



**Aurizon Network 2013 Draft Access Undertaking
Financial Assessment of Operating Expenditure**

**Response to Queensland Resources Council's
Submission dated 7 March 2014**

Addendum Report April 2014

Table of Contents

1.	Disclaimer and Scope	2
2.	Task 3.2.1 – Review of Corporate Overhead Cost Allocation Methodology	3
4.	Task 3.2.1b –Review of Corporate Overhead Cost Allocation – Maintenance Costs	8
5.	Task 3.2.2 – Benchmarking of Cost of Insurance Premiums	9
6.	Task 3.2.3 – Review of Calculation of Mine Depreciation Profile	10
7.	Task 3.2.4 – Benchmarking of Forecast Compliance Audit Costs	11
8.	Task 3.2.5 – High Level Review of Forecast Operating Expenditure	12
9.	Task 3.2.6 – Total Cost Benchmarking	14
10.	Task 3.2.7 – Detailed Review of Forecast Operating Expenditure	16
11.	Maintenance Submission - Return on Assets	18
12.	Maintenance Submission - Return on Inventory and Working Capital	20
	Appendix 1 – Terms of Reference	21

1. Disclaimer and Scope

Disclaimers

- 1.1 This addendum has been prepared for the Queensland Competition Authority (“QCA” or “the Authority”) solely for the purpose of assisting the Authority in its assessment of specific aspects of Aurizon Network Pty Ltd’s (“Aurizon Network”) forecast operating and capital expenditure for the UT4 regulatory period and is not to be used for any other purpose without our written consent nor should any other party seek to rely on the opinions, advices of other information contained within this report without prior written consent.
- 1.2 The addendum has been prepared in response to Queensland Resources Council Submission: RSM Bird Cameron Review of UT4 Operating Expenditure dated 7 March 2014.
- 1.3 We disclaim all liability to any party other than QCA in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this report. Any party, other than QCA, who chooses to rely, in any way, on the contents of this report, does so at their own risk.
- 1.4 The information in this report and in any related oral presentation made by us is confidential between us and the QCA, and should not be disclosed in whole or in part for any purpose except with our prior written consent.

Authorisations

- 1.5 Other than for the purpose outlined above, this report should not be released to any other third party without the prior written consent of RSM Bird Cameron.

Scope

- 1.6 We have previously performed the procedures outlined in the Authority Terms of Reference “Aurizon Network 2013 Draft Access Undertaking Financial Assessment of Operating Expenditure” dated 13 August 2013 (as set out in Appendix 1 of our report dated January 2014).
- 1.7 The terms and abbreviations used in this addendum are consistent with those used in our report dated January 2014.

2. Task 3.2.1 – Review of Corporate Overhead Cost Allocation Methodology

FY2013 Plan as a base

Scope

- 2.1 RSMBC was requested by QCA to review the corporate overhead cost allocation methodology for allocating corporate (Aurizon Holdings') overhead costs to Aurizon Network as set out in section 10.2 of Volume 3 of the 2013 Draft Access Undertaking.
- 2.2 The review included undertaking an assessment of the benchmarking report prepared by Ernst & Young to determine the reasonableness of the allocated costs.
- 2.3 RSMBC was requested to provide an opinion on the reasonableness of the cost allocation methodology proposed by Aurizon Network.
- 2.4 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Work undertaken by RSMBC

- 2.5 The work undertaken by RSMBC comprised the following procedures:
 - obtaining an understanding of how the 226 cost centres have been determined and how the costs have been allocated to each cost centre;
 - reviewing the cost centre determination and assessed the allocation of direct costs and shared costs across the various cost centres for reasonableness;

- obtaining an understanding of how Aurizon Network determined the cost driver to be utilised in allocating the overheads of each cost centre;
- reviewing the cost driver allocation methodology for reasonableness; and
- reviewing the Ernst & Young benchmarking report utilised by Aurizon Network to substantiate of the allocated costs for reasonableness.

- 2.6 RSMBC also, as part of sub-task 3.2.6, undertook a benchmarking exercise to independently benchmark the proposed operating costs.

RSMBC Comments

- 2.7 Whilst noting the comments made by QRC, it should be noted that the scope of our review under Sub-task 3.2.1 was to review the cost allocation methodology for corporate overhead costs. Our scope of work under sub-task 3.2.1 did not include a review of the efficiency of the costs.
- 2.8 As noted by the QRC as part of our review, we did however:
 - obtain from Aurizon Network historical financial information in a format consistent with the classification and presentation of the UT4 forecast operating expenditure;
 - prepare an annual summary, for both the total operating costs and for each cost category, comparing the historical costs of UT3 and the forecast costs of UT4 both on the basis of absolute dollars and dollars per train path;
 - where there was a significant variance in costs, either in terms of an agreed materiality level, or in terms of a movement of +/- 5%, we requested an explanation for the variance from Aurizon Network; and

- we assessed the responses from Aurizon Network for reasonableness and requested further supporting documentation where considered necessary.

Allocation issues

Use of the blended allocator for costs with no causal driver and the impact of electricity pass through

2.9 The scope of work undertaken by RSMC is set out in section 3.5 above.

2.10 In undertaking our analysis, we concluded that

- *“an alternative methodology to apply to cost centres where no clear cost driver can be determined may be to utilise direct costs as a percentage of total direct costs on the basis that:*
 - *this is the most commonly adopted methodology in the regulatory environment;*
 - *it is the primary methodology adopted by Energex, the company that Aurizon Network has identified as a comparable business;*
- *we note that circa 59% of Aurizon Network’s direct costs relate to energy costs, which may reduce the appropriateness of the direct cost methodology. However, we still consider that this methodology should be considered.*
- *in calculating the proportion of direct costs, we consider that the direct costs attributed to Aurizon Network should:*
 - *exclude maintenance costs, on the basis that Aurizon Network has proposed a separate corporate overhead component in relation to maintenance costs; and*

- *exclude capitalised costs, on the basis that Aurizon Network capitalises a separate corporate overhead component into its capitalised expenditure; and*

- *should a blended allocation factor be utilised, we consider that the revenue component could be swapped with a direct cost component (calculated as set out above) on the basis that a large proportion of Aurizon Network’s revenue relates to the return on and the return of capital in relation to the value of the RAB. The utilisation of revenue would therefore appear to include reference to the value of Aurizon Network’s assets twice.”*

2.11 We note that QRC agrees with our conclusion that direct costs may be a more appropriate allocator for corporate overhead costs. We further note QRC’s comments regarding the impact of electricity pass-through.

