



Draft Decision

**QR Network's Draft Amending
Access Undertaking**

West Blackwater Reference Tariff

March 2009

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SUBMISSIONS

This report is a draft only and is subject to revision. Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (the Authority). Therefore submissions are invited from interested parties concerning its assessment of QR Network Pty Ltd's West Blackwater Draft Amending Undertaking. The Authority will take account of all submissions received.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would be appreciated if two printed copies are provided together with an electronic version on disk (Microsoft Word format) or by e-mail. Submissions, comments or inquiries regarding this paper should be directed to:

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The **closing date** for submissions is **17 April 2009**.

Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk. Where it is unclear why a submission has been marked "confidential", the status of the submission will be discussed with the person making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt documents (within the meaning of the *Freedom of Information (FOI) Act 1989*), it cannot guarantee that submissions will not be made publicly available. As stated in s187 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person's consent, provided the Authority is satisfied that the person's belief is justified and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required to reveal confidential information as a result of an FOI request.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact the office (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority's website.

GLOSSARY

Authority	Queensland Competition Authority
ARR	Annual Revenue Requirement
CCC	Common Cost Contribution
CPI	Consumer Price Index
CQCR	Central Queensland Coal Region
DAAU	Draft Amending Access Undertaking
DORC	Depreciated Optimised Replacement Cost
gtk	gross tonne kilometres
mtpa	million tonnes per annum
Opex	Operational Expenditure
QCA Act	<i>Queensland Competition Authority Act 1997 (Qld)</i>
RAB	Regulatory Asset Base
WACC	Weighted Average Cost of Capital

PREAMBLE

QR Network Pty Ltd (QR Network) has sought to amend its 2008 access undertaking to include a reference tariff for a coal-carrying train service from the Minerva mine to the port of Gladstone. The proposed tariff is equivalent to \$5.67/net tonne and is to be backdated to 1 July 2007.

The proposed tariff is high in comparison with tariffs for other coal carrying train services in central Queensland and is also materially higher than the access charge that QR Ltd had agreed with the mine owner prior to the commencement of train services in November 2005.

The Authority has considered the proposed tariff with a view to balancing the interests of both QR Network and the mine owner. Given the range of the possible alternative approaches and the uncertainties involved (particularly concerning additional use of the line for coal-carrying purposes and its actual carrying capacity), the Authority considers that the reference tariff proposed by QR Network of \$5.67/net tonne is reasonable and proposes that it be accepted..

So far as backdating the reference tariff is concerned, the 2008 undertaking would have permitted QR Network to backdate it to November 2005, which is when the train service commenced. QR Network's proposed commencement date results in a saving to the Minerva mine of some \$3.8 million (in net present value terms).

QR Network has proposed a number of amendments to the 2008 undertaking to give effect to the proposed Minerva reference tariff; including increasing the Blackwater system's revenue cap and extending the undertaking's definition of the central Queensland coal region to encompass the Minerva related rail infrastructure.

QR Network has also sought to increase the regulatory asset base of the central Queensland coal region in order to recognise the value of the Minerva related rail infrastructure (i.e. \$75.4 million as at 1 July 2007).

The Authority has reviewed these amendments and believes that they are both reasonable and necessary to give effect to the Minerva reference tariff.

Accordingly, it is the Authority's draft decision to approve the Minerva draft amending access undertaking dated 30 October 2008.

Way Forward

The Authority seeks submissions in relation to this draft decision. Submissions must be received by no later than **17 April 2009**.

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1. INTRODUCTION

QR Network has applied to amend its access undertaking to provide for a coal-carrying train service operating from the Minerva mine to the port of Gladstone. The application includes a proposed new reference tariff, amendments to the revenue cap and the regulated asset base and an extension to the geographical scope of the central Queensland coal region (CQCR).

In considering this matter, the Authority has sought public comments and has taken into account the assessment criteria in the Queensland Competition Authority Act 1997 (the QCA Act) as well as the requirements of QR Network's 2008 access undertaking.

