon loads and faster loading and unloading times) has caused the increase in coal fouling. QR suggests that this was a prudent approach, given its assessment of customer benefits, the cost of ballast undercutting and the costs and effectiveness of alternatives strategies.

The customer benefits associated with higher throughput resulting from the key factors that contribute to coal contamination (specifically, heavier wagon loads and faster loading and unloading times) have significantly outweighed the additional below rail cost burden associated with the increase in ballast undercutting. (QR, sub. no. 6:2).

At the same time, QR noted that the importance of it being able to demonstrate to the Authority and to stakeholders that it has acted reasonably in handling the coal fouling issue and has appropriate measures in place to mitigate the impact of coal fouling on its rail operations (QR, sub. no. 6:2).

The QRC noted the 'high degree of apprehension' within industry regarding the apparent severity of the ballast contamination problem (in particular the Goonyella system) and its persistence, despite claimed action by QR Network Access. A key concern was that, unless resolved, this issue is likely to impact as a capacity constraint (QRC, sub. no. 7:14). A related matter was the extent to which inefficient maintenance practices impact on the condition of the infrastructure. This is particularly important in relation to the condition of the below-rail ballast – and, to this end, the QRC supported the Authority undertaking an independent review of the condition of the ballast in the CQCR, with the Goonyella system as a priority (QRC, sub. no. 7:12).

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<sup>3</sup> On that basis, GHD updated its draft benchmarking analysis to account for this additional information (<http://www.qca.org.au/rail/2006auammend/coalssystemcosts.php>).

### Costing Manual

The QRC and Asciano questioned the effectiveness of QR's costing manual given the size of the accounting error and the fact that it appeared to have gone unnoticed for so long (Asciano, sub. no. 4:2, QRC, sub. no 7:14).

If the methodology documented in the Costing Manual was incapable of highlighting such a significant error, there appears to be little value in the document as it stands. Asciano has long considered the Costing Manual to be of limited value and it was suggested that it has out-lived any usefulness that it might initially have had. (Asciano, sub. no. 4: 2).

The QRC argued that the costing manual should be assessed to identify whether it provides any value to the maintenance cost process, or whether it simply allocates actual costs without seeking to make any link to efficient costs (QRC, sub. no 7:14). Further, QRC recommended that scope and quantity reporting of maintenance activities be implemented as a priority (QRC, sub. no. 7:15).

### Transparency and Accountability

The QRC argued that QR's credibility has suffered in this process – not in the least because of the size of the error and the delay in QR reporting and responding to it, but also because QR failed to consult with industry to resolve it. The QRC also noted ongoing concerns regarding QR's maintenance practices and how they impact on the condition of the network. Reflecting this, the QRC argued that it is important that QR demonstrate that it is maintaining its infrastructure to 'the standard of a professional asset manager' (QRC, sub. no. 7:13). The QRC considered that improving the transparency and accountability within the regulatory regime was a key issue.

The QRC recommended that the Authority require QR to report publicly and to the Authority on the scope and quantity of maintenance activities, compared to its approved forecasts.

Industry has been a strong advocate for implementing robust and transparent reporting arrangements in regard to performance of maintenance tasks against plans. This comes from industry's understanding of the need to adequately maintain complex infrastructure assets and the consequences of infrastructure failure due to inadequate maintenance programs ... the tracking of actual compared to forecast would provide some confidence to industry that QRNA is adequately maintaining its infrastructure. (QRC, sub. no. 7:13-14).

The QRC argued that the current regulatory and public reporting processes encourage QR to seek to reduce the actual quantity of maintenance activities to satisfy a budget constraint, rather than meeting a target set of stated maintenance tasks at minimum cost (QRC, sub. no 7:9).

### *Authority's Analysis and Final Decision*

Despite stakeholders' concerns about certain aspects of its draft decision, and the Authority's own concerns about the rigour of QR's analysis, the Authority remains satisfied that QR's revised allowance for maintenance costs (excluding ballast undercutting) are similar to, albeit somewhat higher than, relevant industry benchmarks. Accordingly, the Authority reaffirms its decision to accept QR's proposed maintenance costs, excluding ballast undercutting. In doing so, the Authority:

- is satisfied that QR has appropriately calculated revised 'efficient base' maintenance costs. In this regard, the Authority accepts that it is reasonable, albeit not ideal, to adopt the 2004-05 estimate (which is based on the estimates approved in 2001) as the base;
- is satisfied that the revised 'efficient base' maintenance cost has appropriately taken into account non-coal traffics and the impacts of these on the proposed costs;

- accepts that QR's proposal to increase costs by 40% of the proportional increase in volume is broadly consistent with the approach adopted previously – but at the same time notes that this may overestimate any underlying increase in costs, although the extent to which it may do so is not clear; and
- notes that QR has relied on, and correctly applied, the cost index prepared by its consultant – and in doing so has appeared to choose a somewhat 'conservative' estimate of broad cost increases compared with QR's other independent report and other reported cost increases.

