

Draft decision

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## Queensland Rail: 2018–19 QCA levy

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October 2018

We wish to acknowledge the contribution of the following staff to this report:

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## SUBMISSIONS

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Closing date for submissions: 9 November 2018

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of Queensland Rail's proposed 2018–19 QCA levy. The QCA will take account of all submissions received within the stated timeframes.

Submissions, comments or inquiries regarding this paper should be directed to:

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### Confidentiality

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available. However, if a person making a submission believes that information in the submission is confidential, that person should claim confidentiality in respect of the document (or the relevant part of the document) at the time the submission is given to the QCA and state the basis for the confidentiality claim.

The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is available on request. We encourage stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

### Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at [www.qca.org.au](http://www.qca.org.au). If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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## Contents

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SUBMISSIONS	I
Closing date for submissions: 9 November 2018	i
Confidentiality	i
Public access to submissions	i
EXECUTIVE SUMMARY	III
THE ROLE OF THE QCA	IV
1 INTRODUCTION	1
1.1 Queensland Rail	1
1.2 The QCA fee	2
1.3 The QCA levy	2
1.4 Queensland Rail's 2018–19 QCA levy proposal	3
1.5 Public consultation	3
1.6 Amended proposal	3
2 ALLOCATION OF THE 2018–19 QCA FEE	4
2.1 Regulatory costs for 2018–19	4
2.2 Passing on of regulatory costs	4
2.3 Methodology for allocation of QCA fees	5
2.4 Charging of levies by train service type	8
2.5 Timing of recovery of DAU costs	9
3 ADJUSTMENTS FOR THE 2018–19 QCA LEVY	11
3.1 Total proposed adjustment for the 2018–19 QCA levy	11
3.2 Under-recovery of the 2017–18 QCA fee	11
3.3 Over-recovery of the 2017–18 QCA levy	12
4 CONCLUSION	14
GLOSSARY	15
REFERENCES	16

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## EXECUTIVE SUMMARY

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The QCA's draft decision is to approve Queensland Rail's proposal for the 2018–19 QCA levy, as submitted under clause 3.7 of the 2016 access undertaking (AU1).

On 4 September 2018, Queensland Rail submitted a proposal for \$1,694,421 in levies for 2018–19 to recover the:

- (1) estimated 2018–19 QCA fee of \$1,933,000,
- (2) adjustments from the 2017–18 QCA levy totalling an additional \$239,579, comprising of:
  - (a) an under-recovery of the 2017–18 QCA fee of \$121,000, and
  - (b) a \$360,579 net over-recovery of the 2017–18 QCA levy.

Queensland Rail applied a similar 'beneficiary pays' principle to the allocations of the 2018–19 QCA fees across train service types as it did in its proposal to the 2017–18 QCA levy. In doing so, it proposed to allocate a greater proportion of the 2018–19 QCA fees to the West Moreton coal system due to the greater regulatory burden of the QCA in assessing matters specifically related to this system during assessment of the 2020 draft access undertaking and for compliance activities under AU1.

Queensland Rail also proposed to make the corresponding adjustments by train service type according to the:

- (a) approved allocations of the 2017–18 QCA fee, and
- (b) difference between allocated and collected levies for 2017–18.

The QCA received two submissions on Queensland Rail's 2018–19 QCA levy proposal, from the New Hope Group and Pacific National.

The QCA took the stakeholders comments into account in making its draft decision to approve Queensland Rail's proposal.

Stakeholders are invited to comment on this draft decision by **Friday, 9 November 2018**.

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## THE ROLE OF THE QCA

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The Queensland Competition Authority (QCA) is an independent statutory body which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

### Contacts

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# 1 INTRODUCTION

## 1.1 Queensland Rail

Queensland Rail operates more than 7000 km of rail in Queensland including the south east commuter network, the Western system, and the Mount Isa and North Coast lines (see Figure 1). It manages the transport of passengers via inner-city and long-distance trains, and access to its regional rail network for users transporting coal, general freight, bulk minerals, agricultural products and passengers.

**Figure 1 Queensland Rail regional network map**



Source: [www.qca.org.au/Rail/Queensland-Rail/Qld-Rail-rail-systems](http://www.qca.org.au/Rail/Queensland-Rail/Qld-Rail-rail-systems)

Queensland Rail's network is declared for third-party access under the *Queensland Competition Authority Act 1997* (the QCA Act) (s. 250) and is therefore regulated by the Queensland Competition Authority (QCA). In October 2016, the QCA approved Queensland Rail's 2016 access undertaking (AU1). The only reference tariff set by the QCA is for coal services on the West Moreton system, which covers less than 400 kilometres of track.

