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Mr E. John Hall
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Hall,

Queensland Rail Costing Manual

QR National welcomes the opportunity to respond to the Queensland Rail Costing Manual (the Costing Manual) submitted to the Queensland Competition Authority (QCA) on 16 December 2011 and issued for consultation by the QCA on 31 January 2012.

QR National is the largest freight operator using the network managed by Queensland Rail.

QR National transports:

- Coal traffic on the West Moreton System in South West Queensland;
- Bulk minerals, substantially on the Mt Isa Line; and
- Intermodal and General Freight traffic on most of the network with the majority of volumes on the North Coast Line.

In addition, the operation of QR National's coal and non-coal freight trains on the West Moreton System and the North Coast Line are significantly impacted by other operations (particularly passenger operations) in the Metropolitan System.

Queensland Rail has reference tariffs in place for coal traffic on the West Moreton System. The access charges for non-coal freight traffic are negotiated according to the pricing principles in the Undertaking.

QR National would like to comment on the following matters in relation to the Costing Manual:

1. General reporting and transparency of information; and
2. Proposed methodology for the allocation of costs.

General reporting and transparency of information

Queensland Rail has identified that the principal purpose of the Costing Manual is to “provide a framework for the identification, attribution and allocation of assets, costs, revenues and investments relating to Below Rail Services provided by Queensland Rail and the development of Financial Statements required in accordance with the undertaking”¹

The 2010 Undertaking² requires Queensland Rail to prepare financial statements in accordance with the Costing Manual³.

The Costing Manual proposed by Queensland Rail interprets the requirements of the Undertaking to require separate reporting of the West Moreton System. This reporting framework provides transparency on the below rail financial statement for the West Moreton system even though a framework is in place to provide access seekers with confidence regarding the level of tariffs to be charged. However, in regards to other significant parts of the Queensland Rail network, such as the Mt Isa Line and North Coast Line, Queensland Rail proposes reporting at a more aggregated level; summarising these sections with the regional networks. These two sections of the network are significant, separately identifiable parts of the Queensland Rail network, and there is interest from users in having the Costing Manual report on them in their own right.

Other financial information publicly available to access seekers includes the Statement of Corporate Intent and Annual Report published annually by Queensland Rail. Currently this information is provided on an organisation-wide basis, with no segment reporting for above and below rail accounts, systems or commodities transported.

As noted above, applicable reference tariffs do not exist for Mt Isa Line and North Coast Line traffic. Whilst the dispute resolution mechanism is available in the event the negotiations between the parties breakdown, the availability of financial information will most likely reduce the requirement for costly and time-consuming dispute resolution. The publication of financial information, in the absence of published tariffs, can provide confidence in the regime and ensure that access seekers are able to hold an effective negotiation. On this basis, QR National would like to see the Costing Manual require separate below rail financial information relating to costs, revenues, and investments particularly for the North Coast Line and the Mt Isa Line.

QR National considers that the public availability of this information would inform stakeholders, result in the strengthening of the rail freight industry in Queensland and as such would be of benefit to Queensland Rail.

¹ Clause 1.3 of the Costing Manual

² Queensland Rail is subject to the 2008 access undertaking the QCA approved for QR Network, as amended to include new tariffs and tariff-setting rules in June 2010 and extended on 19th May 2011, to 30 June 2012 (2010 Undertaking)

³ Clause 3.2.1 of the 2010 Undertaking

In summary, QR National believes there is an opportunity to revisit the purpose of the Costing Manual to address information needs of all access seekers to the Queensland Rail network, namely:

- The ability to monitor financial returns to ensure the regulated services that are not subject to a tariff are priced in line with the pricing principles in the Undertaking;
- Improve transparency about the efficient investment in infrastructure and provide some indication on the prospective movement of access charges over time;
- Reduce information asymmetries enabling a more effective negotiation between access seekers and monopoly providers of infrastructure services; and
- Provide assurance that the regulated entity is employing appropriate vigor in its management of the attribution and allocation of costs and revenues across its network so that it is not engaging, whether incidentally or deliberately, in cost shifting between regulated and non regulated services or between systems.

Proposed methodology for the allocation of costs, fixed assets and revenue

QR National notes that Queensland Rail generally has limited changes to the Costing Manual to those issues required to better reflect its organisational structure. The inclusion of clarifying statements would be of assistance in the following circumstances:

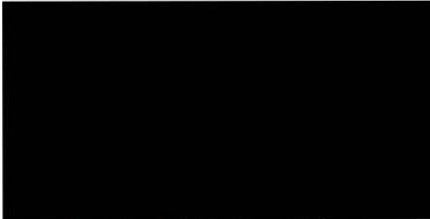
- In clause 3.3(a), there is no reference to internal costing accounts reconciling to audited general purpose financial statements. QR National would expect that the financial statements produced in line with the Costing Manual would be audited and reconciled to the audited general purpose financial statements.
- In clauses 4.2.2.4, 4.2.2.5 and 4.2.2.13, clarify that Plant and Equipment, Motor Vehicles and Telecommunications customer premises equipment will be allocated according to the functions provided by the areas to which the assets are identified.
- In clause 4.4.3.3(c), clarification that buildings or facilities utilised for housing Telecommunications backbone equipment are allocated 100% to below rail when they are wholly used for that purpose.
- In relation to business management costs (clause 4.4.4), clarification of whether below rail activities performed by Operations attract a portion of Operations overhead costs and on what basis. Conversely whether above rail activities performed by Network are allocated a portion of Network overhead costs and also on what basis.

Whilst QR National agrees the use of standard allocators is appropriate in certain circumstances, assurance on the methodology and reasonableness is required. For example:

- Insurance premiums, corporate services and overhead projects not directly attributable to below rail are allocated to below rail on a ratio of 45%. Does this reflect the apportionment of costs between above and below rail on an historical basis?
- Network wide revenue and investments are to be allocated to the West Moreton System on a ratio of 6.5%. If the ratio used for allocating QCA levy was used, the West Moreton System would attract a higher proportion of network wide revenue and investments. Is

this more reasonable? Should there be a different allocator for revenue compared with investment?

QR National looks forward to discussing the issues identified further with the QCA and Queensland Rail. For any queries on any matters raised please contact Rachel Martin on (07)3235 5476.



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