1.1 The Gindie-Minerva Line

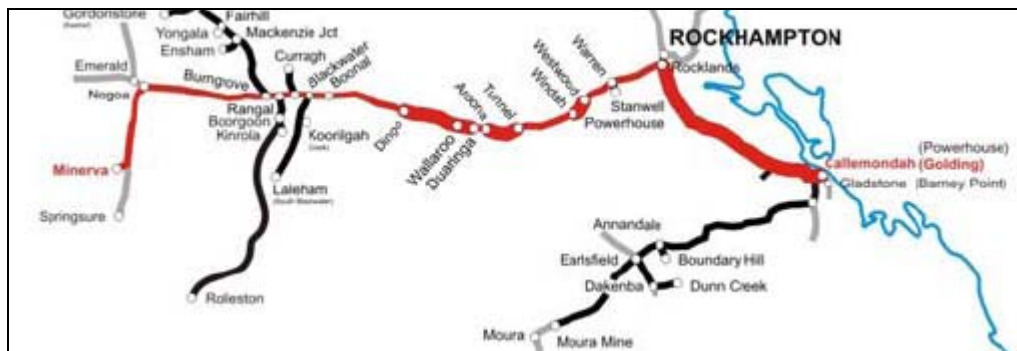
The Minerva mine is approximately 45 kilometres south of Emerald. QR Ltd commenced raiiling coal from Minerva mine to the port of Gladstone in late 2005 at a rate of around 2.5 million tonnes per annum (mtpa).

The Minerva mine is located outside the existing boundary of the CQCR and is connected to it at Burngrove (i.e. the Gindie-Minerva line). The train service continues on the existing Blackwater system from Burngrove to the port of Gladstone.

The Gindie-Minerva line (see Figure 1) comprises:

- (a) existing rail infrastructure not included in the Blackwater system, Burngrove – Nogoa – Wurba Junction (not previously used for transporting coal); and
- (b) a new spur line and loading loop that connects the Minerva mine to the Springsure branch line at Wurba Junction (at Minerva).

Figure 1



The existing infrastructure underwent major upgrades in 1985-86. Further upgrades were undertaken prior to November 2005 to allow coal train services to operate at a 20 tonnes axel load.

The amount of recoverable coal is currently estimated to be 35 million tonnes, which is sufficient to allow mining to continue at the expected production rate until 2020. While coal reserve studies show potential for further exploration in the vicinity of the Minerva mine, current data and investigations raise considerable uncertainty regarding the potential for coal transport on the Springsure branch beyond the life of the Minerva mine.

1.2 Declaration of Third Party Access

The use of rail transport infrastructure managed by QR Network has been declared under Part 5 of the QCA Act and is, therefore, subject to the third party access provisions of the QCA Act.

Approved undertakings for the QR Network's below-rail infrastructure have been in place since 2001. The current undertaking was initially approved in 2006 and there have been subsequent "running" amendments to it, the latest in 2008 (2008 access undertaking).

While the undertaking sets out a range of matters associated with access to QR Network's below-rail infrastructure, for the purposes of this application, the most relevant part of the undertaking relates to reference tariffs. Specifically, the undertaking includes reference tariffs for coal-carrying train services in central Queensland. These tariffs have been calculated with reference to an Authority approved revenue cap.

The undertaking also provides for the development and approval of new reference tariffs either prior to, or following, the commencement of train services from a new coal mine.

1.3 QR Network's Minerva Draft Amending Undertaking Application

On 30 October 2008, QR Network submitted the Minerva Draft Amending Access Undertaking (DAAU) to amend the 2008 access undertaking to provide for:

- (a) a new West Blackwater cluster (for the Minerva mine alone) with an associated reference tariff equivalent to \$5.67/net tonne;
- (b) an increase in Blackwater's revenue cap and volume forecasts in 2007-08 and 2008-09 of:
 - (i) revenue cap to \$157.9 million and to \$168.9 million respectively; and
 - (ii) volume forecasts to 30,431,816,000 gross tonnes kilometres (gtks) and 31,599,042,000 gtks respectively;
- (c) increasing the value of the CQCR regulatory asset base by \$75.4 million to account for the value of the Gindie-Minerva line; and
- (d) consequential definitional amendments to give effect to the Minerva reference tariff.