## 1.2 The QCA fee

The QCA performs a range of regulatory services in relation to regulated entities including developing, amending or monitoring compliance with an access undertaking, handling disputes relating to an access undertaking, and undertaking arbitrations.<sup>1</sup>

The QCA fee is charged by the QCA to the regulated entities for providing these regulatory services. The fee should be an amount:

- (a) the authority considers to be reasonable, and
- (b) that is not more than reasonable cost of providing the service or performing the function.<sup>2</sup>

The QCA considers that it can 'set a fee for services to be provided or functions to be performed and that the QCA Act and Regulation do not require that a fee only be set in arrears, i.e. for services which have already been performed.'<sup>3</sup> As such, the QCA can charge regulated entities, (like Queensland Rail) an estimated QCA fee for an upcoming financial year. The QCA 2016–17 Fee Framework further outlines that:

The QCA will undertake a reconciliation of actual versus estimated costs at year end, as part of its end-of-year financial reporting.<sup>4</sup>

## 1.3 The QCA levy

Regulated entities, like Queensland Rail, can pass through the QCA fees to their customers via a levy, as approved by the QCA.<sup>5</sup> AU1 outlines how the QCA levy is passed through to Queensland Rail's customers such that:

An Access Charge for a Train Service may include a QCA Levy component to be collected for the QCA by Queensland Rail. This component will, where applicable, be determined from year to year, based on the QCA Levy levied by the QCA to Queensland Rail and allocated amongst Train Service types in a manner approved by the QCA.<sup>6</sup>

To avoid confusion throughout this document, references to the amount paid by Queensland Rail to the QCA will be the 'QCA fee' and the component of the access charge paid by access holders will be the 'QCA levy'.

The tariffs paid by Queensland Rail's customers for the QCA levy is calculated by dividing the total QCA levy allocated based on the train service type, by the forecasted volumes for the financial year.

The QCA levy for a financial year generally consists of two components:

- (a) a 'base' QCA fee—the QCA estimates the QCA fee for the upcoming financial year based on expected regulatory activities (such as ongoing compliance matters and assessment of a draft access undertaking) and the corresponding costs<sup>7</sup>

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<sup>1</sup> Queensland Competition Authority Regulation 2007, schedule 1.

<sup>2</sup> Queensland Competition Authority Regulation 2007, part 1, clause 3(1).

<sup>3</sup> QCA 2016–17 Fee Framework, p. 2.

<sup>4</sup> QCA 2016–17 Fee Framework, p. 3.

<sup>5</sup> QCA 2016–17 Fee Framework, p. 4.

<sup>6</sup> Queensland Rail's Access Undertaking 1 (AU1), cl. 3.7.

<sup>7</sup> QCA 2016–17 Fee Framework, p. 1.



- (b) adjustments for the previous financial year—a reconciliation (or true-up) of 'actual versus estimated costs' for the QCA fee<sup>8</sup>, and any under- or over-recovery in levies resulting from differences between actual and forecasted volumes.

### The 2017–18 QCA levy

In the review of the previous QCA levy, the QCA's decision was to accept Queensland Rail's principles and methodology for increasing the allocation of the QCA fee to West Moreton Coal users to account for the QCA's greater regulatory effort for DAU and compliance activities for this system. The QCA also agreed with Queensland Rail's proposal to decrease the allocation for the North Coast and West Moreton freight and mineral users given the direct competition with road transport that limited the capacity for train operators to recover the associated regulatory costs. In considering 'the relative costs, benefits and access revenues', the QCA considered Queensland Rail's proposed allocations of fees across train systems was reasonable.

## 1.4 Queensland Rail's 2018–19 QCA levy proposal

On 4 September 2018, Queensland Rail submitted a proposal to the QCA to collect levies totalling \$1,693,421. This amount includes:

- (1) the estimated 2018–19 QCA fee of \$1,933,000, and
- (2) adjustments from the 2017–18 QCA levy totalling a net reduction of \$239,579.

The adjustment mentioned in (2) is made up of two components, which are:

- (a) an under-recovery of the 2017–18 QCA fee of \$121,000
- (b) a \$360,579 net over-recovery of the 2017–18 QCA levy.

