



13 February 2017

Mr Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
Level 27  
145 Ann Street  
BRISBANE QLD 4000

Dear Mr Millstead,

### **QUEENSLAND RAIL'S 2016 COST ALLOCATION MANUAL (COSTING MANUAL)**

Thank-you for the opportunity to provide comments on Queensland Rail's ("QR's") 2016 Cost Allocation Manual ("Costing Manual").

The Costing Manual deals with the preparation of Financial Reports under Clause 5.3 of the undertaking. The Costing Manual will, among other things, set out the reports to be presented, the level of detail within each report, the extent to which separate reports are required for different aspects of the below rail service, and how costs are to be allocated, for the purposes of the reports, to various functions.

The proposed Costing Manual is largely based on the 2013 Costing Manual. New Hope Corporation considers that the proposed changes are uncontroversial, subject to the exceptions noted below; however, we suggest that further changes are required. The additional changes proposed by New Hope seek to ensure that the reports prepared are consistent with, or at least reconcilable with, the reports which QR is required to prepare under the Section 5.2.2(i) of the undertaking.

#### QR's proposed changes:

Our concerns with the changes proposed to the 2013 Costing Manual are as follows:

- **Duration:** We consider that Section 2.2 or 2.3 should acknowledge the QCA's statutory right (QCA Act, s159(2)) to require revisions of the manual from time to time. In the absence of this acknowledgement, we consider that the proposed term (to June 2020) is too long.
- **Definition of Queensland Rail:** We suggest that the definition of the entity does not require a description of QR's responsibilities, noting that the current definition implies that QR does not provide network services to coal traffic.

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#### CONTACT DETAILS

#### DOCUMENT INFO

Page 1 of 3  
A394293

- Allocation of Overheads to Below Rail: We consider that the allocation of corporate overheads in Schedule C requires further detailed investigation by the QCA. An allocation of 45% of corporate type overhead costs to Below Rail is considered very high, given the significant QR management effort, driven by the political focus, devoted to the correction of the recently emerged passenger train driver and timetable short-comings that are expected to take a significant period to overcome. Recent focus around agriculture (cattle and grain) and other general freight would also point to another significant block of QR corporate management overheads that do not seem to support an allocation of 45% of corporate type costs to Below Rail.

#### Reporting of maintenance and operating costs.

The Financial Reports prepared under Clause 5.3 of the undertaking are part of a suite of reports to be prepared by QR. We suggest that the Costing Manual needs to be amended to ensure that the various reports are prepared on a consistent basis, or are reconciled.

Clause 5.2.2 of the proposed undertaking requires that QR provides a range of reports, including, in 5.2.2(i), a report for each “Regional Network” which includes:

- Maintenance costs, scope of maintenance performed and operating expenditure, with each compared with the forecasts used to develop the tariff, with the information to be aggregated by the same categories as those on which the relevant forecast was based. The categories are track (excluding mechanised resleepering), mechanised resleepering, structures, trackside systems and other.
- Operating expenditure compared with the forecasts used to develop the relevant tariff, with the information to be aggregated by the same categories as those on which the relevant forecast was based. The categories are train control, corporate overhead, other and working capital.
- Capital investment and the roll-forward of the Regulatory Asset Base.

The West Moreton Network (which excludes the metropolitan system) is a “Regional Network”. Given that costs incurred within the West Moreton Network form the basis of tariffs West of Rosewood, and are the main input to tariff development East of Rosewood, we consider that the reports required under Clause 5.2.2(i) will provide very useful information.

In preparing the above information for the West Moreton Network, allocation of costs (such as operating expenditure) will be required in cases where costs are not clearly attributable to a specific Regional Network. Clause 5.2.2 does not provide any guidance on how shared costs should be allocated for the purposes of developing these reports. For example, there is no explicit requirement that the allocations be consistent with either the methodology set out in the Costing Manual, or with the basis on which Reference Tariffs were developed (although QR is required under Clause 5.2.2(k) to explain differences between forecast and actual costs, so any difference in methodology would need to be explained).

We therefore will have three potentially different sources of cost information for the West Moreton Network, being:

- The information contained in the QCA’s final decision, and in QR’s model, which is the basis of the approved Reference Tariffs.
- The information reported under Clause 5.2.2(i).
- The Financial Reports prepared under clause 5.3 (using the Costing Manual).

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#### DOCUMENT INFO

Page 2 of 3  
 A394293

Our key requirement in regard to the overall package of reported information is that these three sources of information should be prepared on consistent basis, or be reconciled with each other. To achieve this, we would suggest that:

- The allocation methods under the Costing Manual should be consistent with the basis on which Reference Tariffs were developed (to the extent that the development of the costs within the Annual Revenue Requirement involved allocations).
- The Financial Reports provided under Clause 5.3 in accordance with the Costing Manual, which are audited, should include the same detail as the cost information required under Clause 5.2.2(i).

This will ensure that a version of the Clause 5.2.2 information regarding maintenance and operating costs is prepared which is based on allocation methodologies consistent with those used to develop reference tariffs.

Reporting of Revenue:

In addition to the cost information, we consider that the Financial Reports should provide a breakdown of QR's revenue within the West Moreton Network, separated into coal and non-coal revenue, with revenue relating to coal services separately reported between Access Charges and any other material source of revenue.

This information is important as it may be relevant to development of Reference Tariffs in the future.

Thank you for your consideration of our submission. We would be happy to meet with you or your officers to provide any clarification of our submission.

Yours faithfully,  
**NEW HOPE GROUP**



Sam Fisher  
G.M. Marketing & Logistics

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Page 3 of 3  
A394293

