



Tuesday, 21 February 2012

Paul Bilyk
Director
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: rail@qca.org.au

Dear Mr Bilyk,

Queensland Rail Costing Manual

Background

Asciano welcomes the opportunity to respond to the Queensland Rail Costing Manual submitted to the Queensland Competition Authority (QCA) in December 2011. This submission is public.

Asciano, via its subsidiary Pacific National, is one of Australia's largest rail haulage operators, and is a major customer of Queensland Rail's below rail infrastructure. In particular Pacific National operates both intermodal haulage rail services and bulk haulage rail services on rail lines owned and operated by Queensland Rail.

Asciano, as a rail operator has a strong interest in ensuring that rail costing manuals are well designed and contain appropriate cost allocation processes, as this will result in appropriate and efficient pricing for below rail services.

In relation to rail costing manuals Asciano has particular concerns which have been previously advised to the QCA¹ in the context of the QCA consultation regarding the QR National proposed costing manual. QR National is privately owned and vertically integrated and many of the concerns raised by Asciano in the context of the QR National costing manual are not as relevant to this current review of the Queensland Rail costing manual. Queensland Rail does not operate as a vertically integrated rail operation in the same manner as QR National.

Given these differences Asciano is seeking that QCA not allow any decisions made in relation to this current Queensland Rail costing manual, which may be appropriate in the context of Queensland Rail, to be used as precedent in considering any QR National's costing manual.

Asciano recognises that the proposed Queensland Rail costing manual will have application to the 2010-11 Queensland Rail below rail financial statements and will be further revised following the determination of the Queensland Rail 2012 Access Undertaking. Asciano believes that the comments made in this submission apply both to the current proposed costing manual and future manuals developed under the Queensland Rail 2012 Access Undertaking.

¹ See Asciano's letter to the QCA on regarding the QR National costing manual.

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Asciano General Comments on the Proposed Costing Manual

Asciano's general view of the costing manual is that it is generally sufficient for the purpose of cost allocation given the Queensland Rail's operating, business and regulatory environment. In particular Asciano note that many of the concerns raised by Asciano in relation to the QR National costing manual have been addressed in the Queensland Rail costing manual. However, Asciano remains concerned that the Queensland Rail costing manual does not seem to support an audit of the accounts allocated by the costing manual. .

The costing manual notes in 2.1.1 a) that it is based on the Queensland Rail audited general financial statements. Asciano believes that these accounts are the appropriate starting point for the costing manual but Asciano is concerned that adjusted financial statements (as, for example, contained in Schedule B) which are based on the audited general financial statements are themselves not audited. Asciano believes that a robust costing manual should have transparent and auditable processes to ensure that the adjustment from the general purpose financial statement to the adjusted financial statements is correct.

Asciano notes that section 5.4 of the August 2011 working draft of the Queensland Rail draft Access Undertaking allows the QCA to undertake audits on request; however Asciano believes that the auditing of the adjusted financial statements arising from the application of the costing manual should be conducted as a matter of course.

Asciano Specific Comments on the Proposed Costing Manual

Asciano has some specific concerns with the proposed Queensland Rail costing manual including:

- Section 2.2 c) states that if QCA ceases to be the regulator then Queensland Rail may withdraw the costing manual. Asciano believes that such an approach may not be ideal if another regulatory body, such as the ACCC, continues in a regulatory role similar to the QCA. In these circumstances Asciano believes that it would be more appropriate for Queensland Rail to keep the manual operational until the processes required by any new regulator are clear;
- Section 3.1 c) notes that;

Network is responsible for the provision or procurement of appropriate levels of maintenance and investment in stations and platforms. These items are not included in Below Rail Services provided by Queensland Rail.

However the definition of Below Rail Services states

Below Rail Services means the activities associated with the provision and management of Rail Infrastructure within Queensland, including the construction, maintenance and renewal of Rail Infrastructure assets...

and the definition of Rail Infrastructure states

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“Rail Infrastructure” means Rail Transport Infrastructure, except that the term does not include the track and associated infrastructure on those parts of the network not identified as the responsibility of Queensland Rail in the Undertaking, but for the purpose of clarity, does include all stations and platforms

Thus the 3.1 c) wording gives the impression stations and platforms are not included in Below Rail Services but the definitions of Below Rail Services and Rail Infrastructure indicate stations and platforms are included. This should be clarified.

- Section 3.2 d) states that rigid application of the manual methodology is not required for immaterial amounts. Given this, Asciano seeks that there should be some definition of “immaterial amounts”.
- Sections 3.3 and 4.5.3 outline the nature and treatment of Queensland Rail’s inter-company charges, agreements and transactions. Asciano believes that the costing manual should require that these inter-company charges, agreements and transactions be fair and reasonable and that additional detail on these inter-company charges, agreements and transactions be made available.
- Table 4.2 identifies various costs as “ident / alloc” – that is the costs are based on both identifiable costs and allocated costs. While Asciano recognises that the costing manual describes in broad terms how these costs are identified and or allocated, Asciano believes that, if possible, a statement as to the proportion of identified costs and allocated costs for the individual cost would be useful.
- Sections 4.4.3.7, 4.4.3.8 and 4.4.3.9 discuss the treatment of the costs of derailments, collisions, floods and third party damage. These sections should also include a discussion on the treatment of revenue received from insurance and payments from above rail operators in relation to these derailments, collisions, floods and third party damage.

Overall Asciano believes the standard of the proposed Queensland Rail Costing Manual is generally acceptable if the adjusted financial statements are independently audited as a matter of course and the specific concerns identified above are addressed.

If you wish to discuss this issue please contact me on (02) 8484 8056.

Yours faithfully,



Stuart Ronan
Manager, Access and Regulation