

# 2018–19 QCA Levy Submission

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 QueenslandRail

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# 1. Executive Summary

This submission seeks the Queensland Competition Authority's (QCA) approval for the 2018–19 QCA Levy to be applied to Queensland Rail's access charges, consistent with clause 3.7 of the Queensland Rail Access Undertaking 1 (AU1).

The QCA Levy is included in AU1 to allow Queensland Rail to recover fees charged by the QCA for the provision of its regulatory services from access holders. In 2018-19, Queensland Rail is proposing to recover a net amount of \$1,693,421. The proposed 2018-19 QCA Levy by Train Service type is set out in **Table 1**.

Table 1: Proposed QCA Levy 2018–19

Train Service	Proposed 2018-19 QCA Levy
West Moreton System Coal (\$/net tonne)	\$0.14348
Freight & Minerals — Mount Isa (\$/'000 gtk)	\$0.07536
Freight & Minerals — North Coast & West Moreton non-coal (\$/'000 gtk)	\$0.04519
Passenger (\$/track km)	\$0.01597

Similar to the arrangements that the QCA approved for the allocation of costs to be recovered from West Moreton System Coal access holders during the years when the QCA was considering AU1, Queensland Rail is seeking the QCA's to apply a higher weighting to the recovery of the QCA Fee for 2018-19 than for 2017-18. Queensland Rail considers that this avoids non-coal traffic cross-subsidising coal traffic for the recovery of QCA's Fees which will likely be wholly attributable to the QCA's consideration of the reference tariff for the movement of coal on the West Moreton System as part of its consideration of Queensland Rail's Draft Access Undertaking 2 (DAU2).

Queensland Rail is seeking the QCA's timely consideration of the 2018-19 QCA Levy. Until the QCA approves a new QCA Levy amount, the QCA Levy being charged to users is the QCA Levy approved for 2017-18. The 2017-18 Levy included a one-off adjustment for under-recovery of QCA Fees from 2010-11 to 2016-17, with the higher weights applied to West Moreton System Coal. Although Queensland Rail will 'true-up' the QCA Levy after the QCA's Final Decision, until that time it is cognisant that West Moreton System Coal access holders are paying a higher QCA Levy than is proposed, and access holders on other systems are paying less.

## 2. QCA Fees paid by Queensland Rail

### 2.1 QCA Fee Framework

Section 3 of the *Queensland Competition Authority Regulation 2007* (the Regulation) entitles the QCA to charge fees (the QCA Regulatory Fee) for providing a service or performing a function set out in Schedule 1 of the Regulation provided the amount charged:

- (a) is considered to be reasonable by the QCA; and
- (b) is not more than the reasonable cost of providing the service or performing the function.

The QCA performs functions which are within the scope of Schedule 1 of the Regulation. These services include the development or amendment of an access undertaking, disputes relating to an access undertaking, arbitrations and monitoring compliance with an access undertaking.

The fees to be paid to the QCA for general regulatory services by a regulated entity that is the subject of the QCA's fee charging regime are calculated by the QCA based on its estimate of the actual cost of performing the functions in respect of that particular entity over the coming 12 months.<sup>1</sup>

At the end of each financial year, the QCA provides its final costs for the year with Queensland Rail either receiving an additional fee if costs were under estimated or a credit if costs were overestimated, which are applied to the QCA estimated costs for the subsequent year.

### 2.2 QCA Regulatory Fees to be recovered in 2018-19

#### 2.2.1 2018-19 QCA Regulatory Fee

The 2018–19 QCA Fee has been estimated by the QCA as \$1,933,000. The QCA has advised that this amount based on the following planned work program:

- Compliance requirement of the access undertaking (AU1)—\$450,000
- Commencing work on AU2—\$1,483,000.

Queensland Rail is seeking to recover this amount in the 2018–19 QCA Levy.

#### 2.2.2 True-up of 2017-18 QCA Regulatory Fee and 2017-18 QCA Levy

In June 2018, the QCA advised that it had under-estimated the cost of its regulatory fees for the review of Queensland Rail's Draft Access Undertaking and compliance with AU1 by \$121,000 in 2017-18. This additional amount is proposed to be recovered in the 2018-19 QCA Levy.

Stronger railings on the West Moreton Coal System than those forecast for 2017-18 contributed to Queensland Rail over-recovering \$404,815 from West Moreton Coal access holders. Railings were lower than forecast for the Mount Isa Line with an under-recovery of \$44,662. **Table 2** shows the proposed adjustments by Train Service Type to be made to the 2018-19 QCA Levy with \$360,579 to be rebated to customers in 2018-19.

