

File Ref: 1361549

21 March 2019

Mr Nick Easy
Chief Executive Officer
Queensland Rail
Level 14, Rail Centre 1
305 Edward Street
Brisbane Qld 4001

Dear Mr Easy

Queensland Rail's 2013–17 capital expenditure claim—acceptance

The QCA has accepted Queensland Rail's amended 2013–17 capital expenditure claim for the West Moreton Network, as submitted on 21 December 2017, revised on 5 March 2018 and amended on 27 February 2019. The accepted expenditures can now be included in the regulatory asset base, in accordance with Schedule E of the 2016 access undertaking. A summary of the QCA's assessment of the capital expenditure claim is included in the attached decision notice.

The QCA appreciates Queensland Rail's constructive engagement during this assessment, and looks forward to the further development of appropriate processes that advance the quality and timeliness of capital expenditure claims in the future.

If you have any questions about this decision notice, please contact Ann Jones on 07 3222 0574 or by email at ann.jones@qca.org.au.

Yours sincerely,



Charles Millstead
Chief Executive Officer

cc: *Tania Homan, Senior Regulatory Economist, Queensland Rail*

DECISION NOTICE

QUEENSLAND RAIL'S 2013–17 CAPITAL EXPENDITURE CLAIM

21 March 2019

The Queensland Competition Authority (QCA) has accepted Queensland Rail's 2013–17 capital expenditure claim for the West Moreton Network, as submitted on 21 December 2017, revised on 5 March 2018 and amended on 27 February 2019, into the regulatory asset base (RAB) for each year as incurred.

Regulatory process

Queensland Rail's provision of below-rail services is governed by its 2016 access undertaking. Under schedule E, the QCA is required to assess the prudence of Queensland Rail's capital expenditure for inclusion in the RAB.

The assessment of the prudence of capital expenditure generally takes place each year after the capital expenditure has occurred. However, in this instance, the assessment encompasses the four-year period 2013–14 to 2016–17.

The 2013–17 capital expenditure claim for the West Moreton Network, as submitted on 21 December 2017, revised on 5 March 2018 and amended on 27 February 2019, has been assessed under the provisions of Schedule E of the 2016 access undertaking. In assessing the prudence of the capital expenditure, the QCA considered three aspects of the works:

- scope
- standard of works
- costs.

The following steps and timelines were followed:

<i>Date</i>	<i>Action</i>
25 October 2017	Queensland Rail requested a two-month extension of the submission date (to 31 December 2017).
9 November 2017	The QCA granted the extension request.
21 December 2017	Queensland Rail submitted its 2013–17 capital expenditure claim.
22 December 2017	The QCA invited stakeholders to comment on Queensland Rail's 2013–17 capital expenditure claim.
5 February 2018	Stakeholder submissions were due. The QCA received one submission.
5 March 2018	Queensland Rail submitted a revised capital expenditure claim in response to a request for additional information.

<i>Date</i>	<i>Action</i>
13 December 2018	The QCA published the consultant's final assessment and invited comments on the consultant's report.
24 January 2019	Stakeholder submissions were due. The QCA received three submissions.
27 February 2019	Queensland Rail submitted an amended capital expenditure claim with revised interest during construction (IDC) calculations.
21 March 2019	The QCA accepted Queensland Rail's 2013–17 capital expenditure claim.

The above documents are available on the QCA's website.

Consultation

The QCA provided stakeholders with two opportunities to comment on Queensland Rail's 2013–17 capital expenditure claim by publishing:

- Queensland Rail's (initial) 2013–17 capital expenditure claim on 22 December 2017. The QCA received one submission from New Hope Group.
- the engineering consultant's report on the (revised) 2013–17 capital expenditure claim on 13 December 2018. The QCA received three submissions from Queensland Rail, Pacific National and New Hope Group.

Engineering consultant's report

The QCA appointed B&H Strategic Services (B&H) to provide an independent expert opinion on the prudence of the projects included in Queensland Rail's (revised) 2013–17 capital expenditure claim. B&H's opinion is based on the information provided by Queensland Rail as well as other sources and reasonable assumptions.

B&H's final report concluded that of the projects included in the (revised) 2013–17 capital expenditure claim:

- 14 projects satisfied the 2016 access undertaking criteria in terms of scope, standard and cost, and the full capital expenditure value should be accepted into the RAB.
- one project satisfied the criteria in terms of standard and cost, but not in terms of scope; nonetheless, the full capital expenditure value should be accepted into the RAB because, other than its timing, the work undertaken was appropriate.
- two bridge projects should have a five per cent cost reduction in the acceptance into the RAB because these projects did not satisfy the criteria in terms of standard and cost, and were therefore assessed as imprudent.
- one project should be excluded as Queensland Rail confirmed that the project had not been commissioned by 30 June 2017.

B&H also noted that, although QR complied with prudent processes in general, there was room for improvement in a number of areas, including the identification and evaluation of alternative options, and evidence of competitive procurement, to demonstrate value for money. In addition, improvements should follow from better stakeholder consultation, and engagement in joint solutions; improvements in fit-for-purpose data management, including use of longer-term demand estimates and project-specific data that links benefits and costs; and a review of policies to ensure efficient outcomes for West Moreton projects.

QCA assessment

The QCA determined that Queensland Rail's (revised) 2013–17 capital expenditure claim for the West Moreton Network, as amended on 27 February 2019, is prudent in scope, standard of works and costs in accordance with Schedule E of the 2016 undertaking. This provides for capital expenditure (including IDC) of:

	<i>2013–14</i>	<i>2014–15</i>	<i>2015-16</i>	<i>2016–17</i>
Capital expenditure (including IDC)	\$11.7 million	\$21 million	\$22 million	\$20.4 million

A detailed list of the projects accepted into the RAB is contained in **Attachment 1**.