Queensland Rail outlined the principles and methodology for the levies on each train service type, based on the proposed allocations.<sup>9</sup>

## 1.5 Public consultation

The QCA invited stakeholder submissions on Queensland Rail's proposal for the 2018–19 QCA levy and received submissions from New Hope Group<sup>10</sup>, a user of the West Moreton coal network, and Pacific National<sup>11</sup>, a user of North Coast and Mount Isa lines.

## 1.6 Amended proposal

On 28 September 2018, Queensland Rail submitted a letter to the QCA seeking to amend its proposed levies to reflect the accurate figure for the under-recovery of the 2017–18 QCA fee (adjustment (2)(a) listed in section 1.4 above).<sup>12</sup> This amendment is based on the QCA advising Queensland Rail of its final 2017–18 QCA fee, which was around \$28,000 less than originally quoted.

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<sup>8</sup> QCA 2016–17 Fee Framework, p. 3.

<sup>9</sup> Queensland Rail, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018, pp.6–7 (Queensland Rail proposal).

<sup>10</sup> New Hope Group, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018 (New Hope Group submission).

<sup>11</sup> Pacific National, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018 (Pacific National submission).

<sup>12</sup> Queensland Rail, *Queensland Rail: QCA levy 2018–19*, amendment letter to the QCA, 28 September 2018.

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## 2 ALLOCATION OF THE 2018–19 QCA FEE

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*This chapter considers Queensland Rail's proposed allocation of the estimated QCA fee for 2018–19 across train service types.*

### 2.1 Regulatory costs for 2018–19

Queensland Rail noted in its proposal that the estimated 2018–19 QCA fee was \$1,933,000, which reflects the QCA's costs for work related to:

- Queensland Rail's compliance with its obligations under AU1, estimated at \$450,000, and
- investigating the 2020 DAU, estimated at \$1,483,000.<sup>13</sup>

### 2.2 Passing on of regulatory costs

#### Queensland Rail's proposal

In its proposal, Queensland Rail sought the QCA's 'approval for the 2018–19 QCA levy to be applied to Queensland Rail's access charges, consistent with clause 3.7' of AU1.<sup>14</sup> It explained that:

The QCA levy is included in AU1 to allow Queensland Rail to recover fees charged by the QCA for the provision of its regulatory services from access holders.<sup>15</sup>

#### Stakeholder comments

##### New Hope Group

New Hope Group questioned 'the practice of allowing full recovery of the QCA fees by [Queensland Rail]', particularly if Queensland Rail is perceived as adopting 'unreasonable approaches [that] cause the QCA and customers to incur very high costs'.<sup>16</sup> New Hope Group also stated that Queensland Rail has 'again submitted ambit claims regarding revenue allowances' for the 2020 DAU process and consequently, New Hope Group expects 'the QCA may again need to incur additional costs'.<sup>17</sup> It also suggested that the next undertaking 'should include a provision which explicitly allows the QCA to determine the extent to which the QCA's fees should be passed on to customers through the QCA levy'.<sup>18</sup>

#### QCA analysis

The QCA acknowledges concerns from New Hope Group regarding the potential for costs to assess the 2020 DAU to increase, given experience with the 2016 DAU as described in section 1.3. However, the QCA regards the passing on of regulatory costs onto users as consistent with AU1 (cl. 3.7) and therefore, Queensland Rail's proposal to do so for the 2018–19 QCA levy is appropriate.

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<sup>13</sup> Queensland Rail proposal, p. 2.

<sup>14</sup> Queensland Rail proposal, p. 1.

<sup>15</sup> Queensland Rail proposal, p. 1.

<sup>16</sup> New Hope Group submission, p. 1.

<sup>17</sup> New Hope Group submission, p. 1.

<sup>18</sup> New Hope Group submission, p. 1; This comment is not addressed in this draft decision but will be taken into consideration in the QCA's assessment of the 2020 DAU.

