Queensland Competition Authority

Draft decision

Queensland Rail: QCA levy 2017–18

Application for reference tariff variation

April 2018

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

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SUBMISSIONS

Closing date for submissions: 6 June 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 QCA levy for 2017–18. The QCA will take account of all submissions received within the stated timeframes.

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

Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Tel (07) 3222 0588
www.qca.org.au/submissions

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. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

Contents

EXECUTIVE SUMMARY

The QCA's draft decision is to approve Queensland Rail's proposal for the 2017–18 QCA levy, as submitted under clause 3.7 of the 2016 access undertaking.

On 5 January 2018, Queensland Rail submitted a proposal for $2,213,834 in levies for 2017–18 to recoup:

- a $2.015 million under-recovery of QCA fees accumulated between 2010–11 and 2016–17, and
- the $198,000 QCA fee for 2017–18.

Queensland Rail's QCA levy has since 2010–11 allocated the QCA fee roughly equally between West Moreton coal services, North Coast Line freight and minerals, and Mount Isa line freight and minerals. Its submission for the 2017–18 levy proposed new allocations of:

(a) for the peak costs when Queensland Rail's draft access undertakings (DAUs) were being assessed in 2014–15 and 2015–16—roughly 65 per cent to West Moreton, 19 per cent to Mount Isa, and 15 per cent to North Coast; and

(b) for the 'ongoing regulatory costs' since then—roughly 48 per cent to West Moreton, 27 per cent to Mount Isa and 22 per cent to North Coast.

The QCA received three submissions on Queensland Rail's 2017–18 levy proposal, from Pacific National, Yancoal and New Hope Group.

The QCA has considered those submissions in making its draft decision to accept Queensland Rail's proposal.

The QCA's preliminary position is that the QCA levies for 2017–18 will be $0.31825 per net tonne for West Moreton System coal, and $0.03447 per thousand gross tonne kilometres ('000 gtk) for Mount Isa freight and minerals. North Coast and West Moreton freight and minerals users will receive a rebate of $0.00394 per '000 gtk, reflecting levies paid in previous years.

The reasoning for this preliminary position is set out in more detail in this draft decision.

Stakeholders are invited to comment on this draft decision by 6 June 2018.

THE ROLE OF THE QCA—TASK, TIMING AND CONTACTS

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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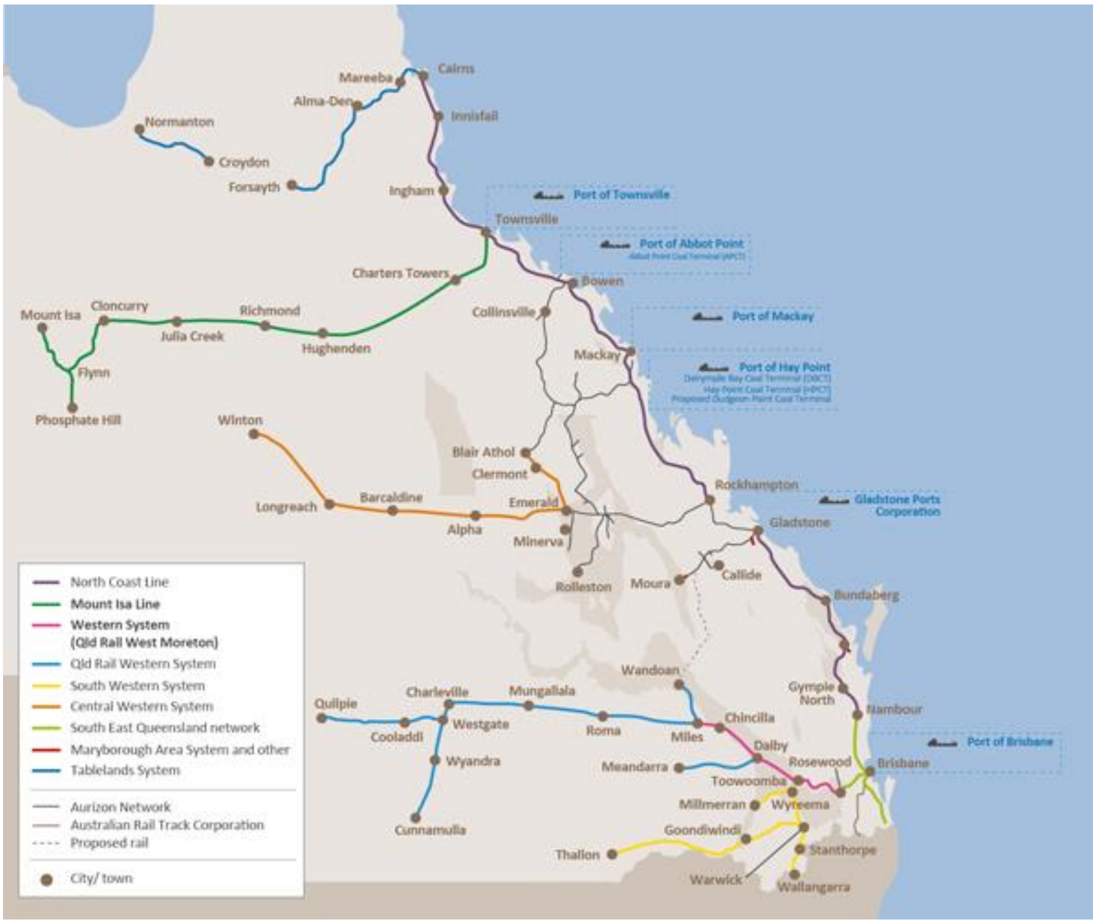
1 INTRODUCTION

