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22 October 2009

Mr Michael Carter  
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PO Box 1429  
Brisbane QLD 4001

Dear Mr Carter

**Final Decision**  
**QR Network's Draft Amending Access Undertaking – Vermont Reference Tariff**

The Authority today approved QR Network's application (as varied on 16 September 2009) to amend the 2008 undertaking to provide for a new reference tariff for coal train services operating from the Lake Vermont mine to the port of Gladstone.

In forming its decision, the Authority has considered QR Network's application in accordance with its obligations under the *Queensland Competition Authority Act 1997*, and has had regard to the pricing arrangements in the 2008 undertaking. The Authority published QR Network's proposal and considered the comments made by stakeholders on it.

The approved Vermont reference tariff, equivalent to \$4.00/net tonne, is to be backdated to apply from the commencement of the Lake Vermont coal train services in January 2009.

Further details surrounding QR Network's application and the Authority's assessment of it are set out in the Authority's final decision (enclosed).

Yours sincerely



EJ Hall  
Chief Executive



**Final Decision**

**Vermont Draft Amending Access  
Undertaking**

**October 2009**

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## TABLE OF CONTENTS

	PAGE
<b>GLOSSARY</b>	<b>II</b>
<b>PREAMBLE</b>	<b>III</b>
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 The Vermont Line	1
1.2 Declaration of Third Party Access	2
1.3 QR Network's Vermont Draft Amending Undertaking Application	2
1.4 The Authority's Considerations	3
1.5 The Authority's Assessment Process	4
<b>2. ASSESSMENT OF THE COSTS OF THE VERMONT LINE</b>	<b>6</b>
2.1 Introduction	6
2.2 Estimated Capital Costs	7
2.3 Remaining Asset Lives	7
2.4 Operating and Maintenance Costs	8
2.5 Common Cost Contribution	9
<b>3. ASSESSMENT OF THE VERMONT DAAU AMENDMENTS</b>	<b>11</b>
3.1 Vermont Reference Tariff	11
3.2 Revenues and Volumes	13
3.3 Capital Indicator	15

**GLOSSARY**

Authority	Queensland Competition Authority
ARR	Annual Revenue Requirement
CCC	Common Cost Contribution
CPI	Consumer Price Index
CQCR	Central Queensland Coal Region
DAAU	Draft Amending Access Undertaking
gtk	gross tonne kilometres
mtpa	million tonnes per annum
Opex	Operational Expenditure
QCA Act	<i>Queensland Competition Authority Act 1997</i>
RAB	Regulatory Asset Base
WACC	Weighted Average Cost of Capital

**PREAMBLE**

QR Network Pty Ltd (QR Network) has sought to amend its 2008 access undertaking to include a reference tariff for a coal carrying train service from the Vermont mine to the Port of Gladstone. The proposed tariff is equivalent to \$4.00/net tonne and is to be backdated to 1 January 2009.

The proposed tariff is high in comparison with tariffs for other coal carrying train services in central Queensland, for instance \$2.91/net tonne for the North Blackwater mines. However, the size of the proposed Vermont tariff is a result of the long haul length to the Port of Gladstone (475km) and a relatively long and expensive spur and balloon loop (16.6km).

In considering this matter, it is noted that the Vermont train service did not qualify for entering an existing cluster as it travels from the Goonyella system to the Port of Gladstone, and no reference tariff has been determined for that origin/destination pair.

QR Network's proposed Vermont tariff is based on:

- (a) the incremental cost of the spur and balloon loop; and
- (b) the Blackwater common cost contribution for the entirety of the trip on the Goonyella and Blackwater mainlines.

While QR Network could have chosen to determine this tariff in an alternative manner, the effect of doing so is not material.

On 16 September 2009, QR Network amended the draft amending access undertaking (DAAU) to revise the reference tariff on the actual, not forecast, Vermont tonnages for January to June 2009.

In considering this application the Authority has confirmed the accuracy of the revised volume data. The Authority has also verified the accuracy of QR Network's calculations and confirmed that the reference tariff has been calculated in the manner described in its submission.

QR Network has proposed a number of other amendments to the 2008 undertaking to give effect to the proposed Vermont reference tariff; including increasing the Goonyella system's revenue cap and extending the Blackwater system's provisions to recognise Vermont as a nominated loading facility within the system.

The Authority has reviewed these amendments and considers that they are both reasonable and necessary to give effect to the Vermont reference tariff.

Accordingly, the Authority's decision is to approve the Vermont draft amending access undertaking as amended on 16 September 2009.

# 1. INTRODUCTION

QR Network has applied to amend its access undertaking to provide for a coal carrying train service operating from the Vermont mine to the Port of Gladstone. The application includes a proposed new reference tariff, amendments to the revenue cap and an extension to the geographical scope of the central Queensland coal region (CQCR).

In considering this matter, the Authority has sought public comments and has taken into account the assessment criteria in the Queensland Competition Authority Act 1997 (the QCA Act) as well as the requirements of QR Network’s 2008 access undertaking.