1.4 The Authority's Considerations

In accordance with section 142 of the QCA Act, the Authority must consider the Minerva DAAU and either approve, or refuse to approve, it. In doing so, the Authority must publish the Minerva DAAU and invite and consider comments on it.

The factors affecting the Authority's consideration and approval of a DAAU are set out in the QCA Act. Relevant factors also include the provisions in the 2008 undertaking relating to developing and approving new reference tariffs for coal-carrying train services in the CQCR.

The QCA Act

Section 138(2) of the QCA Act states that the Authority may approve a DAAU only if it considers it appropriate to do so having regard to:

-
- (a) promoting the economically efficient operation of, use of, and investment in, infrastructure by which services are provided, with the effect of promoting competition in upstream and downstream markets;
 - (b) the legitimate business interests of the owner or operator of the service;
 - (c) the public interest;
 - (d) the interests of people who may seek access to the service;
 - (e) the effect of excluding existing assets for pricing purposes;
 - (f) the pricing principles mentioned in section 168A of the QCA Act, including, among other things, that the price of access to a declared service should:
 - (i) generate expected revenue for the service that is at least enough to meet the efficient costs of providing access to the service and include a return on investment;
 - (ii) allow for multi-part pricing and price discrimination when it aids efficiency; and
 - (iii) provide incentives to reduce costs or otherwise improve productivity; and
 - (g) any other issues the Authority considers relevant.

2008 Access Undertaking

The 2008 undertaking also sets out requirements for developing reference tariffs for new coal-carrying reference train services in the CQCR, including that:

- (a) a new train service will pay the higher of (cl. 4.1.2, Part B of Schedule F):
 - (i) an existing reference tariff; or
 - (ii) the incremental cost plus a common cost contribution, where:
 - incremental cost is defined as the cost of providing access, including capital costs, that would not be incurred if a train service did not operate, where those costs are based on the assets reasonably required to provide access; and
 - the rate of the common cost contribution is as specified in the undertaking;
- (b) existing sections of rail infrastructure that are incorporated into the CQCR will be included in the regulatory asset on the basis of the Depreciated Optimised Replacement Cost (DORC) methodology (clause 1.3 of Schedule FB).

1.5 The Authority's Assessment Process

In August 2008, the Authority had received, but had not yet approved, the 2008 access undertaking. As QR Network did not want to seek to amend the 2006 undertaking that was about to be superseded, QR Network provided the Authority with a preliminary DAAU for the Minerva train service. The Authority published the preliminary DAAU and received submissions from Asciano and Felix Resources.

Following the Authority's approval of the 2008 access undertaking, QR Network formally submitted the Minerva DAAU on 30 October 2008.

On 7 November 2008, the Authority commenced an investigation into the Minerva DAAU. The Authority also published the Minerva DAAU and invited stakeholders to submit comments on it by 21 November 2008. The Authority received submissions from Asciano, Felix Resources and QR Network.

To assist in its consideration of this matter, the Authority engaged two consultants, WorleyParsons and GHD, to provide advice on technical aspects of the Minerva DAAU. In particular, WorleyParsons undertook a DORC valuation of the existing assets (Burngrove – Nogoia – Wurba Junction) and an assessment of QR Network's proposed operating and maintenance costs for the Gindie-Minerva line.

GHD reviewed QR Network's proposed asset value, operating and maintenance costs and then compared these assessments with those undertaken by WorleyParsons. In addition, GHD assessed the prudence of QR Network's 2006-07 capital expenditure on upgrades to the existing assets and new capital expenditure at the Minerva mine. The Authority published these reports at the same time it requested comments on the Minerva DAAU.

In preparing this draft decision, the Authority has reviewed the Minerva DAAU and supporting material, including its confidential financial model. The Authority also took into account the matters raised by stakeholders in their submissions on both QR Network's preliminary and formal Minerva DAAU applications.

In reaching this draft decision, the Authority's assessment of the Minerva DAAU focussed on the costs of the Gindie-Minerva line (see chapter 2 of this decision).