2.12 Given QRC’s comments, RSMBC has calculated the UT4 operating expenditure allowance on the basis of the following two additional methodologies:

- direct costs allocation % with energy costs excluded; and
- alternative blended rate with direct costs instead of revenue and direct costs excluding energy costs.

Direct costs allocation % with energy costs excluded

2.13 Under the direct costs allocation methodology, with energy costs excluded, the percentage of costs allocated to below rail activities for divisions with no causal driver is ██████% as set out below.

Direct cost allocation calculations	
Aurizon Network Direct Costs *	\$'000
Consumables	300,000
Employee benefits expense	64,000
Other expenses	6,000
Total direct costs	370,000
Less: maintenance costs **	(153,000)
Less: energy costs **	(103,600)
	<u>113,400</u> (A)
Total Aurizon Holdings Direct Costs ***	
Consumables	1,353,000
Employee benefits expense	1,182,000
Total costs	2,535,000
Less: overhead costs ****	(██████)
Less: energy costs **	(103,600)
Total direct costs	<u>██████</u> (B)
Direct costs allocation percentage (A/B)	<u>██████</u> %

* Source: Aurizon Network Audited Annual Report - 30 June 2013

** Source: Aurizon Network Audited Annual Report - 30 June 2013 (Note 5)

*** Source: Aurizon Holdings Audited Annual Report - 30 June 2013

**** Source: Aurizon Holdings - Historical Corporate Costs Spreadsheet

Alternative blended rate with direct costs instead of revenue and direct costs excluding energy costs.

2.14 Under the alternative blended rate with direct costs instead of revenue and direct costs excluding energy costs methodology, with energy costs excluded, the percentage of costs allocated to below rail activities for divisions with no causal driver is ██████% being the average of:

- FTEs – 5.29%;
- Asset values - 47.44%; and
- Direct costs – ██████%.

2.15 Under these two scenarios, taking into account the changes to adjustments recommended by RSMBC in our report dated January 2014, the revised allocated corporate overhead costs are as summarised below.

Direct costs allocation % with energy costs excluded

	Year ending 30 June 2014 Forecast \$'000	Year ending 30 June 2015 Forecast \$'000	Year ending 30 June 2016 Forecast \$'000	Year ending 30 June 2017 Forecast \$'000
Amended Forecast Operating expenditure				
System wide operating expenditure - Aurizon Network Proposed	57,578	60,230	65,401	67,220
Add: Adjustment to allocation of non-coal activities	1,225	1,288	1,354	1,416
Less: adjustments based on high level review of operating expenditure	(446)	(457)	(469)	(480)
Amended system wide operating expenditure	<u>58,357</u>	<u>61,061</u>	<u>66,286</u>	<u>68,156</u>
Corporate overheads - amended as set out in Section 3 - Page 55	39,638	41,087	42,551	43,981
Less: adjustments based on high level review of operating expenditure	(2,276)	(2,332)	(2,391)	(2,450)
Less: adjustments based on detailed review of operating expenditure	(486)	(498)	(510)	(523)
Amended corporate overheads	<u>36,877</u>	<u>38,256</u>	<u>39,650</u>	<u>41,007</u>
Total amended operating expenditure	<u>95,234</u>	<u>99,317</u>	<u>105,937</u>	<u>109,163</u>
UT4 proposed costs	<u>123,551</u>	<u>128,849</u>	<u>136,689</u>	<u>141,086</u>

Source: RSMBC Calculations

Costs expressed in nominal terms

* adjustments have been inflated based on CPI of 2.5% per annum

Amended Forecast Operating expenditure - by system	Year ending	Year ending	Year ending	Year ending
	30 June 2014	30 June 2015	30 June 2016	30 June 2017
	Forecast	Forecast	Forecast	Forecast
	\$'000	\$'000	\$'000	\$'000
Blackwater	27,760	29,506	32,432	34,016
Goonyella	46,172	47,369	50,073	50,651
Newlands	6,622	6,677	6,910	7,329
Moura	6,111	6,258	6,049	6,341
GAPE	8,570	9,507	10,472	10,825
Total	95,234	99,317	105,937	109,163

Source: RSMBC Calculations
Costs expressed in nominal terms

Alternative blended rate with direct costs instead of revenue and direct costs excluding energy costs

Amended Forecast Operating expenditure	Year ending	Year ending	Year ending	Year ending
	30 June 2014	30 June 2015	30 June 2016	30 June 2017
	Forecast	Forecast	Forecast	Forecast
	\$'000	\$'000	\$'000	\$'000
System wide operating expenditure - Aurizon Network Proposed	57,578	60,230	65,401	67,220
Add: Adjustment to allocation of non-coal activities	1,225	1,288	1,354	1,416
Less: adjustments based on high level review of operating expenditure	(446)	(457)	(469)	(480)
Amended system wide operating expenditure	58,357	61,061	66,286	68,156
Corporate overheads - amended as set out in Section 3 - Page 55	55,291	57,498	59,724	61,877
Less: adjustments based on high level review of operating expenditure	(6,536)	(6,700)	(6,867)	(7,039)
Less: adjustments based on detailed review of operating expenditure	(1,659)	(1,701)	(1,743)	(1,787)
Amended corporate overheads	47,095	49,097	51,113	53,050
Total amended operating expenditure	105,452	110,158	117,400	121,206
UT4 proposed costs	123,551	128,849	136,689	141,086

Source: RSMBC Calculations
Costs expressed in nominal terms
* adjustments have been inflated based on CPI of 2.5% per annum

Amended Forecast Operating expenditure - by system	Year ending	Year ending	Year ending	Year ending
	30 June 2014	30 June 2015	30 June 2016	30 June 2017
	Forecast	Forecast	Forecast	Forecast
	\$'000	\$'000	\$'000	\$'000
Blackwater	30,494	32,447	35,672	37,494
Goonyella	51,163	52,593	55,532	56,264
Newlands	7,408	7,481	7,732	8,221
Moura	6,749	6,922	6,677	7,014
GAPE	9,638	10,714	11,786	12,213
Total	105,452	110,158	117,400	121,206

Source: RSMBC Calculations
Costs expressed in nominal terms

2.16 RSMBC also, as part of sub-task 3.2.6 undertook a benchmarking exercise to independently benchmark the proposed operating costs.

2.17 Whilst acknowledging the limitations of RSMBC's benchmarking that was prepared on a desktop basis, and the issues raised regarding EY's Benchmarking Report set out in our report, we note that the Direct Cost Allocation methodology (prior to any revisions) is broadly consistent with EY's Cumulative Industry Benchmark and below that of Rail Company 1 and Rail Company 2 (as set out on page 55 of our report).

