



Ensham

R E S O U R C E S

ENSHAM
RESOURCES
PTY LIMITED

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As Operator of the
Ensham Coal Project

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The Ensham Coal Project
is a joint venture of the
following companies which
are liable severally in the
following proportions:

Bligh Coal Limited
ABN 20 010 186 393
47.5%

Idemitsu Australia
Resources Pty Ltd
ABN 45 010 236 272
37.5%

J-Power Australia Pty Ltd
ABN 59 002 307 682
10.0%

LG International
(Australia) Pty Limited
ABN 12 002 806 831
5.0%



18 March 2011

Mr John Hall
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear John

QR Network's Draft Amending Access Undertaking

Thank you for the opportunity to provide feedback on QR Network's Draft Amending Access Undertaking. Ensham has actively participated in the development of the submission provided by the Queensland Resources Council, and supports that submission.

The purpose of this submission is to reinforce the views expressed in Section 9 of the QRC submission regarding pricing matters.

Ensham has, for some time, held strong concerns regarding the potential impacts which major network expansions may have on reference tariffs. The existing undertaking is clear in specifying that new train services must be charged a tariff which covers all incremental costs associated with the service plus a contribution to common costs. This would appear to mean that network expansions must result in reference tariffs for existing users of the system being reduced by the amount of the common cost contribution. However, we understand this may not always be the case, because:

- Despite the clear undertaking provisions, it appears from QR Network's January 2011 Explanatory Note that QR Network may not consider the full incremental cost of providing a new train service when determining whether a new reference tariff must be developed, but instead may treat the common cost contribution as being adequate to cover mainline incremental costs.
- The undertaking does not require a new reference tariff to be developed in a case where a network expansion is undertaken to service an existing mine railing to an existing port (as this is not a new train service).
- QR Network has proposed a 20% threshold for the development of new reference tariffs. While the drafting of this proposal appears to be ineffective, we understand that the intention is that QR Network will not develop a new reference tariff in a case where an expansion will have the effect of raising charges for existing users by up to 20%. Therefore, this amendment would seem to allow for a new train service to have a detrimental effect on existing users, while the approach for an expansion of existing mines (which we understand allows an uncapped detrimental impact on existing users) is not being amended.

Ensham considers that the potential for new mines and mine expansions to trigger network expansion projects which impose significant additional costs on existing users is an unacceptable business risk and is not a reasonable approach to investment decisions



and pricing. If cross subsidisation is required to make an expansion project viable then it is questionable whether these projects should proceed at all.

The Ensham opencut is a mature thermal coal mine and cost control is critical to its future.

Ensham is also in the process of transitioning from open cut mining to underground mining with the development ,during 2011, of a small scale underground operation. This, if successful, may lead to larger scale underground operations in the future. A degree of certainty regarding the costs of rail access is critical to the assessment of these investment decisions.

Ensham considers that 'incremental' pricing, in which expanding users pay the cost of the investments which they trigger, is critical to the future of its existing operations and to provide certainty for future investment decisions.

A regulatory arrangement which allows network expansion costs to be imposed on existing mines is also at risk of leading to imprudent investment decisions. Expanding/new mines will not face the cost impacts of their investment decisions and may therefore be able to undertake projects which are viable only because costs are being subsidised by other parties.

Under current arrangements, Ensham's only option to manage these risks is through the Master Plan voting process. Information provided in this process is not sufficient for assessing the impacts of network investments on Ensham. For example, information is not provided on:

- The impact which a network expansion project is expected to have on existing tariffs.
- The extent to which QR Network has secured contract to underwrite demand for those projects.
- The term of any contracts and the security provided by the Access Holder.

Ensham is exposed to risks of tariff increases resulting from the expanding users not bearing the cost of the projects which they trigger, plus further risks if costs are 'socialised' in the event of those Access Agreements being terminated (either due to default, or simply because of expiry prior to the end of the life of the asset). In the absence of any protections from these risks, we face a strong incentive to vote against projects in Master Planning processes.

For the reasons set out above, we support the QRC submission and seek amendments to the undertaking to ensure that decisions to invest in the network are based on demand from users who are willing to service the cost of that investment, rather than on shifting avoidable costs to existing users.

Regards,


Péter Westerhuis
Chief Executive Officer
Ensham Resources Pty Ltd.