

31 July 2009

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

Dear John

QR NETWORK'S DRAFT AMENDING UNDERTAKING WEST BLACKWATER REFERENCE TARIFF

We refer to the submission you received from Asciano Limited (Asciano) by letter dated 27 July 2009. By now you will have seen the letter from Felix Resources Ltd addressed to you and dated 30 July 2009.

As you know, the process of agreeing the West Blackwater Reference Tariff (WBRT) overseen by the QCA is quite transparent. The assertions made by Asciano to the contrary are inaccurate, unsubstantiated and in some respects false. Asciano's comments are a distraction and do not give the QCA, and the regulatory process it oversees, the respect it deserves.

A chronology of events concerning the development of the WBRT is as follows:

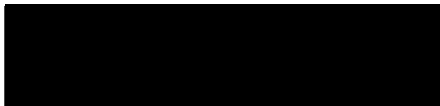
- QR Network made its initial submission on WBRT to the QCA on 29 October 2008. This submission was based on a Regulatory Asset Based (RAB) incorporating full Depreciated Optimised Replacement Cost (DORC) for all relevant assets. The resultant WBRT was \$5.67 per net tonne (as at 1 July 2007).
- The tariff was endorsed by the QCA Draft Decision of 19 March 2009 and comment was invited by 17 April 2009.
- Felix Resources Limited (Felix) disagreed with the QCA Draft Decision and sought from the QCA an extension in the closing time for comment on the QCA Draft Decision to 5 June 2009. The QCA approved this request.
- Felix approached QR Network outlining their concerns with the Draft Decision. Felix in particular felt that the WBRT should not be based on full DORC for all assets including those which existed prior to the Minerva mine commencing production and which were shared with non-coal traffic.
- QR Network and Felix jointly sought from the QCA an extension of the closing time for comment on the QCA Draft Decision to 3 July 2009 so as to allow consideration of Felix Resources' arguments. The QCA approved this request.
- On reviewing Felix Resource's comments QR Network considered that the DORC asset valuation principle was appropriate but there was merit in the argument that significant usage of certain track by non-coal traffic should be taken into account. Consequently we apportioned the DORC for assets which had significant usage by non-coal traffic based on the relative number of train paths used by coal traffic versus non-coal traffic. All other inputs to the WBRT calculation were unchanged from our initial submission.
- On 3 July 2009, QR Network withdrew its initial submission for WBRT and proposed a revised submission based on the train path allocation methodology described above. The resultant WBRT was \$4.60 per net tonne (as at 1 July 2007).
- QCA have invited comments by 20 July 2009 on this revised submission prior to it making a Final Decision. Asciano Limited has responded to this invitation.

The allegation by Asciano that QR Network has colluded with QR National Coal is baseless as shown by the letter from Felix Resources Ltd to you. The alleged breaches of the ring fence are also baseless.

Asciano suggest that the methodology used in our revised submission to calculate WBRT is unusual. This is true however the Minerva situation is itself unusual in that Minerva represents all of the coal tonnage on a route where non-coal traffic is significant in relation to coal traffic. We note that Asciano appears not to object to usage of this methodology other than to note that it appears unusual.

Finally we note that as with all tariff submissions, the WBRT is subject to approval by QCA.

Yours sincerely



Michael Carter
Executive General Manager
QR Network