

31 AUG 2009

DATE RECEIVED



Michael Carter
Executive General Manager

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

Dear John,

PROPOSED REFERENCE TARIFF VARIATION – 2008/09 REVENUE CAP

In accordance with Subclause 3.3.7, Part A of Schedule F of QR Network's 2008 Access Undertaking, please find attached a submission concerning a proposed Reference Tariff variation for the 2010/11 year (in respect of the revenue cap adjustment for the 2008/09 year). The variation is calculated in accordance with Clause 3B, Part B of Schedule F and, if approved, will be applied to Reference Tariffs from 1 July 2010.

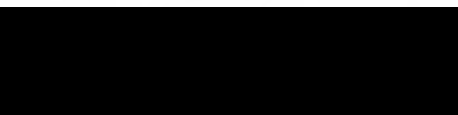
The submission explains the relevant components of the calculation and provides both a number of attachments and supporting financial models. The submission document and attachments (but not the financial models) are presented in a manner which are suitable for publication, should the QCA choose to do so, in accordance with Paragraph 3.3.7(b).

The submission incorporates the Draft Amending Undertaking (DAU) associated with the Minerva mine, approved by the QCA on 20 August 2009. In addition, the submission assumes that the DAU associated with the Lake Vermont mine, submitted to the QCA on 3 July 2009, is also approved. QR Network requests that the Revenue Adjustment Amounts are not approved until the DAU is approved.

QR Network's recommendations with respect to the 2010/11 Reference Tariffs are contained in the submission.

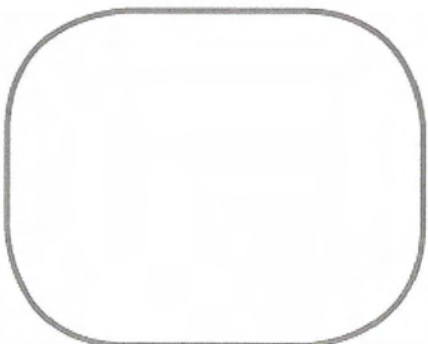
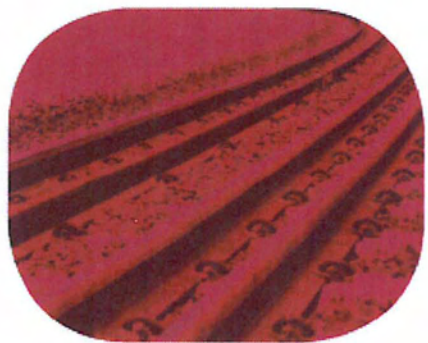
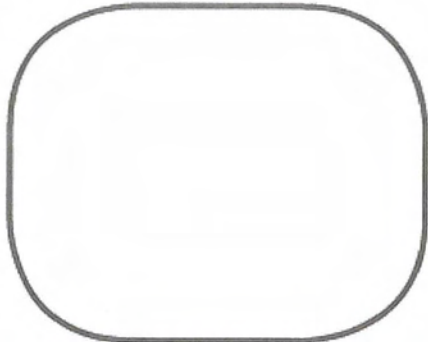
Please contact Greg Selkirk on (07) 3235 5250 should you have any queries regarding the submission.

Yours faithfully



Michael Carter
Executive General Manager
QR Network Pty Ltd

28 August 2009



QR Network
Access
Undertaking
(2008)

*Proposed Reference
Tariff Variation
(2008/09 Revenue Cap)*

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Attachments

- A. Reference Tariff variation model – summary sheet

Provided concurrently with submission (not for publication)

- QR Network billing model
- Models for non-specific Train Services
- UT1/UT2 Take or Pay model
- Take or Pay model for Moorvale and Coppabella traffics

1. Introduction

1.1 Background

Schedule F of QR Network's 2008 Access Undertaking (the 2008 Undertaking) sets out the form of regulation to apply to coal-carrying Train Services on the Central Queensland Coal Region (CQCR).

QR's first revenue cap submission, being for the 2006/07 year (the 2007 submission), was submitted to the Queensland Competition Authority (QCA) on 30 November 2007. Following comments from stakeholders and QR's response the submission was approved by the QCA on 24 March 2008. The Reference Tariff variation contained in the submission was implemented on 1 July 2008 for the 2008/09 year.