## 2.3 Methodology for allocation of QCA fees

### Queensland Rail's proposal

Queensland Rail applied a 'beneficiary pays' principle similar to its proposal for the 2017–18 QCA levy<sup>19</sup> to determine the allocation of the 2018–19 QCA fee across train service types. The basis of this principle is that 'the beneficiaries of government regulation should pay for that regulation'.<sup>20</sup>

Queensland Rail stated that the more significant drivers of the costs for the 2018–19 QCA fee were the 'assessment of issues associated with coal reference tariffs' and 'compliance activities specifically related to the West Moreton Coal system'.<sup>21</sup> As such, it proposed to increase the allocation of the QCA fee to West Moreton coal users to a similar level as the historical allocations approved by the QCA for the DAU period of 2014–15 to 2015–16 to 'avoid other access holders being charged for regulatory services that they do not benefit from'.<sup>22</sup> The proposed QCA levy for West Moreton coal users was in net tonnes, consistent with previous levies.

Queensland Rail also identified freight and mineral users of the Mount Isa system as beneficiaries of regulation from AU1 and corresponding matters under investigation of the 2020 DAU including 'negotiation process, pricing rules, operating requirements associated with the provision of access to the network, including consideration of network management principles and the operating requirements manual, performance reporting and the development of a standard access agreement'.<sup>23</sup>

In relation to the North Coast line, Queensland Rail noted the 'limited capacity for train operators to pass through and recover the costs of the QCA Levy from end customers' of this system due to the direct competition with road transport and corresponding prices.

Queensland Rail noted the 'primary emphasis of AU1 and the QCA's consideration of the [2020 DAU] is relevant to the provision of freight services'<sup>24</sup> and as such, proposed no change to the QCA fees recovered from long distance passenger services.

Finally, Queensland Rail proposed not to allocate any of the 2018–19 QCA fee to other train services because:

These Train Services are heavily contestable with road, with limited ability to pass through the costs. The traffic volumes are also very low, seasonal and cannot be reliably forecast from year to year. Many of these services operate on an ad hoc basis.<sup>25</sup>

Queensland Rail translated its application of the 'beneficiary pays' principle across train service types into a change in weightings for allocating the 2018–19 QCA fee to the same weightings applied for the 2014–15 and 2015–16 DAU period<sup>26</sup>, which the QCA approved for the 2017–18

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<sup>19</sup> Queensland Rail, submission to the QCA, *Queensland Rail: QCA levy 2017–18*, January 2018, p. 4.

<sup>20</sup> Queensland Rail proposal, p. 4.

<sup>21</sup> Queensland Rail proposal, p. 5.

<sup>22</sup> Queensland Rail proposal, p. 5.

<sup>23</sup> Queensland Rail proposal, p. 5.

<sup>24</sup> Queensland Rail proposal, p. 6.

<sup>25</sup> Queensland Rail proposal, p. 6.

<sup>26</sup> QCA, *Queensland Rail: QCA levy 2017–18*, draft decision, May 2018, p. 5.

QCA levy.<sup>27</sup> Table 1 outlines the historical weightings and allocations to be compared with Queensland Rail's proposal detailed in Table 2.

**Table 1 Historical weightings and allocations of QCA fees by train service types.**

Train service type	Weighting for 2014–15 and 2015–16	Allocation of QCA fees (%)		Weighting for 2016–17 and 2017–18	Allocation of QCA fees (%)	
		2014–15	2015–16		2016–17	2017–18
West Moreton (coal)	14.0	63.8	65.6	6.0	48.3	45.7
Mount Isa (freight)	1.5	19.2	19.0	1.5	27.4	29.9
North Coast Line & West Moreton (freight)	1.0	15.2	14.0	1.0	22.3	22.4
Passenger	1.0	1.7	1.3	1.0	2.0	2.0
Total		100	100		100	100

Source: Queensland Rail, submission to the QCA, *Queensland Rail: QCA levy 2017–18*, January 2018.

**Table 2 Queensland Rail's proposed weightings and allocations for 2018–19 QCA fees by train service types.**

Train service type	Proposed weighting	Allocation of QCA fees (%)
West Moreton (coal)	14.0	67.4
Mount Isa (freight)	1.5	18.3
North Coast Line & West Moreton (freight)	1.0	13.1
Passenger	1.0	1.2
Total		100

Source: Queensland Rail proposal, p. 6.

## Stakeholder comments

### New Hope Group

New Hope Group suggested that the revised weightings proposed by Queensland Rail were not appropriate because of a 'lack of evidence provided by [Queensland Rail]'.<sup>28</sup> New Hope Group also stated it does not 'consider that an allocation to non-coal traffic of less than a third of the QCA's costs appropriately reflects the benefits which these customers receive from the undertaking or from the QCA's ongoing compliance activities'.<sup>29</sup>

<sup>27</sup> QCA, *Queensland Rail: QCA levy 2017–18*, final decision, June 2018.