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. It manages the transport of passengers via inner-city and long-distance trains and access to its regional rail network (see Figure 1) for users transporting coal, general freight, bulk minerals, agricultural products and passengers. Queensland Rail's network is declared for third party access under the QCA Act (s. 250) and is therefore regulated by the QCA. In October 2016, the QCA approved Queensland Rail's access undertaking (the 2016 undertaking). 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.

Figure 1 Queensland Rail regional network map



Source: www.qca.org.au/Rail/Queensland-Rail/Qld-Rail-rail-systems.

1.2 The QCA fee

The *QCA fee* is a fee charged by the QCA for providing regulatory services. The *Queensland Competition Authority Regulation 2007* provides that the fee 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.[1]

The services include developing, amending or monitoring compliance with an access undertaking, handling disputes relating to an access undertaking, and undertaking arbitrations.[2]

1.3 The QCA levy

The QCA levy is a tariff charged by Queensland Rail to its customers to recover the QCA fee. The 2016 undertaking provides 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.[3]

To avoid confusion in this draft decision, we will refer to the amount paid by Queensland Rail to the QCA as the 'QCA fee', and the component of the access charge paid by access holders as the 'QCA levy'.

The QCA levy is reviewed (taking into account any over- or under-recovery in the previous year) after the QCA announces the next year's fees for providing regulatory services.

The QCA last approved changes to Queensland Rail's QCA levy in 2013–14. Since then, Queensland Rail has been collecting the QCA levy from access holders at a rate based on that approved by the QCA in 2013–14.[4]

1.4 Queensland Rail's proposal

On 5 January 2018, Queensland Rail submitted a proposal to collect QCA levies totalling $2,213,834 in the 2017–18 financial year. It said these levies were intended to cover

(a) a $2.015 million under-recovery of QCA fees accumulated between 2010–11 and 2016–17; and

(b) the $198,000 QCA fee for 2017–18.

Queensland Rail's proposal included details of the data and methodology used to calculate retrospective and ongoing changes in weightings. It set out allocations of these fees that would determine the levy on each train service type.[5]

[1] *Queensland Competition Authority Regulation 2007*, Part 1, Clause 3.
[2] *Queensland Competition Authority Regulation 2007*, Schedule 1.
[3] Queensland Rail 2016 Access Undertaking, clause 3.7.
[4] Queensland Rail, *2017–18 Queensland Competition Authority Levy: Queensland Rail Access Undertaking 1*, January 2018, p. ii. (referred to as the *2017–18 QCA Levy*)
[5] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 9.

The QCA invited stakeholders to comment on Queensland Rail's proposal and received submissions from Pacific National,[6] Yancoal[7] and New Hope Group.[8]

1.5 Structure

This report is structured as follows:

- Chapter 2: Allocating QCA fees across train services
- Chapter 3: Timing of recovery
- Chapter 4: QCA draft decision.

