

File Ref: 1246742

16 June 2017

Mr Nick Easy
Chief Executive Officer
Queensland Rail Ltd
GPO Box 1429
Brisbane Qld 4001

Dear Mr Easy

Queensland Rail's proposed cost allocation manual: final decision

In 2016, the QCA considered that certain amendments to Queensland Rail's cost allocation manual would enhance transparency. On 22 July 2016, the QCA therefore asked Queensland Rail to prepare a revised draft of its costing manual. The QCA set out its expectation that the revised cost allocation manual separately identify information for each of the Mount Isa and North Coast systems. The QCA considered this would help address stakeholders' concerns about the lack of pricing transparency raised as part of the QCA's recent decision on Queensland Rail's draft access undertaking.

On 22 December 2016, Queensland Rail wrote to the QCA proposing amendments to its cost allocation manual. The amendments were designed to separately identify information for each of the Mount Isa and North Coast Systems, in addition to the already separately identified West Morton system.

The QCA considered Queensland Rail's proposed cost allocation manual and these amendments under section 159 of the *Queensland Competition Authority Act 1997* (the QCA Act). It published Queensland Rail's proposed cost allocation manual, sought comments from Queensland Rail and stakeholders, and published a draft decision (refusing to accept Queensland Rail's proposed cost allocation model and recommending amendments) on the QCA website on 7 April 2017. The QCA received three submissions on its draft decision—from New Hope Group, Pacific National and Queensland Rail.

[Stakeholder comments on the QCA's draft decision](#)

New Hope Group 'suppor[ted] the draft decision and the [QCA's] proposed amendments to the costing manual'. Pacific National also supported the QCA's draft decision, as it considered the draft decision largely addressed matters of concern it had raised with Queensland Rail's proposed cost allocation.

Stakeholders provided specific comments on the application and future development of Queensland Rail's cost allocation manual, in particular about:

- transparency in the calculation of Standard Allocator A
- further disaggregation of cost elements in the below rail financial statements.

Queensland Rail stated 'it was pleased to advise that [it] supports the majority of the QCA draft decision recommendations' but in a few cases it proposed the QCA review its draft decision. Further consideration of the specific concerns raised by Queensland Rail and the amendments to the cost allocation manual we have made as a result of Queensland Rail's submission, are summarised in a table included as Appendix 1 to this letter.

[Decision on Queensland Rail's proposed cost allocation manual](#)

The QCA is not satisfied that the cost allocation manual prepared by Queensland Rail (referring both to the original draft cost allocation manual dated 22 December 2016 and the revised cost allocation manual dated 10 May 2017, submitted in response to the draft decision) adequately deals with the allocation of costs. Therefore, pursuant to section 159(1)(b) of the QCA Act, the QCA has decided to refuse to accept Queensland Rail's proposed cost allocation manual, and has prepared a cost allocation manual for use by Queensland Rail.

Pursuant to section 159(3) of the QCA Act, in preparing the cost allocation manual, the QCA has:

- consulted with Queensland Rail
- consulted with other persons the QCA considered appropriate
- as far as practicable, taken account of Queensland Rail's existing accounting system.

In compliance with section 160 of the QCA Act, the QCA will publish the cost allocation manual on its website and herewith provides Queensland Rail with a copy of the cost allocation manual (Attachment A to this letter).

Yours sincerely



Charles Millstead
Chief Executive Officer

cc: *Mr Douglas Jasch, Manager Policy and Regulation, Queensland Rail*

Appendix 1: Queensland Rail's comments on the QCA's draft decision

Table 1 The QCA's responses to Queensland Rail's comments

<i>Draft cost allocation manual ref.</i>	<i>QCA draft decision</i>	<i>Queensland Rail comment</i>	<i>QCA final decision</i>
Part 7	Revise the definition of Queensland Rail to remove reference to a description of activities.	Queensland Rail provided an alternative definition.	We agree with Queensland Rail's proposed definition. Queensland Rail's definition better promotes transparency in the below rail financial statements.
Section 3.2	Include a clause to explicitly require costs not be double-counted.	Queensland Rail considered this clause was not required to achieve the QCA's aim. The audit of the below rail financial statements ensured there was no double-counting.	We disagree with Queensland Rail. We acknowledge the role of the audit of the below-rail financial statements. However, this clause will provide assurance to stakeholders that costs are adequately allocated.
Clause 5.3.2.11	The accounting for the QCA Levy should not be allocated, but based on actual amounts.	Queensland Rail amended the draft cost allocation manual to reflect the difference between the QCA Fee (a cost to Queensland Rail) and the QCA Levy (revenue to Queensland Rail).	We agree with Queensland Rail's amendments. Queensland Rail's amendments will improve the transparency of the below rail financial statements.
Clause 4.3.5.3	Deletion of references to DTMR and decapitalisation of the words 'Rail Manager'. The deletion of 'DTMR' is because the rail accreditation process is moving away from DTMR to a national regime.	Queensland Rail amended the definitions to define Railway Manager by reference to the QCA Act definition. Queensland Rail removed Railway Operator as a defined term.	We agree with Queensland Rail's definition of Railway Manager. We retain Railway Operator as a defined term to maintain transparency of the below rail financial statements.
Clause 2.1(c), Part 5	Amendments to clarify cost accounting obligations for the West Moreton, Mount Isa and North Coast regions as separate systems.	Queensland Rail supported the principle behind the draft decision. Queensland Rail suggested a change to wording to give the clause better effect.	We agree with Queensland Rail's comment. We have amended the clause to clarify the principle behind the draft decision.
Section 6.3	Queensland Rail to explain differences in equivalent information reported through the below rail financial statements and Queensland Rail's other obligations under the Undertaking.	Queensland Rail supported the principle that differences in information should be publicly disclosed, but considered a note to the below rail financial statements was an inappropriate place to report such a discrepancy.	We have amended the draft cost allocation manual to require Queensland Rail to report information discrepancies only insofar as these differences are not already explained through Queensland Rail's other obligations under the Undertaking. This amendment ensures transparency in the allocation of costs, while also partially addressing Queensland Rail's concerns.