The Authority also sought to establish the reasonableness of the consequential amendments to the undertaking (see chapter 3), in particular QR Network's proposed:

- (a) increases in the Blackwater system's revenue cap and volumes (section 3.1);
- (b) Minerva reference tariff (section 3.2);
- (c) increases in the value of the CQCR regulatory asset base (section 3.3); and
- (d) amendments to certain definitions in the undertaking, such as the geographic scope of the CQCR section 3.4).

1.6 Submissions

The Authority seeks submissions in relation to this draft decision by no later than 17 April 2009. The Authority will consider any submission it receives within that time.

2. ASSESSMENT OF THE COSTS OF THE GINDIE-MINERVA LINE

QR Network has proposed a reference tariff for the Minerva train service equivalent to \$5.67/net tonne.

The proposed tariff is considerably higher than the existing access charge that was previously agreed between the mine owner (Felix Resources) and QR Ltd. It is also significantly higher than other tariffs in central Queensland – although it is on a par with the tariff for the Rolleston train service.

The key driver for this tariff has been the revaluation of the pre-existing infrastructure that had previously been used infrequently by non-coal traffics.

The Authority has formed the view that the proposed reference tariff is reasonable given the given the balance of the interests of QR Network and Felix Resources. Accordingly, the Authority proposes to accept QR Network's proposed reference tariff.

2.1 QR Network's Proposed Costs

QR Network developed the Minerva train service reference tariff on the basis of the costs of operating the line from the mine to Burngrove plus a common cost contribution (CCC) in respect of the remainder of the haul to Gladstone. As QR Network relied on the common cost contribution rate set out in the undertaking, the Authority's assessment of the proposed tariff has focused on the estimation of the other costs.

QR Network's Proposal

QR Network has proposed costs, that are, on average, \$12 million a year (**Table 1**).

Table 1: West Blackwater Annual Revenue Requirement

<i>Building Block Component</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
Return on Capital (WACC)	\$3,939,837	\$6,154,690	\$6,290,454	\$6,212,110
Less Inflationary Gain	\$1,667,457	\$2,645,765	\$2,796,011	\$2,865,911
Plus Return of Capital (Depn)	\$1,180,047	\$1,825,617	\$1,866,271	\$1,843,028
Plus Opex (incl. CCC)	\$2,103,052	\$5,504,696	\$6,664,993	\$5,825,229
Tax	\$19,996	\$777,615	\$633,424	\$816,568
Annual Revenue Requirement	\$6,550,265^a	\$13,257,149	\$14,518,610	\$13,876,809

^a *The ARR estimate for 2005-06 is lower than other years as it is a part year estimate as the train service commenced in November 2005.*

The Authority has confirmed that elements of QR Network's cost estimates have been based on parameters or approaches the Authority relied on in approving the current reference tariffs for coal-carrying services in central Queensland, namely:

- (a) a weighted average cost of capital (WACC) rate of 8.43% to determine the return on capital cost element, which is the rate approved by the Authority as part of the 2006 access undertaking;
- (b) a forecast inflation rate of 2.5%, consistent with the development of the CQCR annual revenue requirement approved as part of the 2006 access undertaking; and

- (c) a straight line depreciation approach in line with arrangements in the undertaking and consistent with the approach applied to CQCR assets.

Accordingly, these aspects of the costs will not be discussed further in this decision.

The other aspects of QR Network's estimates of the costs of the Gindie-Minerva line are discussed in turn below.

Asset Value

QR Network has proposed an opening asset value of \$71.1 million (as at November 2005) for the Gindie-Minerva line, consisting of:

- (a) \$52.7 million valuation of pre-existing infrastructure based on DORC principles; and
- (b) \$18.4 million of capital expenditure to:
- (i) upgrade pre-existing track to 20 tonne axle load; and
 - (ii) construct a 3.6 km balloon loop at the Minerva mine site.

QR Network indicated that, in adopting DORC principles in valuing the pre-existing assets, it had excluded a number of assets from the valuation to reflect the anticipated requirements of coal-carrying train services, in particular their low frequency. For example, QR Network has not included in its DORC valuation a number of assets such as passing loops, electric infrastructure and signalling that exist on the Gindie-Minerva line but are not required for a coal only, diesel train service.