2.18 Further, the table set out at 8.122 of our report sets out the impact of a number of proposed adjustments to the 2012/13 corporate cost allocations, noting that we have demonstrated the impact of an adjustment representing 100% of the FY2014 overall corporate overhead stretch target.

Adjustment of base corporate costs prior to allocation

2.19 QRC's comments are noted.

2.20 RSMBC considers that by adjusting the allocators (direct costs, revenue, FTE's) to exclude maintenance functions of Aurizon Network in the numerator of the fraction of costs applied to below rail activities avoids the double counting of overhead costs.

2.21 It should be noted that the denominator used to calculate the fraction of costs applied to below rail activities included maintenance functions.

Other recommendations of RSMBC

2.22 QRC's comments are noted.

Review of benchmarking

2.23 QRC's comments are noted.

Consideration of stakeholder submissions

- 2.24 QRC's comments are noted.
- 2.25 In undertaking our review, we were requested to provide an opinion on the validity of the cost allocation methodology used by Aurizon Network.
- 2.26 On the basis of the scope of work undertaken, we consider our findings and conclusions set out in paragraphs 3.99 to 3.107 of our report to be appropriate.
- 2.27 QRC has commented that an adjustment should be made in calculating the allocation percentages to reflect the complexity of below rail activities compared to above rail activities. Effectively, this would result in a weighting within the calculation of the allocation percentages.
- 2.28 Whilst noting the above, RSMBC considers that the above suggestion would be difficult to implement, as there would be a high level of subjectivity in relation to the calculation of any weighting.

Conclusion to Section 3 of RSMBC report

- 2.29 Whilst acknowledging the limitations of RSMBC's benchmarking that was prepared on a desktop basis, and the issues raised regarding EY's Benchmarking Report set out in our report, we note that the Direct Cost Allocation methodology (prior to any revisions) is broadly consistent with EY's Cumulative Industry Benchmark and below that of Rail Company 1 and Rail Company 2 (as set out on page 55 of our report).
- 2.30 Further, the table set out at 8.122 of our report sets out the impact of a number of proposed adjustments to the 2012/13 corporate cost allocations, noting that we have demonstrated the impact of an adjustment representing 100% of the FY2014 overall corporate overhead stretch target.

3. Task 3.2.1b – Review of Corporate Overhead Cost Allocation – Maintenance Costs

Scope

- 3.1 RSMBC was requested by QCA to review the corporate overhead costs proposed by Aurizon Network in the UT4 maintenance submission.
- 3.2 The review included undertaking an assessment of the estimate of Aurizon Network's maintenance services overheads report prepared by Deloitte Access Economics.
- 3.3 RSMBC was requested to provide an opinion on the reasonableness of the overhead costs proposed by Aurizon Network.

QRC Comment re double-counting

- 3.4 Please refer to previous comments raised in paragraphs 2.20 to 2.21 of this report.

Overheads as a % of costs

- 3.5 QRC has noted that:
 - Deloitte Access Economics report in relation to maintenance overheads refers to ARTC overheads comprising 12% of operating costs;
 - RSMBC's table shows ARTC overhead costs at 36% of total costs; and
 - Aurizon Network's claim for non-maintenance overheads amounts to more than 53% of total costs.

- 3.6 The Deloitte Access Economics report does not provide any details of the sources of the benchmark information and therefore we are unable to undertake detailed analysis of how the 12% benchmark is derived. However, we would comment that the Deloitte Access Economics report related solely to maintenance overheads. The overhead costs referred to in our report dated January 2014 related to non-maintenance overheads and therefore may not be comparable.

4. Task 3.2.2 – Benchmarking of Cost of Insurance Premiums

Scope

- 4.1 RSMBC was requested by QCA to benchmark the insurance costs proposed by Aurizon Network based on a commissioned report from Willis Australia Limited (“Willis”) and provide an opinion on the reasonableness of the proposed costs in the context of the assumption that Aurizon Network operates as a stand-alone business.
- 4.2 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.
- 4.3 We note QRC’s comments and have no further comments to make.

5. Task 3.2.3 – Review of Calculation of Mine Depreciation Profile

Scope

- 5.1 RSMBC was requested by QCA to provide an opinion on the proposed change in the calculation of RAB depreciation based on the analysis of CQCN mine lives as discussed in section 6.4 of Volume 3 of the 2013 Draft Access Undertaking.
- 5.2 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Review of change to depreciation policy

- 5.3 We have reviewed the Submission in relation to the calculation of the mine depreciation profile. We also acknowledge QRC's assertion that that other approaches may not be unreasonable. However, we remain of the opinion that the adoption of an amended maximum economic life of assets based on the mid-point of the average mine lives weighted by marketable reserves and production rates does not appear unreasonable.
- 5.4 The amended maximum economic life of assets for each economic region is (rounded):
- Northern Bowen Basin – 27 years;
 - Blackwater – 25 years; and
 - Moura – 27 years.

- 5.5 We also note that Aurizon Network has proposed a maximum economic life of assets for all regions of 25 years which is inconsistent with the mid-point for the Northern Bowen Basin and Moura economic regions, as set out above.

6. Task 3.2.4 – Benchmarking of Forecast Compliance Audit Costs

Scope

- 6.1 RSMBC was requested by QCA to provide an opinion on the reasonableness of the forecast compliance audit fees included by Aurizon Network in the UT4 forecast operating expenditure.
- 6.2 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Review of forecast compliance audit costs

- 6.3 We note the comments made in the Submission and have no comments to make.

7. Task 3.2.5 – High Level Review of Forecast Operating Expenditure

Scope

- 7.1 RSMBC was requested by QCA to:
- benchmark Aurizon Network's forecast operating expenditure for the CQCN with relevant industry comparators; and
 - compare the forecast operating expenditure to historical operating expenditure at both the regional and system levels.
- 7.2 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Reliance on Aurizon Network's claims for increased costs

- 7.3 The comments included in our report were provided by Aurizon Network in its response to our draft report and have been included in our report accordingly.

Lack of consideration of special complexities of benchmark entities

- 7.4 It is difficult to review specific system complexities in a desktop benchmarking exercise, however, we acknowledge that all rail networks face individual operational challenges. A more in depth review of the Aurizon Network's operation and other operations in Australia would undoubtedly allow a more detailed view to be reached.

The 'shadow benchmark'

- 7.5 Acknowledging the limitations of benchmarking, we note that QRC supports the development of the 'shadow benchmark'.
- 7.6 However, we further comment in our report that a full operational and organisational analysis of Aurizon Network's operations would be required to arrive at firm conclusions with regard to an efficient operating model for the Aurizon Network.
- 7.7 We note that QRC is supportive of the above, however, given the cost and extent of such an exercise this has not been possible as part of our review.

