

File Ref: 1339503

17 December 2018

Mr Nick Easy
Chief Executive Officer
Queensland Rail
GPO Box 1429
Brisbane Qld 4001

Dear Mr Easy

Final decision: Queensland Rail's 2018–19 QCA levy proposal

On 14 December 2018, the Queensland Competition Authority approved the QCA levy for 2018–19 as proposed by Queensland Rail. The conditions of the levy are set out in clause 3.7 of the 2016 access undertaking.

The 2018–19 QCA levy for each train service type has been determined as:

- \$0.14152 per net tonne for the West Moreton system coal users
- \$0.07388 per thousand gross tonne kilometres for the Mount Isa line freight and mineral users
- \$0.04416 per thousand gross tonne kilometres for the North Coast line and West Moreton system freight and mineral users
- \$0.01561 per track kilometre for long distance passenger services.

The QCA's review of Queensland Rail's 2018–19 QCA levy proposal is summarised in the attached decision notice.

If you have any questions about this decision notice, please contact George Passmore on 07 3222 0545 or by email at george.passmore@qca.org.au.

Yours sincerely



Charles Millstead
Chief Executive Officer

DECISION NOTICE

QUEENSLAND RAIL'S 2018–19 QCA LEVY

14 December 2018

The Queensland Competition Authority approved Queensland Rail's proposal for the 2018–19 QCA levy, submitted on 4 September 2018 and amended on 28 September 2018. This constitutes a notice for the purposes of clause 3.7 of the 2016 access undertaking.

Background

The Queensland Competition Authority (QCA) charges regulated entities, like Queensland Rail, a QCA fee for providing regulatory services. Regulated entities can pass through the QCA fee to their customers via the QCA levy. The 2016 access undertaking (AU1) states that the QCA levy will be 'determined from year to year, based on the QCA Levy levied by the QCA to Queensland Rail and allocated amongst Train Service types in a manner approved by the QCA' (cl. 3.7).

The QCA fee, and consequently the QCA levy, is charged in advance of the financial year based on forecasted costs of the QCA's expected regulatory activities. The QCA will 'undertake a reconciliation of actual versus estimated costs at year end, as part of its end-of-year financial reporting.'¹ Any over- or under-recoveries are included in the QCA fee for the following year, which is then passed onto Queensland Rail's customers as adjustments to the QCA levy.

The 2017–18 QCA levy

Queensland Rail's 2017–18 QCA levy proposal, which the QCA approved, introduced a methodology for allocation of the QCA levy across train service types. Based on a 'beneficiary pays' principle, Queensland Rail allocated an increased proportion of costs to coal users, and a decreased proportion to freight and minerals users.

Queensland Rail's 2018–19 QCA levy proposal

Queensland Rail proposed to collect levies totalling \$1,693,421 for the 2018–19 financial year to cover:

- (1) the estimated 2018–19 QCA fee of \$1,933,000
- (2) adjustments from the 2017–18 QCA levy, which totals a net reduction of \$239,579 and comprises:
 - (a) a net under-recovery of the 2017–18 QCA fee of \$121,000
 - (b) a \$360,579 net over-recovery of the 2017–18 QCA levy.

¹ QCA 2016–17 Fee Framework, p. 3.

Queensland Rail subsequently amended its proposal to reflect the audited total under-recovery for the 2017–18 QCA fee, which was \$28,000 less than originally quoted.

The QCA received and took into consideration submissions on Queensland Rail's proposal from New Hope Group, a coal user of the West Moreton system, and Pacific National, a freight user of the Mount Isa and North Coast lines.

Key issues

Passing on of regulatory costs

The QCA acknowledges comments by New Hope Group on approving full recovery of the QCA fee from users if Queensland Rail's 'unreasonable approaches' incur additional costs, particularly during the QCA's consideration of the 2020 draft access undertaking (DAU).² However, the QCA regards this passing on of costs to be consistent with AU1 (cl. 3.7) and Queensland Rail's proposal to do so as appropriate.