<sup>28</sup> New Hope Group submission, p. 2.

<sup>29</sup> New Hope Group submission, p. 2.

### Pacific National

Pacific National expressed support for Queensland Rail's proposed allocation and 'believes that the allocation is reasonable' due to West Moreton users having the 'benefit of a regulated tariff'.<sup>30</sup>

### QCA analysis

Queensland Rail's methodology in allocating the 2018–19 QCA fee is similar to its proposal for the 2017–18 QCA levy. In particular, Queensland Rail revisited its reasoning and quantitative weightings for the DAU period costs in 2014–15 and 2015–16, which involves the application of the 'beneficiary pays' principle.<sup>31</sup>

The QCA acknowledges New Hope Group's comments on the lack of evidence for the quantitative values for weighting and allocation. However, this was previously addressed in the QCA's review on the 2017–18 QCA levy where the QCA highlighted the difficulty in quantifying the economic benefit of the QCA's regulation to users. It also outlined how the QCA reviewed the costs, benefits, and access revenues to assess Queensland Rail's methodology in allocating the 2017–18 QCA fee across train service types.<sup>32</sup> Ultimately, the QCA agreed with Queensland Rail's approach for the 2017–18 QCA levy and approved the proposed allocations across train services, including the historical DAU costs.<sup>33</sup>

The QCA still regards Queensland Rail's application of the 'beneficiary pays' principle as reasonable, particularly in the absence of quantifiable metrics on the benefits and beneficiaries of regulation. The QCA notes it provides a greater service to users of the West Moreton coal system in the 2020 DAU process, as the QCA considers matters specifically related to this system, including coal reference tariffs. This also extends to compliance activities under AU1, as described by Queensland Rail.<sup>34</sup>

Users of the Mount Isa, and the North Coast and West Moreton freight lines also benefit from the QCA's activities, although the North Coast and West Moreton freight lines are restricted by competitive pricing with road transport. The QCA also acknowledges users of the Mount Isa line have historically generated the greatest share of Queensland Rail's revenues from access charges among all users<sup>35</sup>, which suggests these users would benefit the more from the QCA's activities compared to other freight users. Therefore, the QCA agrees to the Mount Isa system having a marginally higher weighting and allocation of costs for the 2018–19 financial year compared to other freight systems.

Given the matters assessed for the 2020 DAU will largely benefit the users in a similar manner as the 2016 DAU (which became AU1) and ensuring compliance under AU1 is largely beneficial to West Moreton coal users, the QCA is inclined to agree with Queensland Rail's proposed allocations across train service types for the 2018–19 QCA fee.

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<sup>30</sup> Pacific National submission, p.2.

<sup>31</sup> Queensland Rail, submission to the QCA, *Queensland Rail: QCA levy 2017–18*, January 2018, p. 4; Queensland Rail proposal, p. 4.

<sup>32</sup> QCA, *Queensland Rail: QCA levy 2017–18*, draft decision, May 2018, pp. 8–10.

<sup>33</sup> QCA, *Queensland Rail: QCA levy 2017–18*, final decision, June 2018, pp.1–2.

<sup>34</sup> Queensland Rail proposal, p. 5.

<sup>35</sup> QCA, *Queensland Rail: QCA levy 2017–18*, draft decision, May 2018, p. 9.

## 2.4 Charging of levies by train service type

### Queensland Rail's proposal

In its proposal, Queensland Rail allocated the costs across train service types by using a weighting multiplied by the projected throughput measured in gross tonne kilometres (gtk).<sup>36</sup> However, similar to its proposal for the 2017–18 QCA levy, Queensland Rail proposed to use the different measures for levies according to train service type, which are net tonnes for coal users and gross tonne kilometres (gtk) for freight users.<sup>37</sup>

### Stakeholder comments

#### New Hope Group

New Hope Group expressed its concern over the perceived inconsistency over the use of dollars per net tonne to recover the levy versus the use of gross tonne kilometres (gtk) to calculate the allocation. It stated:

Recovery on a per gtk basis would better reflect the basis on which costs are incurred, and better aligns with the beneficiary pays principle.<sup>38</sup>

### QCA analysis

The QCA recognises New Hope Group's concern about inconsistency in charging coal users the QCA levy by volumes (using net tonnes) but other users being charged by volume and distance (using gtk). However, the QCA considers that unlike the other aspects of coal tariffs, the QCA levy (that passes on the QCA fee onto customers) pays for the QCA's regulatory activities that benefit users. These benefits, particularly for coal users, include increased certainty and efficiency in pricing, a defined process for negotiations, increased transparency through compliance activities and reporting, and a number of other provisions in the AU1.