Data used in benchmarking

- 7.8 A benchmark is a standard of excellence or achievement against which similar operations can be measured or a standard or reference by which others can be judged. Organisations which are performing at below benchmark performance levels generally use the benchmarks as a driver for productivity gains and improved performance in their organisation.
- 7.9 We note and understand the concerns expressed by QRC, however, without undertaking a much more in depth review we are unable to comment on individual operational specifics.
- 7.10 We can confirm that the shadow benchmark has been prepared on an appropriate basis.
- 7.11 It is recognised, however, that a desktop review based on publicly available information does not have the rigour of a more detailed and in depth review and may have shortcomings.
- 7.12 We note QRC's comment that the indicative shadow should be the most reliable indicator, recognising that this indicator approaches best practice efficient costs and that most organisations will fall short of this because of varying factors.

- 7.13 The key for any organisation should be an aim for productivity and efficiency improvement programs to bring costs closer to the best practice target benchmarks.
- 7.14 Further development of a shadow benchmark can be undertaken, however, time constraints exclude this in terms of the UT4 decision. An in depth independently developed shadow benchmark could be fully developed and reviewed prior to any UT5 decision.

RSMBC Conclusions

- 7.15 It should be noted that RSMBC was requested to undertake a high level review of forecast operating expenditure
- 7.16 Acknowledging the limitations of benchmarking, we also note that QRC supports the development of the 'shadow benchmark'.
- 7.17 However, we further comment in our report that a full operational and organisational analysis of Aurizon Network's operations would be required to arrive at firm conclusions with regard to an efficient operating model for the Aurizon Network.

Comparison of forecast operating expenditure to historical operating expenditure

Work undertaken by RSMBC

- 7.18 We performed the following:
- obtained from Aurizon Network historical financial information in a format consistent with the classification and presentation of the UT4 forecast operating expenditure;

- prepared an annual summary, for both the total operating costs and for each cost category, comparing the historical costs of UT3 and the forecast costs of UT4 both on the basis of absolute dollars and dollars per train path;
- where there was a significant variance in costs, either in terms of an agreed materiality level, or in terms of a movement of +/- 5%, we requested an explanation for the variance from Aurizon Network; and
- we assessed the responses from Aurizon Network for reasonableness and requested further supporting documentation where considered necessary.

Corporate Branding, Legal costs and UT5 and other regulation and policy expenditure

- 7.19 The scope of our review was to compare the historical costs of UT3 and the forecast costs of UT4.
- 7.20 We note the Submission makes reference to corporate branding and legal costs within commercial development. These matters are considered in paragraphs 8.102 to 8.109 and 8.75 to 8.78 of our report.
- 7.21 We further note QRC's comments in relation to UT5 and other regulation and policy expenditure and consider this to be a matter to be reviewed by QCA.

8. Task 3.2.6 – Total Cost Benchmarking

Scope

- 8.1 RSMBC was requested by QCA to benchmark Aurizon Network's total operating expenses against its historic performance and similar companies.
- 8.2 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Work undertaken by RSMBC

- 8.3 The approach adopted for benchmarking Aurizon Network's total operating expenses was consistent with the approach outlined in section 8 of this report.
- 8.4 For the purpose of this exercise, "Operating Costs" were defined as:
- Train control (costs including safeworking and operations administration);
 - Infrastructure management (costs of infrastructure management which include telecommunications, engineering and research & development activities); and
 - Business management (costs related to regulation and policy, master planning, new business and major projects activities).
- 8.5 "Overheads Costs" were defined as the Corporate Overheads within the Aurizon Holdings group that were allocated to below rail activities, as discussed in Section 3 of this report.

- 8.6 The benchmarking analysis benchmarked costs based on the basis of:
- total absolute dollars;
 - \$/track km
 - \$/train path (where information is available);
 - \$/GTK (forecast); and
 - \$/GTK (contracted);
- 8.7 Aurizon Network's costs were benchmarked on contracted volumes in addition to forecast volumes on the basis that Aurizon Network is required to be in a position to resource to contract or peak capacity levels.

8.8 The track km used in the calculation of comparable costs for ARTC Hunter Valley has been reviewed following the provision of track map information. A revised track distance of 740km has been used to adjust the costs / track km to those in the table below. The calculations of GTK, however, remain unchanged.

	UT4 (2013/14 forecast)	Brookfield Rail (2009 adj)	ARTC Hunter Valley (Avg 2013/14 forecast)
Operating Cost (\$ million)	57.579	14.330	29.730
Overhead Cost(\$ million)	65.973	20.854	16.671
Total cost (\$ million)	123.552	35.184	46.401
Track Km (estimated)	2,667	1,997	740
Total Cost / Track Km	\$46,326	\$17,618	\$62,704
Forecast GTK (million)	80,513	23,532	43,309
Total Cost / Forecast GTK (cents)	0.153	0.150	0.107
Contract GTK (million)	107,138	N/a	43,309
Total Cost / Contracted GTK (cents)	0.115	N/a	0.107

8.9 We note that track km is not necessarily the most prudent measure for allocating and benchmarking total operating and corporate overhead allowances. This metric was, in part, used as it was part of the terms of reference issued. We consider operating cost / GTK to be a more prudent metric.

8.10 We note QRC's comments and draw attention to the comments made in paragraphs 9.26 and 9.42 to 9.44 of our report, noting that ARTC's operating cost per track km calculation has been amended to reflect a revised track length and our comments should be read accordingly.

9. Task 3.2.7 – Detailed Review of Forecast Operating Expenditure

Scope

9.1 RSMBC was requested by QCA to:

- assess Aurizon Network’s forecast operating expenditure to ensure that the forecast cost did not reflect:
 - costs that were also included in other operating expenditure categories (i.e. there is no ‘double-counting’);
 - operating expenditure associated with Aurizon Holdings Limited’s above-rail activities;
 - other costs (e.g. overheads) associated with specific capital works projects, which were the subject of separate applications to the Authority; or
 - any other source of double-counting the consultant may identify.
- adjust Aurizon Network’s forecast cost to remove any double-counting (if applicable), as identified;
- benchmark Aurizon Network’s forecast operating expenditure (using the adjusted forecast cost, if applicable) against the operating expenditure of relevant industry comparators for efficiency;
- identify and explain any difference between the (adjusted) forecast cost and the benchmark cost;
- determine whether or not Aurizon Network’s (adjusted) forecast cost was reasonable and:

- if not reasonable, determine a reasonable forecast for the cost category with reference to the analysis and provide its reasoning.
- determine whether Aurizon Network’s forecast operating expenditure includes an adjustment to reflect productivity improvements over the regulatory period (e.g. x-factor or other adjustment):
 - if Aurizon Network had not proposed an adjustment to reflect productivity improvements, assess whether or not this assumption was reasonable based on relevant factors (e.g. forecast volumes / capital expenditure) ; or
 - if Aurizon Network had proposed an adjustment to reflect productivity improvements, assess the reasonableness of that adjustment taking into account relevant factors (e.g. forecast volumes / capital expenditure); and
 - in either case, confirm the reasonableness, or not, of Aurizon Network’s proposal. If Aurizon Network’s proposal was unreasonable, determine an appropriate adjustment to Aurizon Network’s forecast operating expenditure to reflect productivity improvements.