QR Network indicated that it also discounted the value of some assets to reflect their current condition, the anticipated maintenance task (and / or capital renewal) required to keep the assets up to the required standard and the anticipated frequency of coal-carrying train services on the Gindie-Minerva line. In particular, QR Network has discounted the value of:

- (a) *earthworks* on the Springsure branch line (Nogoa to Wurba) by 50% as its engineered formation requires a more rigorous maintenance regime to maintain track alignment;
- (b) *timber bridges* on the Springsure branch line by 25% to reflect the ongoing maintenance associated with continual renewal, maintenance and inspection of these bridges relative to the ones between Burngrove and Nogoa;
- (c) pre-existing *timber sleepers* between Burngrove and Nogoa by 100% (i.e. given no economic value) as they are highly deteriorated; and
- (d) *ballast* on the Springsure branch line by 50% to reflect the deterioration experienced from the significant weather event in 2007-08.

Remaining Asset Lives

QR Network's estimate of depreciation of the Gindie-Minerva line is based on different asset lives for the two track sections of the line.

First, for the Springsure branchline (i.e. from Nogoa to Wurba junction and the Minerva balloon loop) QR Network has adopted 30 year asset lives.

QR Network believes this is a reasonable assumption given current information on coal deposits and likely exploration in the vicinity of the Springsure branch line.

Second, for the track between Nogoia to Burngrove, QR Network adopted the same remaining life assumption that currently applies to the remainder of the Blackwater system.

QR Network considers that this is a reasonable assumption given that there are additional coal deposits in surrounding areas that could potentially use the rail infrastructure. In doing so, QR Network indicated it accepts the uncertainty of whether this infrastructure will be used beyond the life of the Minerva mine (14 years).

Operating Costs

QR Network based its forecast operating costs of the Gindie-Minerva on the Rolleston spur line given its similar length, but discounted the Rolleston costs to reflect the lower frequency of train movements on the Minerva line. QR Network also included establishment costs in the first two years of the modelling period, which capture costs associated with developing the Minerva reference tariff, including legal costs, expert services and other business related costs.

Maintenance Costs

QR Network proposed maintenance costs for 2005-06 to 2008-09 of around \$2.7 million a year, comprising around \$1.1 million for track from Burngrove to Nogoia and \$1.6 million for the Springsure branch line.

QR Network estimated these maintenance costs by determining the required level of maintenance for each service product given projected asset deterioration rates, including all routine and major periodic maintenance of a stand-alone coal network.

QR Network indicated that it has not included maintenance associated with the excluded sidings and passing loops and all costs related to electrification assets and line signalling.

In establishing the appropriate contribution of non-coal train services to maintenance on the Gindie-Minerva line, QR Network stated that it had made further reductions in the allocation of incremental maintenance costs to reflect the contribution of non-coal traffic to the maintenance activities on the optimised rail infrastructure. QR Network indicated this approach is consistent with the approach to determining the incremental maintenance costs in the Blackwater system.

In support of its claims, QR Network argued that the Gindie-Minerva line requires a higher cost maintenance regime to safely and reliably deliver the forecast tonnage. However, QR Network argued that these higher maintenance costs are reflected in the valuation of the Gindie-Minerva line that is substantially lower than the cost of a purpose built heavy haul railway.

Stakeholder Comments

The Authority received submissions from Asciano and Felix Resources (confidential) on QR Network's formal and preliminary proposals, as well as a supplementary submission from QR Network.

In general, Asciano supported QR Network's proposal and considered that QR Network had been reasonable in valuing the pre-existing assets by:

- (a) not seeking to adopt the maximum values possible; and
- (b) recognising the low capital and high maintenance cost nature of this particular line.

Nevertheless, Asciano questioned the accuracy of QR Network's quoted proportions of non-coal traffics using the Minerva line and, in particular, the cost allocation methodology used to account for these traffics.

In its supplementary submission QR Network re-emphasised the reasonableness of its proposed tariff. First, by arguing the appropriateness of its DORC valuation given regulatory precedents (e.g. decisions by the Australian Competition Tribunal) and on the terms of the 2008 undertaking that provides for new assets to be included in the regulatory asset base on a DORC valuation basis.