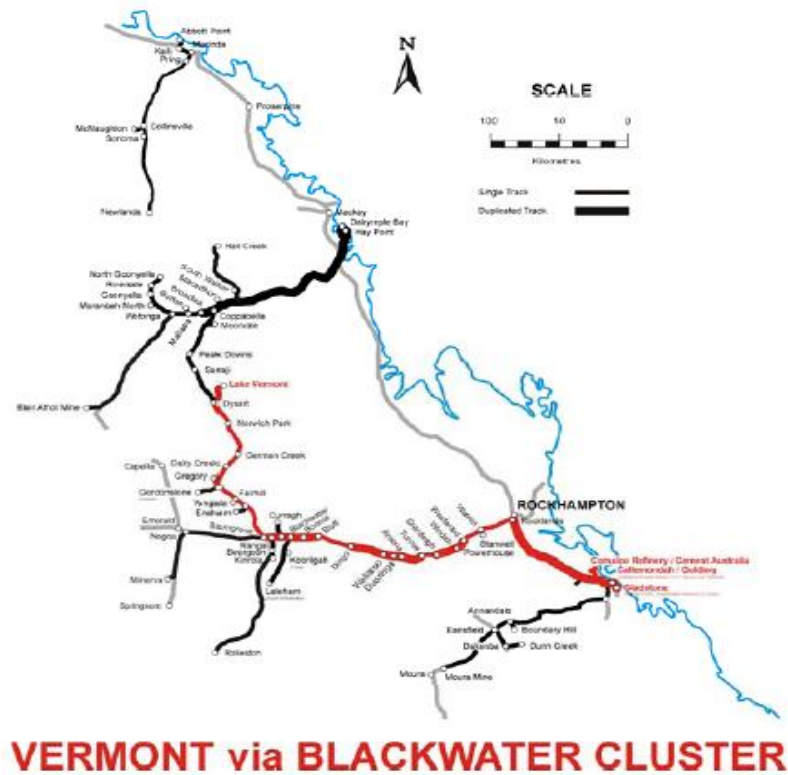
## 1.1 The Vermont Line

The Vermont mine is approximately 18 kilometres north east of Dysart and is connected to the South Goonyella mainline by a new 16.6 km spur and balloon loop (see Figure 1).

The new balloon loop and spur provides Vermont with the ability to move coal north to the Dalrymple Bay Coal Terminal (DBCT) and south to the Port of Gladstone. The current train service travels south on the existing Goonyella System and then joins the Blackwater system to the Port of Gladstone.

The spur was partially commissioned in January 2009 to allow restricted train operations. Initially, diesel-only trains operated; however, electric trains commenced operations in late September 2009.

**Figure 1**



While initial volumes have been at a rate of around three million tonnes per annum (mtpa), full production is planned at the rate of four mtpa. The resource contains approximately 275Mt of coal of which 78Mt occurs with less than 60m of overburden. The amount of recoverable coal is currently estimated to be sufficient to allow mining to continue at the expected production rate until 2024.

## 1.2 Declaration of Third Party Access

The use of rail transport infrastructure managed by QR Network has been declared under Part 5 of the QCA Act and is, therefore, subject to the third party access provisions of the QCA Act.

Approved undertakings for the QR Network's below-rail infrastructure have been in place since 2001. The current undertaking was approved in 2008 (2008 access undertaking) to reflect the organisational restructure of QR Ltd that resulted in the creation of a wholly owned subsidiary, QR Network Pty Ltd, as the entity responsible for operating the below-rail network.

While the undertaking sets out a range of matters associated with access to QR Network's below-rail infrastructure, for the purposes of this application, the most relevant part of the undertaking relates to reference tariffs. Specifically, the undertaking includes reference tariffs for coal-carrying train services in central Queensland. These tariffs have been calculated with reference to an Authority approved revenue cap.

The undertaking also provides for the development and approval of new reference tariffs either prior to, or following, the commencement of train services from a new coal mine.

## 1.3 QR Network's Vermont Draft Amending Undertaking Application

On 3 July 2009, QR Network submitted a DAAU to amend the 2008 access undertaking to provide for a reference tariff for the Vermont train service. On 16 September 2009, QR Network amended the proposed reference tariff to reflect actual and not forecast volumes for the period January to June 2009.

On this basis, the Vermont DAAU proposes to amend the 2008 undertaking to provide for:

- (a) a new reference tariff of \$4.00/net tonne for the Vermont to the Port of Gladstone train service which is based on:
  - (i) forecast incremental capital costs of the spur line of \$47.3 million (excluding electric infrastructure which has yet to be commissioned) and around \$80,000 for the manual operation of signalling prior to the commissioning of automated systems;
  - (ii) a contribution to common costs at \$2.24/'000gtk, based on the Blackwater system rate specified in the 2008 undertaking and indexed to 1 January 2009;
  - (iii) volume forecasts of 1.139 million net tonnes, based on actual railings from January to June 2009;
- (b) an increase in the 2008-09 Goonyella system revenue cap of \$2.05 million<sup>1</sup>;
- (c) an increase in the value of the capital indicator for the CQCR by \$47.3 million to incorporate the forecast capital cost of the spur and balloon loop;

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<sup>1</sup> No increase is proposed for the Blackwater system revenue cap as there are no incremental costs in the Blackwater system apart from additional maintenance costs which are funded by AT<sub>1</sub> revenues which are outside the revenue cap. The increase in the Goonyella system revenue cap is asset related and relates to the costs for the new spur.



