22 March 2012

Mr Jim Benstead
Acting Chief Executive Officer
Queensland Rail Ltd
GPO Box 1429
Brisbane QLD 4001

Dear Mr Benstead

Approval of Amendments to Queensland Rail's Costing Manual

On 15 December 2011, Queensland Rail Ltd (QRail) submitted for approval amendments to its costing manual that reflect the separation of QRail from QR National Ltd on 30 June 2010. The amendments are designed to allow QRail to finalise its regulatory financial reports for the 2010-11 financial year.

The Authority considered those proposed amendments under its powers in sections 159 and 160 of the Queensland Competition Authority Act 1997 (the QCA Act). It published the proposed costing manual, sought comments from stakeholders, and received two submissions – from Asciano Ltd and QR National Ltd.

Stakeholder Comments

Asciano indicated that the standard of the proposed costing manual was ‘generally acceptable’ provided the statements were audited, and some specific concerns were addressed. QR National indicated that the changes to the manual were generally limited to issues required to reflect the new structure of QRail, but requested some clarifying statements. The stakeholders’ specific concerns included that:

(a) there is an ambiguous treatment of stations and platforms;
(b) the allocation of plant and equipment, motor vehicle and telecommunications costs should be clarified;
(c) the proportion of a cost which is allocated or identified should be specified; and
(d) the treatment of insurance claims and other payments arising from derailments, flood damage, collisions and third-party damage should be specified.

QR National also requested that the costing manual provide for publication of a variety of information that would help access seekers and holders assess costs incurred and prices proposed by QRail. Asciano asked that the QRail costing manual not be used as a precedent when considering QR National’s costing manual.
Authority's Analysis

The Authority considers that QRail needs to take into account the specific concerns raised by QR National and Asciano about identified clauses in the costing manual as it prepares its financial statements. However, none of the concerns set out by the stakeholders is serious enough to justify rejecting the proposed costing manual at this time.

The costing manual specifies in 6.3(h) that the notes to the financial statements should 'provide explanation of material matters about which an informed reader would need to be aware to understand the Financial Statements'. In order to meet this requirement, QRail will need to address in the notes material issues associated with the concerns raised by the stakeholders.

Further, a number of the concerns raised by stakeholders, including those about increased disclosure of line-specific costs, are best addressed after the 2012 Draft Access Undertaking (DAU) has been finalised, and may be better resolved in the undertaking rather than the costing manual. The Authority will work with QRail and stakeholders to revise the costing manual once the DAU is approved, so that the regulatory financial reports can be fully aligned with the new undertaking.

The Authority notes Asciano's concern that the QRail costing manual should not be seen as a precedent for the QR Network costing manual. In this context, the Authority notes that it will assess future amendments to the QR Network costing manual on their merits and, in particular, the vertical integration issues presented by QR National’s operation of an above-rail freight business.

The Authority also notes in relation to Asciano’s comments that QRail’s regulatory financial statements are audited by the Queensland Audit Office.

Decision

The Authority has approved the proposed changes to QRail’s costing manual as they are consistent with the QCA Act, and are sufficient to guide the preparation of both the 2010-11 and 2011-12 accounts of QRail.

Yours sincerely

EJ Hall
Chief Executive