9.2 As part of the above process, RSMBC was requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Work undertaken by RSMBC

9.3 We performed the following procedures:

- obtained an understanding of the forecast model used by Aurizon Network to forecast operating costs;
- obtained an understanding of the key assumptions and underlying build-up methodology within the forecast model;
- undertook a detailed review of the underlying build-up methodology to identify:
 - any double-counting of costs;
 - any costs which may either in full, or in part, relate to Aurizon Holdings Limited's above-rail activities;
- reviewed the forecasts for any capital works projects that could be the subject of applications to the Authority;
- reported any exceptions noted from the above review and prepared an adjusted Aurizon Network operating expenditure forecast to amend the impact of any exceptions noted;
- benchmarked the amended Aurizon Network's forecast operating expenditure against relevant industry comparators for efficiency on the same basis as outlined for sub-task 3.2.5 (section 8 of this report).
- reviewed past operating/maintenance cost submissions for previous regulatory periods;
- reviewed productivity improvements evident in Access Agreements of comparable below rail operators;

- from the above assessed an x - factor in terms of what we consider to be reasonable productivity improvements; and
- compared our assessed x - factor against productivity improvements reflected with Aurizon Network's submission for the UT4 period;

Review of cost items

9.4 QRC's comments are noted.

Benchmarking of amended costs

9.5 QRC's comments are noted.

Productivity improvement: CPI - x

9.6 QRC's comments are noted. We specifically note QRC's comments that an appropriate approach is to:

- establish an efficient baseline overhead allowance, based on a shadow benchmark approach or on an allocation method which ensures that each element is efficient prior to allocation; and
- apply a CPI – x to the resulting allowance, reflecting further efficiency improvements which can be captured over time.

A full operational and organisational analysis of Aurizon Network's Network's operations would be required to arrive at firm conclusions with regard to an efficient operating model for the Aurizon Network.

9.8 We note that QRC is supportive of the above, however, this was not part of our scope of work. Given the cost and extent of such an exercise this has not been possible as part of our review.

10. Maintenance Submission - Return on Assets

Scope

- 10.1 RSMBC was requested by QCA to:
- obtain a copy of Aurizon Network's return on assets calculations for the UT4 period and check the calculation for mathematical accuracy and, where applicable, trace the calculations back to source documents;
 - review the methodology employed by Aurizon Network to ensure that only assets relevant to maintenance activities have been included within the return on assets calculation;
 - discuss with Aurizon Network the logic for the utilisation of Gross Replacement Value in the calculation of the return on assets rather than book value and provide an opinion in relation to the reasonableness of this approach;
 - assess the impact on the return on asset costs of the utilisation of asset's book values instead of the Gross Replacement Value; and
 - request Aurizon Network's supporting documentation for the Real Pre-Tax Weighted Average Cost of Capital utilised in the calculation and undertake a high level assessment of reasonableness based on the proposed Regulatory Weighted Average Cost of Capital proposed by Aurizon Network.
- 10.2 As part of the above process, RSMBC were requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

Gross replacement value

- 10.3 With respect to Aurizon Network's ability to capture "windfall gains" by the adoption of the Gross Replacement Methodology, it should be noted that net difference between the historical cost and gross replacement cost methodologies over the UT4 period is not quantified in our report. The \$13 million difference identified is subject to a deduction in relation to the cost of major periodic maintenance. We were not provided with this amount during the course of the engagement. Accordingly, the actual difference between the historical cost and gross replacement value methodologies is not known.
- 10.4 In respect of QRC's concern that it is not appropriate to pay an untested 'market' price if there is not a competitive market:
- If Aurizon did not provide the maintenance services, it could employ a contractor to provide the services at a market rate. In this circumstance, the capital currently employed to fund the maintenance equipment could be employed in an alternative use. The GRV methodology seeks to compensate the service provider for the opportunity cost borne by providing the service. The historical cost basis does not necessarily reflect the opportunity cost to Aurizon.
 - The GRV methodology utilises a real pre-tax WACC of 6.83% which is based on the Regulatory WACC proposed by Aurizon Network. A detailed review of the Regulatory WACC and its applicability to the GRV calculation was outside the scope of our report. To the extent that the replacement cost of the assets is accurate, and that the WACC of 6.83% represents an appropriate return to compensate the service provider for the

commercial risks involved in providing the maintenance service, we consider that return calculated under the GRV methodology would be commensurate with the market price of the services in a competitive market.

- 10.5 During the course of our review, we requested an estimate of major periodic maintenance from Aurizon Network. However, this information was not provided.
- 10.6 If Aurizon Network is able to provide an estimate, RSMBC will be in a position to review and analyse this information and comment accordingly.

11. Maintenance Submission - Return on Inventory and Working Capital

Scope

- 11.1 RSMBC was requested by QCA to:
- request copies of Aurizon Network's calculations for the assigning of inventory values to below rail coal activities and assess for reasonableness, mathematical accuracy and, for a sample of items test the calculations back to supporting documentation;
 - request copies of Aurizon Network's calculations for the return on working capital and assess for reasonableness and mathematical accuracy; and
 - through discussions with Aurizon Network, assess the reasonableness of Aurizon Network's proposed return in inventory charges in light of the proposed change in modelling to include no intra-year cash flows which, prima facie, negates the need for a working capital / inventory allowance.
- 11.2 As part of the above process, RSMBC has been requested by QCA to consider relevant submissions from QRC, Asciano, BMA and BMC and RTCA.

RSMBC review on the return on inventory and working capital within maintenance

- 11.3 We note the comments in the Submission and refer QRC to paragraphs 14.3 to 14.20 of our report.