- (d) an AT<sub>3</sub> tariff component to recoup some of the costs of the electric infrastructure that was commissioned in late September 2009; and
- (e) consequential definitional amendments to give effect to the Vermont via Blackwater cluster.

#### 1.4 The Authority's Considerations

In accordance with section 142 of the QCA Act, the Authority must consider the Vermont DAAU and either approve it or refuse to approve it. In doing so, the Authority must publish the Vermont DAAU and invite and consider comments on it.

The factors affecting the Authority's consideration and approval of a DAAU are set out in the QCA Act. Relevant factors also include the provisions in the 2008 undertaking relating to developing and approving new reference tariffs for coal-carrying train services in the CQCR.

##### *The QCA Act*

Section 138(2) of the QCA Act states that the Authority may approve a DAAU only if it considers it appropriate to do so having regard to:

- (a) promoting the economically efficient operation of, use of, and investment in, infrastructure by which services are provided, with the effect of promoting competition in upstream and downstream markets;
- (b) the legitimate business interests of the owner or operator of the service;
- (c) the public interest;
- (d) the interests of people who may seek access to the service;
- (e) the effect of excluding existing assets for pricing purposes;
- (f) the pricing principles mentioned in section 168A of the QCA Act, including, among other things, that the price of access to a declared service should:
  - (i) generate expected revenue for the service that is at least enough to meet the efficient costs of providing access to the service and include a return on investment;
  - (ii) allow for multi-part pricing and price discrimination when it aids efficiency; and
  - (iii) provide incentives to reduce costs or otherwise improve productivity; and
- (g) any other issues the Authority considers relevant.

##### *2008 Access Undertaking*

The Vermont train service does not qualify for entering an existing cluster as it travels from the Goonyella system to the Port of Gladstone, and no reference tariff has been determined for that origin/destination pair.

It is therefore relevant that the 2008 undertaking sets out requirements for developing reference tariffs for new coal-carrying reference train services in the CQCR, including that:

- (a) a new train service will pay the higher of (cl. 4.1.2, Part B of Schedule F):

- (i) an existing reference tariff; or
- (ii) the incremental cost plus a common cost contribution, where:
  - incremental cost is defined as the cost of providing access, including capital costs, that would not be incurred if a train service did not operate, where those costs are based on the assets reasonably required to provide access; and
  - the rate of the common cost contribution (CCC) is as specified in the undertaking.

The 2008 undertaking provides some guidance in relation to a number of matters raised by this application, including calculating the rate of CCC for a new reference train service and a process for altering existing coal system reference tariffs to account for that contribution, and the charging arrangements for non system-specific coal trains. In particular, the 2008 undertaking includes separate formulae for determining the CCC rate for each of the Blackwater, Goonyella and Moura systems.

There is no provision in the 2008 undertaking for determining the CCC rate to apply when a coal train travels between systems, nor how the revenues collected by QR Network in relation to this will be allocated.

Rather, it provides general guidance to ensure that the charging arrangements for non-reference train services are no better or worse than that applied to reference train services. For example, these undertaking provisions require QR Network to calculate all access charges for coal carrying train services in the CQCR by reference to the same components as reference train services (i.e. AT<sub>1</sub>, AT<sub>2</sub>, AT<sub>3</sub>, AT<sub>4</sub>, AT<sub>5</sub>, the QCA Levy and energy charge (EC) if applicable), even if the train service does not constitute a reference train service (cl. 3.5, Part A of Schedule F).

The 2008 undertaking also provides for a process whereby existing users' tariffs can be adjusted to reflect the contribution to common costs made by a new reference train service. The process comes under the 'endorsed variation events' in the undertaking, and is triggered by the development of a new reference tariff (cl. 3.3.5 and 5, Part A of Schedule F).

## **1.5 The Authority's Assessment Process**

On 6 July 2009, the Authority commenced an investigation into the Vermont DAAU. The Authority published the Vermont DAAU and invited stakeholders to submit comments on it by 3 August 2009 – this was subsequently extended to 17 August 2009 at the request of the Queensland Resource Council (QRC). The submission from the QRC was the only submission received.

On 16 September 2009, QR Network amended the DAAU to reflect a revised reference tariff based on actual, not forecast, volumes for January to June 2009. The Authority published that amendment and requested submissions by 25 September 2009. The Authority received one submission, from the QRC.

In preparing this decision, the Authority reviewed the Vermont DAAU and supporting material, including the confidential financial model provided by QR Network. The Authority also took into account the matters raised by QRC in their submission.

In reaching this decision, the Authority's assessments of the Vermont DAAU focussed on the incremental costs of the Vermont spur and balloon loop as well as QR Network's common cost contribution calculations (see chapter 2 of this decision).

The Authority also sought to establish the reasonableness of the consequential amendments to the undertaking (see chapter 3), in particular QR Network's proposed:

- (a) increases in the Goonyella system's revenue cap and volumes (section 3.1);
- (b) Vermont reference tariff (section 3.2);
- (c) an increase in the CQCR capital indicator (section 3.3); and
- (d) amendments to the capital indicator provisions in the undertaking to allow for the increase in the CQCR capital indicator (see section 3.4).

