

20 August 2020

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

Dear Mr Millstead

On 1 July 2020, the Queensland Competition Authority (**QCA**) approved the Queensland Rail Access Undertaking 2 (**AU2**) and on 30 June 2020, the Queensland Rail Costing Manual 2019 expired.

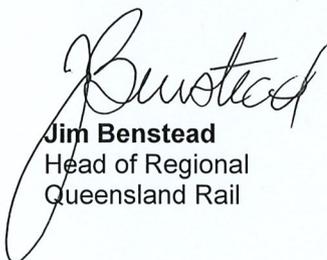
AU2 requires, amongst other things, Queensland Rail to produce separate Financial Statements for the Below Rail Services provided by Queensland Rail. Section 5.3.1 of AU2 requires the Financial Statements to be audited and the audit certificate to specify whether or not the Financial Statement has been prepared, in all material respects, in accordance with the processes outlined in the Costing Manual and consistent with the format specified in the Costing Manual.

Section 163(1) of the *Queensland Competition Authority Act 1997 (QCA Act)* requires Queensland Rail to keep, in a form approved by the QCA, accounting records for the service separately from accounting records relating to other operations of the access provider. These requirements are set out in the Costing Manual

Section 159(b) of the QCA Act provides that the authority may, from time to time, revise the manual. In accordance with this provision, please find attached for the QCA's review and approval, Queensland Rail's Draft Costing Manual 2020 and notes explaining the proposed changes from the Costing Manual 2019.

If your officers have any questions in relation to this matter, they can contact Ms Tania Homan on (07) 3072 1173 or tania.homan@qr.com.au.

Yours sincerely



Jim Benstead
Head of Regional
Queensland Rail

Draft Costing Manual 2020 – Explanatory submission

20 August 2020

 QueenslandRail



Table of Contents

Overview	1
Part 1 Purpose and scope of the Costing Manual	2
Part 2 Costing Framework	3
Part 3 Separation of below rail assets, costs, revenue and investments	5
Part 4 Financial Statements	9
Part 5 Definitions	10
Schedules	11

Overview

Queensland Rail has an Access Undertaking — the Queensland Rail Access Undertaking 2 (**AU2**) approved by the Queensland Competition Authority (**QCA**) that provides the framework for negotiations with access seekers for access to declared rail infrastructure for the purpose of operating Train Services.

AU2 provides the framework for Queensland Rail to negotiate and provide safe access to rail infrastructure, including providing pricing principles, network management rules and provides a performance reporting framework for interested stakeholders.

Queensland Rail is an integrated railway provider in that it provides both below rail services as a Railway Infrastructure Manager (**RIM**) and above rail passenger services as a railway operator. Queensland Rail operates passenger services connecting regional communities across Queensland with other regional centres and the South East Queensland (**SEQ**) corner and provides rail access to Rolling Stock Operators and other supply chain customers, to enable the transport of resources and general freight across the State. Queensland Rail is not a rail freight operator (i.e. it does not participate in the above rail freight market).

Division 9 of the *Queensland Competition Authority Act 1997 (QCA Act)* sets out the Accounting Procedures for Declared Services. Section 163(1) of the QCA Act requires Queensland Rail to keep, in a form approved by the authority, accounting records for the service separately from accounting records relating to other operations of the access provider.

Division 9 of the QCA Act and the more specific requirements of AU2 requires Queensland Rail to produce separate Financial Statements for the Below Rail Services provided by Queensland Rail. These Financial Statements will take the form of a statement of assets, a statement of earnings before interest and tax and a statement of investments. Section 5.3.1 of AU2 requires the Financial Statements to be audited and the audit certificate to specify whether or not the Financial Statement has been prepared, in all material respects, in accordance with the processes outlined in the Costing Manual and consistent with the format specified in the Costing Manual.

The Costing Manual plays an important role in identifying the below rail costs of providing services on Queensland Rail's rail infrastructure and the allocation of costs by function and geographic region.

Queensland Rail proposed that the QCA revise the Costing Manual as set out in Section 159 (2) and (3). **Attachment 1** sets the proposed Draft Costing Manual 2020, with the proposed changes reflecting the following:

- a) Amendments to reflect the replacement of the Queensland Rail Access Undertaking 1 (**AU1**) with AU2.
- b) Amendments to reflect the changes to Queensland Rail's organisation structure which were implemented in late 2019. The new organisational structure now reflects two separate businesses for the regional and SEQ rail service functions, as well as restructured corporate services to support the business. The Costing Manual has been reviewed to reflect the new internal structure for the delivery of rail services and remove what are now outdated references to the previous organisation arrangements.
- c) proposed amendments to simplify the language and complexity of the document to improve readability and to ease of administration. The review of the Costing Manual has resulted in a document that is half the length but achieves the same result from a cost allocation perspective.