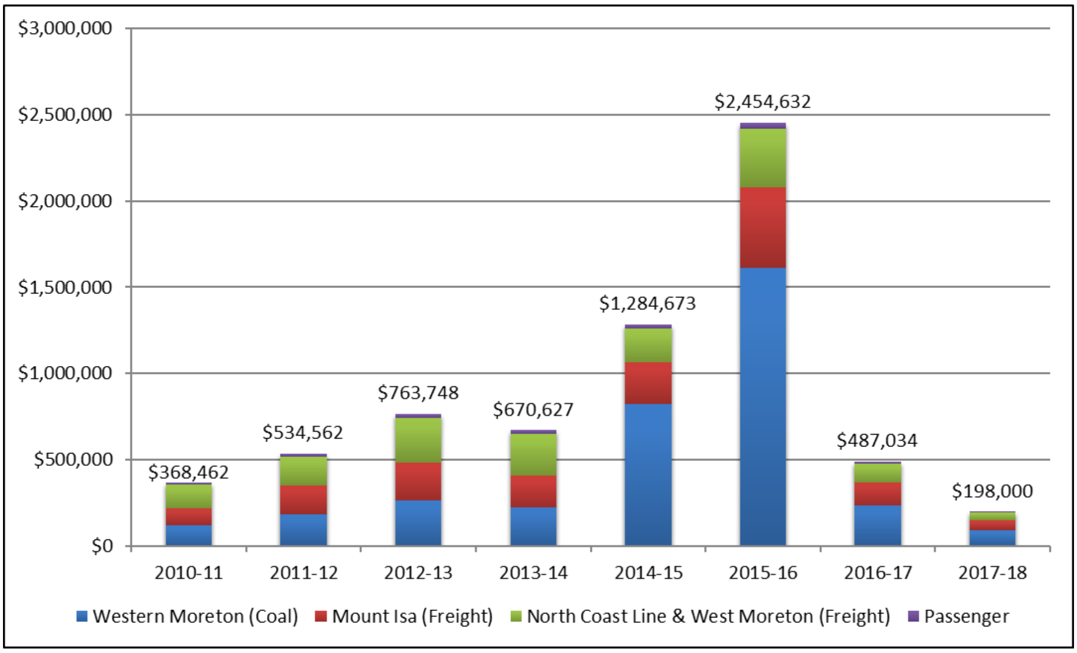
[6] Pacific National, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018.
[7] Yancoal, submission to the QCA, *Queensland Rail*: *QCA Levy 2017–18*, February 2018.
[8] New Hope Group, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018.

2 ALLOCATING QCA FEES ACROSS TRAIN SERVICES

2.1 Introduction

Queensland Rail's regulatory fees have varied substantially from year to year since the company was created in 2010. As shown in Figure 2, the fees were higher than average in 2014–15 and 2015–16, when the QCA incurred the largest share of costs of considering Queensland Rail's 2013 and 2015 DAUs. The process of considering the DAUs ended in October 2016, when the QCA approved Queensland Rail's 2016 access undertaking.

Figure 2 Allocation of QCA fees across train services, by financial year



Source: Queensland Rail, 2017–18 Levy, January 2018.

Queensland Rail's current methodology for allocating QCA fees between train service types was approved by the QCA in 2011–12. The methodology simplified the prior approach to allocating costs by adopting a weighted gross tonne kilometres (gtks) methodology (see Table 1). The QCA last approved changes to the QCA levy in 2013–14.

Queensland Rail said in its 5 January 2018 QCA levy proposal that its accumulated under-recovery of QCA fees totalled $2.015 million by the end of June 2017. Its proposal also considered how to recover the 2017–18 QCA fee of $198,000.[9] Given Queensland Rail has proposed different allocations for the two years of maximum DAU costs, and for ongoing regulatory costs, this chapter considers the two approaches separately. Accordingly, it is structured as follows:

- Section 2.2: DAU costs
  - Section 2.2.1: Additional DAU costs
  - Section 2.2.2: Allocations for 'DAU period' costs.
- Section 2.3: Ongoing regulatory costs

[9] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 1.