## 2. ASSESSMENT OF THE COSTS OF THE VERMONT LINE

*QR Network's proposed reference tariff seeks to recover around \$4.55 million for the costs associated with the Vermont spur and for the Vermont train service's contribution to network common costs for its journey on the Goonyella and Blackwater system mainlines.*

*In considering this matter the Authority has formed the view that the proposed spur costs are reasonable. Also, while the 2008 undertaking is not definitive on how the common cost contribution should be calculated for train services operating on more than one system, QR Network's proposal is not materially different to alternative interpretations of the undertaking.*

*Accordingly, the Authority decision is to accept QR Network's proposed costs for the Vermont train service.*

### 2.1 Introduction

QR Network developed the Vermont train service reference tariff on the basis of the costs of operating the Vermont spur line and balloon loop plus a CCC for the Vermont train service's journey over the Goonyella and Blackwater system mainlines.

#### *Vermont Costs*

QR Network proposed costs of around \$4.55 million to be recovered from the Vermont train service from its operations between January 2009 and the end of June 2009 (see **Table 2.1**).

**Table 2.1: Vermont Costs (Annual Revenue Requirement) as at 30 June 2009<sup>a</sup>**

<i>Building Block Component</i>	<i>2008-09 (\$'000)</i>
Return on Capital (WACC)	1,620
Less Inflationary Gain	489
Plus Return of Capital (Depreciation)	796
Plus Opex (incl. CCC)	2,597
Tax	71
<b>Annual Revenue Requirement</b>	<b>4,595<sup>2</sup></b>

*1 QR Network's 16 September 2009 addendum increased these cost estimates by around \$0.2 million – this was related to higher incremental maintenance costs and higher common cost contributions as a result of higher volumes.*

*2 This is an end of year revenue amount. When adjusted to reflect QR Network recovering monies throughout the year, the annual revenue requirement (recovered from the mine) is \$4,549 million.*

The Authority has confirmed that the elements of QR Network's cost estimates have been based on parameters or approaches the Authority relied on in approving the current reference tariffs for coal carrying services in central Queensland, namely:

- (a) a weighted average cost of capital (WACC) rate of 8.43% to determine the return on capital cost element;

- (b) a forecast inflation rate of 2.5% to determine the inflationary gain on (expected) capital expenditure – adjusted to allow for six months of inflation (in line with the commencement of the Vermont train service in January 2009); and
- (c) a straight line depreciation approach in line with arrangements in the undertaking and consistent with the approach applied to other CQCR assets.

Accordingly, these aspects of the costs will not be discussed further in this decision.

Other aspects of QR Network's cost estimates, including the estimated capital costs, remaining asset lives, operating and maintenance costs and the common cost contribution rate are discussed in turn below.

## 2.2 Estimated Capital Costs

QR Network has proposed that the Vermont reference tariff be calculated on an estimated capital expenditure of \$47.3 million. This included the anticipated costs associated with the balloon loop and spur up until the end of June 2009.

While QR Network expects that the total capital expenditure outlay on Vermont infrastructure will be in the vicinity of around \$60 million, including electrification and signalling that was completed in September 2009, it has proposed that this additional capital expenditure be recouped via the Vermont train service through future reference tariffs once all capital expenditure works have been commissioned and approved by the Authority.

Stakeholders did not comment on QR Network's estimated capital expenditure amount or on its proposed approach to recover additional capital expenditure.

The Authority has not sought to assess the quantum of estimated capital expenditure that QR Network has incorporated into the Vermont reference tariff calculations at this time. Given that QR Network's 2008-09 capital expenditure claim is due to be submitted to the Authority for approval by the end of October 2009, the Authority considers that it will be more timely and efficient to assess the Vermont capital expenditure as part of its overall assessment of that capital expenditure claim. This approach is also consistent with other reference tariffs which were also based on forecast capital expenditure with an adjustment mechanism for any over or under spending relative to forecast.

Accordingly, the Authority accepts that it is appropriate to use an estimated capital expenditure amount for calculating the reference tariff and, once the Authority has approved the total capital expenditure relating to the Vermont infrastructure, that QR Network recoups any outstanding capital costs via future reference tariffs.

In accepting this approach, it is worth noting that this does not imply the Authority's acceptance of this capital expenditure into QR Network's regulated asset base. Rather, the Authority considers this expenditure to be a bundle of costs relating to non-project specific capital expenditure awaiting future assessment, and approval, by the Authority.

In addition, the Authority will ensure that QR Network recovers any additional capital expenditure via future reference tariffs appropriately and in a way that is transparent to reconcile for the customer.

## 2.3 Remaining Asset Lives

In order to estimate depreciation, QR Network adopted a 25 year asset life for the Vermont assets, including the rail infrastructure and the balloon loop required for load out at the mine.

This estimate is higher than the expected life of the mine at this point in time (15 years), however QR Network has adopted a more conservative approach and used a remaining life consistent with the known marketable reserves of the Vermont mine.