Second, that its approach is reasonable as it has not sought to limit asset lives to the life of the Minerva mine. As a result, QR Network has indicated that it will not recover a significant proportion of the opening asset value at the end of the Minerva mine life. To illustrate, QR Network noted that the opening value of the Minerva asset base is \$75.4 million (2007 dollars) and the closing balance of the rolled forward asset base at the expected Minerva mine expiry date is \$58.6 million in 2019 dollars – or \$43.7 million discounted back to 2007 dollars.

Authority's Draft Decision

In considering this matter, the Authority has given careful consideration to the interests of both QR Network and the interests of the customer, Felix Resources.

The Authority accepts that QR Network's application is reasonable in that:

- (a) QR Network's proposed opening asset value of \$71.1 million for the Gindie-Minerva line is below the value independently assessed by WorleyParsons.
- (b) QR Network's depreciation rates are based on reasonable assessments of remaining asset lives:
 - (i) Springsure branch line – QR Network proposed a 30-year remaining life even though the Minerva mine life suggests an economic life of 14 years as there is only one other deposit (Athena) in the vicinity of Minerva and its development potential is uncertain; and
 - (ii) Nogoia to Burngrove – QR Network has used remaining lives that are consistent with those used for the Blackwater system generally;
- (c) the proposed tariff does not seek to fully recover the DORC value of the Gindie-Minerva line – indeed, QR Network will recover on-going costs (e.g. maintenance) and only 70% of the DORC asset valuation over the life of the Minerva mine (\$53.2 million of the \$75.4 million); and
- (d) while maintenance costs are high, they are reasonable given the quality of the infrastructure and exclude maintenance of the optimised assets. QR Network has also used the same approach that it has used elsewhere on the Blackwater system to adjust downwards the maintenance allowance to account for the non-coal traffics on the Gindie-Minerva line.

Despite this, the proposed Gindie-Minerva tariff of \$5.67/net tonne will be one of the highest tariffs in central Queensland. For instance, it is:

- (a) significantly greater than the equivalent central Blackwater tariff of \$3.27/net tonne (derived by applying the central Blackwater tariff for the entire journey from the Minerva mine to Gladstone); and

- (b) just below the highest tariff on the Blackwater system of \$5.88/tonne for Rolleston (which has a slightly longer haul but has much larger tonnages).

A key driver of the proposed Minerva reference tariff is the recovery of the pre-existing assets. The Authority does not dispute the use of the DORC principles for valuing pre-existing assets. However, it does question a mechanistic recovery of DORC valuations for infrastructure that offers a standard of service that falls quite some way short of a purpose built heavy haul coal railway.

In light of this, the Authority sought to assess QR Network's proposed tariff relative to a number of alternative approaches. In particular, it is apparent that, while the Minerva mine operates on the basis of, on average, two train services per day, the Gindie-Minerva line is capable of handling three train services a day.

A tariff based on three train services a day, and full recovery of the Gindie-Minerva DORC valuation over the life of the Minerva mine, would result in a tariff of \$5.35/ net tonne. At the same time, a tariff based on two train services per day and full cost recovery over the life of the Minerva mine would result in a reference tariff of \$6.97/net tonne while a tariff based on three train services a day and recovery of the Gindie-Minerva DORC valuation over the life proposed by QR Network would result in a reference tariff of \$4.42/net tonne.

Given the range of the possible alternative approaches and the uncertainties involved (particularly concerning additional use of the line for coal carrying purposes and its actual carrying capacity), the Authority considers that the reference tariff proposed by QR Network of \$5.67/net tonne is reasonable and proposes that it be accepted.

3. ASSESSMENT OF THE MINERVA DAAU AMENDMENTS

The Minerva DAAU proposed a number of amendments to the 2008 undertaking including:

- (a) an increase in the Blackwater system revenue cap to take account of the additional revenue from the Minerva train service;*
- (b) a reference tariff with the AT₁₋₄ components consistent with other Blackwater system tariffs to take effect from 1 July 2007;*
- (c) an increase to the regulatory asset base to take into account the asset value of the Gindie-Minerva line; and*
- (d) an update of definitions in the undertaking, including expanding the geographic scope of the CQCR to include the Gindie- Minerva line.*

The Authority has reviewed these amendments and believes that they are reasonably required to give effect to the proposed tariff of \$5.67/net tonne. Accordingly, the Authority's draft decision is to accept QR Network's proposed reference tariff and consequential amendments.