Table 1 Queensland Rail's proposed weightings[10] and proportional allocation of QCA fee by train service

Train service type	*QCA fee weighting and percentage allocation by train service type*										
	Historical (based on 2013–14 QCA approved weightings)					*DAU period costs*			*Ongoing regulatory costs*		
	Gtk weightings	*Share of fee recovered*				*Gtk weightings*	*Share of fee recovered*		*Gtk weightings*	*Share of fee recovered*	
		2010–11	*2011–12*	*2012–13*	*2013–14*		*2014–15*	*2015–16*		*2016–17*	*2017–18*
West Moreton (coal)	3	32.8%	34.5%	34.4%	33.5%	14	63.8%	65.6%	6	48.3%	45.7%
Mount Isa (freight)	1	25.5%	31.3%	29.0%	27.4%	1.5	19.2%	19.0%	1.5	27.4%	29.9%
North Coast Line & West Moreton (freight)	1	38.3%	30.7%	33.5%	36.1%	1	15.2%	14.0%	1	22.3%	22.4%
Passenger	1	3.4%	3.4%	3.2%	3.0%	1	1.7%	1.3%	1	2.0%	2.0%
Total		100%	100%	100%	100%		100%	100%		100%	100%

Source: Queensland Rail, 2017–18 QCA Levy, January 2018.

[10] The weightings applied from 2011 onwards were chosen to keep the relative prices paid by the different services the same as they had been under the previous calculation method. The shares of volumes (gtks) and access revenue for each type of service have shifted substantially since then. In particular, revenues on the North Coast line have fallen substantially.

2.2 DAU costs

Queensland Rail was created in June 2010, when the former QR Ltd was split so that the state government could privatise the central Queensland coal region assets that are now operated by Aurizon Network. The process of developing a new access undertaking for Queensland Rail, which remained government-owned, took several years.

In March 2012, Queensland Rail lodged a draft access undertaking, the 2012 DAU, which sought to replace the 2008 undertaking that had been developed when Queensland Rail was a part of the integrated QR Ltd. Queensland Rail submitted replacement DAUs in February and June 2013, and May 2015. The QCA approved the 2016 undertaking on 11 October 2016.[11]

As shown in Figure 2, the QCA incurred substantial costs in investigating the various DAUs, particularly in 2014–15 and 2015–16.

2.2.1 Additional DAU costs

Queensland Rail's proposal

Queensland Rail said the QCA incurred additional costs as it considered the DAUs that preceded the 2016 undertaking. Queensland Rail said the QCA's assessment of the issues associated with coal references tariffs for the West Moreton network was one of the most significant drivers of the costs underpinning the $3.74 million of QCA fees for 2014–15 and 2015–16.[12]

Stakeholders' comments

New Hope Group said that the regulatory costs could have been lower, however Queensland Rail did not appropriately consult with users to make the process more efficient.[13]

Yancoal said the 'excessive increase in costs incurred by the QCA for the periods 2010–11 to 2016–17 from those initially estimated by the QCA was not caused by poor estimates by the QCA. Rather it was principally caused by Queensland Rail's approach to the development of the current undertaking'.[14]

QCA analysis

The process of developing an undertaking for Queensland Rail took a number of years. Queensland Rail first lodged a DAU in March 2012, and first submitted a proposed tariff for the West Moreton network in June 2013.

Stakeholders have said that Queensland Rail bears some responsibility for the amount of spending by the QCA. For example, New Hope Group said:

> Queensland Rail should absorb a portion of the 2016 undertaking cost, because the dramatic increases in the QCA fees during 2014–15 and 2015–16 were largely due to Queensland Rail's inappropriate approach to the development of the undertaking. It is not appropriate for Queensland Rail to seek to recover all these costs from customers'.[15]

The QCA's costs included paying experts for engineering and economic technical reports, as well as obtaining legal advice and employing staff. The withdrawals and resubmissions of undertakings, particularly the withdrawal of the June 2013 DAU in December 2014, and

[11] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 3.
[12] Queensland Rail, *2017–18 QCA Levy*, January 2018, pp. 6–7.
[13] New Hope Group, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018, p. 2.
[14] Yancoal, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018, p. 2.
[15] New Hope Group, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018, p. 1.

subsequent lodging of the 2015 DAU in May 2015, added extra costs for the QCA. So did considering legal arguments raised in Queensland Rail's submissions.

However, Queensland Rail is not precluded from seeking to put forward the best case it can, that it considers suits its interests. Further, the QCA Act does not prevent Queensland Rail from withdrawing and resubmitting voluntary DAUs. The QCA also notes that Queensland Rail accepted the QCA's final decision on the 2015 DAU, under the mandatory 'section 133' process in the QCA Act, and submitted a complying DAU that is now the 2016 access undertaking.