This explanatory document sets out the major changes proposed to the previous Costing Manual approved by the QCA and the reasons for the proposed changes.

Part 1 Purpose and scope of the Costing Manual

(Previously Part 1 Purpose of the Costing Manual and Part 2 Scope and administration of costing manual)

The main changes Queensland Rail proposes for the revised purpose and scope of the Costing Manual are set out below.

Section (Current costing manual)	Proposed amendment	Rationale
Part 1 & 2	Part 1 and 2 of Costing Manual combined to single Part 1	General revision of drafting to simply and to improve readability and understanding.
Clause 1.1 (c)	Rail Manager changed to Rail Infrastructure Manager	Definition amended to align with the Rail Safety National Law definition.
Clause 1.1 (e)	Deleted	Unnecessary clause. Queensland Rail has submitted the revised Costing Manual to better match the revised organisational structure and make other amendments to improve the administration of the Manual.
Part 2 Clause 2.1 (a) b	Amended to remove references to corridors.	The Below Rail Financial Statements are reported to Geographic Region level only, not to the lower corridor level. Queensland Rail has not developed costing information to the corridor level since 2010.
Clause 2.1 (d)	Deleted.	The treatment of passenger stations and associated facilities as Above Rail is deleted with in the new Clause 2.1 (c).
Clause 2.2 (b)	Costing manual expiry date amended from 30 June 2020 to 30 June 2025	Expiry date amended to align with the expiry of AU1 to the expiry AU2
All clauses	Drafting simplified, where possible All sections renumbered to reflect new drafting.	Simplification of drafting to improve readability and understanding.

Part 2 Costing Framework

(Previously Part 3 Costing Framework)

The main changes Queensland Rail proposes for the revised Costing Framework are set out below.

Section (Current costing manual)	Proposed amendment	Rationale
3.1 (a)	<p>Description of organisational structure amended to reflect the new organisational structure implemented within Queensland Rail to focus on Regional Queensland and South East Queensland.</p> <p>The remaining functions within Queensland Rail are either corporate overheads or corporate services that support the provision of services by the Regional Queensland or South East Queensland functions.</p>	Description of the organisational structure to align with Queensland Rail's new operation arrangements.
3.1 (b)	Deleted	<p>The new Regional and South East Queensland functions undertake both above and below rail services with a network function no longer separately identified.</p> <p>The Costing Manual will continue to provide the framework for the allocation of costs to either Above Rail Services or Below Rail Services.</p>
3.1 (c)	Clause amended to reflect that both the Regional and South East Queensland functions have responsibility for stations and platforms. Stations and platforms are Above Rail Services.	Amendment to reflect changes to Queensland Rail's organisational structure.
Clause 3.1 (d) and 3.1 (e)	Deleted	Allocation of functions does not match new organisational structure within Queensland Rail. Functions are described in the new Clause 2.1 (b).
Clause 3.2 (a)	Concept retained but clarified in three shorter paragraphs 2.2 (a) to (c)	Simplification of drafting to improve readability and understanding.
Clause 3.2 (c) (ii)	<p>Clause amended to remove the process for allocation of costs to individual Corridors within the Geographic Region.</p> <p>The example of regional train control amended to reflect the internal process of Identification of costs to train control and then Allocation of costs to Geographic Regions.</p>	Drafting to reflect the proposal to remove the concept of allocation of costs to corridors from the Costing Manual. The current Costing Manual notes the allocation of Below Rail costs to a more detailed geographic level is essentially arbitrary in nature.
Clause 3.3 (d)	Clause simplified.	Drafting shortened, but intent of clause retained.

Section (Current costing manual)	Proposed amendment	Rationale
Clause 3.3 (f)	Amended to include reference to the allocation of West Moreton Region's, Mount Isa Region's and North Coast Region's respective share of assets, costs, revenues and investments Identified as attributable to the network as a whole	Discussion on Standard Allocators consolidated into single section.
Clause 3.3 (g) (iv)	<p>Additional sentence added to treatment of the Internal Telecommunications Backbone charges.</p> <p>Notwithstanding (i) above, internal telecommunications backbone charges may include a return on assets charge when charged to Above Rail Services;</p>	<p>Sentence included to clarify that the principle that internal lease / capital charges associated with Queensland Rail assets as per Clause 3.2 (g) (i) is not applicable to the internal charging arrangement for the telecommunications backbone.</p> <p>Queensland Rail understands that Clause 3.2 (g) (i) was included in the Costing Manual prior to separation in 2010, when the former entity had a separate asset leasing company for the provision of services such as track machines.</p>
Clause 3.3 (h)	Clause moved from previous 4.1 (b)	Discussion on Standard Allocators consolidated into single section.
All clauses	Drafting simplified, where possible Sections / clauses renumbered to reflect new drafting.	Simplification of drafting to improve readability and understanding.