3.1 Blackwater's Revenue Cap and Volume Forecasts

The 2008 access undertaking (clause 5.4 of Part B, Schedule F) sets out the Blackwater system's approved system allowable revenues and volume forecasts for 2005-06 to 2008-09.

Based on the introduction of the Gindie-Minerva line into the CQCR and the commencement of the Minerva train service, the Minerva DAAU includes a proposal to increase the Blackwater system's:

- (a) allowable revenues – by around \$11 million per annum (from \$146.9 million to \$157.9 million in 2007-08 and from \$157.6 million to \$168.9 million in 2008-09); and
- (b) volume forecasts – to 30,431,816,000 gtk's in 2007-08 and 31,599,042,000 gtk's in 2008-09.

The Authority has reviewed QR Network's proposed increases in the allowable revenues and has confirmed that they accurately estimate the required revenues based on the costs and volumes as discussed in chapter 2. Similarly, the increases in the volume forecasts are based on the anticipated volumes associated with the Minerva train service.

The Authority also notes that the 2008 undertaking had already anticipated, and therefore included, the common cost contribution and volume forecasts made by the Minerva train service to the Blackwater system on its operations between Burngrove and Gladstone.

Given this, the Authority has confirmed that the Minerva DAAU has only sought to add the revenue and volumes (gtk's) associated with the Minerva train service's operation on the Gindie-Minerva line. Accordingly, the Minerva DAAU does not double count the common cost contribution, which had been the case with preliminary Minerva DAAU.

Accordingly, the Authority proposes to accept the increases in the Blackwater system's allowable revenues and volumes as set out in the Minerva DAAU.

3.2 West Blackwater Reference Tariff

QR Network's Proposal

The 2008 access undertaking provides for reference tariffs for coal-carrying train services on the CQCR to be calculated on the basis of the approved system allowable revenues and within a defined tariff structure that consists of:

- (a) cost-reflective tariff components that recover a proportion of the required revenue through:
 - (i) a usage-based charge which reflects the incremental operating and maintenance costs, expressed on a per gross tonne kilometre bases (AT₁);
 - (ii) a capacity charge that covers the incremental cost to the network owner of the capacity, expressed per train path (AT₂); and
- (b) allocative components that equally recover the remainder of the required revenue through:
 - (i) a per net tonne kilometre charge (AT₃); and
 - (ii) a per net tonne charge (AT₄).

Based on the proposed increase in the Blackwater system allowable revenues and this tariff structure, QR Network has proposed a Minerva reference tariff (see **Table 2**) that is consistent with other central Queensland coal tariffs in that it:

- (a) was calculated using a four-year financial model from the start of the Minerva train service in November 2005 to 30 June 2009;
- (b) rolled forward the asset base (for pricing purposes) on the basis of the forecast inflation rate of 2.5%; and
- (c) adopted the same incremental maintenance charge (AT₁) and incremental capacity charge (AT₂) as other Blackwater coal train services.

Table 2: Proposed West Blackwater reference tariff (as at 1 July 2007).

<i>Reference Tariff Components</i>	<i>Reference Tariff</i>
AT ₁ – incremental maintenance on a \$/gross tonne kilometre basis	\$0.71
AT ₂ – incremental capacity charge on a \$/train path basis	\$1,662.00
AT ₃ – allocative charge on a \$/net tonne kilometre basis	\$5.29
AT ₄ – allocative charge on a \$/net tonne basis	\$2.21

QR, sub. no. 1:17

In addition to these matters, QR Network has sought to backdate the reference tariff to 1 July 2007. QR Network has argued that, in doing so, it has sought to be reasonable as it calculated the tariff upon the commencement of railings in November 2005 and rolled this forward to 1 July 2007 based on actual (not expected) inflation. QR Network noted that this approach tended to place a greater proportion of the anticipated revenue into the period between November 2005 and July 2007 – the period in which QR Network is not seeking to recoup any

revenue shortfall. As a result, the proposed reference tariff as at 1 July 2007 is lower than it would otherwise be.