QR Network's 2007/08 revenue cap submission (the 2008 submission) was submitted to the QCA on 31 October 2008 and subsequently approved on 20 February 2009. The Reference Tariff variation contained in the submission is expected to be implemented following finalisation of QR Network's 2009 Access Undertaking (the 2009 Undertaking) and backdated to 1 July 2009 for the 2009/10 year.

1.2 Reference Tariff Variation

This third revenue cap submission, being for the 2008/09 year, represents compliance by QR Network with Subparagraph 3.3.1(b)(ii) of Part A of Schedule F which requires QR Network to submit a Reference Tariff variation to the QCA within sixty (60) days after the end of each Year of the Term of the 2008 Undertaking.

Subclause 3.3.7 of Part A requires that where QR Network submits a variation in accordance with Subparagraph 3.3.1(b)(ii), the variation must:

- Nominate the Reference Tariff to be varied;
- Include details of the methodology, data and assumptions used to vary the Reference Tariff; and

- Include details of and reasons for any amount used in preparing that variation in lieu of an Increment having been determined by the QCA.

QR Network should seek the QCA's approval of QR Network's proposed Reference Tariff variation in respect of its revenue cap arrangements for the 2008/09 year as set out in the table at Section 4.3 below. The variation would then be added to the nominated System Allowable Revenues and Reference Tariff components for QR Network as at 1 July 2010 for the 2010/11 year. The Reference Tariffs inclusive of the variation would be published on QR Network's web-site, and relevant Access Holders and Access Seekers would be advised, on or before 30 June 2010 in accordance with Subclause 3.3.8(c) of Part A.

However, QR Network notes that the Reference Tariffs to be varied, being for the 2010/11 year, are within the term of the 2009 Undertaking and therefore Reference Tariffs for this period are yet to be established. QR Network's proposal to address this issue is discussed in detail at Section 4.3 below.

1.3 Form of submission

This submission details the methodology, data and assumptions used to determine the proposed variation. The variation will affect the AT₃, AT₄ and AT₅ Reference Tariff components for the Blackwater, Goonyella, Moura and Newlands systems for the 2010/11 year.

This submission sets out a step-by-step explanation of the relevant components of the calculation of the variation, consistent with Clause 3B of Part B, as follows:

- Section 2 sets out the calculation of the Revenue Adjustment Amounts in accordance with Clause 3B.1.
- Section 3 sets out the calculation of the Increments, in accordance with Clause 3B.2. In this regard, QR Network confirms that no Increment is being claimed in respect of the 2008/09 year for any CQCR system.
- Section 4 sets out the calculation of the Revenue Adjustments in accordance with Clause 3B.3.

Attachment A provides a summary of output from QR Network's financial models that were used to calculate the Revenue Adjustment Amounts and the Revenue

Adjustments for each system. This submission and the Attachments are presented in a format which is suitable for publication, should the QCA choose to do so, in accordance with Paragraph 3.3.7(b) of Part A.

In addition, a number of detailed financial models were prepared by QR Network and have been provided to the QCA in electronic form in support of this submission. These models include:

- QR Network's billing model.
- The Take or Pay model in respect of UT1 and UT2 for Train Services specifically within the CQCR.
- The Take or Pay model in respect of the Train Services between the Coppabella and Moorvale mines in the Goonyella system and the Abbot Point Coal Terminal (APCT).
- QR Network's financial models supporting the allocation of revenue from non-specific Train Services.

The models contain specific information on individual Train Services. QR Network requests that consistent with the 2007 and 2008 submissions the models are not published. Notwithstanding this request, the model outputs are summarised in this submission.

In this submission:

- References to UT1 are to the period covered by QR's 2001 Access Undertaking (the 2001 Undertaking) effective 1 July 2001.
- References to UT2 are to the period covered by QR's 2005 Access Undertaking effective 1 July 2005 and the 2008 Undertaking effective 24 October 2008;
- References to UT3 are to the period covered by the 2009 Undertaking which is expected to commence in 2010, with Reference Tariffs to be backdated to 1 July 2009;
- All references to Clauses, Subclauses and Paragraphs are references to Clauses, Subclauses and Paragraphs in Part B, Schedule F of the 2008 Undertaking; and
- Defined terms used in this submission have the meaning given in the 2008 Undertaking.

