

3 May 2011

Mr John Hall
Chief Executive
Queensland Competition Authority
BRISBANE QLD 4001

Dear Mr Hall,

The Queensland Resources Council (QRC) appreciates the opportunity to provide this submission to assist the Authority's assessment of QR Network's 2010-11 Annual Review of Reference Tariffs (Annual Review).

The Annual Review provisions were incorporated within QR Network's 2010 Access Undertaking as a means of both minimising the impact of future revenue-cap adjustments (by updating volume forecasts to better reflect expected demand) and revising escalation forecasts for actual results (which relate to maintenance and operating costs). In combination, these will result in direct impacts on reference tariffs to be paid by coal producers.

Given that this is the first Annual Review process, QRC anticipates that the Authority will undertake a complete and considered examination of QR Network's application and claims. QRC considers that there are various opportunities to engender greater transparency within this, the initial, review process. In particular, there are considerable transparency benefits in the Authority obtaining independent verification from coal producers to justify material variations sought to specific origin-destination volume forecasts.

→ *Reasonableness of QR Network's Revised Volume Forecasts*

While QR Network has publicly provided aggregated demand forecasts by individual coal system, the Authority will need to assess the reasonableness of the proposed volume variations with regard to individual mine forecasts. Currently there is insufficient information provided for industry to determine the reasonableness of the demand forecasts proposed by QR Network, as coal producers are currently unaware of the initial and revised forecasts at each of their mines. In the absence of such detailed justification at an individual mine level, industry is constrained in its ability to draw any conclusions or make absolute recommendations about the revised demand forecasts.

Moreover, there are a number of reasons provided by QR Network for volume variations which need to be tested with individual coal producers. For example, the significant reduction proposed on the Moura System due to "regulatory modelling errors" is unclear from the justification provided.

In addition, the proposed significant reduction in the Goonyella System forecast has not been justified by QR Network. While QR Network's revised forecast may be correct, there is no explanation provided as to the factors that have changed since QR Network's original forecast – which would provide the justification for the revised forecast.

In order to avoid any confidentiality issues, QRC suggests that the Authority could readily address this matter by confirming any material variations with individual coal producers (for example, examining demand variations greater than 10% by load-out). QRC understands from QR Network's submission that this detailed modelling information has already been provided to the Authority.

→ *System Allowable Revenues and Incremental Maintenance adjustments*

QRC requests the Authority to verify the appropriateness of shifting of revenues between variable (AT_1 – incremental maintenance costs) and the approved fixed revenue-caps (AT_{2-4} System Allowable Revenues) as proposed by QR Network. As part of the 2006 Form of Regulation process, the Authority approved the application of a revenue-cap to QR Network's 'fixed' costs (that is, System Allowable Revenues) by excluding AT_1 incremental maintenance charges.

However, QR Network's proposal appears to exchange variable maintenance costs and fixed cost allocations (which are not subject to any volume risk) without any variation to the overall maintenance allowances. QR Network's approach delivers an additional \$2.6 million in revenue into System Allowable Revenues for 2010/11, which otherwise would be expected to be reflected in variations to incremental maintenance costs based on actual railings. QRC expects that using the applicable system AT_1 rates to account for actual incremental maintenance cost variations (the intended purpose of an incremental maintenance charge) would be a prudent approach rather than seeking to revise the System Allowable Revenues.

→ *Finalisation of the Opening Asset Value*

QRC supports QR Network's proposal to update the approved Reference Tariffs following the Authority's finalisation of the UT2 capital expenditure carryover account balances. QRC supports the timely assessment of QR Network's 2008/09 capital expenditure claim such that this can be reflected in future reference tariffs as an outcome of this process.

→ *Blackwater Diesel-Electric Split*

QR Network's submission states that the Blackwater System 2009/10 diesel/electric forecast was based on the assumption of 100% utilisation of electric trains on all but the Rolleston and Minerva branch lines. Given that QR Network provided revised demand forecasts during the 2009/10 year in February 2010 and March 2010, this approach would appear to have maintained an unrealistic consist mix assumption on the Blackwater System.

The published reference tariff for the AT_5 service provides, amongst other things, important information to an access seeker about the price at which the access provider provides the service, including the way in which the price is calculated. QRC is concerned that this key objective of a reference tariff could be undermined if unrealistic electric-diesel forecasts have been used. Irrespective of the revenue-cap adjustment process applicable to AT_5 , the published reference tariff should be based on realistic assumptions to ensure access seekers are suitably informed.

To the extent that coal producers use the Blackwater electric reference tariff as a means of informing investment decisions (including haulage contractual decisions and new mine rail infrastructure requirements), these underlying pricing assumptions are critical.

The Authority has an important role to verify QR Network's application and industry is reliant on the Authority undertaking this task.

Should you wish to discuss any of the issues raised in this submission, QRC would welcome the opportunity to assist with the Authority's considerations of these matters.

Yours sincerely

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Industry Policy Advisor