In addition, the approved 2016 undertaking provides for Queensland Rail to pass the QCA fee on to its access holders through access charges (cl. 3.7).

Therefore, while we acknowledge stakeholders' concerns about the additional cost, the QCA's draft decision is that it is appropriate for Queensland Rail to pass on the total QCA fees relating to the DAU process to its customers through the QCA levy.

2.2.2 Allocations for 'DAU period' costs

Queensland Rail's proposal

Queensland Rail said had relied on a 'beneficiary pays' approach to determine the proportion of the QCA fees for 2014–15 and 2015–16 that should be recovered from each service type. It said the principle that beneficiaries of government regulation should pay for the regulation was among the findings of a 2001 Productivity Commission report, which preceded the introduction of the QCA fee in 2003.[16]

Queensland Rail said that in applying the principle, it sought to identify which train services attracted the greatest share of the QCA's costs during the approval process for the 2016 undertaking. Queensland Rail said that since it did not have the QCA's actual cost allocations, its QCA levy allocations were based on an estimate of the QCA's activities.[17]

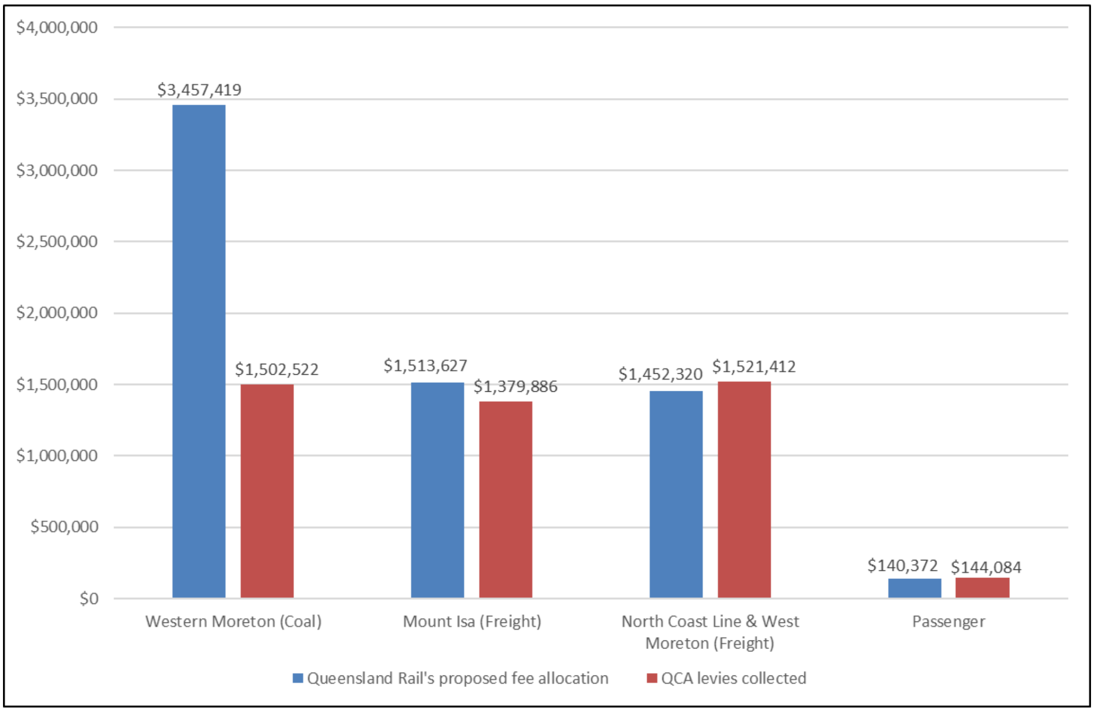
Queensland Rail said all of the 16 papers commissioned by the QCA between May 2014 and June 2016 supported the QCA's consideration of coal services on the West Moreton network.[18] Consequently, Queensland Rail proposed to allocate the largest proportion of the recovery of the QCA fee to users of the West Moreton coal network (Figure 2).

