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

Dear Sir

Peabody Energy Australia Pty Ltd "Peabody" Submission to the Queensland Competition Authority ("QCA") – Queensland Rail West Moreton Tariff Proposal.

Thank you for the opportunity to respond to the Queensland Rail West Moreton Tariff Proposal that forms part of the Queensland Rail Draft Access Undertaking lodged earlier in 2013.

Peabody does not support the proposed West Moreton Tariff.

The proposed tariffs would place an uncompetitive cost burden on existing western system users in comparison to other Australian coal supply chains. With minimal low-cost expansion opportunities available there is also an inability to decrease unit costs through increased system utilisation.

Peabody's Wilkie Creek operation located near the township of Dalby has been a long term user of the western system and has provided significant employment benefits to the local community and a significant contribution to the state through royalties and associated economic activity. From a mining viewpoint, the operation is relatively low cost operation, yet with the high cost of infrastructure services it is often at a cost disadvantage to other mining operations and is consequently a marginal mining operation in the current low price environment.

On this basis we believe that the proposed reference tariffs are not in the public interest as they threaten the viability of the Wilkie Creek operation and consequently the long term interests of Queensland Rail.

We outline our comments as follows;

Comparison of the Western System against other Supply Chains

The present costs of the western system are approximately 2 to 3 times that of other dedicated coal supply chains and significantly more expensive than comparable multi-use supply chains that Peabody utilises with other operations. To increase these costs would be to create a further cost disadvantage to the western system users.

The western system is inefficient compared to other supply chains and the opportunities to expand and redevelop or separate in order to increase capacity are limited. Understanding the complexities of operating within a major metropolitan corridor, the existing system will always operate at a disadvantage to dedicated supply chains and consequently a pricing mechanism that does not reflect this creates a continual disincentive to operate.

Structure of the Regulated Asset Base

We believe that the building blocks approach to the Regulated Asset Base (RAB) is generally supported but there are fundamental flaws in the approach taken by Queensland Rail.

The value of the assets that make up the RAB may not be adequate and overvalued against an economically viable rail network system. By proposing to significantly increase costs creates a disincentive to operation. Furthermore, we believe that the high cost in maintenance activities being proposed suggests that the assets are overvalued or inappropriately proportioned to coal users of the system.

The proposed RAB is inadequate and the derived pricing is detrimental. The components of the RAB require review to ensure that cost is allocated appropriately for purpose and to support long term growth.

Should the RAB be deemed appropriate we believe that at the very least a mechanism such as Loss Capitalisation as used by ARTC in support of growth regions in the Gunnedah basin in NSW be reviewed as a viable alternative to provide a reduction in the existing price structure to create a long term incentive for continued operation.

Economic Efficiency and Risk to the State

As outlined, Peabody notes that the western system is not an economically efficient rail network system. The proposed tariffs being sought create an economic risk to Queensland Rail and the state through a significant cost and investment disincentive.

Peabody believes that the cost of providing the network is far less than the economic benefits received. We also believe that the return to the state in relation to a multi-use system that greatly benefits from coal exports should not be based on a WACC or relative financial measure but rather the cost recovery of adequate operational and maintenance costs where those inputs provide an economic offset for other operations such as commuter and general freight services. This is of course in addition to the long term economic benefits received from mining operations contribution to the state.

Once more, Peabody thanks the QCA for the opportunity to provide comments on the proposed Western System Tariffs. We urge the QCA and Queensland Rail to consider the proposed Western System Tariffs carefully in the context of the economic efficiency and the interests to the state, the competition with other supply chains and the long term viability of the network.