Part 3 Separation of below rail assets, costs, revenue and investments

Previously Part 4 Separation of below rail assets, costs, revenue and investments and Part 5 Hierarchy of Below Rail Assets, Costs, Revenue and Investments.

The main changes Queensland Rail proposes for the revised Costing Framework are set out below. It is proposed that the description of how the separation of below rail assets, costs, revenue and investments be combined with how these assets, costs, revenue and investments are allocated by geographical region. Including this description in one section rather than being split across two should remove the risks of any treatment being overlooked and lower the risk of interpretation errors.

The allocation of assets, costs, revenue and investments to geographical regions is proposed to be included in the revised Costing Manual by exception, that is where there is treatment is particular to the relevant asset, cost, revenue or investment.

The treatment of assets, costs, revenue and investment identified as attributable to the network as a whole (ie. Network Wide items) shall be Allocated to the West Moreton Region, Mount Isa Region or North Coast Region has been included in an expanded Schedule C. Schedule C also includes how allocator descriptions formally included in Table 5.1.

Section (Current costing manual)	Proposed amendment	Rationale
Clause 4.1 (a)	Deleted	This clause repeats the new clause 1.4 (b)
Clause 4.1 (b)	Moved to a new Clause 2.3 (i)	Clauses regarding use of Standard Allocators consolidated in new Section 2.2 Costing Principles – and now appears as Clause 2.3 (i)
Clause 4.2.4 (e)	Amended to state that: Any net deferred tax asset/liability shall be Identified as Other Services	Wording of clause simplified to improve readability and remove complexity.
Clause 4.3.2.1	Delete – ‘It also covers the time of station staff involved in the transmission of train orders and train working communications’ Amend (ii) from ‘certain regional stations’ to ‘some locations’, to better reflect the transition points for third party signalling and safeworking arrangements.	All station staff are treated as Above Rail – with no separate identification of these functions, if they occur at all. Amendment to drafting to better reflect the third party signalling and safeworking arrangements.
Clause 4.3.2.3	Amended to state that:	Amendments required to reflect the changed organisational structure within Queensland Rail.

Section (Current costing manual)	Proposed amendment	Rationale
	<p>The following operations management functions performed by SEQ and Regional are Below Rail. These cost item shall be Identified in Queensland Rail's Costing System separate from other functions carried on (such as train operations, train crew, stations etc) and include:</p> <ul style="list-style-type: none"> • Train control • Contract signalling and safeworking • Signalling and safeworking • Incident investigation and management <p>Any other significant item that is not of an administrative nature.</p>	
Clause 4.3.3.4	<p>Clause simplified to read</p> <p>(a) Telecommunications maintenance is to be separated into two categories, the Telecommunications Backbone Network and Customer Premises Equipment:</p> <p>(i) Telecommunications backbone assets are Network Wide assets and are Below Rail</p> <p>(ii) Customer premises equipment (such as locomotive radios, passenger information display systems and public address systems) shall be Attributed to Geographic Regions within Queensland Rail by an analysis of Cost Centres. The equipment is then Attributed to Geographic Regions or Network Wide in a manner consistent with that area's activities.</p>	Existing clause provides more detail than necessary to provide guidance on the allocation of costs to Above and Below Rail functions. Revised clause similar to that provided in the Aurizon Network Costing Manual.
Clause 4.3.3.5 (a)	<p>Amend to clarify that:</p> <p>This item refers to the administration of infrastructure and infrastructure and is Identified by cost centre. The Costing Accounts <i>already included in the direct</i> shall exclude infrastructure administration that is infrastructure maintenance cost.</p>	Clause amended to clarify that separate identification of infrastructure administration is only for those costs which are not already included in direct maintenance costs. Queensland Rail includes directly Identifiable Infrastructure Administration costs in its cost allocation for direct maintenance activities.