Appendix 1 – Terms of Reference

Terms of Reference

Aurizon Network 2013 Draft Access Undertaking Financial Assessment of Operating Expenditure

13 August 2013

1. PROJECT BACKGROUND

The Queensland Competition Authority (the Authority) is an independent statutory body responsible for assisting with the implementation of competition policy in Queensland.

Aurizon Holdings Limited (formerly known as QR National Limited) is a vertically integrated rail business which provides both above-rail and below-rail services. That is, it operates train services and provides access to its tracks for its own and third-party operators.

Aurizon Network Pty Ltd (Aurizon Network) operates the below-rail network serving coal mines in central Queensland and is a wholly owned subsidiary of Aurizon Holdings Limited. The services of Aurizon Network's below-rail coal network are a declared service for third party access under the *Queensland Competition Authority Act 1997* (the QCA Act). The declaration excludes the infrastructure associated with train operations (e.g. freight centres and maintenance facilities).

1.1 Aurizon Network Access Undertaking

Aurizon Network is subject to an access undertaking, approved by the Authority, that sets out the terms and conditions under which Aurizon Network will provide access to rail infrastructure covered by the undertaking. These include reference tariffs for coal-carrying train services for central Queensland and processes to establish access charges for new train services. The undertaking also sets out the process required for an access seeker to negotiate access to the infrastructure and how any disputes in relation to access are to be resolved.

Aurizon Network's current access undertaking (UT3) was originally due to terminate on 30 June 2013, but has been extended, including transitional tariffs for 2013-14, to 30 June 2014. Aurizon Network submitted a replacement undertaking (UT4) to the Authority on 30 April 2013, which is anticipated to apply for a four-year regulatory period (2013-14 to 2016-17).

The central Queensland coal region (CQCR) comprises four systems, namely, Moura, Blackwater, Goonyella and Newlands. Aurizon Network also operates the Goonyella to Abbot Point Expansion (GAPE) system which connects the Goonyella and Newlands systems. (Further information on these systems is available at <http://www.aurizon.com.au/networksystems/Pages/NetworkServices.aspx>).

A significant component of the reference tariffs for each system is an allowance for maintenance, operating and capital expenditure. The Authority has already appointed a rail engineering consultant to perform a technical assessment of the capital, maintenance and operating expenditure forecasts, for reasonableness, under a separate arrangement.

The Authority is now seeking to engage a consultant to assist with the assessment that relates to the finance, insurance and tax aspects of operating and capital expenditure forecasts.

This analysis will inform the Authority's decision on Aurizon Network's replacement access undertaking.

2. PURPOSE/OUTLINE OF CONSULTANCY

The purpose of this consultancy is to assist the Authority in assessing specific aspects of Aurizon Network's forecast operating and capital expenditure for the UT4 regulatory period.

In summary, the principal tasks for the consultant are to:

- (a) review specific aspects of Aurizon Network's forecast operating and capital expenditure, and assist the Authority to identify any additional information required;
- (b) assess the reasonableness and efficiency specific aspects of Aurizon Network's forecast operating and capital expenditure, particularly the allocation of Aurizon Network's corporate overhead costs; and
- (c) advise the Authority on matters raised by stakeholders during the UT4 public consultation process.

As noted above, the Authority is also seeking technical engineering advice on the reasonableness of Aurizon Network's maintenance, operating and capital expenditure forecasts, through a separate consultancy. Sinclair Knight Merz (SKM) has been appointed to this consultancy.

This request for proposals relates only to financial aspects of Aurizon Network's operating and capital expenditure forecasts in UT4. However, consultants may wish to review the terms of reference for SKM's review to form an understanding of the overall scope of tasks on which the Authority is seeking advice.

3. CONSULTANCY TASKS

3.1 Information Review and Request

In order to perform its assessment, the consultant is required to review Aurizon Network's forecast operating and capital expenditure contained in the relevant sections of UT4, along with any supporting material, by:

- (a) ensuring that the data and material provided by Aurizon Network are in a form (and format) to enable the consultant to complete tasks in 3.2-3.3 below;
- (b) identifying any additional data or information that the consultant requires to complete tasks in 3.2-3.3;
- (c) preparing an information request that the Authority will submit to Aurizon Network on the basis of the reviews in 3.1(a) and (b); and
- (d) keeping a register of the consultant's requests for information, including the status of Aurizon Network's responses.

The proposed operating expenditure for 2013-14 is higher by 44% than the allowance approved by the Authority in 2012-13 under the 2010 undertaking.

Part of the increase in operating expenditure can be attributed to Aurizon Network's new methodology to calculate corporate overhead costs – i.e. to quantify the corporate overhead costs that would be attributable to the provision of services in the CQCR if Aurizon Network operated on a stand-alone basis (Aurizon Network, sub. 3, p.229, available here: <http://www.qca.org.au/files/R-Aurizon-QR2013DAU-ExMatBB-0513.pdf>).

3.2 Assessment of Forecast Operating Expenditure

Aurizon Network's forecast operating expenditure is presented in Chapter 10 of Submission 3 of the UT4 materials (available here: <http://www.qca.org.au/files/R-Aurizon-OR2013DAU-ExMatBB-0513.pdf>) and comprises of a number of categories. Each of these categories contains elements of direct costs (i.e. which can be attributed to a specific system) and elements of common costs (i.e. which cannot be attributed to a specific system). Key operating expenditure includes:

- corporate;
- infrastructure management;
- train control, safeworking and operations administration;
- telecommunications;
- transmission connection costs associated with electric traction trains; and
- environmental charges.

Sub-task 3.2.1: Review of cost allocation methodology for corporate overhead costs to Aurizon Network

Aurizon Network has a commissioned report from Ernst & Young to determine the appropriate cost allocation methodology for corporate (Aurizon Holdings') overhead costs to Aurizon Network. Ernst & Young's report is Annex G of UT4 (available here: <http://www.qca.org.au/files/R-AurizonG-Submissions-DAU13-513.pdf>). The description of the allocation methodology and rationale are highlighted in section 10.2 of Submission 3 of the UT4 materials.

This sub-task requires the consultant to review Ernst & Young's report, and any more information Aurizon Network can provide on this matter, and provide an opinion on the validity of the cost allocation methodology used by Aurizon Network.

Sub-task 3.2.2: Benchmarking of cost of insurance premiums

Aurizon Network has a commissioned report from Willis that provides an opinion on the cost of insurance for stand-alone insurance policies covering Aurizon Network in relation to its network in the CQCR. Willis' report is presented as Annex I of UT4 (available here: <http://www.qca.org.au/files/R-AurizonI-Submissions-DAU13-513.pdf>).

