

September 25, 2012

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

Dear Mr Hall,

Sustainable Electric Traction Pricing – Draft Amending Access Undertaking (DAAU)

CSR Times Electric Australia has reviewed the Queensland Competition Authority's ("QCA") draft decision regarding QR Network's DAAU for Sustainable Electric Traction Pricing. We would like to submit a number of comments for the QCA to consider before making your final decision.

1. Locomotive suppliers in China

China MOR (Ministry of Railways) is the biggest and almost monopolistic logistical operator in China including freight and passenger business. Meanwhile there are some companies which own rail lines, normally in mining sector, such as Shenhua group who has the largest freight tonnage for non-MOR rail lines.

There are five major manufactories in China for electric & diesel locomotives as follows:

- CSR Zhuzhou Electric locomotive Company who focuses on electric locomotives and have over 70% of the market share in China <http://www.gofront.com/en/home.htm>,
- CSR Ziyang Company, who is diesel locomotive provider and mainly facing overseas rail market. <http://www.zyloco.com/>
- CSR Qishuyuan Company is also diesel locomotive manufacturer enjoying more than 60% of domestic market. <http://www.csrqs.com.cn/english/index.asp/>
- CNR Dalian Locomotive Company, who produces both electric and diesel locomotives.
http://www.dloco.com/LISTS/article/_MAINPAGE/EHome/default.aspx
- CNR Datong Electric Locomotive Company, who focuses on electric locomotives.
<http://www.dt.chinacnr.com/english/index.shtml>

2. Locomotive exports from China

Chinese made locomotives are widely exported to many countries around the world, for example, TM1, TM2 and TM3 3 generations of electric locomotives to Iran, 20 electric locomotives for KZ4A for Kazakhstan and 9 electric locomotives for Uzbekistan, etc.

The latest contract was a US\$400M contract to supply 95 dual-voltage electric freight locomotives (narrow gauge) to South Africa by CSR.



KZ4A for Kazakhstan



TM1 for Iran



Electric Locomotive for Uzbekistan

Manufacturing in one country and exporting to another is a typical operating mode for locomotives business.

However some countries with large demand (such as India, South Africa, Brazil) also wanted to develop their own locomotive industry so they would require manufacturers to invest plant facility locally or cooperate with local manufactures. For example, the South African contract mentioned above will involve local manufacturing of more than 60%.

3. Locomotive imports to Australia

Locomotive imports to Australia must meet the Australian relevant standard and pass various tests conducted by rail operator and authorities. However these are not regulatory barriers to entry for companies like CSR. This is because it is the same for exporting to other countries as it is to Australian manufacturers.

For example, early this year CSR imported 10 diesel locomotives to SCT after meeting all regulatory requirements for import. These locomotives are currently running on the Coober Pedy – Port Augusta line in Adelaide.



According to the Managing Director of SCT: “SCT has been rigorously testing these locomotives with CSR and have been humbled by their performance, in particular the results from the noise, ride and speed tests. With isolated driving cabs, a proven bogie configuration and extensive design solutions to minimize noise and vibration, the CSR locomotive has comfortably demonstrated compliance to the stringent Australian Rail Codes when tested at 130 plus kph on the test track north of Port Augusta.”

Similarly, CSR is confident that we have the ability to design and manufacture the electric locomotives required in the central Queensland coal rail systems, as the locomotives can be readily modified to take account of the local gauge (narrow gauge).

4. Second hand market for locomotives

There is an active second hand market for both electric and diesel locomotives in China. As MOR is the biggest owner of the locomotives, the second hand market is managed by MOR. Companies such as steel mills always buy second hand locomotives for their logistics transportation.

5. Relative technical and operational efficiencies of electric traction

Electrification has most of the advantages not only in higher performance but also more environment friendly, that’s why more and more countries invest lots of money to build electrified infrastructure for the benefit of the future.

Electric locomotives have less pollution, lower maintenance costs and lower energy costs comparing with diesel locomotives.

Electric locomotives feature higher efficiency, more hauling power and higher short-term surge power for fast acceleration. The power generated in braking mode could be fed back to the line with latest 4QS inversion technology.

The chief disadvantage of electrification is the cost for infrastructure (overhead power lines or electrified third rail, substations, and control systems). QR Network already built up the electrification infrastructure for the benefit of all customers to use it, therefore they should find a good pricing solution to encourage more to use it.

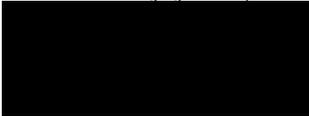
6. Technological development opportunities available to electric traction

Hauling more, running faster, energy consumption less, multiple overhead voltage application are always technical development direction for electric locomotive. As the development of semi conductor industry and computer technology, accordingly electric locomotive will definitely get better performance in the future.

In summary, we believe that the future of the existing electrified Central Queensland Coal Network is in continuing with electric traction, as the investment is already made. Furthermore, heavy haul electric networks are being constructed all around the world, especially in China. We believe the most efficient way to run the network is to utilise existing investments which also align with the trend in development globally.

We trust that the QCA will give the above information due consideration in finalising its decision.

Sincerely yours,



Daisy,DaiYi
General Manager

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