Queensland Rail also proposed to apportion a greater share of costs to services on the Mount Isa line than to the North Coast line. Queensland Rail's analysis of the shares of benefits of regulation that apply to each service type is set out in more detail in its submission.[19]

Queensland Rail therefore proposed to allocate about 65 per cent of the costs for the 'DAU period' of 2014–15 and 2015–16 to West Moreton coal services. However, Queensland Rail said previous QCA levies collected were based on historical weightings and allocations. It said this meant the total QCA levies collected from the West Moreton coal network did not recover the appropriate allocation of costs. The difference between the allocated costs, and the QCA levy actually collected by Queensland Rail since 2010 is shown in Figure 3. Queensland Rail's proposed proportions of fees to be recovered from each service type for the DAU period are shown under the 'DAU period costs' heading in Table 1.

[16] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 4.
[17] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 7.
[18] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 7.
[19] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 8.

Figure 3 Queensland Rail's proposed allocation and levies collected, 2010–2017



Source: Queensland Rail, 2017–18 Levy, January 2018.

Stakeholders' comments

Pacific National supported Queensland Rail's proposed 'beneficiary pays principle' approach and the proposed allocation of QCA levy costs between different systems and train types.[20]

New Hope Group and Yancoal said the proposed beneficiary pays approach and resulting allocations were not appropriate.[21] They said that grain and general freight services, and traffics on other networks (South West, West and Central West) benefited from the existence of the undertaking, as nearly all of the rights also applied to non-reference tariffs.

QCA analysis

While it is impossible to determine precisely how much an access holder benefits from regulation, our draft decision is that the allocations proposed by Queensland Rail for 'DAU period' costs are appropriate to approve.

All freight types, including bulk minerals, container services and West Moreton Coal, benefit from the provisions of the access undertaking that apply to all traffics. These include the negotiation process, the network management principles, the standard access agreement and the reporting requirements.

However, the QCA considers Queensland Rail is correct in assessing that the QCA's costs, and the regulatory benefits, applied more to some types of traffic than others. In forming its view on Queensland Rail's proposed allocations, the QCA has considered *costs*, *benefits*, and *access revenues*.

[20] Pacific National, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018, p. 3.

[21] New Hope Group, submission to the QCA, *Queensland Rail*: *2017–18 QCA Levy*, February 2018, pp. 1, 4; Yancoal, submission to the QCA, Queensland Rail: QCA Levy 2017–18, February 2018, p. 3.

Costs

The issues associated with assessing and approving coal reference tariffs for the West Moreton network accounted for a substantial share of the costs included in the QCA fees for 2014–15 and 2015–16.

We note Queensland Rail's assessment that all 16 of the papers prepared for the QCA between May 2014 and May 2016 as part of the undertaking approval process were entirely for the 'coal' industry (i.e. the West Moreton tariff). We acknowledge that many of the papers, particularly on engineering technical matters, were largely or entirely related to the West Moreton tariff.

However several papers, including the analysis of the economic impact of not including an adjustment amount, were also relevant to other access holders and access seekers. This applies as well to the papers related to the weighted average cost of capital, and to asset valuation methods. These are relevant to all access seekers and access holders, as they negotiate access under the provisions in the 2016 undertaking and, where appropriate, seek information under s. 101 of the QCA Act. Similarly, the standard access agreements were drafted to apply to all access seekers.

Overall, while it is impossible to determine precise estimates of the relative (or absolute) costs that apply to the different parties, we consider that the costs incurred by the QCA support Queensland Rail's proposal to allocate the largest share of the fees to West Moreton Services, followed by Mount Isa and North Coast.

Benefits

Given that West Moreton customers have a reference tariff, they receive a benefit in reduced negotiation costs and certainty of pricing that is not enjoyed by other users of Queensland Rail's network. Mount Isa line customers do not benefit from a reference tariff, but they do rely on the provisions in the undertaking when they negotiate with Queensland Rail for access to the network for bulk commodity haulage. In contrast, pricing for train services on the North Coast line is influenced to some extent by pricing for road transport. On that basis, an assessment of benefits supports Queensland Rail's proposed relative allocations of West Moreton, then Mount Isa, then North Coast.

Access revenues

Mount Isa line mineral services account for the largest share of Queensland Rail's freight revenue—nearly 50 per cent more than West Moreton coal (see Table 2). So, while Mount Isa services do not have a reference tariff, it is appropriate for them to cover a higher share of costs than the North Coast line.