The QCA regards the benefits to be unrelated to the distance travelled for coal users. The use of gtk as a measure for the levies for the coal network would result in users that are further from coal terminals and ports subsidising the regulatory costs for users that are closer. However, the QCA is of the opinion that the levies should be charged by volume as a user that transports a greater amount of coal for sale stands to benefit more from the QCA's regulatory activities through higher revenues.

However, the QCA recognises that unlike coal users, freight and mineral users do not transport a singular, homogenous product type on Queensland Rail's train paths. Depending on the specific user, freight and minerals transported on the Mt Isa and North Coast lines could include grain, sugar, live cattle, iron and non-ferrous ores, and refined metals. These commodities have a diverse range of characteristics, transport requirements, and scales for revenue from sale. Hence, unlike the homogeneity between coal users, the use of net tonnes to charge levies for mineral and freight users would not appropriately capture the benefits from QCA's regulatory activities. The QCA considers gtk to be a more appropriate measure to capture the heterogeneity of throughput for freight and mineral users.

Thus, in considering all aspects of this matter, the QCA is inclined not to agree with New Hope Group's assertion on the need to charge its levies by gtk.

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<sup>36</sup> Queensland Rail proposal, p. 9.

<sup>37</sup> Queensland Rail proposal, p. 1.

<sup>38</sup> New Hope Group submission, p. 2.

## 2.5 Timing of recovery of DAU costs

### Queensland Rail's proposal

Queensland Rail proposed to charge the QCA levies in a corresponding manner to how the QCA charged its fees. This involved collecting the costs to investigate the 2020 DAU in advance, consistent with the QCA 2016–17 Fee Framework.<sup>39</sup>

### Stakeholder comments

#### Pacific National

Noting a portion of the levy being attributable to 'the QCA costs of assessing the current Queensland Rail access undertaking proposal', it stated:

Pacific National believe that the Queensland Rail QCA levy should be smoothed over the life of an access undertaking to avoid the increases and decreases in the QCA levy from one year to the next.<sup>40</sup>

In addition, Pacific National made a suggestion in regards to the QCA's ongoing declaration review stating:

Pacific National seeks that in the event that the QCA finds that Queensland Rail's infrastructure assets not remain declared then the \$1.5 million be returned to Queensland Rail's customers as they will not benefit from any QCA work on Queensland Rail's proposed access undertaking.<sup>41</sup>

### QCA analysis

In suggesting to smooth the recovery of the DAU costs over the life of the undertaking, the QCA interprets Pacific National recommendation as to set the QCA fees in arrears, based on actual values rather than forecasts. The QCA acknowledges the benefits of this proposal, particularly from a budgetary perspective for users since it would result in fewer price fluctuations from year to year.

However, the QCA fee is charged according to the QCA 2016–17 Fee Framework. As mentioned in section 1.2, this entails 'making a conservative estimate of the costs in advance'.<sup>42</sup> From the QCA's perspective, this approach ensures efficient recovery of its costs from regulated entities like Queensland Rail. This is particularly relevant to the costs of investigating a DAU, which are substantial in comparison to costs in ensuring compliance with the approved undertaking. These costs may also include engaging external consultants to review specific matters. Users of Queensland Rail's network benefit from the QCA's regulatory activities. Delaying the recovery of the QCA's costs in such a manner may impact its ability to provide its services, including to approve an access undertaking in a timely manner. Thus, the QCA considers it would not be prudent to adopt the approach suggested by Pacific National.

Similarly, Queensland Rail may choose to pass on these costs through the QCA levy within a similar timeframe to when costs are accrued, ensuring it does not accumulate an under-recovery over a number of years. The QCA notes this was the case in its review of the 2017–18

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<sup>39</sup> Queensland Rail proposal, p. 4.

<sup>40</sup> Pacific National submission, p.2.

<sup>41</sup> New Hope Group submission, p. 1; This comment is not addressed in this draft decision but will be taken into consideration in the QCA's declaration review and assessment of the 2020 DAU.