<sup>1</sup> QCA Fee Framework 2015\_16, 1

Table 2: Over/under recovery of 2017-18 QCA Levy by Train Service Type

Train Service Type	Over/(under) recovery (\$)
West Moreton System Coal	404,815
Freight & Minerals—Mount Isa	(44,662)
Freight & Minerals—NCL & West Moreton non-coal	447
Passenger	(22)
<b>Total</b>	<b>360,579</b>

**Table 3** shows the calculation of the net QCA Regulatory Fees to be recovered in the 2018-19 QCA Levy.

Table 3: Net QCA Regulatory Fees to be recovered in 2018-19 QCA Levy

Cost build-up	\$
2018-19 QCA Regulatory Fee	1,933,000
Plus 'true-up' of 2017-18 QCA Regulatory Fee	121,000
Less over-recovery of 2017-18 QCA Levy	(\$360,579)
<b>Total</b>	<b>1,693,421</b>

**Attachment 1** sets out the 2018-19 QCA Levy calculations in more detail.



## 3. Proposed Allocation of costs for the 2018-19 QCA Levy

### 3.1. Context

Clause 3.7 of the Queensland Rail's Access Undertaking 1 (AU1) states that:

*An Access Charge for a Train Service may include a QCA Levy component to be collected for the QCA by Queensland Rail. This component will, where applicable, be determined from year based of the QCA Levy levied by the QCA to Queensland Rail and allocated amongst Train Service types in a manner approved by the QCA.*

The QCA's Fee Framework 2015-16 states that all fees levied in respect of general regulatory services will be eligible for pass through to customers in prices where ever the QCA has responsibility for these pass throughs.<sup>2</sup>

The pass-through of regulatory fees is consistent with the broader 'beneficiaries pays' principle. The principle that beneficiaries of government regulation should pay for that regulation was among the findings of the 2002 Productivity Commission *Report Cost Recovery by Commonwealth Government Agencies*, which preceded the introduction of the QCA Fee in 2003. The report found that where possible, cost recovery arrangements should apply to specific activities or products noting:

*"The 'beneficiary pays' principle has been widely cited as a major rationale for developing and implementing cost recovery. It is based on the notion that those that benefit from the provision of a particular activity or product should pay for it. This has both economic and equity dimensions. It encourages those who benefit from the activity or product to recognise that there are resource costs involved."*<sup>3</sup>

*"Regulatory activities for which cost recovery is appropriate are generally those that have a direct link to a particular group of identifiable users or beneficiaries (industry, consumers or others), such as product assessments, licensing and monitoring."*<sup>4</sup>

*"In most cases it is simpler and more cost effective to charge the producer of the regulated product through either a direct fee-for-service, or an industry levy. Firms can then pass on some or all of this charge to purchasers, down the production chain to final consumers."*<sup>5</sup>

### 3.2 Allocation of costs for 2018-19

#### 3.2.1 Variable weightings for years where the QCA is considering a DAU

For the 2017-18 QCA Levy, the QCA approved Queensland Rail's proposal that the West Moreton Coal Services be allocated a higher percentage of the QCA's Regulatory Fees for the years when the QCA was considering AU1 approval process (and hence higher QCA costs) should have a higher level of QCA Regulatory Fees allocated to these services.

<sup>2</sup> QCA Fee Framework 2015\_16, p 2

<sup>3</sup> Productivity Commission, *Cost Recovery by Government Agencies*, August 2001, Part 1 p. 15

<sup>4</sup> Productivity Commission, *Cost Recovery by Government Agencies*, August 2001, Part 1 p. 157

<sup>5</sup> Productivity Commission, *Cost Recovery by Government Agencies*, August 2001, Part 1 p. 173

Specifically, Queensland Rail proposed that a higher allocation of costs (and weighting) be applied for West Moreton Coal services for the years in which the QCA was considering a draft access undertaking compared to those years where the QCA is undertaking compliance activities only. The weights Queensland Rail proposed previously are shown in **Table 4**.

Table 4: Weightings for recovery of the QCA Regulatory Fee by Train Service type 2014-15 to 2017-18

Train Service type	Weighting	Weighting
	2014-15—2015-16	2016-17—2017-18
	Compliance plus AU1 consideration	Compliance only
West Moreton Coal	14	6
Freight & Minerals—Mount Isa	1.5	1.5
Freight & Minerals—North Coast Line & West Moreton	1.0	1.0
Long Distance Passenger	1.0	1.0

The proposed weights are applied to the forecast gross tonne kilometres (gtks) for the relevant Train Service types to calculate the costs to be recovered from each Train Service type.

### 3.2.2 Allocation to West Moreton System Coal

Queensland Rail does not have the information to definitively estimate the quantum of the QCA's Regulatory Fees that the QCA estimates would be directly attributable to West Moreton System coal traffic for 2018-19.

