



10 May 2017

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
Level 27
145 Ann Street
BRISBANE Q 4000

Dear Mr Millstead,

QUEENSLAND RAIL'S 2016 COST ALLOCATION MANUAL (COSTING MANUAL)

Thank you for the opportunity to provide comments on the Queensland Competition Authority's (QCA's) April 2017 Draft Decision on Queensland Rail's (QR's) 2016 cost allocation manual.

The New Hope Group (NHG) appreciates the QCA's consideration of previous submissions in reaching its draft decision. NHG supports the QCA's draft decision and the proposed amendments to the costing manual, including:

- Clarifying, within the manual, that the QCA's right to revise the manual under s. 159(2) of the QCA Act is not affected by the drafting of the cost allocation manual.
- The addition of a clause to require QR to explain any differences in information reported through the below-rail financial statements and equivalent information reported through QR's other obligations under the undertaking.
- The inclusion of a clause which requires that costs not be double-counted.

In regard to the use of Standard Allocator A, NHC has previously commented that the 45% allocation of corporate overheads to below rail appears too high. While we continue to hold that view, we note that:

- QR's use of Standard Allocator A to allocate corporate overheads is to be limited to overheads which cannot be attributed directly to any particular function (Above Rail or Below Rail).

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- The QCA proposes the insertion of the requirement that certain allocations be "*fair and reasonable and reflect the underlying activity*". Our understanding is that this would require QR to allocate corporate overheads on a different basis in the future, if Standard Allocator A was no longer considered to provide a "*fair and reasonable and reflect the underlying activity*".
- The QCA has stated (Draft Decision, page 9) that the "*adoption of standard allocator A to allocate un-costed corporate overhead costs will not likely have a material impact on the below-rail financial statements*".
- The allocation does not affect allowable revenues or tariffs in the West Moreton system, which are based on the QCA's assessment of efficient costs as reflected in the QCA's Decision on the current undertaking.
- For future undertakings, we expect that the QCA will again assess the efficient level of corporate overheads for coal services on the West Moreton system. We do not consider that the amount allocated to below rail services within QR's financial statements, based on Standard Allocator A, will provide any useful information for the purposes of that assessment.

We consider that the QCA should continue to monitor the use of Standard Allocator A. We would welcome additional information on how this allocator is developed, noting the QCA's comment that the allocation is "*pro rata on the total of all identified, attributed and allocated costs*". We would have concerns, for example, if these costs include depreciation, which we consider would distort the allocation towards a below-rail allocation which does not reflect the underlying activities for which costs are being allocated.

Thank you for your consideration of our submission.

Yours faithfully,
NEW HOPE GROUP



Sam Fisher
 General Manager Marketing & Logistics

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