This sub-task requires the consultant to review Willis' report, benchmark the insurance costs against comparable companies and provide an opinion on the validity of the cost of insurance proposed in the context of the assumption that Aurizon Network operates as a stand-alone business.

Sub-task 3.2.3: Review of Calculation of Mine Depreciation Profile

This sub-task requires the consultant to provide an opinion on the proposed change in calculation of mine depreciation profiles as discussed in section 6.4 of Submission 3 of the UT4 materials, including whether this change would have any tax implication.

Sub-task 3.2.4: Benchmarking of forecast audit costs

Aurizon Network has forecast annual cost for compliance audits as presented in table 65 (Submission 3, p. 226).

This sub-task requires the consultant to provide an opinion on the reasonableness of the audit fees forecast.

Sub-task 3.2.5: High Level Review of Forecast Operating Expenditure

This sub-task involves conducting a high level review of Aurizon Network's forecast operating expenditure by benchmarking the forecast operating expenditure for the CQCR with relevant industry comparators and comparing the forecast operating expenditure to current operating expenditure at both the regional and system levels. Accordingly, the consultant is required to:

- (a) benchmark Aurizon Network's forecast total operating expenditure for the CQCR to that of relevant below-rail network infrastructure operators (especially heavy haul networks such as coal) on the basis of:
 - (i) total absolute dollars; and
 - (ii) dollars / train path.
- (b) compare Aurizon Network's forecast operating expenditure to its current operating expenditure on an annual basis at the regional level (i.e. all four systems in aggregate) by:
 - (i) total absolute dollars and dollars/train path; and
 - (ii) total absolute dollars for each major cost category.
- (c) compare Aurizon Network's forecast operating expenditure to its current operating expenditure on an annual basis at the system level (i.e. for each of the four CQCR systems) by:
 - (i) total absolute dollars and dollars / train path; and
 - (ii) total absolute dollars for each major cost category.
- (d) explain the reasons for any differences between operating expenditure identified in (a)-(c), (e.g. changes in administrative and/or labour costs).

Sub-task 3.2.4: Total Cost Benchmarking

Total cost benchmarking relates to assessing the total cost of providing the cost of the service (operating costs, as well as a measure of capital costs which can differ depending on the methodological approach adopted). The objective of total cost benchmarking is to develop a view of overall productivity by measuring the rate of change of total cost to the rate of change of outputs through time. It can be done based on the trends of a single company or across companies or with respect to the economy as a whole.

This task requires the consultant to benchmark Aurizon Network's total costs against its historic performance and its future forecast performance and, if practicable, similar companies, as well as providing an opinion on their general efficiency in comparison to the Queensland economy.

Sub-task 3.2.5: Detailed Review of Forecast Operating Expenditure

This sub-task requires the consultant to assess each of the operating expenditure categories for reasonableness and efficiency. For each category, the consultant will:

- (a) assess Aurizon Network's forecast operating expenditure to ensure that the forecast cost does not reflect:
 - (i) costs that are also included in other operating expenditure categories (i.e. there is no 'double-counting');
 - (ii) operating expenditure associated with Aurizon Holdings Limited's above-rail activities;
 - (iii) other costs (e.g. overheads) associated with specific capital works projects, which are the subject of separate applications to the Authority; or
 - (iv) any other source of double-counting the consultant may identify.
- (b) adjust Aurizon Network's forecast cost to remove any double-counting (if applicable), as identified in (a);
- (c) benchmark Aurizon Network's forecast operating expenditure (using the adjusted forecast cost in (b) if applicable) against the operating expenditure of relevant industry comparators for efficiency;
- (d) identify and explain the difference between the (adjusted) forecast cost and the benchmark cost;
- (e) determine whether or not Aurizon Network's (adjusted) forecast cost is reasonable and:
 - (i) if reasonable, the consultant should confirm its acceptance of Aurizon Network's (adjusted) forecast and provide its reasoning; or
 - (ii) if not reasonable, the consultant should determine a reasonable forecast for the cost category with reference to the analysis in (c) and provide its reasoning.
- (f) determine whether Aurizon Network's forecast operating expenditure includes an adjustment to reflect productivity improvements over the regulatory period (e.g. x-factor or other adjustment):
 - (i) if Aurizon Network has not proposed an adjustment to reflect productivity improvements, assess whether or not this assumption is reasonable based on relevant factors (e.g. forecast volumes / capital expenditure); or
 - (ii) if Aurizon Network has proposed an adjustment to reflect productivity improvements, assess the reasonableness of that adjustment taking into account relevant factors (e.g. forecast volumes / capital expenditure); and
 - (iii) in either case, the consultant should confirm its acceptance or not, of Aurizon Network's proposal. If Aurizon Network's proposal is unacceptable, the consultant should determine an appropriate adjustment to Aurizon Network's forecast operating expenditure to reflect productivity improvements. The consultant should provide its reasoning.

The consultant will undertake tasks (a) to (e) for Aurizon Network's forecast operating expenditure categories for each CQCR system and for each year of the UT4 period (expected to be 2013-14 to 2016-17).

Task (f) need only be undertaken at a regional level (i.e. total forecast operating expenditure for the CQCR) over the UT4 period.

3.3 Assessment of Capital Expenditure Proposal

Aurizon Network's proposed Capital Indicator includes forecast capital expenditure of \$1.95 billion over four years for each CQCR system and the GAPE, as described in Chapter 8 of Volume 3 of the UT4 materials (available here: <http://www.qca.org.au/files/R-Aurizon-QR2013DAU-ExMatBB-0513.pdf>). "Capital Indicator" is defined in UT4 as 'the annual capital expenditure allowance approved by the QCA, from time to time, for the purpose of assessing the relevant Reference Tariffs'.

The Authority requires the consultant to provide an opinion on specific aspects of Aurizon Network's forecast capital expenditure.

Sub-task 3.3.1 Tax Advice on Interest during Construction (IDC)

The Authority requires the consultant to provide an opinion on one specific aspect of Aurizon Network's forecast capital expenditure.

This task requires the consultant to provide the Authority with tax advice on the reasonableness of section 8.6 of Submission 3 of the UT4 materials, which is Interest During Construction.

Sub-task 3.3.2: Review Capital Cost Build-Up

The consultant is to review the capital cost build-up and its relationship to risk management. Whenever a project or set of projects is constructed, the cost, time and scope associated with them is assessed based on the risk management framework. The cost build-up, and particularly the contingency funds, should bear some relationship with the risk associated with Aurizon Network not meeting the targets associated with that project.

The consultant is to review Aurizon Network's methodology to calculate capital cost build-up, and how it links to the investment framework and risk contingency measures.