#### Introducing an Appropriate 'x-factor' Adjustment

The Authority notes stakeholders' suggestions that it may be appropriate to introduce an 'x-factor' adjustment to account for, among other things, productivity improvements.

The Authority accepts that such adjustments may be appropriate to remove any divergence between existing and efficient practices, to take account of productivity improvements within QR which are greater than productivity improvements in the economy more broadly, or to reflect economies associated with increased output.

However, given the limited scope of this 'top down' review and on the basis of the information before it, the Authority does not propose to require QR to provide for an 'x-factor' adjustment at this time. In this regard, the Authority has accepted that QR's proposed costs are similar to relevant industry benchmarks.

Furthermore, the Authority considers that the detailed review proposed as part of the development of the next undertaking provides the opportunity for the Authority to better inform itself of efficient costs and scope for productivity improvements.

#### Ballast Undercutting Costs

Despite QR's comments regarding the consideration it has given to the coal fouling issue, it is still unclear whether QR has acted prudently in this regard and has the appropriate measures in place to deal with this matter. On this GHD (p. 30) notes:

... QR indicated that many methods to reduce ballast contamination had been tested for their feasibility but as yet no method could provide the benefits necessary to justify altering the current approach. Some methods were apparently shown to be impractical. In fact, QR reports that despite the trialling and partial adoption of some methods the coal fouling problem has increased with the introduction of 104 tonne and 106 tonne (non-Reference) wagons.

Furthermore, QR has provided no quantitative support for its assertions regarding the prudence of its actions to date regarding this issue. Accordingly, on the information before it, the Authority still questions whether QR has done enough in the past to address this issue – and whether, as a result, the current problem is the result of past lack of appropriate action.

Coal fouling is an important issue and, in this regard, the Authority notes that problems associated with coal fouling exist elsewhere, but not to the extent apparent in the CQCR and, in particular, the Goonyella system.

This is of particular concern given that QR has been investigating the causes of coal fouling since the issue was originally raised as part of the development of its 2001 access undertaking, yet this still remains a significant issue. By QR's reckoning, if the issue was resolved today, ballast cleaning would still need to remain in place for 'five to seven years' due to the extent of coal contamination. QR's continuing and escalating costs of addressing coal contamination, as well as environmental and social issues, are likely to fundamentally change the perceived

benefits and costs of QR adopting alternative strategies. This provides further support that QR must, as a matter of some priority, evaluate alternatives to address this issue. On this, the Authority welcomes QR's commitment to work with industry and the Authority to explore this matter further.

In accordance with the draft decision, the Authority requires QR to revise its ballast claim to provide QR with the quantum of ballast undercutting implied by the 2006 access undertaking but at the same time take into account the subsequent increased cost (unit rates) of undertaking that task. In doing so, the Authority:

- does not accept QR's proposal to use the average number of kilometres of ballast undercutting forecast for the entire regulatory period as it is not satisfied that using a revised scope, based on an average, better reflects an *efficient* scope of works – i.e. even though an increase in ballast cleaning may now be necessary given past inaction on this matter, QR has not demonstrated that this is efficient;
- accepts that actual unit costs for ballast undercutting have increased – although the estimate of efficient unit costs will not be known until the full-scale review is undertaken; and
- does not accept QR's claim for increases in unit costs beyond the cost of key inputs included in QR's claim for its other maintenance tasks – as it is not satisfied that QR has demonstrated that the underlying drivers of the increases in the unit costs for ballast are sufficiently different to the drivers for other costs to warrant any further increase.

Accordingly, the Authority has used the scope of ballast undercutting implied by the 2006 access undertaking (Table 3) and a revised ballast undercutting unit rate for 2007-08 and 2008-09 (Table 4).