While it is possible that the Vermont loading facilities may be utilised in the future if other deposits are exploited, QR Network did not consider it reasonable to extend the life beyond 25 years on this basis. This is because there are other loading facilities (in addition to Vermont's) in the immediate geographic region that could be used and, in particular, current holders of these development licences have not, to date, expressed interest in using the Vermont spur.

Stakeholders did not specifically comment on the proposed asset life, although the QRC said it supported using established regulatory convention, namely:

*... adopting asset lives which are the lesser of the physical useful life of the rail infrastructure or the economic life of the infrastructure (reflection the existing and expected coal mineral resource that will be served by the infrastructure) (QRC Sub 2).*

On this basis, and given the publicly available information on the mine life and coal resources in surrounding areas, the Authority considers that QR Network's proposal to adopt a 25 year remaining asset life is a reasonable assumption. The Authority believes that this approach reflects an appropriate balance between the current anticipated mine life and what the mine life could extend to based on known reserves. .

That said, the Authority would support QR Network reviewing this assumption if, at a later date, it is evident that these assets will be used beyond 25 years due to additional coal deposits being exploited. This will ensure that the depreciation recovered through access charges accurately reflects the expected economic life of that infrastructure.

Furthermore, in the event that no further mining occurs after Vermont mine finishes in a currently anticipated 15 years, while QR Network would not recover the outstanding amount through reference tariffs, it would not be subject to asset stranding risk given the underwriting arrangements that QR Network has agreed with the owner of the Vermont mine.

## 2.4 Operating and Maintenance Costs

QR Network's proposed reference tariff recovers operating and maintenance expenditure associated with the Vermont train service for:

- (a) *spur related operating costs* – this relates to estimated costs of around \$80,000 incurred by QR Network over the six-month period to allow for:
  - (i) manual safe-working and train control, including staff to manually operate points to allow access to the spur and balloon loop. This makes up almost all of the costs proposed; and
  - (ii) a risk premium to recover costs associated with self insurance. Consistent with the rate applied to existing users on the Goonyella system, QR Network has applied a rate of \$0.125/'000 net tonne kilometre (ntk) to determine the level of costs to recover from the Vermont train service; and
- (b) *mainline related incremental maintenance costs* – this relates to the Vermont train service's contribution to the incremental maintenance costs of the Blackwater and Goonyella system mainlines (i.e. the summation of the AT<sub>1</sub> rate for the Goonyella and the Blackwater system applied to the gross tonne kilometres (gtk's) travelled in each system).

In particular, QR Network indicated that it has *not* sought to include costs associated with mainline related operating costs. QR Network stated that, while the approved system wide costs have not been sufficient to compensate it for the actual operating costs over this regulatory period, it accepts that the approved allowances are based on volume forecasts in excess of that experienced.

Stakeholders did not specifically comment on the proposed operating and maintenance costs, although the QRC supported the Authority undertaking its normal review of these costs.

The Authority has reviewed QR Network's proposal and considers it to be reasonable in that:

- (a) the proposed operating costs do not appear to be overly high or unreasonable:
  - (i) the costs proposed for the manual train control operations are relatively immaterial (\$80,000) and were reasonably required to provide rail capacity to the mine prior to the capital works on the spur and balloon loop being fully completed;
  - (ii) QR Network has relied on the appropriate rate of \$0.125/'000 ntk to determine the risk premium rate to apply – consistent with that applied to existing Goonyella system users; and
- (b) the proposed incremental maintenance costs are appropriate - QR Network has relied on the appropriate AT<sub>1</sub> rates and volumes (gross tonne kilometres) to calculate the Vermont train service's contribution to the incremental maintenance costs of the Goonyella and Blackwater mainlines.

Accordingly, the Authority approves QR Network's proposed operating and maintenance costs.

## 2.5 Common Cost Contribution

QR Network proposed that the Vermont train service pay a common cost contribution of \$2.24/'000 gtk (or around \$1.9 million) for its journey over the Goonyella and Blackwater system's mainlines.

Although the Vermont mine is located in the Goonyella system, QR Network determined the common cost contribution rate using the formula specified in the undertaking for the Blackwater system. QR Network considered this more appropriate to use than the Goonyella formula given that the Vermont train service operates primarily on the Blackwater system to get to the port at Gladstone.

The QRC argued that, by applying the Blackwater formula over the entire journey, QR Network's proposal overstated the contribution provided to existing Goonyella users in comparison to the Goonyella specific formula in the undertaking.

The QRC considered that a more practical approach would be to apply both the Goonyella and Blackwater common cost contribution formulae, weighted by the distance travelled in each system. This approach would ensure that the level of common cost contributed to each system reflected the intention of the minimum common cost contribution provisions contained in the undertaking.

In considering this matter, the Authority has reviewed QR Network's proposal, the provisions in the undertaking and has had regard to the QRC's comments.

In this regard, the Authority has confirmed that QR Network has accurately calculated, and applied, the Blackwater CCC formula in the undertaking (as at 1 January 2009) to the Vermont

train service's journey on the Goonyella and Blackwater system mainlines (on a gross tonne kilometre basis).

The Authority has also reviewed the calculations based on the QRC's approach and notes that, when the QRC's approach is applied, the CCC level is reduced by less than \$200,000 out of a total revenue of around \$4.5 million.