3.4 Expert Opinion on Further Aspects of UT4

The Authority may request further advice from the consultant on other matters related to the proposed UT4. It is therefore important that the consultant quotes their standard fee rates for any ad hoc tasks or contract variations.

3.5 Advice on Public Consultation

Following Aurizon Network's formal lodgement of UT4, the Authority has published the undertaking on its website, and invited public comments by 10 October 2013.

The consultant will provide the Authority with technical advice in assessing matters raised in submissions relating to Aurizon Network's operating and capital expenditure proposals.

4. RESOURCES/DATA PROVIDED

The Authority will provide the consultant with information on Aurizon Network's:

- *forecast* total operating expenditure (2013-14 to 2016-17);
- *forecast* demand (railings) (2013-14 to 2016-17);
- total *actual* operating expenditure (2009-10 to 2012-13);
- *actual* demand (railings) (2009-10 to 2012-13).

The Authority will also be able to provide the consultant with information pertaining to the next regulatory period provided by Aurizon Network.

The consultant will be required to source additional information required to undertake the consultancy from Aurizon Network and other stakeholders as appropriate. Of particular relevance are the Authority's decisions, working papers and consultancy reports related to Aurizon Network's 2001, 2006 and 2010 access undertakings. These documents are available from the Authority or for downloading from its website at www.qca.org.au.

The Authority will facilitate the acquisition of all necessary information, including providing an introduction and contacts with Aurizon Network representatives to enable the consultant to complete this consultancy.

5. PROJECT TIME FRAME

The consultant should be available to commence work on 2 September 2013. Dates for completion will be determined at the time of appointment.

6. PROPOSAL SPECIFICATIONS AND FEES

The proposal should:

- include the name, address and legal status of the tenderer;
- provide the proposed methods and approach to be applied;
- provide a fixed price quote for the provision of the services detailed herein; and
- nominate the key personnel who will be engaged on the assignment, together with the following information:
 - name;
 - professional qualifications;
 - general experience and experience which is directly relevant to this assignment;
 - expected time each consultant will work on the project; and
 - standard fee rates for any contract variations.

The fee quoted is to be inclusive of all expenses and disbursements. A full breakdown of consultancy costs is required with staff costs reconciled to the consultancy work-plan.

Total payment will be made within 28 days of receiving an invoice at the conclusion of the consultancy.

7. CONTRACTUAL ARRANGEMENTS

This consultancy will be offered in accordance with the Authority's standard contractual agreement.

This agreement can be viewed at <http://www.qca.org.au/about/consultancyagreement.php>

8. REPORTING

In carrying out this project, consulting services will involve completing the consultancy tasks described in section 3. The primary deliverables required are:

- a detailed information request (as detailed in section 3.1 of this terms of reference);
- a draft report including the consultant's:
 - assessment of Aurizon Network's forecast operating expenditure for the UT4 regulatory period (as detailed in section 3.2 of these terms of reference);
 - if necessary, the consultant's independent forecast of elements of Aurizon Network's operating expenditure over the UT4 regulatory period (as detailed in section 3.2.2(e), of these terms of reference); and
- a final report that reflects the Authority's feedback on the draft report and stakeholder comments arising from the public consultation process (as detailed in section 3.5 of these terms of reference).

The consultant will be required to provide the Authority with progress reports on an "as required", and at least weekly, basis.

Project deliverables will be required by the due date agreed between the Authority and the successful consultant. All reports must be finalised prior to project completion.

If necessary, the consultant should advise at earliest opportunity any critical issues that may impede progress of the consultancy, particularly issues that impact on the successful delivery of the consultancy tasks in section 3.

At the conclusion of the consultancy, the consultant will be required to provide the Authority with a personal presentation on the findings of the analysis in addition to presenting three (3) copies of a written report. An electronic version of the final report is also required, saved in Microsoft® Word with any numeric data in Microsoft® Excel.

9. CONFIDENTIALITY

Under no circumstance is the selected consultant to divulge any information obtained from Aurizon Network or the Authority for the purposes of this consultancy to any party other than with the explicit permission of Aurizon Network and the Authority.

10. CONFLICTS OF INTEREST

For the purpose of this consultancy, the consultant is required to affirm that there is no, and will not be any, conflict of interest as a result of this consultancy.

11. AUTHORITY ASSESSMENT OF PROPOSAL

The Authority uses the following format to assess tenders:

Weight	Criteria	Description
Binding	Conflict of interest	Identification of: <ul style="list-style-type: none"> • actual conflict • perceived conflict • current or past work for any of the stakeholders involved
40%	Technical expertise of Proposed Team	Do the proposed individuals have experience in the types of projects required by this consultancy? What skill sets / experience makes them particularly appropriate for this consultancy?
20%	Firm Experience	Previous experience that the firm can bring to bear on the project. Track record of the firm in undertaking the same, or similar, types of projects. Does the firm have any special resources that give it an advantage over other firms in undertaking this project?
30%	Proposed Methodology and Approach	The proposal clearly identifies the methodology the consultant intends to use to undertake the task. The consultant has structured the proposal such that it is clear there is a comprehensive understanding of the tasks, issues and the outcomes required.
10%	Resourcing	(i) the proposal itemises the resources that will be used and provides a breakdown of how, when and where they will be used (7%); (ii) the firm appears able to provide backup expertise in the event it is needed (3%).
	Value for Money	Consideration will be given for: <ul style="list-style-type: none"> • hourly rates; • total number of hours proposed; and • scope of works proposed in the methodology in relation to the total cost quoted.

In making its assessment against the criteria, the Authority will place most weight on relevant experience of the team members involved and the proposed method for the completion of the task.

12. INSURANCE

The consultant must hold all necessary workcover and professional indemnity insurance.

13. QUALITY ASSURANCE

The consultant is required to include details of quality assurance procedures to be applied to all information and outputs provided to the Authority.

14. GRIEVANCES

If during the course of your engagement you wish to raise any grievances or make a complaint, please contact Mrs Robyn Farley-Sutton, Director Corporate Services, on (07) 3222 0505 or robyn.farley-sutton@qca.org.au.

15. LODGEMENT OF PROPOSALS

Proposals are to be lodged with the Authority by 11:59 p.m. Wednesday 28 August 2013.

For further information concerning this consultancy, please contact Ms. Clotilde Belanger on 07 3222 0587 or Ms. Farhana Chowdhury on 07 3222 0554.

Proposals should be submitted to:

Paul Bilyk, Director

Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Phone: (07) 3222 0555

Fax: (07) 3222 0599

Email: rail@qca.org.au

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