Section (Current costing manual)	Proposed amendment	Rationale
	<p>Costs are to be Attributed to Below Rail or Above Rail based on the value of Below Rail and Above Rail maintenance performed. This is to account for the proportion of maintenance activities that are related to passenger stations.</p>	<p>Second paragraph amended to remove reference to SEQ with Regional and SEQ now both engaged in the provision of Above and Below Rail activities.</p>
<p>Clause 4.3.3.6</p>	<p>Delete</p> <p><i>'but exclude the cost of early retirement schemes. The costing variances are to be treated as 100% Below Rail, except for Network SEQ costing variance which is to be Attributed to Below Rail or Above Rail based on the value of Below Rail and Above Rail maintenance performed'.</i></p>	<p>Clause amended to take account of new organisational structure, which no longer has a Network SEQ component and where the Regional function also includes Above Rail services.</p>
<p>Clause 4.4.3.1</p>	<p>Include:</p> <p>Internal access revenue (<i>including access charges charged to Citytrain, Traveltrain and maintenance trains</i>) to be reported as Access Charges – Other revenue for the purposes of the Financial Statements. These items are to be the amounts based on actual traffic for the relevant year.</p>	<p>Clause amended to provide examples of internal access charges.</p>
<p>Clause 4.4.3.2</p>	<p>Amend clause to include</p> <p>This item is 100% Below Rail. These charges are nominal and determined by reference to internal agreements (including, where necessary, previous years agreements escalated). <i>Internal telecommunications backbone charge may include a return on assets.</i></p>	<p>Clause to clarify that the internal telecommunications charges may include a return on assets, notwithstanding the restriction on capital charges associated with Queensland Rail assets (Clause 3.3 (g)(i)).</p>
<p>Clause 4.5.2 (c)</p>	<p>Delete</p>	<p>Operations no longer exists as a function within Queensland Rail.</p>
<p>Clause 4.5.2 (d)</p>	<p>Amend clause to read</p> <p>Other projects are to be analysed individually and treated as follows:.....</p>	<p>Clause amended to remove reference to old Queensland Rail structure and refer more generally to the corporate function.</p>
<p>Clause 4.5.3</p>	<p>Investments by Queensland Rail in other entities or joint ventures will not usually be reported in the <i>Statement of Investments</i> as it which reports deals with fixed assets only.</p>	<p>Clause clarified to reflect it refers to the Statement of Investments rather than the more general investment program report.</p>

Section (Current costing manual)	Proposed amendment	Rationale
All sections	Drafting simplified, where possible. Section uses tables, where appropriate, to simplify reading. All sections renumbered to reflect new drafting.	Simplification of drafting to improve readability and understanding.

Part 4 Financial Statements

Previously Part 6

No amendments proposed

Part 5 Definitions

Previously Part 7 Definitions

Section (Current costing manual)	Proposed amendment	Rationale
Above Rail Costs	Deleted	Unnecessary to define
Below Rail Costs	Deleted	Unnecessary to define
Corridor	Amended to remove reference to consistent traffic type and density of tariff – neither of which are relevant to the allocation of costs for a railway route	Consistent traffic type is not relevant to the corridor definition.
Corridor Specific	Deleted	Costs are allocated to Geographic Regions, rather than a lower level corridor specific level.
Costing Accounts or Costing System	Definition included	This term was not previously defined and has been included to add clarity
Mount Isa Region	Deleted	Mount Isa Region is defined in Schedule A
Network SEQ	Deleted	Network SEQ is no longer an organisational unit in Queensland Rail
North Coast Region	Deleted	North Coast Region is defined in Schedule A
Railway Manager	Amended to Railway Infrastructure Manager	Amendment to reflect Rail Safety Law
Region Specific	Amended to remove reference to corridor	Below Rail Statements allocate costs to the Geographic Region, not to corridors
West Moreton Region	Deleted	West Moreton Region is defined in Schedule A

Schedules

Section (Current costing manual)	Proposed amendment	Rationale
Schedule A	No amendments	No amendments required to the system definitions
Schedule B	No amendments	No amendments proposed to pro forma financial statements
Schedule C	Treatment of standard allocators previously included in Part 5 now included in Schedule C	Consolidation of discussion on allocators included in single section
	<p>Schedule C proposes that Queensland Rail recalculate the items in Table C.1 on a rolling three year basis – but does not require this rolling update to be approved by the QCA</p> <p>For transparency, Queensland Rail will report the allocator percentages in the annual report.</p>	<p>The updates to the allocators are formulaic – with the QCA process adding time and administrative costs.</p> <p>The proposed amendment will simplify the process.</p>
	Removes 'Allocator B'	Queensland Rail is able to identify/attribute all costs related to operations management and no longer uses this allocator.
Schedule D	New organisational chart inserted	Revised charge reflects Queensland Rail's current organisation structure
All clauses	<p>Drafting simplified, where possible</p> <p>All sections renumbered to reflect new drafting.</p>	Simplification of drafting to improve readability and understanding.