

31 October 2013

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Dr Roberts

**RE: QUEENSLAND RAIL JUNE 2013 DRAFT ACCESS UNDERTAKING, INCLUDING PROPOSED WESTERN SYSTEM
TARIFFS**

Thank you for providing Yancoal with the opportunity to provide a submission with regard to Queensland Rail's ("QR") June 2013 Access Undertaking ("Proposal").

This letter addresses some of Yancoal's concerns with regard to QR's Proposal and aims to serve as material for its further consideration.

Yancoal does not support the QR Proposal.

The current tariff as it stands is already expensive by comparison to other networks on the Australian East Coast. Its pricing acts as both an inhibitor to the ongoing sustainability of operations which utilise the Western System, as well as a deterrent to future capital investment in the region.

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Yancoal Australia is one of the largest independent coal producers in Australia and through its managed Cameby Downs Mine; located in Chinchilla, is one of the users of Queensland Rail's Western System. Yancoal is always seeking to be a responsible miner, utilising the most technologically advanced mining methods to ensure maximum utility to its stakeholders and shareholders alike.

The recent and rapid downturn in the coal market has resulted in thermal coal prices declining by more than 40% from its peak in January 2011, to current day prices. Many operations have come under increased profitability pressure as a result. Cameby Downs is one of these operations.

The mine currently operates as one of the most efficient and cheapest on site producers in the country, [REDACTED] [REDACTED] This compares to an industry average of approximately 12%. Even with the efficiency on site, the coupling of high rail costs and the market downturn has led to Cameby Downs becoming a non-profitable operation. [REDACTED]

[REDACTED] Any further increase in external costs such as those proposed in the QR Proposal would further threaten the viability of the Cameby Downs Mine.

Increases in external costs would indeed also have a substantial negative impact on all users of QR's Western System, not just Cameby Downs – these being New Hope Corporation and Peabody Energy. It would significantly impact the competitiveness of all three coal producers in a time where long term planning is a necessity to ensure longevity and responsible sustainability of operations (due to attributes of the infrastructure).

The QR Proposal to increase the Western System tariff would result in the tariff being more than doubly expensive than any other existing tariff system in the country. Not only would it be the most expensive, but without any significant upgrade, it would continue to also be one of the poorest service offerings.

At present, QR's track only permits small, low axle load and low payload trains. These operate in an inflexible manner due to train path sharing and priority given to the passenger train network in the Brisbane metropolitan area. The track acts as a distinct barrier to competition for above rail haulage services. It discourages competitive tension due to the incumbent operator holding an advantage with ready availability of low axle load rolling stock – not used as commonly, and in most cases, not at all, on other networks.

The existing access charge is already higher when compared to other networks. The QR Proposal indicates that the new tariff would further increase maintenance costs and spend on capital that would not significantly improve the service offering delivered to users of QR's Western System.

Yancoal strongly suggests that QR's Proposal should be rejected on the basis that it is unattractive in absolute terms, and it is also likely to lead to some, if not all of the following consequences:

- Disincentivise further coal investment in the region as controllable costs become proportionately less of total costs, thus making return on capital more challenging to achieve;
- Place existing coal producers who currently utilise QR's Western System in an uncompetitive position relative to other seaborne coal producers on the East Coast of Australia;

- Unless a significant improvement is achieved for the below rail service, a continuing limitation on above rail competition, in itself, serving as a compound effect on the two points raised above;
- Act as a deterrent in the promotion of sustainable economic activity in which jobs growth, royalties and taxes may decline; and
- Lower utilisation of the rail infrastructure, which will then lead to reduced revenue for QR or claims for further tariff increases, perpetuating a cycle of declining utilisation and economic activity.

Should the current QR Proposal be adopted, the viability of the Cameby Downs Mine would be in serious jeopardy. The operation requires assistance and cooperation from its external service providers to ensure all participants in the value chain can operate efficiently, sustainably and profitably, both now and in the future. The current QR Proposal does not achieve this outcome.

Yancoal reiterates that it does not support the QR Proposal.

Yours Sincerely,



Mike Dodd
General Manager, Infrastructure
Yancoal Australia Ltd