**Table 3: Scope of Work (Ballast Undercutting) (km)<sup>1</sup>**

	<i>Forecast Scope of Activity</i>		<i>QR Proposal</i>
	<i>2007-08<sup>1</sup></i>	<i>2008-09</i>	
Blackwater	41	26	40
Goonyella	50	75	57
Moura			
Newlands	10	0	8
<b>Total</b>	<b>101</b>	<b>101</b>	<b>104</b>

<sup>1</sup> QR has advised that the forecast scope of work (Goonyella and in total) in its submission (p. 16) was not correct.

**Table 4: Revised Ballast Undercutting Unit Rate (end of year nominal dollars)**

	<i>2007-08</i>	<i>2008-09</i>
QR's proposal	149,078	152,805
Revised required rate	141,367	144,901

Together, the forecast scope of work and a reduced unit cost provides for a total ballast claim that is less than QR's proposal (by around \$1.3 million each year) but is still more than the existing ballast undercutting allowance (Table 5).

**Table 5: Revised Ballast Undercutting Cost (Nominal end of year \$million)**

	2007-08		2008-09	
	<i>Implied revised cost</i>	<i>QR's proposal</i>	<i>Implied revised cost</i>	<i>QR's proposal</i>
Blackwater	5.8	5.9	3.8	6.0
Goonyella	7.1	8.5	10.9	8.7
Moura	0	0	0	0
Newlands	1.4	1.2	0	1.2
<b>Total</b>	<b>14.3</b>	<b>15.5</b>	<b>14.6</b>	<b>15.9</b>

## Revised Maintenance Claim (Including Ballast Undercutting)

The Authority accepts QR's proposed maintenance costs for tasks other than ballast undercutting, but requires QR to adjust its ballast undercutting claim.

On this basis, the Authority would accept a revised maintenance claim (including ballast undercutting) of \$98.2 million in 2007-08 and \$102.5 million in 2008-09 (Table 6). This reduces the additional maintenance allowance provided for (over and above the allowance approved in the 2006 access undertaking) by around 6% in 2007-08 and 7% in 2008-09.

**Table 6: Revised Maintenance Costs: 2007-08 and 2008-09 (\$million)**

	2007-08	2008-09
2007 Network Maintenance Plan	111.4	115.9
QR Proposed Maintenance Costs	99.5	103.8
<b>Revised Costs</b>	<b>98.2</b>	<b>102.5</b>
2006 Access Undertaking	77.9	84.2

The Authority notes that the revised costs are still significantly greater than the maintenance costs included in the 2006 access undertaking – and over the two years provides an additional \$38.6 million to QR.

In addition, the Authority notes that this approach is only an interim solution to allow QR to recover additional maintenance costs at this time. Accordingly, the Authority supports QR's intention to undertake a full review of its maintenance costs for the next undertaking that will seek to identify the 'efficient' cost level for each maintenance activity.

**Decision 1**

**The Authority does not accept QR's maintenance claim.**

**The Authority requires QR to revise its ballast claim to provide for:**

- **the quantum of ballast undercutting implied by the 2006 access undertaking for 2007-08 and 2008-09; and**
- **a revised unit rate which provides only for the input costs increases proposed for other maintenance tasks.**

### Costing Manual

The Authority notes the concerns raised by Asciano and the QRC regarding the utility and/or effectiveness of QR's costing manual – and the extent to which it led, or failed to highlight the accounting errors which QR's proposal refers to.

The Authority accepts that there may be some merit in the concerns expressed regarding the costing manual and associated procedures which warrant further investigation. However, the Authority considers that its decision on this proposed DAAU should not be made conditional upon those concerns being resolved. In large part, this is because QR has not sought to address this issue in this DAAU. Moreover, the costing manual seeks to provide information on the actual costs of QR's below-rail activities and does not address the notion of efficient stand alone costs on the network. On this basis, the costing manual is not directly related to this matter.

### Transparency and Accountability

The Authority notes the QRC's concern regarding the transparency and accountability of QR's maintenance program, and its recommendation that QR be required to report the scope and quantity of maintenance activities (as opposed to detailed costs).

However, the Authority considers that this is an issue better addressed as part of the development of the next undertaking. At the same time, the Authority notes QR's commitment to provide more information regarding its maintenance planning and decision-making, including a credible CQCR Network Maintenance Plan.