B&H recommended a five per cent cost reduction in the acceptance into the RAB for two bridge projects. However, the QCA is satisfied that Queensland Rail completed these projects according to the standards it had in place at the time. On that basis, the QCA accepts the full capital expenditure into the RAB without any cost reduction.

The quality and quantity of documentation provided by Queensland Rail, as well as the timely submission of information, impacts on the efficiency of the capital expenditure review process. The QCA acknowledges stakeholders' comments that some of B&H's opinions were formed on the basis of a deduction from information provided by Queensland Rail, other sources (indirect evaluation) and/or reasonable assumptions. The QCA considers such an approach appropriate as a comprehensive evaluation should always take all the available information into account, including B&H's professional judgement, experience and knowledge of the sector.

Decision

On balance, the QCA is satisfied that Queensland Rail's 2013–17 West Moreton capital expenditure claim (as submitted on 21 December 2017, revised on 5 March 2018 and amended on 27 February 2019) is prudent and has decided to accept Queensland Rail's full capital expenditure claim (inclusive of IDC) into the RAB for the reasons set out above.

Notwithstanding acceptance of Queensland Rail's claim, the QCA considers that there is room for improvement in the application of Queensland Rail's procedures, processes, and policies to the identification and justification of its capital expenditure projects that would benefit the quality and timeliness of future capital expenditure claims.

Suggested improvements would include better information provision including the identification of alternative options, and additional relevant data to support project evaluation and selection; evidence of competitive procurement including, where used, the cost-effectiveness of Queensland Rail's internal workforce; and use of longer-term demand estimates, where appropriate. Benefits should also ensue from better stakeholder consultation and engagement in joint solutions; a review of policies to ensure more efficient outcomes for West Moreton projects; and the de-grouping of projects to improve transparency and project assessment.

ATTACHMENT 1: ACCEPTED 2013–17 WEST MORETON CAPITAL EXPENDITURE

Expenditure 2013–14 to 2016–17 (\$ nominal excluding interest during construction)

Project	Project Name	2013-14	2014-15	2015-16	2016-17
B.03656	Western System Asset Replacement	10,469,081	3,977,474	-	-
B.04043	Timber Bridge Upgrades—Laidley & Oakey	-	226,893	8,077,529	-
B.04044	Formation Strengthening	1,225,317	6,366,533	1,440,048	-
B.04045	Timber & Steel Bridge Replacement	-	-	1,969,081	-
B.04046	Drain Upgrade	-	951,264	-	-
B.04047	Check Rail Curves—Toowoomba and Little Liverpool Ranges	-	4,508,760	6,588,173	2,228,992
B.04060	Restructure of train control	-	95,101	-	-
B.04073	Pedestrian Crossing Installations & Upgrade	-	784,608	689,261	554,932
B.04142	Forest Hill Timber Bridge Replacement	-	2,524,800	-	-
B.04163	Corridor & Asset Protection	-	-	-	2,194,892
B.04196	Siemens AZS600 Axle Counter Replacement	-	1,478,861	985,907	533,658
B.04291	Replay (rerailing) Rosewood—Helidon	-	-	-	1,193,398
B.04471	Relay Oakey—Jondaryan	-	-	-	5,982,003
B.04503	Steel Bridge Strengthening	-	-	-	1,178,079
B.04613	Formation Strengthening	-	-	1,839,220	3,546,963
B.04796	Check Rail Curves Stage 2	-	-	-	429,111
	Ballast Undercutting	-	-	122,051	2,418,391
Total		11,694,399	20,914,294	21,711,271	20,260,420

Notes: Due to rounding, the capital expenditure of the individual projects may not add up exactly to the totals.

Accepted expenditure 2013–14 to 2016–17 (\$ nominal including interest during construction)

Project	Project Name	2013-14	2014-15	2015-16	2016-17
B.03656	Western System Asset Replacement	10,497,439	3,973,031	-	-
B.04043	Timber Bridge Upgrades—Laidley & Oakey	-	235,925	8,263,058	-
B.04044	Formation Strengthening	1,215,806	6,432,130	1,478,686	-
B.04045	Timber & Steel Bridge Replacement	-	0	1,989,403	-
B.04046	Drain Upgrade	-	934,182	-	-
B.04047	Check Rail Curves—Toowoomba and Little Liverpool Ranges	-	4,507,251	6,588,975	2,198,614
B.04060	Restructure of train control	-	97,027	-	-
B.04073	Pedestrian Crossing Installations & Upgrade	-	783,793	683,435	555,810
B.04142	Forest Hill Timber Bridge Replacement	-	2,591,064	-	-
B.04163	Corridor & Asset Protection	-	-	-	2,312,017
B.04196	Siemens AZS600 Axle Counter Replacement	-	1,465,050	997,263	556,416
B.04291	Replay (rerailling) Rosewood—Helidon	-	-	0	1,190,603
B.04471	Relay Oakey—Jondaryan	-	-	0	6,006,964
B.04503	Steel Bridge Strengthening	-	-	0	1,196,915
B.04613	Formation Strengthening	-	-	1,846,922	3,583,498
B.04796	Check Rail Curves Stage 2	-	-	0	418,355
	Ballast Undercutting ^(a)	-	-	122,051	2,418,391
Total		11,713,245	21,019,452	21,969,793	20,437,582

Notes: Due to rounding, the capital expenditure of the individual projects may not add up exactly to the totals.

^(a) IDC for ballast undercutting is included in the formation strengthening project (project number B.04044).