

19th April 2012

Mr John Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
Email: rail@qca.org.au

Dear Mr Hall,

Thank you for the opportunity to respond to the QR National submission on extra costs as a consequence of the 2010 flooding events.

Sojitz Coal Mining Pty Ltd is the owner of Minerva mine, which was one of the mines adversely impacted by the flood damage events, and is the only coal mine currently serviced by the Blackwater System west of Burngrove. The flood damage around the Comet River directly impacted only Minerva Mine for the coal rail business covered by the pricing arrangements in the QR National Access Undertaking, and QR National's proposed methodology for recovery of repair costs has Minerva paying for the full cost of the repairs to this section.

The ability of QR National to recover the abnormal costs of the repair works of this significant flood event, which are not factored into the approved methodology and costs covered under the existing tariff derivation, are noted. However specific issues in respect of Minerva are:

1. Quantum of costs actually incurred.

Detailed costings claimed by QR National have not been made available as part of public information, and it is assumed that the QCA would be undertaking a separate process to determine the veracity of these, and how these have been recorded against the major flood damage sites. Of particular interest to Sojitz, are those costs claimed as being incurred for the repair works around the Comet River area.

2. Cost allocation methodology

The QR National proposed full allocation of its claimed re-instatement cost west of Burngrove to the Minerva traffic, is not equitable nor agreed with. You will recall the issues involved in derivation of the West Blackwater cluster charge covering Minerva in 2008-2009, and the allocation of a DORC derived asset value to the Minerva tonnages. At that time it was agreed that, whilst a DORC asset valuation may be applicable to the system in line with the remainder of the coal network, the Minerva tonnages were only a small proportion of the available capacity of the rail system west of Burngrove, and hence should not pay the full cost for a pre-existing asset. It was also determined that only very nominal expenditure associated with crossing loop extensions, was required to deliver substantial increased capacity. The final access charge provided for Minerva paying only a share of the Return on Asset component of the Access Charge. Planning activity since has confirmed that a number of proposed mines in

the region will use this corridor, reinforcing the decision that Minerva should only contribute to a share of the asset value west of Burngrove.

A similar logic and methodology should be applied to this current situation.

There are other current non-coal users on the Central Line west of Burngrove who benefit from the line being available. There is also a regional perspective for the Central West rail system that would have resulted in the re-instatement of the line even if Minerva did not exist as this line provides an essential service to the town of Emerald. The QR National proposal to apply the full cost to the Minerva traffic is thus not appropriate.

Whilst the other non-coal traffic is currently limited, and the access charges paid by them is not publically available, it is known that a number of new mines are planned for the region west of Emerald, and these propose to export coal through the planned export terminals in the Gladstone area. These mines will rely on an intact Central Line west of Burngrove as being essential for their operation, and a cost allocation methodology that provides for these mines contributing to the re-instatement cost when they commence operating, would be considered a more equitable arrangement.

A comparison should be drawn on the differences with the Rolleston Mine and the significant damage to the Bauhinia Line, and the situation with Minerva. Whilst both are ostensibly the only coal mines serviced by the respective tracks from the Kinrola Branch junction and Burngrove respectively, the rationale for the arrangements between QR National and Xstrata are very different to those applying for Minerva. The Bauhinia Line was a recent, purpose-built railway, built solely for Rolleston Mine, and constructed to a level of flood immunity determined by Xstrata for initial capital cost considerations. It is understood Xstrata retained the risk of its performance in respect of flood events; hence the separate agreement on re-instatement and responsibility for re-instatement costs referenced in the QR National submission. The Xstrata traffic is currently the only traffic on the line; however other mines north of Rolleston are planned to utilise it.

Minerva relies on the low standard Central Line west of Burngrove, and the even lower standard old Springsure Branch for accessing to the main Blackwater trunk system. Whilst it is the only current coal mine using these sections of track, the track does have other non-coal users, and certainly some significant potential new users. The Minerva Mine was established in late 2005 as a small operation (2.5 Mtpa), with a limited resource base and relatively short economic mine life of 11 – 12 years. It relied on a low capital cost rail solution, factored around a minor upgrade of the existing low standard legacy rail system west of Burngrove.

Subsequent to the original agreement with QR on access pricing for Minerva, an artificial asset revaluation of the railway west of Burngrove by QR, based on DORC principles over its previous essential “scrap” valuation, which was endorsed by the QCA, has imposed a significant increase in access charge that Minerva has reluctantly endured. This has resulted in QR National obtaining a very significant annual windfall gain from the Minerva business. QR National’s above-rail coal business has also taken advantage of its quasi monopoly position for the low axle load rail solution for Minerva, by significantly increasing its charges for small incremental tonnages above the original base contract tonnes, in spite of these contributing to greater operating efficiencies by QR National in terms of increased train payload and higher utilisation of its assets.

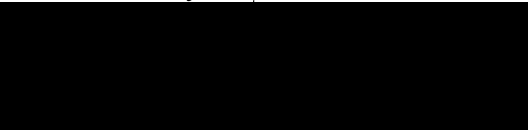
Minerva has no control of the base flood immunity standards applicable to the track west of Burngrove, nor did it accept any responsibility for this as was the case with Rolleston. Minerva

is not the only user of this section, and Minerva should not be responsible for the full cost of re-instating the QR National track west of Burngrove. The addition of a further charge to cover all the re-instatement cost of a major 1 in 100 year plus flood event is not equitable for a mine with a very limited life.

In summary, Sojitz understands that QR National is entitled to re-imbusement of extra costs associated with the abnormal flooding events. There is insufficient information available to Sojitz to comment on the quantum of these costs, and how they have been determined and allocated to the various flood damage sites, and it is assumed the QCA would undertake this assessment. In respect of the QR National proposal for cost allocation, the circumstances with respect to Minerva do not support the allocation of all costs incurred west of Burngrove solely to Minerva Mine, and Sojitz would encourage the QCA to determine a more equitable sharing of these costs between current and future users of this line.

Thank you for the opportunity to respond to the QR National submission, and we await the outcome of your assessment.

Yours faithfully

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Cameron Vorias
CEO/Managing Director