### 3. ASSESSMENT OF QR'S PROPOSAL – UNDERTAKING AMENDMENTS

*QR proposed a one-off increase in reference tariffs to take effect from 1 July 2007 in each of the systems to capture the additional revenue required to cover its proposed revised maintenance cost allowance. QR has not proposed equivalent amendments to its approved system allowable revenues.*

*The Authority has sought to ensure that any maintenance claim is appropriately translated into reference tariffs and system allowable revenues – i.e. that the proposed reference tariffs accurately reflect the revised annual revenue requirement based on revised maintenance cost estimates.*

*The Authority has satisfied itself that QR's financial model has generated reference tariffs that reflect QR's maintenance claim and its desire to maintain its past approach to modelling the incremental maintenance charge. However, as the Authority rejected QR's claim for ballast undercutting (see Chapter 2), it does not accept QR's proposed reference tariffs. In addition, the Authority requires QR amend its system allowable revenue included in the access undertaking to reflect the Authority's revised ballast cost provision.*

*QR sought to have the new tariffs approved prior to 1 July 2007, but did not address the situation of what should happen should approval of their requested changes occur after 1 July 2007. To enable QR to obtain the full benefit of maintenance cost increases accepted by the Authority, the Authority requires that QR backdate the amended reference tariffs and the 2007-08 system allowable revenue to 1 July 2007.*

#### 3.1 QR's Revised Reference Tariffs

QR's access undertaking contains reference tariffs for coal-carrying train services on the CQCR. Reference tariffs are calculated in accordance with a set formula and are derived from QR's approved annual revenue requirement and volume forecasts. In particular, Schedule F of QR's access undertaking provides information relating to coal-carrying train services in the CQCR, including:

- the reference tariffs as at 1 July 2005 that are applicable for nominated reference train services on the Blackwater, Goonyella, Moura and Newlands systems;
- the system allowable revenue QR is entitled to earn over the relevant year; and
- the gross tonne kilometres (gtks) for coal services in each system over the relevant year.

##### *QR's Proposal*

QR's proposal provides for a one-off increase in reference tariffs effective from 1 July 2007 in each of the systems to capture the additional revenue required to cover its proposed revised maintenance cost estimates. QR argues that incorporating these higher maintenance costs will increase CQCR reference tariffs by approximately 4.6% (Table 7).

**Table 7: Implied Percentage Change in Average Tariffs**

	<i>% Change in \$/NT</i>
Blackwater	6.4
Goonyella	2.0
Moura	8.1
Newlands	4.9
<b>Total</b>	<b>4.6</b>

*QR, sub. no. 1:17*

Appendix 2 of QR's submission provides a detailed comparison of its proposed revised reference tariffs and the approved reference tariffs (escalated by CPI to July 2007). However, QR has not proposed equivalent amendments to the approved system allowable revenues to take into account the revenues associated with its revised reference tariffs.

#### *Draft Decision*

In its draft decision, the Authority sought to ensure that any maintenance claim is appropriately translated into reference tariffs and system allowable revenues – i.e. that the reference tariffs accurately reflect the revised annual revenue requirement based on a revised maintenance allowance.

On reviewing the detailed financial model QR provided, the Authority was satisfied that the reference tariffs QR proposed for 2007-08 and 2008-09 reflected QR's revised annual revenue requirement based on its revised maintenance cost estimates and its desire to preserve its past approach.

However, as the Authority did not accept QR's proposed maintenance costs in their entirety, the Authority required that QR recalculate the reference tariffs to account for the reduced ballast cost estimates.

#### *Stakeholders' Comments on the Draft Decision*

In response to the draft decision, stakeholders did not comment in detail on QR's proposed approach to modelling – although the QRC argued that more information is required to enable users to evaluate the extent of the cost impact on individual operations.

The draft decision does not provide sufficient information relating to the impact on individual tariff rates, individual building block components of the annual revenue requirement, or the relevant system allowable revenues.

QRC supports any future decisions by the QCA, and future applications by QRNA, clearly outline the impact of decisions, and applications, on these fundamental components of the regulatory regime. QRC considers that this would provide greater transparency as to how particular proposals and decisions impact on individual customers. (QRC, sub. no. 7:15)

#### *Authority's Analysis and Final Decision*

In the absence of substantive stakeholder comments on this issue, the Authority confirms its proposal to require QR to recalculate the reference tariffs to reflect the revised cost of ballast undercutting. In doing so, the Authority notes that:

- QR's current financial model presents the annual revenue requirement for the CQCR (for electric and non-electric assets) which included its proposed amended maintenance allowances for each of the four central Queensland coal systems as at July 2007;
- for the non-electric assets, QR has chosen to recover the majority of the increase in its annual revenue requirement through the AT<sub>2-4</sub> reference tariff components. QR has proposed to increase the incremental maintenance component of its reference tariffs (AT<sub>1</sub>) by 10% in order to maintain the integrity of the past modelling approach until a more detailed analysis is undertaken. In particular, QR sought to maintain the link between the original AT<sub>1</sub> calculations (the 2001 access undertaking) and the current tariffs; and
- the increase in the annual revenue requirement associated with maintenance costs for electric assets has been recovered entirely through the electric access tariff (AT<sub>5</sub>) in the Blackwater and Goonyella systems.