However, the QCA's assessment of issues associated with coal reference tariffs for DAU2, combined with compliance activities specifically related to the West Moreton Coal system (e.g. review of capital expenditure, consideration of endorsed variation events/review events etc.) is likely to be the most significant drivers of the costs underpinning the QCA Regulatory Fee for 2018-19. These cost drivers are only relevant to West Moreton System coal.

West Moreton System Coal traffic also benefits from the general, non-coal specific provisions of the access undertaking that apply to all traffics such as the negotiation process, the Network Management Principle, Standard Access Agreement and reporting requirements.

Queensland Rail is proposed increasing the allocation of the QCA Regulatory Fee to be recovered from the West Moreton System Coal to the level approved for the 2014-15 and 2015-16. Specifically, Queensland Rail has proposed increasing the weighting for West Moreton Coal from 6 to 14 for 2018-19, which would result in 67.4 per cent of the QCA's Regulatory Fees based on forecast railings being recovered from West Moreton System coal access holders.

Queensland Rail considers it reasonable that a higher percentage of the QCA's ongoing costs also be allocated to West Moreton System Coal to avoid other access holders being charged for regulatory services that they do not benefit from.

### 3.2.3 Allocation to Mount Isa Line Freight and Minerals

Queensland Rail is proposing no change to the weighting approved by the QCA for the North Coast for the 2017-18 QCA Levy.

Freight and Minerals traffics on the Mount Isa System receive the benefits of regulation from AU1 through negotiation process, pricing rules, operating requirements associated with the provision of access to the network, including consideration of network management principles and the operating requirements manual, performance reporting and the development of a standard access agreement. The QCA will consider matters relevant to the Mount Isa Line during the DAU2 process.

### 3.2.4 Allocation to North Coast Line and West Moreton Freight and Minerals

Queensland Rail is proposing no change to the weighting approved by the QCA for the North Coast Line and other West Moreton freight and mineral traffic for the 2017-18 QCA Levy.

Freight and Minerals traffics on the North Coast Line and West Moreton system receive the benefits of regulation from AU1 through negotiation process, pricing rules, operating requirements associated with the provision of access to the network, including consideration of network management principles and the operating requirements manual, performance reporting and the development of a standard access agreement.

However, unlike coal on the West Moreton Network and the movement of bulk commodities on the Mount Isa Line, most of the freight moved on the North Coast Line is in direct competition with road transport. Queensland Rail's access charges on the North Coast Line are limited by the market price that rail can charge relative to road transport. This also limits the capacity of train operators to pass through and recover the costs of the QCA Levy from end customers.

### 3.2.5 Allocation to Long Distance Passenger

Queensland Rail is proposing no change to the QCA Regulatory Fees recovered from long distance passenger services, noting the primary emphasis of AU1 and the QCA's consideration of the DAU2 is relevant to the provision of freight services.

### 3.2.6 Allocation to other Train Services

As has historically been the case, Queensland Rail proposes not to allocate the recovery of QCA Regulatory Fees to other Train Services such as movement of grain on the South West, West and Central West Networks and the movement of general freight on the Central West Network.

These Train Services are heavily contestable with road, with limited ability to pass through the costs. The traffic volumes are also very low, seasonal and cannot be reliably forecast from year to year. Many of these services operate on an ad hoc basis.

## 3.3 Allocation of costs for 2018-19 QCA Levy by Train Service type

**Table 5** shows the allocation of costs to the relevant Train Service types by applying the proposed weighting for 2018-19 to:

- the forecast gkts for West Moreton Coal services consistent with the July 2018 Review Event; and
- the forecast gkts for other Train Service Types consistent with Queensland Rail's 2018-19 Operational Plan.

Table 5: Proposed weighting and allocation of costs for recovery of QCA Regulatory Fee by Train Service type 2018-19

Train Service type	Weighting	Allocation of costs
	2018-19	(%)
West Moreton Coal	14	67.4%
Freight & Minerals—Mount Isa	1.5	18.3%
Freight & Minerals—North Coast Line & West Moreton	1.0	13.1%
Long Distance Passenger	1.0	1.2%

**Attachment 2** provides detail on the cost allocations by Train Service type.



## 4. Proposed 2018-19 QCA Levy

The proposed 2018–19 QCA Levy by Train Service is set out in **Table 6**. **Attachment 1** shows the calculations for the QCA Levy.