QR Network confirms that consistent with the period covered by the revenue cap calculations (i.e. the 2008/09 year) this submission is being made in accordance with the 2008 Undertaking. Revenue cap calculations for the 2009/10 and subsequent years will be submitted in accordance with the 2009 Undertaking.

1.4 Summary

1.4.1 Basis of submission

The 2008 submission was impacted by a Draft Amending Undertaking (DAU) for Train Services between the Minerva mine and the Port of Gladstone via the Blackwater system. The Minerva DAU was approved by the QCA on 20 August 2009 and the amended Reference Tariff and System Allowable Revenue have been incorporated in this submission.

This submission has been prepared on the assumption that the QCA approves QR Network's 3 July 2009 submission of a DAU for Train Services between the Lake Vermont mine in the Goonyella system and the Port of Gladstone via the Blackwater system. The DAU is yet to be approved by the QCA.

The Rail Infrastructure connecting the Lake Vermont mine to the South Goonyella branch (Goonyella system) falls solely within the CQCR, and accordingly this submission cannot be prepared without an approved Lake Vermont Reference Tariff. This situation is in contrast to the West Blackwater (Minerva) Reference Tariff where UT2 Reference Tariffs for Blackwater were approved on the basis that coal carrying Train Services from the Minerva mine would make only the minimum Contribution to Common Costs (CCC). Accordingly, the components of the Access Charge relevant to the System Allowable Revenue and Total Actual Revenue for the Blackwater System were aligned.

The assessment of the Total Actual Revenue in 2008-09 is entirely dependent on the finalisation of the Vermont Reference Tariff. As the revenue collected from coal carrying Train Services from Lake Vermont to Gladstone is based on an indicative Access Charge that varies from the proposed Reference Tariff. The difference between the indicative charge and the approved Reference Tariff will be refunded or collected from the Access Holder(s) for the Lake Vermont Train Service.

Any assessment of Total Actual Revenue based on an interim Access Charge which is higher than the endorsed Reference Tariff will result in QR Network bearing the cost of this difference, which will be contrary to QR Network's legitimate business interests.

In view of the above, QR Network proposes that if a Lake Vermont DAU is approved but is not consistent with QR Network's July submission then it will work with the QCA to revise this submission consistent with the QCA's determination.

1.4.2 Revenue Adjustment Amounts

The net total of the Revenue Adjustment Amounts for 2008/09, which if approved will result in a net upwards variation in Reference Tariffs for 2010/11, is \$32.6 million comprising \$4.3 million for AT₂₋₄ and \$28.3 million for AT₅.

In addition, as a result of the significant UT1 Take or Pay amount for Blackwater, there is an over-recovery of AT₂₋₄ revenue in this system of \$6.1 million (\$7.2 million including an adjustment for the cost of capital).

The Revenue Adjustment Amounts for each CQCR system are summarised in the table below.

| System | AT ₂₋₄ \$ | AT ₅ \$ |
|------------|-------------------------|-----------------------|
| Blackwater | 7,177,642 | (17,727,338) |
| Goonyella | (6,815,183) | (10,551,878) |
| Moura | (1,980,543) | n/a |
| Newlands | (2,725,858) | n/a |
| Total | (4,343,942) | (28,279,216) |

Note: small errors due to rounding.

These amounts compare with a total Reference Tariff variation for previous submissions as follows:

| Year | AT ₂₋₄ \$m | AT ₅ \$m | Total \$m |
|-------|--------------------------|------------------------|--------------|
| 2007 | 15.7 | 10.1 | 25.8 |
| 2008* | 27.8 | 15.8 | 43.6 |

* Scenario 2 (the Minerva DAU is not approved).

1.4.3 Commentary

The negative Revenue Adjustment Amounts (resulting in an increase in Reference Tariffs) are caused by actual throughput being significantly less than the regulatory forecasts (System Forecasts) which forms a key parameter for the determination of Reference Tariffs. The System Forecasts are set out in Schedule F and are expressed in gross-tonne-kilometres (gtks).