**Decision 2**

**The Authority does not accept QR's proposed revised reference tariffs.**

**The Authority requires QR to recalculate the reference tariffs to reflect the revised cost of ballast undercutting (see Decision 1).**

*Central Goonyella Cluster – AT<sub>5</sub> Tariff*

QR also submitted an addendum with its DAAU to amend a 'typographical error' in Schedule F of its undertaking with respect to the AT<sub>5</sub> reference tariff component in Central Goonyella (QR, sub. no. 1:33).

QR argued that the correct opening tariff for the Central Goonyella cluster should have been \$1.18 per egtk at 1 July 2005 rather than the published \$1.00 per egtk. QR proposed that it 'absorb' the costs associated with this error and reduce the system allowable revenue for 2006-07 to ensure that it aligns with the (then) published AT<sub>5</sub> reference tariff component.

The QRC supported the Authority's draft decision to correct both the published reference tariff error and the relevant system allowable revenue error – and, in particular, to ensure that any 'under-recovery' QR incurs as a result of the error shortfall is not recovered through the revenue cap adjustment mechanism (QRC, sub. no. 7:15).

In the absence of comments from stakeholders opposing the Authority's draft decision on this issue, the Authority confirms its decision to accept QR's proposed revised AT<sub>5</sub> reference tariff component in Central Goonyella – but requires QR to amend the system allowable revenue for Goonyella in 2006-07 to ensure this aligns with the previously published AT<sub>5</sub> reference tariff.

**Decision 3**

**The Authority accepts QR's proposed revised AT<sub>5</sub> reference tariff component in Central Goonyella – but requires QR to amend the system allowable revenue for Goonyella in 2006-07 to ensure this aligns with the previously published AT<sub>5</sub> reference tariff.**

Following the draft decision, QR advised that it had calculated revised reference tariffs to account for the revised (reduced) maintenance claim proposed in the draft decision, and now confirmed in this final decision (Table 8). The Authority is satisfied that the revised reference tariffs reflect the revised maintenance cost estimates and QR's desire to maintain its past modelling approach.

Accordingly, if QR were to submit these reference tariffs to the Authority for approval then, subject to no new issues being raised by the consultation and consideration process required under the QCA Act, the Authority would currently be minded to approve them.

**Table 8: Revised Reference Tariff Components AT<sub>1</sub>-AT<sub>5</sub> (as at 1 July 2007)**

<i>System</i>	<i>Cluster</i>	<i>AT<sub>1</sub></i>	<i>AT<sub>2</sub></i>	<i>AT<sub>3</sub></i>	<i>AT<sub>4</sub></i>	<i>AT<sub>5</sub></i>
Blackwater	Central Blackwater	0.71	1,470.72	3.14	0.96	1.72
	North Blackwater	0.71	1,470.72	-	1.92	1.72
	South West Blackwater	0.71	1,470.72	5.78	2.43	-
	Stanwell	0.71	1,470.72	2.58	0.48	1.72
Goonyella	Central Goonyella	0.49	846.98	3.83	0.69	1.25
	Gregory Via Goonyella	0.49	1,016.59	2.81	0.88	1.06
	North Goonyella	0.49	846.98	2.28	0.40	1.06
	South Goonyella	0.49	1,016.59	2.37	0.57	1.06
	West Goonyella	0.49	846.98	2.41	0.67	1.06
Moura	Moura	1.34	440.54	6.70	1.09	-
Newlands	Newlands	1.39	196.97	5.00	0.71	-

On that basis, incorporating the revised maintenance costs will increase CQCR reference tariffs by approximately 4.3% (rather than 4.6% as QR had originally proposed).

### 3.2 System Allowable Revenue

While QR's DAAU proposed amendments to the approved reference tariffs to reflect its proposed higher maintenance costs, it did not include equivalent amendments to the approved system allowable revenues. As a result, QR's DAAU would allow it to raise, but not retain the additional revenues.