<sup>42</sup> QCA 2016–17 Fee Framework, p. 2.

QCA levy, where Queensland Rail had accumulated a substantial under-recovery over seven years.<sup>43</sup>

Hence, in the interest of efficient cost-recovery, the QCA is of the opinion that the existing approach, which is outlined in Queensland Rail's proposal, is appropriate.

**Draft decision 2.1: Allocation of the 2018–19 QCA fee**

**The QCA's draft decision is to approve Queensland Rail's proposed allocation of the 2018–19 QCA fee by train service type.**

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<sup>43</sup> QCA, *Queensland Rail: QCA levy 2017–18*, draft decision, May 2018, p. 11.



### 3 ADJUSTMENTS FOR THE 2018–19 QCA LEVY

*This chapter outlines the QCA's assessment of Queensland Rail's proposed adjustments to the 2018–19 QCA levy to true up the under- and over-recoveries of the QCA fee and levy for 2017–18.*

#### 3.1 Total proposed adjustment for the 2018–19 QCA levy

As mentioned in section 1.4, Queensland Rail proposed two adjustments to the 2018–19 QCA levy. The total net adjustment across train service types was a \$239,579 decrease of the 2018–19 QCA levy from the 'base' QCA fee (see Table 3).

**Table 3 Queensland Rail's proposed adjustments to the 2018–19 QCA levy by train service type, \$.**

<i>Train service type</i>	<i>Approved QCA levies 2017–18 (A)</i>	<i>QCA levies 2017–18 collected (B)</i>	<i>QCA fee 2017–18 true-up (C)</i>	<i>Adjustment for 2017–18 (A-B+C)</i>
West Moreton (coal)	2,045,327	2,450,142	55,262	-349,553
Mount Isa (freight)	192,976	148,315	36,199	80,860
North Coast Line & West Moreton (freight)	-24,777	-24,330	27,082	26,635
Passenger	308	286	2,457	2,478
Total	2,213,834	2,574,413	121,000	-239,579

*Note: Approved levies (A) included forecasted QCA fees for the 2017–18 financial year. Allocation of fees (A) and true-up (C) are based on QCA-approved allocations for 2017–18.<sup>44</sup> Negative values indicate a rebate to the users.*

#### 3.2 Under-recovery of the 2017–18 QCA fee

##### Queensland Rail's proposal

In its proposal, Queensland Rail stated:

In June 2018, the QCA advised that it had under-estimated the cost of its regulatory fees for the review of Queensland Rail's Draft Access Undertaking and compliance with AU1 by \$121,000 in 2017–18. This additional amount is proposed to be recovered in the 2018–19 QCA levy.<sup>45</sup>

Queensland Rail proposed to recover this adjustment by adding it to the total 2018–19 QCA levy and allocating it across the train service types based on the weightings for 2017–18 (see Table 4).

On 28 September 2018, Queensland Rail submitted a letter to the QCA seeking to revise the 2018–19 QCA levy to reflect the final 2017–18 QCA fee 'which is \$28,579 lower than the previously advised estimate'.<sup>46</sup>

<sup>44</sup> QCA, *Queensland Rail: QCA levy 2017–18*, draft decision, May 2018, p. 5.

<sup>45</sup> Queensland Rail proposal, p. 2.

<sup>46</sup> Queensland Rail, *Queensland Rail: QCA levy 2018–19*, amendment letter to the QCA, 28 September 2018, p. 1.

### QCA analysis

As mentioned in section 1.2, the QCA can employ prospective charging and subsequent reconciliation of the QCA fee from regulated entities like Queensland Rail.<sup>47</sup> Therefore, the QCA agrees with Queensland Rail on the principle and allocation of under-recovered 2017–18 QCA fee as an adjustment for the 2018–19 QCA levy.

The QCA notes the figure quoted by Queensland Rail for the under-recovery in its proposal (i.e. \$121,000)<sup>48</sup> was not the finalised, audited total for 2017–18. Queensland Rail's stated in its subsequent amendment letter that the QCA advised the final 2017–18 QCA fee on 4 September 2018<sup>49</sup>, the same day Queensland Rail submitted its proposal for the 2018–19 QCA levy. Accounting for this accurate fee total would result in the corresponding adjustment being \$92,581, which is lower than originally quoted in its proposal. The QCA agrees with Queensland Rail to use these accurate figures in its adjustment. Table 4 outlines the allocation of this updated figure across train service types.

