

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



Dear John,

VOLUNTARY DRAFT AMENDING UNDERTAKING – CPI ADJUSTMENT

I refer to the Draft Decision of the Queensland Competition Authority (QCA) dated 22 November 2007 on QR's voluntary draft amending undertaking (DAU) covering an amendment of Schedule F of QR's 2005 (UT2) Access Undertaking to provide for the alignment of System Allowable Revenue with Total Actual Revenue.

QR notes the QCA's proposal not to accept the DAU, and to request QR's response to the issues raised in the Draft Decision.

In the Draft Decision, the QCA noted that QR did not explicitly address the issue of regulatory certainty in its October 2007 submission. QR agrees with the QCA that regulatory certainty is an important aspect of the regulatory process. However, in this instance it is unclear whether the principle of regulatory certainty is better served by amending or not amending QR's Access Undertaking to provide for alignment of System Allowable Revenue with Total Actual Revenue.

In this regard, QR offers the following comments which are drawn from Section 2 of its submission to the QCA.

- Prior to 30 June 2006, QR was not exposed to the inflation risk associated with its revenues. The issue of which party should bear inflation risk was explicitly considered as part of the QCA's consultation on QR's 2001 (UT1) Access Undertaking. The principle that inflation risk should be passed onto users through Consumer Price Index (CPI) based escalation of Reference Tariffs was clearly stipulated by the QCA in its Draft Decision on the UT1 document. This principle was maintained for the UT2 document.
- In developing QR's Proposed Schedule F Amendment to the UT2 document, the issue being addressed was clearly one of which party is in the best position to manage volume risk. There was no actual or perceived intention on QR's part that the change in the form of regulation should transfer inflation risk to QR. In addition, this issue was not considered by any party as part of the QCA's consultation process.
- Whilst the UT2 document still maintains CPI based escalation of Reference Tariffs, through an oversight in the drafting of the Proposed Schedule F Amendment a matching escalation of the System Allowable Revenue was not

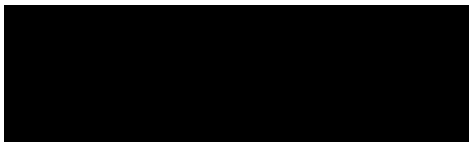
included. Hence, to the extent that actual CPI exceeds forecast, the additional revenue collected due to the higher escalation is returned to users through the revenue cap adjustment.

- In these circumstances, it is unclear whether regulatory certainty is best served by maintaining a long standing and well considered regulatory principle that inflation risk is passed onto end users through CPI based escalation of Reference Tariffs, or by maintaining the unintended effect and regulatory uncertainty of a drafting oversight which effectively transfers inflation risk to QR.
- The DAU had intended to maintain the regulatory certainty associated with the principle, by ensuring a treatment of inflation risk which is consistent between regulatory periods and consistent with approaches for other businesses regulated by the QCA and the Australian Energy Regulator.
- If the QCA's proposal is confirmed in its Final Decision, QR proposes to correct this oversight via its 2009 Access Undertaking.

As indicated above, QR has a different view to the QCA on this matter. However, notwithstanding these comments QR accepts there is an alternate view that regulatory certainty is best served by making no changes to the UT2 document. Accordingly, QR will accept the QCA's Final Decision.

Please contact Gayle Andrews on 3235 5486 should you have any queries regarding this response.

Yours faithfully



Michael Carter
Group General Manager
QR Network Access

29 November 2007