Methodology for allocation of the 2018–19 QCA fees

Queensland Rail highlighted that the QCA is assessing the 2020 draft access undertaking (DAU), which increases the QCA's costs. It proposed using the same weightings from 2014–15 and 2015–16, when the QCA was assessing the 2016 DAU that was eventually approved as AU1. Consequently, the proposed allocations of fees were:

- 67.4 per cent for coal users in the West Moreton system, increasing from 45.7 per cent
- 18.3 per cent for freight and minerals users in the Mount Isa system, decreasing from 29.9 per cent
- 13.1 per cent for freight and minerals users in the North Coast and West Moreton systems, decreasing from 22.4 per cent
- 1.2 per cent for long distance passengers, decreasing from 2.0 per cent.³

The QCA understands that a greater regulatory burden and associated costs derives from its consideration of matters specific to coal users. As such, these users should bear the greatest responsibility in cost recovery.

The QCA considers it is appropriate to approve Queensland Rail's proposed allocation among freight and mineral users. Queensland Rail allocated North Coast line users the lowest proportion of costs among non-passenger transport, due its submission that on the North Coast Line there is 'direct competition with road transport' that limits the ability to 'pass through and recover the costs of the QCA levy from end customers'.⁴ For some products, road transport may not be a substitute for rail transport—the extent to which road transport for freight provides an alternative to rail may vary according to the nature of product and transport distance. However, the QCA recognises the prospect of some competition between rail and road freight transport on the North Coast line.

In relation to the allocation for the Mount Isa Line, the QCA considers that Mount Isa line freight and mineral users have historically generated the greatest share of access charges among all users⁵, which suggests these users would benefit more from the QCA's activities compared to other freight users.

Charging of levies by train service type

The QCA notes New Hope Group's concern on the difference in levies by train service type, with coal users being charged by weight alone but freight and mineral users' levies including a distance metric.⁶ However, given the

² New Hope Group, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018, p. 1.

³ Queensland Rail, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018, pp. 4–6.

⁴ Queensland Rail, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018, p. 6.

⁵ QCA, *Queensland Rail: QCA levy 2017–18*, draft decision, May 2018, p.9.

⁶ New Hope Group, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018, p. 2.

product homogeneity among coal users compared to the heterogeneity of freight and minerals, the QCA does not find the need to include a distance metric for the QCA levy charged to coal users.

Timing of recovery of costs

The QCA recognises the merits of Pacific National's suggestion to smooth the recovery of DAU costs over the life of the undertaking.⁷ However, the QCA is of the opinion that delaying the recovery of costs may impact its ability to provide its services, including to approve an access undertaking in a timely manner, for reasons outlined in the draft decision.⁸

Adjustments for the 2018–19 QCA levy

The QCA finds Queensland Rail's principle and methodology to allocate the under-recovered 2017–18 QCA fees based on the respective allocations of the 2017–18 QCA levy appropriate to approve and consistent with the QCA 2016–17 Fee Framework.⁹ The QCA also acknowledges that Queensland Rail proposed, in its amendment letter, to use the accurate total for this under-recovery.¹⁰

Similarly, the QCA regards Queensland Rail's calculation and proposed allocation of the net rebate for the over-recovery of the 2017–18 QCA fee across train service types as reasonable.

Thus, the QCA finds Queensland Rail's proposed adjustments for the 2018–19 QCA levy appropriate to approve.

Final decision

For the reasons outlined above and detailed in the QCA's draft decision, and recognising that there were no stakeholder comments on this draft decision, the QCA's final decision is to approve Queensland Rail's proposal for the 2018–19 QCA levy. The 2018–19 QCA levy for Queensland Rail's users by train service type has been determined as:

- \$0.14152 per net tonne for the West Moreton system coal users
- \$0.07388 per thousand gross tonne kilometres for the Mount Isa line freight and minerals users
- \$0.04416 per thousand gross tonne kilometres for the North Coast line and West Moreton system freight and mineral users
- \$0.01561 per track kilometre for long distance passenger services.

⁷ Pacific National, submission to the QCA, *Queensland Rail: QCA levy 2018–19*, September 2018, p. 2.

⁸ QCA, *Queensland Rail: 2018–19 QCA levy, draft decision*, October 2018, p.9.

⁹ QCA 2016–17 Fee Framework, p. 3.

¹⁰ Queensland Rail, *Queensland Rail: QCA levy 2018–19*, amendment letter to the QCA, 28 September 2018.