**Table 4 Reconciliation of under-recovered 2017–18 QCA fee by train service type.**

<i>Train service type</i>	<i>Approved allocation of QCA fee 2017–18 (%)</i>	<i>Queensland Rail's original quoted true-up for QCA fee 2017–18 (\$)</i>	<i>Audited true-up for QCA fee 2017–18 (\$)</i>
West Moreton (coal)	45.7	55,262	42,283
Mount Isa (freight)	29.9	36,199	27,697
North Coast Line & West Moreton (freight)	22.4	27,082	20,721
Passenger	2.0	2,457	1,880
Total	100	121,000	92,581

## 3.3 Over-recovery of the 2017–18 QCA levy

### Queensland Rail's proposal

Queensland Rail noted in its proposal that it had accumulated a net over-recovery from collection of the 2017–18 QCA levy. This is primarily due to volumes railed by West Moreton coal users for the financial year being higher than forecasted. Conversely, Queensland Rail mentioned volumes for Mount Isa freight users were lower than forecasted, which resulted in an under-recovery from these users, although not as much as the over-recovery from West Moreton coal users. Queensland Rail proposed to reconcile this net over-recovery according to the difference between allocated and collected levies for 2017–18 by train system types (see Table 5).

<sup>47</sup> QCA 2016–17 Fee Framework, pp. 2–3.

<sup>48</sup> Queensland Rail proposal, p. 2.

<sup>49</sup> Queensland Rail, *Queensland Rail: QCA levy 2018–19*, amendment letter to the QCA, 28 September 2018, p. 1.

**Table 5 Queensland Rail's proposed reconciliation of the 2017–18 QCA levy by train service type, \$.**

<i>Train service type</i>	<i>Approved QCA levies 2017–18 (A)</i>	<i>QCA levies 2017–18 collected (B)</i>	<i>Under-recovery of QCA levies 2017–18 (A-B)</i>
West Moreton (coal)	2,045,327	2,450,142	-404,815
Mount Isa (freight)	192,976	148,315	44,662
North Coast Line & West Moreton (freight)	-24,777	-24,330	-447
Passenger	308	286	22
Total	2,213,834	2,574,413	-360,579

*Note: Negative values signify rebates for the approved levies (A) and over-recovered fees.*

### QCA analysis

The QCA agrees with Queensland Rail's proposal for the reconciliation of the 2017–18 QCA levies based on actual volumes. Absence of this true-up would result in both the West Moreton coal users effectively paying for the under-recovery from Mount Isa freight users and Queensland Rail accumulating a profit from the 2017–18 QCA levy.

#### Draft decision 3.1: Adjustments to the 2018–19 QCA levy

**The QCA's draft decision is to approve Queensland Rail's proposed adjustments to the 2018–19 QCA levy.**

**The QCA agrees with Queensland Rail's amendment to use the accurate total for the 2017–18 QCA fee to calculate the corresponding adjustment.**

## 4 CONCLUSION

For the reasons outlined in this draft decision document, the QCA's preliminary position is to approve the principles Queensland Rail have employed in its proposal for the 2018–19 QCA levy and allocation across train service types, as submitted under clause 3.7 of AU1.

Consequently, the QCA's draft decision is to approve Queensland Rail's amended QCA levies for 2018–19 across train service types as outlined in Table 6.

**Table 6 Approved and proposed QCA levies.**

<i>Train service type / units for levies</i>	<i>Approved QCA levies 2017–18</i>	<i>Queensland Rail's original proposed QCA levies 2018–19</i>	<i>Queensland Rail's amended proposed QCA levies 2018–19</i>
West Moreton (coal) / \$ per net tonne	0.31825	0.14348	0.14152
Mount Isa (freight) / \$ per thousand gtk	0.03447	0.07536	0.07388
North Coast Line & West Moreton (freight) / \$ per thousand gtk	-0.00394	0.04519	0.04416
Passenger / \$ per track km	0.00019	0.01597	0.01561

*Note: Negative values indicate a rebate.*

Stakeholders are invited to comment on this draft decision by **Friday, 9 November 2018**.

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## GLOSSARY

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AU1	Queensland Rail 2016 access undertaking
DAU	Draft access undertaking
gtk	Gross tonne kilometres
QCA	Queensland Competition Authority
QCA Act	<i>Queensland Competition Authority Act 1997</i>

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## REFERENCES

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New Hope Group, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018.

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