

Our ref: MCR-14-327

Dr. Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Dr Roberts



AU1 Risk Free and Debt Margin– West Moreton Reference Tariff

Queensland Rail submitted a West Moreton Reference Tariff Reset to the Queensland Competition Authority (QCA) on 28 June 2013. This reset is part of the process for the QCA's assessment of 'Queensland Rail's Draft Access Undertaking 1' (AU1).

In determining the building blocks for the reference tariff, the QCA's practice to date has been to use the promised yield on Australian Commonwealth Government nominal bonds and the corporate bond spread, averaged over a 20 business day period, as proxies for the risk-free rate and the debt margin. The risk free rate and debt margin are both inputs into the determination of the Weighted Average Cost of Capital (WACC).

Regulatory precedent generally supports using WACC parameters that coincide with the start of the "regulatory period". While the regulatory period will not formally start until the approval of AU1 (at a future point in time), Queensland Rail has proposed through its drafting of AU1 that the West Moreton reference tariff be backdated to 1 July 2013. In recognition of this backdating, Queensland Rail is nominating the 20 business day period immediately prior to 1 July 2013 for the determination of the risk free rate and debt margin.

If you have any questions please contact Douglas Jasch, Manager Regulation and Policy, on (07) 3072 0544.

Yours sincerely


Helen Gluer
Chief Executive Officer

10 June 2014