

File Ref: 1397357

20 December 2019

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

Dear Mr Easy

Final decision: Queensland Rail's 2019–20 QCA levy proposal

On 19 December 2019, the Queensland Competition Authority (QCA) approved the QCA levy for 2019–20 as proposed by Queensland Rail.

The 2019–20 QCA levy for each train service type has been determined as:

- \$0.25541 per net tonne for the West Moreton system coal users
- \$0.09843 per thousand gross tonne kilometres for the Mount Isa line freight and mineral users
- \$0.05465 per thousand gross tonne kilometres for the North Coast line and West Moreton system freight and mineral users
- \$0.02028 per track kilometre for long distance passenger services.

The QCA's review of Queensland Rail's 2019–20 QCA levy proposal is summarised in the attached decision notice. If you have any questions about this decision notice, please refer your staff to Chris Peart on 07 3222 0531.

Yours sincerely



Charles Millsted
Chief Executive Officer

DECISION NOTICE

QUEENSLAND RAIL'S 2019–20 QCA LEVY

19 December 2019

The Queensland Competition Authority has approved Queensland Rail's proposed 2019–20 QCA levy.

Background

The Queensland Competition Authority (QCA) charges regulated entities, like Queensland Rail, a QCA fee for providing regulatory services. Regulated entities can pass the QCA fee through 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 forecast 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 on to Queensland Rail's customers as adjustments to the QCA levies.

Queensland Rail's 2019–20 QCA levy proposal

Queensland Rail proposed \$2,243,730 in levies that included:

- (a) the estimated 2019–20 QCA fee of \$2,129,000
- (b) reconciliation of \$98,142 under-recovery of the 2018–19 QCA fee, and
- (c) reconciliation of \$16,588 under-recovery of the 2018–19 QCA levies.

Methodology for allocation of the 2019–20 fees

Queensland Rail's 2019–20 QCA levy proposal calculates the allocation of regulation costs across the train service types using the same method the 2018–19 proposal. This method multiplies a weighing that reflects the benefits each user group receives from regulation by forecast gross tonne kilometres (gtk) to determine the fee allocator (%).²

¹ QCA Fee Framework, p. 3.

² Queensland Rail, submission to the QCA, *Queensland Rail: 2019–20 QCA Levy Submission*, November 2019 p.4

Queensland Rail considered that its proposed weightings will preserve the 'beneficiary pays' principle. This applies a higher weighting to West Moreton coal services:

[T]he higher weighting [assigned to West Moreton coal] remains the best approach to avoid non-coal traffics cross-subsidising coal traffic for the recovery of QCA's Regulatory Fees, which will likely be largely attributable to the QCA's consideration of reference tariff and reporting matters (relating to the movement of coal on the West Moreton system) under AU1, as well as under Queensland Rail's Draft Access Undertaking 2.³

Using these weightings, Queensland Rail calculated the 2019-20 fee allocator⁴ and proposed the QCA levies shown in Table 1.⁵

Table 1 QR's 2019–20 QCA levy proposal

<i>System</i>	<i>Weighting</i>	<i>QCA 2019–20 fee allocator (%)</i>	<i>Final levies^a</i>
West Moreton coal	14	64.4	\$0.25541 per net tonne
Mount Isa freight and minerals	1.5	19.7	\$0.09843 per 000gtk
North Coast and West Moreton freight and minerals	1	14.5	\$0.5465 per 000gtk
Passenger	1	1.3	\$0.02028 per track km

a Reflects QCA 2019–20 fee, and adjustments for the under-recovery of the 2018–19 QCA fee, and 2018–19 QCA levies.

Stakeholder comments

Pacific National said that the cost allocation to the North Coast line was too high and should be reduced to be the same as the passenger system. It said the North Coast line is 'effectively unregulated', with Queensland Rail able to set prices within a broad floor and ceiling and without an approved freight and minerals standard access agreement in place. It also said North Coast line freight and mineral customers already pay high access charges—and a high fee would add to this inequity.⁶ Pacific National also proposed to reduce the cost allocation for Mount Isa freight and minerals.⁷

Pacific National said that the cost allocation to the West Moreton coal system should be increased given it is the only system subject to a thorough regulatory analysis and the only system where the QCA monitors Queensland Rail's ongoing compliance and assesses capital expenditure and reference tariff variations.⁸

Yancoal said the West Moreton allocation was too high and should be reduced. It said maintaining the same cost allocator as previous years was not appropriate given the material change in circumstances from declining volumes.⁹ It also stated that Queensland Rail's proposed allocation to West Moreton was inappropriate on affordability grounds, as the ability to pay of West Moreton coal users was decreasing as coal volumes decreased.¹⁰

³ Queensland Rail, submission to the QCA, *Queensland Rail: 2019–20 QCA Levy Submission*, November 2019 p.1

⁴ The 2019-20 QCA fee allocator is applied to the 2019–20 QCA regulatory fee—the reconciliation of the 2018–19 QCA regulatory fee and the 2018–19 QCA levy are allocated separately.

⁵ Queensland Rail, submission to the QCA, *Queensland Rail: 2019–20 QCA Levy Submission*, November 2019.

⁶ Pacific National, submission to the QCA, *2019-20 Queensland Rail QCA Levy*, November 2019, pp.1–2

⁷ Pacific National, submission to the QCA, *2019-20 Queensland Rail QCA Levy*, November 2019, p.2

⁸ Pacific National, submission to the QCA, *2019-20 Queensland Rail QCA Levy*, November 2019, p.1

⁹ Yancoal, submission to the QCA, *Submission in response to QR's 2019/20 QCA Levy Proposal*, November 2019, p.2

¹⁰ Yancoal, submission to the QCA, *Submission in response to QR's 2019/20 QCA Levy Proposal*, November 2019, p.4

QCA Analysis

We consider that Queensland Rail's proposed allocation method is appropriate. We support continuing to allocate regulatory costs on a 'beneficiary pays' principle. While it is impossible to determine precisely how much each user group benefits from regulation, we consider continuing to apply the weightings used in previous DAU assessment periods, which allocates a higher portion of costs to West Moreton coal, remains appropriate. We expect that West Moreton coal system users will receive greater service from our regulatory functions as the assessment of a DAU involves in-depth analysis of a number of matters specifically related to this system. West Moreton coal should therefore be allocated a larger weight and consequently a higher proportion of the costs associated with regulation.

In response to Yancoal comments regarding the appropriateness for the allocations given declining coal volumes, we note that the allocation method proposed takes volumes into account. Consequently West Moreton coal users' share of cost has decreased from 67.4 per cent to 64.4 per cent.

We do not agree with Pacific National's claim that the North Coast line is 'effectively unregulated' and that these users did not receive the benefit of the regulatory services paid for under the QCA levy. While we do not set a reference tariff for the North Coast line, rail freight users on the North Coast line will benefit from the pricing rules, negotiation processes and operating requirements contained in the 2016 undertaking and being considered as part of the 2020 DAU assessment.

Adjustments to the 2019–20 QCA levy

We consider that Queensland Rail's proposed allocation of the under-recovered 2018–19 QCA fee based on respective allocations of the 2018–19 QCA levy is appropriate and consistent with the QCA Fee Framework.

Similarly, we consider that Queensland Rail's calculation and proposed recovery of net under-recovered 2018–19 QCA levies is appropriate.

Final decision

For the reasons outlined above, our final decision is to approve Queensland Rail's proposal for the 2019–20 QCA levy.