Table 2 Queensland Rail's access charge revenue, $'000

Train service type	***2015–16***		***2016–17***	
	Access charges	Other	Access charges	Other
West Moreton & Metropolitan (coal)	60,682	7,339	58,866	-23,019
Mount Isa (freight)	92,793		83,475	
North Coast & West Moreton (freight)	59,962		50,262	

Note: The revenues are broken down into access charges (sum of AT1 and AT2) and other payments, the latter including rebates and payments that Queensland Rail specified in its reporting.

Source: Queensland Rail, Financial Statements for the Year Ended 30 June 2017, pp. 4, 13

The ability to pass through and recover costs from end customers is also a relevant consideration, particularly for services such as North Coast line freight, and grain and general freight on the Central West network.

Conclusion

Queensland Rail has proposed that approximately 65 per cent of the costs for the DAU period be recovered from West Moreton coal services, 19 per cent from Mount Isa mineral services, and 15 per cent from North Coast line freight services.

As discussed above, taking costs, benefits and revenues into account, the QCA considers it reasonable that North Coast users bear the lowest proportion of the fees. The relative recoveries between Mount Isa and West Moreton are appropriate, with regard to the higher costs and benefits for West Moreton, weighed against the greater access revenues for Mount Isa.

We therefore consider Queensland Rail's proposed allocations take into account the relative shares of costs incurred by the QCA in assessing and approving the 2016 undertaking, and an assessment of the relative benefits. They also reflect other considerations, including the services' shares of revenue for Queensland Rail and the ability to pass through and recover costs from end users.

Accordingly, our draft decision is that it is appropriate to approve the cost allocations between service types that Queensland Rail has proposed for the 'DAU period' of 2014–15 and 2015–16.

2.3 Ongoing regulatory costs

Queensland Rail proposed that for 2016–17 and 2017–18, the relative allocations of the fee be similar to those for the DAU period, with largest share of the QCA fee apportioned to West Moreton coal services, followed by Mount Isa freight, then North Coast Line services.

This reflects an assessment that users of the West Moreton network, which is the only part of Queensland Rail's network with a reference tariff, receive the largest share of the benefits (and drive the largest share of the costs) of the QCA's ongoing work regulating Queensland Rail. However, given a number of matters that increased costs during the DAU period have been settled with the approval of the 2016 access undertaking, the West Moreton share is lower than for 2014–15 and 2015–16 (see Table 1).

The QCA considers this approach to recovering the QCA's ongoing regulatory costs is appropriate as it is a reasonable reflection of the relative costs incurred for and benefits received by users of the network. It also has regard to the relative shares of commercial access revenue received by Queensland Rail from the different categories of access holder. Our draft decision is therefore that it is appropriate to approve Queensland Rail's proposed allocations for ongoing regulatory costs in 2016–17 and 2017–18.

3 TIMING OF RECOVERY

Adjustments to the QCA levy allow for the true-up of under- or over-recovered amounts not captured in the standard levies from previous years. Queensland Rail proposal for the under-recovered amounts from 2010–11 to 2016–17 was to recoup the accumulated total as an adjustment within the 2017–18 QCA levy. This chapter outlines the analysis of the timing of recovery for the under-recovered QCA fees through Queensland Rail's QCA levy adjustments.

Queensland Rail's proposal

Queensland Rail proposed to recover all under-recovered costs in 2017–18, totalling $2.015 million, as an adjustment within a single year's levy rather than smoothing this adjustment over future years. The allocation of these under-recovered costs was based on the under-recovery by service type (Figure 3). This adjustment was in addition to the standard levies recovering the QCA fee for 2017–18 of $198,000, bringing the total QCA levy for this period to $2.213 million.[22] Table 3 summarises the total amount of QCA fees, levy received, and the over- or under-recovery for the period 2010–11 to 2017–18. The accumulated under-recovery of $2.015 million at the end of 2016–17 is the amount that Queensland Rail was proposing to recover through an adjustment to the QCA levy for 2017–18.

Table 3: QCA fees paid and levies received by Queensland Rail's from 2010–11 to 2017–18.