Table 6: Current QCA Levy and proposed 2018-19 QCA Levy (nominal)

Train Service	Approved	Proposed
	2017-18 QCA Levy	2018-19 QCA Levy
West Moreton System Coal (\$/net tonne)	\$0.31825	\$0.14348
Freight & Minerals — Mount Isa (\$/’000 gtk)	\$0.03447	\$0.07536
Freight & Minerals — North Coast & West Moreton (\$/’000 gtk)	-\$0.00394	\$0.04519
Passenger (\$/track km)	\$0.00019	\$0.01597

Table 6 also shows the comparison of proposed 2018-19 QCA Levy to the 2017-18 QCA Levy which is currently being changed to access holders.

Until the QCA approves a new QCA Levy amount, the 2017-18 QCA Levy is being charged to access seekers, although the 2017-18 QCA Levy is not representative of the ‘normal’ levy. As the QCA is aware, the 2017-18 QCA Levy included a one-off adjustment for the historic under-recovery of QCA Fees from 2010-11 to 2016-17. It also applied the higher weights for the West Moreton System Coal.

Although Queensland Rail will ‘true-up’ the QCA Levy after the QCA’s Final Decision, until that time West Moreton System Coal access holders are paying a higher QCA Levy than is proposed, and access holders on other systems are paying less with North Coast Line access holders receiving a very small discount on each bill.

# Attachment 1: 2018–19 QCA Levy calculations

## VOLUME FORECASTS\*

Traffic Type	Net Tonnes	000 Gtks	Tkm
West Moreton System Coal	6,643,722		
Freight & Minerals - Mount Isa		5,767,532	
Freight & Minerals - NCL & West Moreton		6,194,191	
Passenger			1,606,603

\* Gtk and tkm forecasts only include the following areas:

System	Geographical Area	Areas
North Coast Line	Nambour to Cairns (excl. Callemondah to Rocklands)	5,7,8
Mt Isa Line	Stuart to Mt Isa - Flynn to Phosphate Hill	9
West Moreton System	Rosewood to Toowoomba - Toowoomba to Miles	2,3

## QCA FEES

Total Fees (excluding GST)

\$ 1,933,000

QCA Fee Allocator	Percentage	QCA Fee Base Amount	Amount
West Moreton System Coal	67.4%	West Moreton System Coal	\$ 1,302,775
Freight & Minerals - Mount Isa	18.3%	Freight & Minerals - Mount Isa	\$ 353,758
Freight & Minerals - NCL & West Moreton	13.1%	Freight & Minerals - NCL & West Moreton	\$ 253,285
Passenger	1.2%	Passenger	\$ 23,182
Total	100.0%	Total	\$ 1,933,000
<b>2017–18 Adjustments</b>		<b>With Adjustments</b>	
West Moreton System Coal	-\$ 349,553	West Moreton System Coal	\$ 953,222
Freight & Minerals - Mount Isa	\$ 80,860	Freight & Minerals - Mount Isa	\$ 434,618
Freight & Minerals - NCL & West Moreton	\$ 26,635	Freight & Minerals - NCL & West Moreton	\$ 279,920
Passenger	\$ 2,478	Passenger	\$ 25,661
Total	-\$ 239,579	Total	\$ 1,693,421
<b>Denominator</b>			
West Moreton System Coal	6,643,722		
Freight & Minerals - Mount Isa	5,767,532		
Freight & Minerals - NCL & West Moreton	6,194,191		
Passenger	1,606,603		
<b>Standard Levies</b>			
West Moreton System Coal	\$ 0.19609	per net tonne	
Freight & Minerals - Mount Isa	\$ 0.06134	per 000 gtks	
Freight & Minerals - NCL & West Moreton	\$ 0.04089	per 000 gtks	
Passenger	\$ 0.01443	per tkm	
<b>Final Levies (with 2017–18 Adjustments)</b>			
West Moreton System Coal	\$ 0.14348	per net tonne	
Freight & Minerals - Mount Isa	\$ 0.07536	per 000 gtks	
Freight & Minerals - NCL & West Moreton	\$ 0.04519	per 000 gtks	
Passenger	\$ 0.01597	per tkm	

## Attachment 2: Proposed QCA Fee allocations 2018–19

### ALLOCATION METHODOLOGY 2018–19

	000 Gtks*		Weighting	=	Weighted 000 Gtks	Percentage
West Moreton System Coal	2,275,710	X	14.0	=	31,859,936	67.4%
Freight & Minerals - Mount Isa	5,767,532	X	1.5	=	8,651,298	18.3%
Freight & Minerals - NCL & West Moreton	6,194,191	X	1.0	=	6,194,191	13.1%
Passenger	566,936	X	1.0	=	566,936	1.2%
<b>Total</b>					<b>47,272,361</b>	

\* Coal net tonnes and Passenger tkms have been restated in 000 gtks.