In its draft decision, the Authority required QR to amend the approved system allowable revenue to reflect the revised maintenance costs accepted by the Authority.

In the absence of comments from stakeholders to the contrary, the Authority confirms this proposal. As the Authority has accepted an increase to the AT<sub>2-4</sub> and AT<sub>5</sub> reference tariff components (but not necessarily to the extent of QR's original proposal), it is necessary to revise the system allowable revenues reported in the access undertaking.

If the system allowable revenues are not revised, and if expected volumes are met, the likely result of the annual revenue adjustment will be that QR's actual revenue will 'over recover' compared to system allowable revenue – which QR will then have to return to access seekers through reduced tariffs in the future. This is clearly not consistent with the intention of QR's proposal to provide QR with greater revenue to offset increased maintenance costs.

#### **Decision 4**

**The Authority requires that QR amend the approved system allowable revenues to reflect the revised maintenance costs accepted by the Authority (see Draft Decision 1).**

Following the draft decision, QR advised that it had calculated revised system allowable revenues to reflect the revised (reduced) maintenance claim proposed in the draft decision, and now confirmed in this final decision (Table 9). The Authority is satisfied that the revised system allowable revenues reflect the revised maintenance claim and QR's desire to maintain its past modelling approach.

Accordingly, if QR were to submit these system allowable revenues to the Authority for approval then, subject to no new issues being raised by the consultation and consideration process required under the QCA Act, the Authority would currently be minded to approve them.

**Table 9: System Allowable Revenues: 2007-08 and 2008-09 (end of year nominal dollars)**

<i>System</i>	<i>2007-08</i>	<i>2008-09</i>
<i>AT<sub>2-4</sub></i>		
Blackwater <sup>(1)</sup>	146,966,171	157,635,006
Goonyella	131,994,028	137,313,940
Moura	31,090,943	37,749,042
Newlands	24,953,480	25,577,317
<b>Total (AT<sub>2-4</sub>)</b>	<b>335,004,622</b>	<b>358,275,306</b>
<i>AT<sub>5</sub></i>		
Blackwater	22,965,416	30,597,009
Goonyella	40,214,743	41,658,723
<b>Total (AT<sub>5</sub>)</b>	<b>63,180,159</b>	<b>72,255,732</b>

<sup>1</sup> Blackwater system revenues have been adjusted to include the common cost contribution made by non-exclusive coal-carrying traffic on the Gindie-Minerva line.

### *Volume Forecasts*

In making its assessment, the Authority has noted that the gtk's for Blackwater included in QR's submission do not include the mainline gtk's associated with coal-carrying services travelling from the Minerva mine to the Port of Gladstone (Gindie-Minerva line).

While the Authority accepts that this is consistent with Schedule F provisions at the time QR submitted this DAAU, it notes that, since then, new regulatory arrangements and related Schedule F amendments have since been approved (June 2007). In particular, the approved published gtk's for Blackwater now include the mainline gtk's associated with the Gindie-Minerva line.

Stakeholders did not comment on this matter. On this basis, the Authority requires that QR ensure that, upon approval, the published volume forecasts reflect the current approved gtk's – i.e. volumes in Blackwater should include the mainline gtk's associated with coal-carrying services on the Gindie-Minerva line.

### **3.3 Effective date**

QR's submission sought for the amendments and new reference tariffs to be approved by 1 July 2007. Given that QR only submitted its DAAU in May 2007, a decision by 1 July 2007 was never realistic, given the public consultation and assessments that the Authority has to make in considering that DAAU. Despite this, QR did not expressly raise the issue of 'backdating' reference tariffs in the event that approval was not forthcoming by 1 July 2007.

In the absence of comments to the contrary, the Authority confirms its proposal to require QR to backdate reference tariffs (and associated system allowable revenues) to 1 July 2007. This will ensure that QR will generate the additional revenue it is seeking in the timeliest manner.

**Decision 5**

**The Authority requires that QR backdate the reference tariffs components (and associated system allowable revenue) to 1 July 2007.**

**LIST OF SUBMISSIONS**

<b>Organisation/Individual</b>	<b>Submission Number</b>
Queensland Rail (QR)	1, 6
Asciano (previously Pacific National)	2, 4
Queensland Resources Council (QRC)	3, 7
Australian Rail Track Corporation (ARTC)	5