Both QR Network's and the QRC's approach could, arguably, be considered reasonable in terms of reflecting the arrangements in the undertaking. The undertaking, while explicit in determining the common cost contribution rate to apply to each coal system, is not clear on the approach to apply in this instance – i.e. where a train travels through more than one coal system.

Given that the difference between the approaches is not material, the Authority accepts QR Network's proposed CCC level on this occasion.

In doing so, the Authority notes that this matter, along with other arrangements concerning the treatment of cross-system train services, is currently being considered by the Authority as part of its assessment of QR Network's 2009 draft access undertaking – and so the Authority will make a more thorough assessment on which approach may be more appropriate to apply as part of that application.



### 3. ASSESSMENT OF THE VERMONT DAAU AMENDMENTS

*The Vermont DAAU proposed a number of amendments to the 2008 undertaking, including:*

- (a) an increase in the Goonyella system revenue cap to take account of the additional revenue from the Vermont train service;*
- (b) a reference tariff with the AT<sub>1-4</sub> components consistent with other CQCR tariffs to take effect from 1 January 2009;*
- (c) an increase to the global capital indicator to take account of the forecast capital expenditure associated with the Vermont spur line; and*
- (d) an update of the capital expenditure definition in the undertaking to allow for the Vermont capital expenditure amount to be included.*

*The Authority has reviewed these amendments and believes that they are reasonably required to give effect to the proposed tariff of \$4.00/net tonne.*

*The Authority notes that QR Network has not proposed to alter existing tariffs to reflect the common cost contribution made by the Vermont train service and, by not doing so, will technically be in breach of the 2008 undertaking.*

*However, under these circumstances, the Authority is prepared to accept this given that QR Network has proposed to take account of these revenues through the 2008-09 revenue cap adjustment process.*

#### 3.1 Vermont Reference Tariff

The 2008 access undertaking provides for reference tariffs for coal carrying train service on the CQCR to be calculated on the basis of the approved annual revenue requirement and within a defined tariff structure that consists of:

- (a) cost reflective tariff components that recover a proportion of the required revenue through:
  - (i) a usage-based charge which reflects the incremental operating and maintenance costs, expressed on a per gross tonne kilometre basis (AT<sub>1</sub>);
  - (ii) a capacity charge that covers the incremental cost to the network owner of the capacity, expressed per train path (AT<sub>2</sub>); and
- (b) allocative components that recover the remainder of the required revenue equally through:
  - (i) a per net tonne kilometre charge (AT<sub>3</sub>); and
  - (ii) a per net tonne charge (AT<sub>4</sub>).

The undertaking also provides some guidance around the charging arrangements for non-system specific train services, including that QR Network is required to calculate all access charges for coal carrying train services in the CQCR by reference to the same components as a reference train service (AT<sub>1</sub>, AT<sub>2</sub>, AT<sub>3</sub>, AT<sub>4</sub>, AT<sub>5</sub> and EC if appropriate), even if the train service does not constitute a reference train service.

However, given that the Vermont train service travels through more than one CQCR system, it is clear that the undertaking does not specifically provide for this. QR Network has sought to address this matter as part of its 2009 draft access undertaking application and, in line with this, has applied broadly the same principles in determining the charging arrangements for the Vermont train service in this application.

#### *QR Network's Proposal*

QR Network's proposed Vermont reference tariff is consistent with other central Queensland coal tariffs but reflects the fact that the Vermont train service travels through two CQCR systems, namely Goonyella and Blackwater. For example, QR Network proposed to apply:

- (a) incremental maintenance charge (AT<sub>1</sub>) – the weighted average of the North Blackwater AT<sub>1</sub> and the South Goonyella AT<sub>1</sub>, on the basis of the distance travelled in the Goonyella and Blackwater systems;
- (b) incremental capacity charge (AT<sub>2</sub>) – a summation of the North Blackwater AT<sub>2</sub> and the South Goonyella AT<sub>2</sub>;
- (c) allocative charge (AT<sub>3</sub>) – the North Blackwater AT<sub>3</sub> rate adjusted to ensure that the total revenue is equivalent to the incremental costs and minimum contribution to common costs; and
- (d) allocative charge (AT<sub>4</sub>) – the North Blackwater AT<sub>4</sub> rate.

QR Network's Vermont DAAU also seeks approval of an electric tariff component (AT<sub>5</sub>). QR Network has calculated this charge on the basis of the weighted average of the Blackwater and the Goonyella systems' AT<sub>5</sub> rates by distance.

While no electric train services operated from the Vermont mine between January 2009 and the 30 June 2009, QR Network is seeking approval of this charge now because it expects that electric train services will operate prior to the termination of the 2008 access undertaking.

Table 3.1 summarises QR Network's proposed tariff components.

