

Friday, 17 February 2017

Mr Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
Level 27  
145 Ann Street  
Brisbane Qld 4000

Submitted via QCA Internet Portal

Dear Mr Millstead

## **Pacific National Submission Regarding the Queensland Rail 2016 Cost Allocation Manual**

### **Background**

Pacific National welcomes the opportunity to respond to the Queensland Competition Authority (QCA) on the Queensland Rail Cost Allocation Manual submitted to the QCA in December 2016. Pacific National is a major access holder and above rail operator on Queensland Rail infrastructure.

Pacific National has a strong interest in ensuring that rail infrastructure costing manuals are well designed and contain appropriate cost allocation processes, as this will result in appropriate and efficient pricing for below rail services. Pacific National believes that there are several areas where further improvements should be made to the Proposed Costing Manual. These are outlined in this submission.

This submission is public.

### **Pacific National's Specific Comments on the Proposed Costing Manual**

Pacific National has some specific concerns with the proposed Queensland Rail Costing Manual including:

- The Proposed Costing Manual uses the term “corridors” in various locations (for example section 2.1). Pacific National believes that the term “corridors” should be defined or alternatively if the term “corridors” means the regions and systems described in the Proposed Costing Manual Schedule A this should be confirmed.
- The Proposed Costing Manual Section 1.3 outlines the purpose of the Costing Manual. Pacific National believes that this section should include that an explicit purpose of the Costing Manual is as a means of informing audit and review processes to be undertaken by the QCA. This purpose may be implicit in the Costing Manual but Pacific National believes that it should be explicitly stated in section 1.3.
- The Proposed Costing Manual Section 2.2 c) states that the Costing Manual expires in June 2020, which is the same time as the current Queensland Rail Access Undertaking expires. Pacific National believes that in the event that the QCA extends the current Queensland Rail Access Undertaking then the Costing Manual should also be extended or a new Costing Manual should be submitted.
- The Proposed Costing Manual Section 2.2 c) states that if QCA ceases to be the regulator then Queensland Rail may withdraw the costing manual. Pacific National believes that such an approach may not be ideal if another regulatory body such as the ACCC continues in a regulatory role similar to the role of the QCA. In these circumstances Pacific National believes that it would be more appropriate for

#### **Sydney**

Level 18, 15 Blue Street  
North Sydney NSW 2060  
Telephone: +61 2 8484 8000

#### **Melbourne**

Level 4, 476 St Kilda Road  
Melbourne VIC 3004  
Telephone: +61 3 9248 7000

[www.pacificnational.com.au](http://www.pacificnational.com.au)

Pacific National Pty Ltd  
ACN 098 060 550

Queensland Rail to keep the manual operational until the processes required by any new regulator are clear.

- The Proposed Costing Manual Section 2.3 allows Queensland Rail to submit amendments to the Costing Manual to the QCA. Pacific National believes that the QCA should consult with access holders prior to approving or not approving any non-trivial amendments being sought by Queensland Rail.
- The Proposed Costing Manual largely relates to costing allocations for Below Rail Services. The Proposed Costing Manual Section 3.1 c) notes that;

*Network is responsible for the provision or procurement of appropriate levels of maintenance and investment in stations and platforms. These items are not included in Below Rail Services provided by Queensland Rail.*

However the definition of Below Rail Services states

*Below Rail Services means the activities associated with the provision and management of Rail Infrastructure within Queensland, including the construction, maintenance and renewal of Rail Infrastructure assets...*

and the definition of Rail Infrastructure states

*Rail Infrastructure means Rail Transport Infrastructure, except that the term does not include the track and associated infrastructure on those parts of the network not identified as the responsibility of Queensland Rail in the Undertaking, but for the purpose of clarity, does include all stations and platforms*

Thus the 3.1 c) wording indicates stations and platforms are not included in Below Rail Services but the definitions of Below Rail Services and Rail Infrastructure indicate stations and platforms are included in Below Rail Services. This apparent contradiction should be clarified. Pacific National believes that stations and platforms should not be included in the costs allocated to freight rail operators as these operators typically use intermodal terminals and bulk loading facilities which are specific to freight rail operations rather than stations and platforms.

- The Proposed Costing Manual Section 3.2 d) states that the rigid application of the manual methodology is not required for immaterial amounts. Pacific National does not oppose this concept but seeks that there be some definition of “immaterial amounts”.
- The Proposed Costing Manual Sections 3.3 and 4.5 outline the nature and treatment of Queensland Rail’s inter-company charges, agreements and transactions. Pacific National believes that the costing manual should require that inter-company charges, agreements and transactions be fair and reasonable and should provide additional detail on these inter-company charges, agreements and transactions.
- The Proposed Costing Manual Table 4.2 identifies various costs as “ident / alloc” – that is the costs are based on both identifiable costs and allocated costs. While Pacific National recognises that the Proposed Costing Manual describes in broad terms how these costs are identified and or allocated, Pacific National believes that when the accounts prepared under the Costing Manual are published these accounts should include a statement as to the proportion of identified costs and allocated costs for these cost categories.
- The Proposed Costing Manual Sections 4.3.3.7, 4.3.3.8, 4.3.3.9, 5.3.2.5, Table 4.2 and Schedule B all discuss or address the treatment of the costs of derailments, collisions, floods and third party damage. While these costs are relevant and should be reflected in the accounts Pacific National believes that the

Costing Manual should address how payments received by Queensland Rail from their insurers for derailments, collisions, floods and third party damage are taken into account. Pacific National believes that any insurance payments should be netted off these costs.

- Pacific National broadly supports the costing principles in section 3.2 of the Proposed Costing Manual but believes these principles could be further improved by explicitly including a principle that no cost will be fully allocated more than once (i.e. there will be no double-counting of costs). This principle may be implicit in the Proposed Costing Manual but Pacific National believes that it should be explicitly stated in section 3.2.
- Schedule B of the Proposed Costing Manual outlines the pro forma financial statements which are the outcome of applying the Costing Manual. Pacific National's concern with these statements is that they are relatively high-level financial statements and as such are of limited use to third parties such as access holders. The expense elements of these financial statements should be further disaggregated to allow scrutiny of the actual costs allocated to Below Rail Services.

### **Conclusion**

As outlined above Pacific National believes that there are several areas where further improvements should be made to the Proposed Costing Manual.

If you wish to discuss this submission please contact me on 02 8484 8056 or Ying Yeung on 07 3002 3726.

Yours Faithfully

Stuart Ronan  
Manager Access and Regulation  
Pacific National