

26 October 2012

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Dear Mr. Hall

**QRNational Network Services (QRNNS) – Draft Amending Access Undertaking (DAAU) Goonyella to Abbot Point Expansion (GAPE) Reference Tariff**

We refer to the DAAU GAPE Reference Tariff submitted by QRNNS on 05 September 2012. Under this proposal, QRNNS has submitted a set of reference tariffs for the newly created GAPE system and is proposing revisions to the Newlands System Reference Tariff.

Xstrata Coal Queensland's (XCQ) primary concern is to ensure that costs associated with the development of the GAPE system are borne by those users for whom the infrastructure works were constructed, and that current Goonyella and Newlands system users do not bear any additional costs as a result of this project.

Being a key user of the existing Newlands system, it is disappointing that QRNNS did not involve XCQ in this Draft Access Undertaking Amendment and apparently only consulted with GAPE Customers. The QRNNS submission refers to both GAPE and 'Newlands to Abbot Point Expansion' (NAPE) customers. However, it does not clearly define who the NAPE customers are. XCQ has prepared this response on the assumption that it is classified as an 'existing Newlands user', and not as a NAPE customer.

In general, XCQ is comfortable with the majority of the QRNNS submission. In particular, XCQ supports the stated principle that costs must be allocated to ensure that those customers that benefit from the capital works are the ones that pay for them. However, XCQ is concerned that some of the costs which were incurred during the construction of the GAPE project have in fact been allocated to the 'existing Newlands System users', thus the requirement for a revision to the Newlands Reference Tariff.

There are three main elements proposed under the QRNNS submission of concern to XCQ. These are:

1. No GAPE/NAPE infrastructure costs should be passed onto existing Newlands System users;
2. The proposed GAPE system tariffs; and
3. The independence of the adjoining systems going forward.

**1. No GAPE infrastructure costs to be borne by non-GAPE/NAPE users**

It is noted that within this process the Goonyella system has been left whole from an existing user costs basis. This System Independence is supported by QRNNS in the Amendment preamble.

Unlike the Goonyella system, the Newlands System has been allocated \$40M for costs of track renewal works which QRNNS states represents a "proxy estimate" for costs which *would* have been incurred should the GAPE works not have taken place.

However, in its submission, QRNNS states that the capital expenditure on the Newlands System was necessary to support additional GAPE and NAPE volumes. That is, the works actually undertaken were for

the purpose of accommodating increased volumes from GAPE and NAPE customers, and did not represent routine maintenance required to enable continued use of the Newlands system by existing Newlands users. XCQ questions the appropriateness of requiring existing Newlands System users to contribute to the capital cost of the works in these circumstances..

XCQ considers that, in order to approve these changes, the QCA must be satisfied that:

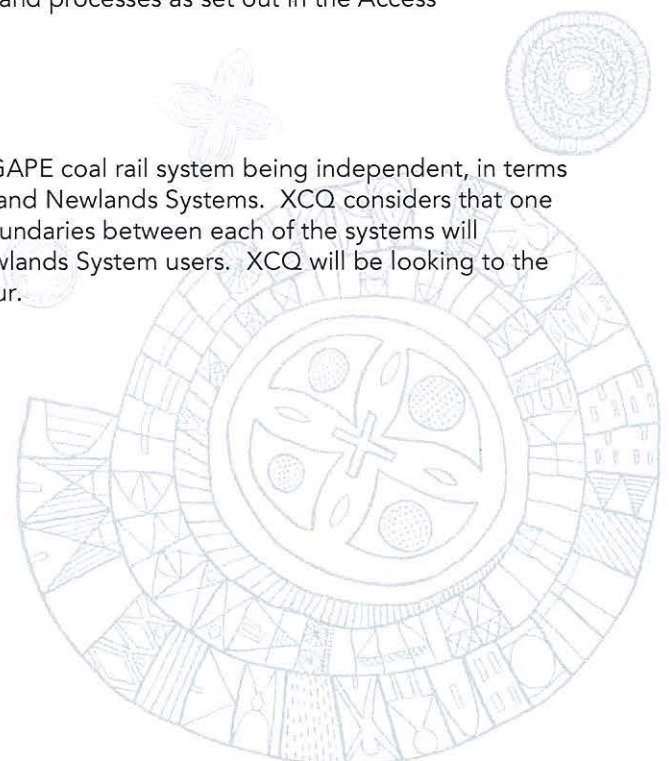
- if the GAPE project had not proceeded, QRNNS would have been required to upgrade the Newlands System as stated in its submission;
- it is appropriate for existing Newlands System users to bear costs which were incurred as a result of circumstances outside of the users' control and which were incurred for the benefit of other users;
- due to the minimal information supplied, the "proxy estimate" apportioned to the existing Newlands System users(\$40M estimate) is reasonable and passes the prudence test; and
- finally, given that these works may not have occurred (or may have been able to be delayed), is it appropriate to pass on the *estimated* costs in full.

## 2. Access Tariffs

XCQ considers that some of the tariffs, such as AT1 (incremental maintenance) seem to be overstated considering that this is new infrastructure and would require less maintenance than older parts of the network at this point in time. The QCA needs to be satisfied that the Access Tariffs, as proposed by QRNNS have been determined in line with the principles and processes as set out in the Access Undertaking.

## 3. Independent Systems

Throughout the submission QRNNS makes reference to GAPE coal rail system being independent, in terms of costs and system allowable revenue, of the Goonyella and Newlands Systems. XCQ considers that one of the biggest risks of this project is that over time the boundaries between each of the systems will become blurred to the detriment and expense of the Newlands System users. XCQ will be looking to the QCA to remain vigilant in ensuring that this does not occur.



### Conclusion

XCO's primary concern is that it may be left paying higher access tariffs within the Newlands system as a result of infrastructure which has been built to service GAPE/NAPE customers. XCO played no part in triggering the massive infrastructure investment and in its view has received no material benefit from it. As existing users should not be disadvantaged in this situation the QCA must ensure that costs sit with those parties who have triggered these recent works. Furthermore, XCO is looking to the QCA, as the independent expert, to review the tariffs proposed in this submission and to ensure the three systems maintain their independence.

Yours sincerely



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