**Table 3.1: Proposed Vermont reference tariff (as at 1 January 2009).**

<i>Reference Tariff Components</i>	<i>Reference Tariff</i>
AT <sub>1</sub> – incremental maintenance charge on a \$/gross tonne kilometre basis	\$0.73
AT <sub>2</sub> – incremental capacity charge on a \$/train path basis	\$2,688.82
AT <sub>3</sub> – allocative charge on a \$/net tonne kilometre basis	\$0.91
AT <sub>4</sub> – allocative charge on a \$/net tonne basis	\$2.15
AT <sub>5</sub> – electric infrastructure charge on a \$/electric gross tonne kilometre basis	\$2.05

*(QR Network Addendum Att A)*

In addition to this, QR Network has sought to backdate the reference tariff to 1 January 2009 in line with the commencement date of the Vermont train service on 20 January 2009.

### *Authority's Decision*

Based on the proposed incremental costs and common cost contribution, the Authority sought to ensure that these costs were appropriately translated into a reference tariff – particularly given that QR Network has proposed to apply a mixture of current Goonyella and Blackwater system reference tariff components (AT<sub>1</sub>, AT<sub>2</sub> and AT<sub>4</sub>) and has then calculated one tariff component in order to recover the remainder of costs attributable to the Vermont train service (AT<sub>3</sub>).

On reviewing the detailed financial model QR Network provided, the Authority is satisfied that:

- (a) the proposed reference tariff accurately reflects the proposed incremental costs and common cost contribution for the Vermont train service (discussed in chapter 2);
- (b) QR Network has relied on the appropriate North Blackwater and South Goonyella tariff component rates (as at 1 January 2009) in setting the AT<sub>1</sub>, AT<sub>2</sub> and AT<sub>4</sub> charges for the Vermont train service; and
- (c) the proposed AT<sub>3</sub> component has been calculated to recoup the remaining revenue required in a manner consistent with other central Queensland coal reference tariffs.

The Authority is also satisfied that, in determining the electric reference tariff component (AT<sub>5</sub>), QR Network has relied on the appropriate Goonyella and Blackwater AT<sub>5</sub> charges, weighted by the distance travelled by the Vermont train service on those systems.

The Authority notes that this approach in determining the electric reference tariff component is reasonable as a temporary measure and provides Vermont with certainty of the rate that will apply in the short term once it begins railing electric trains. However, given that the capital expenditure associated with the electric infrastructure was completed in late September 2009, a new rate will need to be determined in the future that takes this into account.

So far as the backdating of the reference tariff is concerned, the Authority notes that the 2008 access undertaking provides for a new reference tariff to take effect from the date of the first train service servicing the new coal mine.

In this instance, the first Vermont train service operated on 21 January 2009. As QR Network's reference tariffs are escalated quarterly in accordance with the undertaking's provisions, QR Network's proposed commencement date of 1 January 2009 for the Vermont reference tariff is consistent with these arrangements.

Accordingly, the Authority accepts that the structure and timing of QR Network's proposed is reasonable and consistent with the 2008 undertaking.

### **3.2 Revenues and Volumes**

The 2008 undertaking sets out the system allowable revenues and volume forecasts for each system in the central Queensland coal region for 2005-06 to 2008-09.

Based on the commencement of the Vermont train service in January 2009, the Vermont DAAU includes a proposal to increase Goonyella system's allowable revenues in 2008-09 by around \$2 million – from \$137.3 million to \$139.3 million.

QR Network proposed no change to the Blackwater system's allowable revenues<sup>2</sup>

<sup>2</sup> There are no incremental costs in the Blackwater system apart from additional maintenance costs which are funded by AT<sub>1</sub> revenues which are outside the revenue cap.

QR Network's initial volume forecast for the Vermont train service was just over 1 million net tonnes based on mixture of actual and forecast volumes from January 2009 to the end of June 2009. QR Network revised these forecasts on 16 September to take account of all tonnes transported from the Vermont mine in the first half of 2009 (see Table 3.2).

**Table 3.2: Net tonnes from the Vermont mine to 30 June 2009**

<i>Jan 09 (actuals)</i>	<i>Feb 09 (actuals)</i>	<i>Mar 09 (actuals)</i>	<i>Apr 09 (actuals)</i>	<i>May 09 (forecast)</i>	<i>Jun 09 (forecast)</i>	<i>Total</i>
48,582	127,367	178,992	225,905	252,604	305,795	1,139,245

QR Network has not proposed to update the volume forecasts in the undertaking to account for the Vermont train service.

#### *Stakeholder Comments*

Stakeholders did not comment on the proposed increase to the Goonyella system's revenue cap in 2008-09.

However, the QRC was especially interested in how the revenues associated with the common cost contributions would be shared between users on the Blackwater and Goonyella systems given that QR Network had not proposed to reduce existing tariffs through this application. In particular, the QRC noted that:

*In principle, the revenue should be distributed to existing users in the form of offsetting reductions to system tariffs, although due to the timing issues associated with this application it may be more practical for guaranteed reductions to relevant system allowable revenues within the 2008-09 revenue cap assessment process. (QR sub 1)*

The QRC indicated that it supported using actual (rather than forecast) railings in determining the appropriate reference tariff as there was a material difference between the two (QRC sub: 2).

#### *Authority's Decision*

The Authority has reviewed QR Network's proposed amendments and considers them to be reasonable. In particular, the Authority has confirmed that:

- (a) the increase to the Goonyella system's allowable revenue accurately reflects the required revenues based on the forecast spur costs; and
- (b) the volumes contained in the DAAU, as revised by the 16 September 2009 amendment, reflect the actual volumes railed in the first half of 2009, and therefore the QRC's concerns on this matter have been fully addressed.