Authority's Draft Decision

In reviewing QR Network's proposed reference tariff for the Minerva train service, the Authority was able to establish that:

- (a) the proposed reference tariff will recoup the proposed increase in the Blackwater system allowable revenue;
- (b) the proposed AT₁ and AT₂ tariff components are consistent with other Blackwater tariff components; and
- (c) the proposed AT₃ and AT₄ have been calculated in a manner consistent with other central Queensland coal reference tariffs.

So far as the commencement date for the proposed new tariff is concerned, the Authority notes that, while this application was submitted by QR Network in October 2008, the provisions of the 2008 undertaking would allow QR Network to backdate the proposed tariff to November 2005 – which was when the Minerva train service commenced operation.

However, QR Network has proposed a commencement date of 1 July 2007. This results in a saving of around \$3.8 million (net present value terms) to the Minerva mine over the revenues that the undertaking would have permitted QR Network to charge. Given this, the Authority accepts the proposed commencement date.

3.3 Regulatory Asset Base

QR Network has proposed to add \$75.4 million to the value of the CQCR regulatory asset base, as at 1 July 2007, to account for the value of the Gindie-Minerva line (**Table 3**).

Table 3: Burngrove to Minerva Rail Infrastructure Asset Roll-forward (\$millions)

	<i>2005-06</i>	<i>2006-07</i>
Opening Asset value	52.7	71.4
Plus Capital Expenditure	18.4	4.9
Plus Inflationary Gain	1.9	1.9
Less Depreciation	1.7	2.7
Closing Asset Value	71.4	75.4

QR Sub 1: 19

In relation to these matters, the \$4.9 million for capital expenditure in 2006-07 relates to a re-sleeping program for the Burngrove – Nogoia track section. The Authority accepts that this program is required for a coal train service and that, given the extensive nature of the program, it is capital in nature rather than maintenance. This expenditure is also consistent with the DORC valuation which had placed a zero value on the sleepers on that section of the Gindie-Minerva line.

The Authority has reviewed the other aspects of the proposed increase and has confirmed that QR Network has relied on the roll-forward methodology in clause 1 of Schedule FB of the 2008 undertaking, based on:

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- (a) an opening DORC asset value of \$52.7 million for the pre-existing infrastructure;
 - (b) capital expenditure of:
 - (i) \$18.4 million in 2005-06 to upgrade the Gindie-Minerva line to 20 tonne axel load;
 - (ii) \$4.9 million in 2006-07 for re-sleepering of the Burngrove – Nogoia track section;
 - (c) inflating the asset base using the actual Brisbane consumer price index (CPI) of 4.13% for 2005-06 and 2.56% for 2006-07;
 - (d) depreciation based on QR Network’s proposed asset lives.

Accordingly, and as provided for in clause 1.3 of schedule FB of the 2008 undertaking, the Authority approves the \$75.4 million increase in the CQCR regulatory asset as at 1 July 2007.

3.4 Consequential Amendments

QR Network has made a number of consequential amendments to definitions contained in part 10 of the 2008 undertaking to account for the inclusion of the Gindie-Minerva line within the CQCR and for the operation of the Minerva train service.

The Authority has reviewed these proposed amendments and believes that they are reasonable and necessary to give effect to the Minerva reference tariff. For example, the Minerva DAAU has proposed to:

- (a) include the Gindie-Minerva line within the geographical scope of the CQCR, which is currently defined to stop at Burngrove;
- (b) to identify the Gindie-Minerva line as “individual coal system infrastructure” which requires, among other things, QR Network to separately identify the Minerva asset value in its annual roll-forward of CQCR regulatory asset base and to annually report on the maintenance costs of the Gindie-Minerva line (this is consistent with the approach for the Hail Creek and Rolleston spur lines);

Accordingly, the Authority accepts QR Network’s proposed consequential amendments to the 2008 access undertaking to give effect to the Minerva reference tariff.