



10 May 2010

Mr John Hall
Chief Executive Officer
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Dear John

QR 2010 ACCESS UNDERTAKING

Syntech Resources is currently developing the Cameby Downs Coal mine in the Surat Basin. Initial production of 1.4 Mtpa will be transported to the Port of Brisbane. It is planned that the development of the Wiggins Island Coal Terminal and Surat Basin Rail link will allow a major expansion which will result in Syntech producing an additional 10-15 Mtpa of product coal to be shipped via the Wiggins Island Terminal.

Such expansion will be reliant on gaining access to redeveloped existing QR infrastructure between Cameby Downs and Wandoan, access to the Surat Basin Rail and access to QR infrastructure between Banana and Gladstone. It is in light of this requirement to be an additional user of existing infrastructure that Syntech has serious concerns with the draft Access Undertaking being proposed by QR. Our greatest concern is the lack of any clear and enforceable obligation for QR to undertake expansions of existing network infrastructure, despite a clear demonstrated need for such upgrades, and a willingness of users to enter into Take or Pay commitments for such capacity on terms consistent with those approved by the QCA.

The ability to access transport infrastructure is critical to any mine development, be they existing operations or new developments seeking to enter the market. Whilst it may be unreasonable to expect infrastructure to be developed ahead of user commitment, on securing such commitment it should be a requirement that the provider of such infrastructure undertakes the expansions required to make capacity available.

Such an obligation has in fact been a key requirement of the State in relation to Industry's proposed development of Wiggins Island.

In the draft Undertaking proposed by QR Network, their obligation to invest and provide capacity is extremely weak. This is unacceptable given the reliance on this infrastructure by existing and future users and the need for it to continue to be developed to meet the needs of those users. Compounding the issue is that whilst the obligation to invest is low the return being sought by QR Network through their WACC is disproportionately high. The WACC proposed by QR Network is excessive to that needed to provide QR Network with appropriate returns on investment, including expansions. If however QCA were to approve

the proposed WACC this should carry with it a strong obligation on QR Network to invest and provide expansion capacity to users costed at that WACC.

Access to capacity expansions is critical for the ongoing development of industry and the State. A failure to provide such expansions

- Restricts a party's ability to enter the market
- Favours existing users at the expense of new entrants
- Hinders the economic development of the State
- Reduces competition in the market for both mine product and also production resources
- May result in an inefficient allocation of economic resources
- May delay or prevent the introduction of innovation associated with new developments.

The lack of such an enforceable obligation has resulted in QR seeking to achieve a superior commercial outcome for expansions to existing infrastructure than would otherwise be the case.

By way of current example, the creation of new port facilities necessitates by their nature a step change in capacity. If, as in the past, port capacity was developed incrementally over a period of time, the resulting upgrades to rail capacity to meet such increased port capacity are absorbed within the normal operations of QR and achieve the regulated return. However, due to the development of Wiggins Island and the resulting step change in rail capacity required, QR is seeking to achieve a commercial outcome inconsistent with existing arrangements and above regulated returns in providing the required associated rail infrastructure. This is purported to be justified due to the need to undertake such expenditure as "one project" which exceeds a capital threshold level determined by QR, and claims of QR Network accepting "higher risks than regulation". These justifications do not hold weight when it is considered that the expansions in question are proposed to be underwritten by enforceable Take or Pay commitments by the user, and as such the absolute dollar value of the expansions seems irrelevant, and would also not be in question if such expansions were dispersed over time or sections of the network. In relation to the purported assumption of higher risks such claims are unsubstantiated and difficult to detect.

Such discrepancy in commercial arrangements and costs to industry is inappropriate and creates inefficiencies within a key industry for State development. In addition, such an approach to network expansion actively encourages inefficient network expansion by virtue of QR's ability to achieve an excessive return at the expense of others.

Whilst we are concerned with this approach being taken by QR, our concern is amplified in light of the pending sale process proposed for QR. With no balancing interest of State Royalties and economic development such opportunities will be fully exploited to maximise returns of future investors at the expense of the viability of the State's mining interests.

In summary, QR Network is proposing a position which will allow them to achieve superior commercial outcomes, including higher returns on investment whilst reserving the position that any such investment remains at their discretion. Such a position is not consistent with sound economic management of the

wider interests of the State, is discriminatory to certain users and is inconsistent with regulatory principles previously promoted by the State and agreed with industry.

We encourage the QCA to require that the proposed Access Undertaking establishes a clear and transparent process for expansions to existing infrastructure, that access to such expansions be on terms consistent with existing users and prohibit unregulated returns for main line capacity access.


In relation to the Western System, of which Syntech will be a user for access to the Port of Brisbane, we support QR Networks proposed split tariff structure. Unlike other coal systems the Western System is scheduled traffic, which is necessitated due to the need to interface with the metropolitan system. Due to this interaction train paths are the key constraint of capacity on the Western System. As such it is logical that a key element of pricing should also be the access to those train paths. The split tariff structure recognises this unique feature of the Western System and creates a 'distance taper' effect, which is an accepted feature of tariffs in the Central Queensland Coal Region.

We believe the proposed split tariff structure is an appropriate and viable structure that recognises all of the factors that influence available capacity within the Western System.

In regard to the quantum of tariffs, we do not consider that QR Network has demonstrated that its proposed tariffs are derived based on a robust methodology, nor that the methodology is suitable for 'rolling forward' to the next undertaking in order to avoid subjective judgements in regard to UT4 tariffs. QR and the QCA failed to establish a robust approach to determining Western System tariffs in UT2 and it appears that this outcome is set to be repeated.

Syntech considers that a reasonable process must be established for the assessment of Western System tariffs and that, in the absence of this process, no tariff increase should be approved. We note the apparent urgency to settle the tariffs for the Central Queensland region in the context of the privatisation of these assets and the natural focus of all parties on this part of the system. This focus appears set to prevent a proper assessment of tariffs and other issues for the Western System. We therefore suggest that existing tariffs be approved as the appropriate tariffs until a proper assessment of Western System issues and tariffs is completed at a later date. Given that a new undertaking will be required upon the planned transfer of the Western System assets to a new Government Owned Corporation, and that this will raise a range of issues beyond tariffs, we suggest that the interim tariffs should remain in place until replaced by a properly assessed undertaking for the new GOC.

Yours sincerely



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