The Authority agrees with the QRC in that it is important that the common cost contribution revenues be shared equitably among existing users in both the Goonyella and Blackwater systems. Also, this is an issue as QR Network's submission does not detail how it intends to deal with this matter.

In this regard, the Authority notes that normally this would be considered subsequent to the final approval of the new reference tariff because it would trigger an endorsed variation event under the 2008 undertaking. This requirement places an obligation on QR Network to submit an application to amend existing reference tariffs to reflect the common cost contribution made

by a new reference train service within a certain timeframe (cl. 3.3, Part A, Schedule F). If QR Network does not do this, it will be in breach of its access undertaking.

However, QR Network is not intending to use the endorsed variation event process in the undertaking but, rather, will deal with this matter through a separate application, the 2008-09 revenue cap adjustment, which is currently before the Authority for approval.

While it is not ideal to sideline the undertaking's obligations, and the Authority certainly does not encourage QR Network to do this, in this instance the Authority is satisfied that existing customers will not be adversely affected by using QR Network's alternative approach. In addition, given that the timing of the Vermont DAAU is such that any reference tariff approved will only be valid until the 2008 access undertaking expires in December 2009, the Authority considers QR Network's alternative approach will provide a more timely solution.

In this regard, QR Network's 2008-09 revenue cap adjustment application proposes that existing users will benefit by the amount of the common cost contribution made by the Vermont train service to each of the Blackwater and Goonyella systems – details of this application are available from the Authority's website.

### 3.3 Capital Indicator

QR Network's proposed reference tariff includes capital related costs associated with an estimated \$47.3 million of capital expenditure (i.e. return of, and on, this capital expenditure is included in the annual revenue requirement used in determining the reference tariff).

QR Network estimates the total construction of the Lake Vermont rail infrastructure will be around \$60 million. However, as the construction was not complete at the time the Vermont DAAU was prepared, it is only proposing to include the capital costs expected to be incurred up to 30 June 2009, which is around \$47.3 million.

In terms of recognising this capital expenditure, QR Network proposed to increase the global capital indicator for the CQCR by \$47.3 million (from \$640 million to \$687.3 million).

QR Network considered this a reasonable approach given that the Vermont train service:

- (a) is not joining an existing CQCR cluster – in which case the capital costs associated with facilitating that train service is factored into the global capital indicator; but rather
- (b) is forming a new cluster – in which case the capital costs can be recognised as either:
  - (i) an increase in the value of the regulatory asset base; or
  - (ii) an increase in the value of the global capital indicator.

In this instance, QR Network proposed to increase the global capital indicator value given that, at the time of preparing its submission, and indeed even at this time, the final capital expenditure value is not known.

To give effect to this proposal, QR Network proposed to include an additional provision in Schedule FB:

*...for the purpose of determining the Reference Tariff for the Vermont via Blackwater Cluster, an additional amount of \$47.3 million has been added to the Capital Indicator... for the year 2008-09. This amount has been allocated to the Goonyella system and is assumed to have an average life of 25 years. (QR Network sub 10).*

As this capital indicator increase relates solely to the Vermont train service, QR Network proposed that the capital expenditure be effectively quarantined, so that when the capital works are completed, any over (under) recovery of it be returned (recouped) from the Vermont train service via future reference tariffs.

Stakeholders did not comment on QR Network's proposal to increase the capital indicator or the inclusion of a provision in Schedule FB of the undertaking to give effect to it.

The Authority has reviewed QR Network's proposed amendments to increase the capital indicator, and to include provisions in the undertaking to give effect to this, and considers them to be reasonable.

With regard to increasing the capital indicator, the Authority agrees with QR Network's interpretation of the undertaking's provisions – i.e. that the global capital indicator incorporates forecast capital expenditure associated with existing CQCR access charges. Therefore, to the extent that the Vermont train service can not be incorporated into an existing CQCR cluster, these costs are not already included in the global capital indicator.

In addition, while the final works are still yet to be completed, the Authority is satisfied that any difference between actual capital expenditure and the \$47.3 million forecast used to determine the access charges can be reconciled in the Authority's review of the 2008-09 capital expenditure and then via future access charges for the Vermont train service. On this, the Authority notes that this process (i.e. the reconciliation of actual capital expenditure and forecast capital expenditure for 2008-09) will occur for all existing CQCR reference tariffs and so, in this respect, this treatment is consistent with other users.

With regard to the additional provisions included in schedule FB of the access undertaking, the Authority is satisfied that they will give effect to QR Network's proposal.

That said, the provisions do not make it entirely clear that the balance of the capital expenditure carry-over account specifically identified to the Vermont train service (e.g. any over (under) spend of actual compared with forecast capital expenditure) will be solely recovered from the Vermont train service via future reference tariffs.

However, the Authority has confirmed with QR Network that this is its intention. Therefore, while the provisions do not explicitly provide for this, the Authority will ensure this occurs as part of its review of any future reference tariff for the Vermont train service.