

File Ref: 1476178

29 August 2022

Ms Katarzyna Stapleton
Chief Executive Officer
Queensland Rail
GPO Box 1429
Brisbane Qld 4001

Dear Ms Stapleton

Queensland Rail's capital expenditure claim

I wish to advise that the QCA has accepted all of the amounts included in Queensland Rail's 2020–21 capital expenditure report for inclusion into Queensland Rail's regulatory asset base.

This includes a total of \$23.6 million (including interest during construction) for inclusion in the 2020–21 regulated asset base.

However, given \$14.7 million (excluding interest during construction) in expenditure related to track reconditioning was commissioned in the 2021–22 financial year, the QCA has approved this expenditure to be incorporated into the 2021–22 regulated asset base. Accordingly, Queensland Rail is not required to submit a claim for this project as part of its 2021–22 capital expenditure report.

I am happy to discuss any question you may have on this or any other matters. Should your staff have any specific queries, please direct them in the first instance to Adam Liddy on 07 3222 0548 or at adam.liddy@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

cc: *Douglas Jasch, Manager Policy and Regulations*

Queensland Competition Authority

Decision notice

Queensland Rail capital expenditure claim

29 August 2022

The Queensland Competition Authority has approved the amounts included in Queensland Rail's capital expenditure claim of 30 December 2022 for inclusion into its regulatory asset base (capital expenditure claim or claim). The reasons are set out in this decision, in accordance with the 2020 access undertaking (AU2).

Queensland Rail capital expenditure

Queensland Rail's provision of below-rail services is governed by (AU2). Under schedule E of AU2¹, we conduct an annual ex post assessment of the prudence of Queensland Rail's capital expenditure for inclusion in its regulatory asset base (RAB).² We may also consider and accept capital expenditure into the RAB on an ad hoc basis.³

Queensland Rail submitted its capital expenditure claim for the West Moreton system on 30 December 2021. The claim covers eight capital projects in the West Moreton system and expenditure for ballast undercutting, totalling \$37.5 million (plus \$1m interest during construction (IDC)).

Assessment approach

We have assessed Queensland Rail's capital expenditure claim in accordance with schedule E of AU2, focusing on the scope, standard of works and cost (cls. 3–5). In forming our views, we had regard to:

- information that Queensland Rail provided initially in support of its claim as well as subsequently in response to requests for information
- information gathered first-hand during a site visit to the West Moreton system
- expert engineering advice that Arcadis provided.

Engineering consultant's assessment

We engaged Arcadis to provide engineering advice on the prudence and efficiency of Queensland Rail's capital expenditure, with a particular focus on the nature of the projects undertaken in light of continuing uncertainty

¹ All clause references in this decision notice refer to schedule E of AU2, unless otherwise stipulated.

² Pursuant to clauses 1.3 and 2.1.

³ Pursuant to clause 2.1.

over future demand levels on the West Moreton system. Arcadis' assessment was based on a desktop review of information provided by Queensland Rail and information gathered during a site visit.

Overall, Arcadis assessed the projects reviewed as generally prudent in terms of scope, standard and cost. Arcadis concluded that the works undertaken were reasonable and necessary to ensure the safe operation of traffic over what is considered a challenging section of track, taking into account the existing low-tonnage nature of the system. In particular, Arcadis concluded that the works were not 'gold-plating' or reflective of additional unnecessary works on the network.⁴

Stakeholder consultation

We provided stakeholders with an opportunity to comment on Queensland Rail's claim and received a submission from Yancoal Australia LTD (Yancoal). We gave careful consideration to the issues raised by Yancoal in making our decision.

QCA assessment and decision

Based on the information available to us, our previous assessments, and engineering advice from Arcadis, we consider that Queensland Rail's claims for \$37.5 million (excl. IDC) in capital expenditure meet the criteria for prudence under AU2.

We consider that the scope and standard of the works are prudent, as many are continuations of existing programs of works that have been assessed previously or reflect works that are necessary to maintain the safe operation of the network. We consider the projects have been undertaken having regard to current demand outlook and operating conditions. We see no evidence that Queensland Rail has undertaken additional capital projects to expand the capacity of the network beyond the capacity required to meet forecast demand and note it has chosen largely operational restrictions to manage network issues.

We also consider that the costs of the works are prudent based on consideration of industry benchmarks, our previous assessments, and the nature of the works. Where projects are continuing, the costs claimed are generally consistent with previous years costs or otherwise fall within the overall budget. Where the costs claimed are higher, these can be explained by the nature of the works undertaken, including remoteness.

We note that, based on the documentation provided, \$14.7 million (excl. IDC) of works in the capital expenditure claim were commissioned in the 2021–22 financial year. We therefore consider that:

- \$22.9 million (plus \$0.7 million IDC) be approved for inclusion into Queensland Rail's RAB for 2020–21
- \$14.7 million (excl. IDC) be approved for inclusion into Queensland Rail's RAB for 2021-22.

We expect Queensland Rail will provide us with a capital expenditure report for 2021–22. Given we have approved the 2021-22 expenditures listed above, Queensland Rail is not required to include them in the 2021–22 capital expenditure report.⁵

⁴ Arcadis, *Queensland Rail 2020–21 Capital Expenditure Claim*, August 2022, p. 20.

⁵ However, for the avoidance of doubt, pursuant to clause 1.4(a), we agree that expenditure now approved for inclusion in the RAB for 2021-22 should be included within the roll-forward of the RAB following submission of the capital expenditure for 2021-22.

Table 1 Approved capital expenditure amounts

<i>Project</i>	<i>Pre-FY21 (\$)</i>	<i>FY21 (\$)</i>	<i>FY22 (\$)</i>
Toowoomba Range Slope Stabilisation		331,285	
WMS Replacement Regional	39,767		
Pedestrian Crossing Upgrades (Regional)	534,692	786,365	
WM Formation Strengthening 18/19 - 20/21	4,363,578	1,151,137	
SCS Timber Resleeping 2020/21		13,283,884	
Greasers Replacement/Upgrades		433,439	
Reconditioning West Moreton 21-23 (9.829km)			14,657,211
Level Crossing Upgrades West Moreton	209,344	1,163,743	
Ballast Undercutting		550,311	
Total claimed	5,147,381	17,700,163	
TOTAL APPROVED (EXCLUDING IDC)		22,847,544	14,657,211
Interest during construction		734,075	
TOTAL APPROVED INCLUDING INTEREST DURING CONSTRUCTION		23,581,619	

Note: Unless otherwise noted all amounts exclude interest during construction.