



16 November 2012

Mr. John Hall
Chief Executive Officer
Queensland Competition Authority
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Dear Mr. Hall

QR Network's Draft Amending Access Undertaking – Goonyella to Abbot Point Expansion Reference Tariff

Thank you for the opportunity to comment on QR Network's Draft Amending Access Undertaking – Goonyella to Abbot Point Expansion Reference Tariff (DAAU – GAPE Reference Tariff) submitted to the QCA on 10 September 2012. This submission provided on behalf of QCoal Pty Ltd (QCoal) and Byerwen Coal Pty Ltd (Byerwen Coal).

In its DAAU submission QR National Network (QRNN) proposes to establish a dedicated reference tariff and stand – alone individual coal system - the "GAPE system". QR Network sets out the history of the GAPE project and describes various components of the proposed GAPE Reference Tariff for the UT3 period – that is up to 30 June 2013. These components comprise capital, maintenance and operations charges which, together, comprise the GAPE Reference Tariff.

QCoal has reviewed the QRNN DAAU submission. QCoal is a joint venture partner in the Sonoma Mine, an existing customer utilising the Newlands System exporting approximately 4 Mtpa of coal through the Abbot Point Coal Terminal. QCoal is also developing a number of new mines in the region, each of which will utilise some elements of the proposed new GAPE System. As such it has a particular interest in the QR Network DAAU.

QCoal's comments on the DAAU broadly fall into three (3) categories:

- Maintenance Costs
- Operations Costs
- UT4 methodology

1. Maintenance Costs

As QRNN has stated, the GAPE project involved construction of 112km of new track, including the 69 km "Missing Link" between the Goonyella and Newlands Systems, and over \$663 million was spent upgrading the Newlands system.

Further, the first train service operated over the link in December 2011 and, in its DAAU QRNN has estimated that 10.55 Mtpa of expansion net tonnes will use the new system in 2012/13. [REDACTED]

[REDACTED] Clearly actual tonnage utilising the GAPE system during 2012/13 is a very small proportion of the installed capacity of the system, and may well be less than the 10.55 Mtpa forecast by QRNN. Under these circumstances it is very difficult to envisage any substantial maintenance being required on the new GAPE system.

In its DAAU QRNN has determined the maintenance costs associated with the GAPE system for the period to the end of 2013 based upon a top – down estimate and a bottom – up estimate using their modeling tool.

In its top – down estimate QRNN has stated that *“QRNN will incur additional maintenance costs which are not directly attributable to asset utilisation.”* QRNN provides no substantiation of this statement and given the length of new and upgraded track it is difficult to envisage this need.

In deriving its top – down estimate QRNN appears to have extrapolated costs based upon the long run average costs of older systems (Blackwater, Goonyella, Moura and Newlands Systems) with the average lives in the order of 20 – 30 years.

QCoal contends that this benchmark is not appropriate for a new system and one whose utilisation rate is extremely low. Maintenance benchmarks for old systems are not a good indicator of the maintenance requirements for new rail infrastructure. A better method for deriving the maintenance charge for the GAPE system during the UT3 period may be a bottom – up approach where the actual (and not previously budgeted) maintenance required for this specific infrastructure is developed and justified.

QRNN has also provided some breakdown of the incremental maintenance costs. The estimate includes \$8.63 million for mechanised maintenance for the period up to 30 June 2013. The tasks included in this category are ballast cleaning, rail grinding and track resurfacing. QCoal questions why these tasks are required on new or substantially upgraded infrastructure. A number of these tasks were conducted as part of the GAPE project and included in the capex of the project and should not be required within 18 months of commissioning.

In summary, QCoal considers both the fixed and incremental maintenance charges proposed by QRNN as excessive and that the estimate of maintenance costs could be developed by determining and justifying the actual maintenance activities required for this specific piece of infrastructure and in consideration of the forecast usage of the GAPE system, for the relevant period. QCoal encourages the QCA to carefully assess this component of the proposed tariff.

2. Operations Cost

QRNN's is proposing as the GAPE System operating cost figures the estimate of costs provided by their consultant GHD when they provided this information for UT3. QRNN acknowledge the forecast usage of the GAPE has substantially reduced since the time these figures were prepared and QCoal would have expected that the operating costs would have been revised to reflect this reduction; however this is not the case.


QCoal contends that the GAPE operating cost for this DAAU should reflect the forecast usage, consistent with its position in respect of maintenance costs. If the methodology applied to the operating costs of UT3 is inappropriate as QRNN appears to content, then this should be addressed, and proven during UT4, not dealt with in this DAUU.

3. UT4 methodology

QRNN states that the asset stranding profile for the GAPE reference tariff differs from that of the Newlands and Goonyella systems and concludes that although this has not been reflected in the GAPE Reference tariff it flags that this may change in the future, *"there will be a need to develop appropriate principles to ensure current pricing and risk allocations reflect the consequences of these scenarios".....* (i.e reductions in demand). Should these principles be developed for UT4, they will need to be developed within the context of other commercial arrangements currently in place with GAPE Users.

Conclusion

This submission sets out a number of issues QCoal considers need to be addressed by the QCA when considering the QRNN submission on the GAPE Tariff. However it remains committed to working with QRNN and other key stakeholders to ensure that incentives to enable efficient and effective investment in the Queensland rail network are provided.



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