Year	*QCA fee*	*QCA levies received*	*Over- or under-recovery for year*	*Accumulated under-recovery*
2010–11	368,462	128,325	–240,137	–240,137
2011–12	534,562	644,178	109,616	-130,521
2012–13	763,748	865,610	101,862	-28,659
2013–14	670,627	579,828	–90,799	-119,458
2014–15	1,284,673	836,626	–448,047	-567,505
2015–16	2,454,632	760,452	–1,694,180	-2,261,685
2016–17	487,034	732,886	245,852	-2,015,834
2017–18	198,000		–198,000	-2,213,834
Proposed QCA levy for 2017–18				–2,213,834

Note: Negative values signify under-recovered fees.

Source: Queensland Rail, 2017–18 QCA Levy, January 2018.

In its proposal, Queensland Rail stated the reason for recovering the accumulated under-recovery within a single year rather than smoothing it over future years was that the former approach 'better balances the recovery of costs from users most likely to be beneficiaries of the QCA's considerations of the AU1 (the 2016 undertaking) process.'[23]

Queensland Rail said that, while this proposal would include a significant increase in levies for users of the West Moreton coal network, this would only be for a single year. Queensland Rail

[22] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 3.
[23] Queensland Rail, *2017–18 QCA Levy*, January 2018, p. 10.

said other systems would not experience a similar price shock, with users of the North Coast Line receiving a rebate based on accumulated recovery from previous years.

Stakeholders' comments

Pacific National and New Hope Group said the recovery of a seven-year adjustment in a single year was unreasonable[24] and a price shock[25], particularly given the lack of prior notification from Queensland Rail. Both proposed alternative time periods for this under-recovery.

QCA analysis

The QCA considers that it is appropriate for Queensland Rail to recoup its accumulated balance of unrecovered QCA fees in a timely manner.

Queensland Rail's proposed allocations and levy mechanism have the effect of recovering almost all of the outstanding balance of unrecouped fees, as at June 2017, from West Moreton coal users.

As a result, Queensland Rail's proposal increases the 2017–18 levy on those coal users eight-fold, from 3.684 cents a net tonne that has been collected so far in the financial year, to 31.825 cents a net tonne.[26] The affected miners have argued this this is unreasonable and imposes a price shock.

The average reference tariff paid by West Moreton miners in 2017–18 is approximately $8.61 per net tonne, so Queensland Rail's proposed levy represents an increase of about 3.3 per cent of the overall below-rail cost for a single year. While this is not a trivial increase, we do not consider it would cause an onerous financial burden to end users.

Further, Queensland Rail has been carrying an unrecovered balance of more than $2 million for three years.

The QCA's draft decision is therefore to accept Queensland Rail's proposal for the timing of the 2017–18 QCA levy.

[24] New Hope Group, submission to the QCA, *Queensland Rail: 2017–18 QCA Levy*, February 2018, p. 4.
[25] Pacific National, submission to the QCA, *Queensland Rail: 2017–18 QCA Levy*, February 2018, p. 2.
[26] Queensland Rail 2016 Access Undertaking, p. 113

4 QCA DRAFT DECISION

For the reasons outlined in this decision document, our preliminary position is that Queensland Rail has proposed to allocate the QCA fee among train service types appropriately. We have therefore made a draft decision to approve Queensland Rail's proposal for the 2017–18 QCA levy, as submitted under clause 3.7 of the 2016 access undertaking.

Accordingly, the QCA's preliminary position is that the QCA levies for 2017–18 will be $0.31825 per net tonne for West Moreton System coal, and $0.03447 per thousand gross tonne kilometres ('000 gtk) for Mount Isa freight and minerals. North Coast and West Moreton freight and minerals users will receive a rebate of $0.00394 per '000 gtk, reflecting levies paid in previous years.

Stakeholders are invited to comment on this draft decision by 6 June 2018.

REFERENCES

New Hope Group, submission to the QCA, *Queensland Rail: 2017–18 QCA Levy*, February 2018.

Pacific National, submission to the QCA, *Queensland Rail: 2017–18 QCA Levy*, February 2018.

Productivity Commission, *Cost Recovery by Government Agencies*, Part 1, August 2001.

Queensland Rail, *Queensland Rail 2017–18 QCA Levy*, January 2018.

Queensland Rail, *West Moreton System Reference Tariffs (EVE 1.0)*, January 2018.

Yancoal, submission to the QCA, *Queensland Rail: 2017–18 QCA Levy*, February 2018.