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Mr Lance Hockridge
Chairman
QR Network Pty Ltd
GPO Box 1429
Brisbane Qld 4001

Dear Mr Hockridge

Approval of Revised Minerva Draft Amending Access Undertaking

The Queensland Competition Authority (the Authority) today approved QR Network's proposal to amend its approved access undertaking to establish a new reference tariff for the Minerva train service.

Background

On 19 March 2009, the Authority released a draft decision to accept QR Network's application (the Minerva DAAU) for a reference tariff of \$5.67/ net tonne for the Minerva train service.

On 3 July 2009, and following an extended consultation period, QR Network withdrew its Minerva DAAU and, at the same time, submitted a replacement application (the revised Minerva DAAU) for the Authority's approval.

The revised Minerva DAAU proposed a reference tariff of \$4.60/ net tonne based on a methodology that took into account the non-coal usage of the Gindie-Minerva line.

The revised Minerva DAAU also proposed a number of amendments to put into effect the proposed reference tariff, including increasing Blackwater's revenue cap and QR Network's regulatory asset base to take account of the revenues and assets associated with the Minerva train service.

In response to its request, the Authority received 4 submissions from stakeholders in response to QR Network's revised Minerva DAAU.

Final Approval

The Authority believes that it is particularly relevant that the revised Minerva DAAU is supported by both the applicant, QR Network, and the party most affected by the reference tariff, Felix Resources.

The Authority's considerations, therefore, have focussed on the possible impacts on other customers in central Queensland and the public interest in having competition in markets.

In this regard, the Authority notes that the revised reference tariff of \$4.60/net tonne is similar to the earlier tariff of \$5.67/net tonne in that both are consistent with the requirements of QR Network's 2008 undertaking as both:

- (a) pay the specified common cost contribution for the journey on the Blackwater system from Burngrove to the port at Gladstone; and
- (b) meet the incremental capital and maintenance costs of the Gindie-Minerva line, in particular the capital costs for the new unloading loop and upgrades to the pre-existing track.

Therefore, other user of the Blackwater system will pay lower tariffs as a result of the operation of the Minerva train service.

The earlier and the revised tariff are also consistent in that neither will fully recover the value of the Gindie-Minerva line over the likely life of the Minerva mine.

In this respect, the Authority notes that QR Network has adopted a conservative approach to assessing the value of the Gindie-Minerva line. Moreover, the reduction in the proposed reference tariff can be fully attributed to the extent of the likely under-recovery of the value of the existing assets which has increased from around \$21 million to \$36 million. As the 2008 undertaking does not allow this under-recovery to be paid for by other users of the network, the discount to the Minerva reference tariff does not involve a cross-subsidy from other users of the Blackwater system.

The Authority also notes that, in its submission, Asciano raised a number of possible competition concerns associated with the proposed reduction in the reference tariff for the Minerva train service occurring around the same time that QR National had concluded a haulage agreement with Felix Resources in New South Wales and Queensland.

Both Felix Resources and QR Network denied the veracity of these suggestions. The Authority's own investigations provided no indication that there has been a breach of either the QCA Act or QR Network's 2008 undertaking – it remains open to any party to bring further evidence to the Authority or to institute their own legal proceedings for any suspected breach.

The Authority also notes that Asciano raised particular concerns with the undertaking's ring fencing arrangements. The Authority will consider these matters as part of its review of QR Network's 2009 draft access undertaking, which is currently before the Authority.

Yours sincerely



Brian Parmenter
Chairperson

*cc: Mr Brian Flannery, Managing Director, Felix Resources
Dr Tim Kuypers, GGM Access and Regulation, Asciano Limited*