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22 October 2020

Mr Jim Benstead
Head of Regional
Queensland Rail
Level 14, Rail Centre 1
305 Edward Street
Brisbane Qld 4001

Dear Mr Benstead

Queensland Rail's costing manual 2020

On 22 October 2020, the Queensland Competition Authority approved Queensland Rail's proposed amendments to its cost allocation manual to apply from 2020–21. In accordance with section 160 of the QCA Act, we have attached a copy of the approved costing manual and will also publish that on our website.

If you have any questions about this decision notice, please contact Pag Arao-Arao on 07 3222 0560 or by email on pag.arao-arao@qca.org.au

Yours sincerely

Charles Millstead
Chief Executive Officer

cc: *Tania Homan, A/General Manager Commercial and Rail Access*

DECISION NOTICE

QUEENSLAND RAIL'S 2020 COSTING MANUAL

22 October 2020

The QCA has approved Queensland Rail's proposed amendments to Queensland Rail's cost allocation manual under division 9 of the *Queensland Competition Authority Act 1997* (the QCA Act).

Background

The services provided by Queensland Rail's intrastate rail network were declared on June 2020, making the services subject to the third-party access provisions of the QCA Act for another 15 years.¹ As a result of that declaration, Queensland Rail, access seekers and access holders have rights and obligations relating to the negotiation of the terms and conditions of access to Queensland Rail's rail transport infrastructure.

On July 2020, the QCA approved Queensland Rail's 2020 access undertaking (AU2), which sets out the rights and obligations of Queensland Rail in providing access to access seekers.

AU2 requires Queensland Rail to produce separate financial statements for its below-rail services, and for the below-rail financial statements to be prepared and audited in accordance with the format specified in an approved costing manual (cl. 5.3.1).

Queensland Rail's cost allocation manual

Queensland Rail submitted a cost allocation manual for our consideration in August 2020, proposing amendments to its 2019 cost allocation manual, which expired with the previous undertaking.

Queensland Rail said that proposed amendments are designed to:

- (a) reflect the changes to Queensland Rail's organisation structure that were implemented in late 2019. The costing manual was reviewed to reflect the new internal structure for the delivery of rail services, business functions and remove references to previous organisational arrangements
- (b) simplify the language and complexity of the document to improve readability
- (c) reflect the 2020 access undertaking (AU2) changes.

¹ The Treasurer's decisions in relation to the Queensland Rail service was published in the Queensland Government Gazette (Extraordinary Queensland Government Gazette no. 31 for 1 June 2020, vol. 384, pp. 216–51).

Statutory requirement and regulatory process

The QCA Act (division 9), requires Queensland Rail, being a declared service, to keep accounting records for the provision of below-rail infrastructure services (the below-rail financial statements), in which the cost allocation manual is a key document. We can approve or revise a costing manual, following consultation with Queensland Rail and any other persons we consider appropriate, taking into account Queensland Rail's accounting system (s. 159(3)).

Key assessment criteria

The purpose of a cost allocation manual is to provide a framework for identifying, attributing and allocating asset costs, revenues and investments related to Queensland Rail's below-rail services, when Queensland Rail prepares its below-rail financial statements. The below-rail financial statements act to facilitate access to the below-rail infrastructure.

We considered Queensland Rail's proposed cost allocation manual and these amendments under ss. 159–160 of the QCA Act. We published Queensland Rail's proposed cost allocation manual and sought comments from Queensland Rail and interested stakeholders. We received a submission from Pacific National.

Pacific National broadly supported the updated manual but expressed a preference for information presented to be 'further disaggregated to allow for a more detailed consideration of the actual costs'², and a lower standard allocator A (currently at 45%) from the share of Queensland Rail wide for corporate overheads and services³.

In reviewing Queensland Rail's cost allocation manual, we have considered whether the manual adequately deals with the allocation of costs. In doing so, we consider that the proposed amendments:

- simplify the language and aggregated repetitive clauses, allowing for conciseness and easing navigation
- adequately reflect the changes needed for the new access undertaking
- delete redundant clauses, update roles and functions, and reflect the business's new organisational structure
- remain consistent with the previously approved standard allocators in schedule C.

Additionally, when considering Queensland Rail's proposed cost allocation manual and the adequacy of how it allocates costs, we have had regard to the wider regulatory settings that apply to Queensland Rail's declared below-rail services, including the associated information disclosure requirements under AU2. Information contained in the below-rail financial statements based on the cost allocation manual is a complement to, but not a substitute for, information contained in our AU2 final decision. In particular, access seekers on the West Moreton system should look to that decision as a key source of information to understand the applicable reference tariffs.

Decision

For the reasons discussed above, we are satisfied that the cost allocation manual prepared by Queensland Rail dated 20 August 2020 appropriately deals with the allocation of costs. In compliance with s. 160 of the QCA Act, we will publish the approved cost allocation manual on our website.

² Pacific National, submission to the QCA, *Queensland Rail's 2020 costing manual*, p. 1.

³ Pacific National, p. 2.