The regulatory and actual gtks for 2008/09 for each system are summarised in the table below.

| System | System Forecast (billion gtk) | Actual (billion gtk) | Variance (billion gtk) |
|------------|----------------------------------|-------------------------|---------------------------|
| Blackwater | 31.115 | 29.162 | 1.953 (6%) |
| Goonyella | 37.465 | 29.321 | 8.144 (22%) |
| Moura | 4.069 | 3.019 | 1.051 (26%) |
| Newlands | 3.719 | 3.453 | 0.265 (7%) |

The actual gtks were negatively impacted by a number of events during 2008/09, the most significant being the Global Financial Crisis (GFC) and subsequent softening of world demand for coal, particularly in the second and third quarters. The failure of each system to meet their respective System Forecast triggered significant Take or Pay amounts for both UT1 and UT2 Access Agreements.

2. Revenue Adjustment Amounts

2.1 Introduction

Clause 3B.1 states that:

After the end of each Year, QR Network will calculate the following amounts (each a "Revenue Adjustment Amount") for each relevant Individual Coal System Infrastructure:

- (a) *an "AT₂₋₄ Revenue Adjustment Amount", by subtracting the System Allowable Revenue for AT₂₋₄ from the Total Actual Revenue for AT₂₋₄ for the relevant Individual Coal System Infrastructure for that Year; and*
- (b) *an "AT₅ Revenue Adjustment Amount", by subtracting the System Allowable Revenue for AT₅ from the Total Actual Revenue for AT₅ for the relevant Individual Coal System Infrastructure for that Year.*

For the avoidance of doubt, a Revenue Adjustment Amount calculated under this Clause 3B.1 may be a negative or a positive number.

2.2 System Allowable Revenue

Clause 5.1 of Part A defines System Allowable Revenue as:

- (i) *for AT₂₋₄ in relation to an Individual Coal System Infrastructure, the total revenue from AT₂₋₄ arising from all Access Agreements in relation to that Individual Coal System Infrastructure that QR Network is entitled to earn over the relevant Year, as specified in Clauses 5.4, 6.4, 7.5 and 8.5 of Part B (as amended from time to time); and*
- (ii) *for the AT₅ component of Access Charges for either the Blackwater System or the Goonyella System, the total revenue from the AT₅ component of Access Charges arising from all Access Agreements in relation to that Individual Coal System Infrastructure that QR Network is entitled to earn over the relevant Year, as specified in Clauses 5.4 and 6.4 of Part B (as amended from time to time),*

less

(iii) for:

- paragraph (i) of this definition any revenue from AT₂₋₄; or
- paragraph (ii) of this definition any revenue from the AT₅ component of Access Charges,

that (subject to Subclauses 3.3.7A to 3.3.7C) the QCA reasonably determines that QR Network would have otherwise been entitled to earn under all Access Agreements in relation to that Individual Coal System Infrastructure during the relevant Year, but which QR Network was not entitled to earn due to its own breach of an Access Agreement or negligence in the provision of Below Rail Services, provided that if that breach or negligence resulted in the non-provision of less than 10% of the total number of Train Services scheduled under an affected Access Agreement for any month during the relevant Year then no deduction will be made for revenue that QR Network was not entitled to earn under that Access Agreement in connection with that breach or negligence.

With respect to sub-paragraphs (i) and (ii), System Allowable Revenues for AT₂₋₄ (all CQCR systems) and AT₅ (Blackwater and Goonyella only) for 2008/09 are provided in the table below. In this regard, QR Network confirms that other than for Goonyella the System Allowable Revenues below are per the 2007 submission and not the Systems Allowable Revenues per the 2008 Undertaking.

| System | Schedule F Clause | AT ₂₋₄ \$ | AT ₅ \$ |
|------------|-------------------|-------------------------|-----------------------|
| Blackwater | 5.4 | 170,213,406 | 37,718,636 |
| Goonyella | 6.4 | 140,408,721 | 44,538,214 |
| Moura | 7.5 | 40,521,069 | n/a |
| Newlands | 8.5 | 33,242,707 | n/a |

Consistent with the Minerva DAU in the 2008 submission, the Lake Vermont DAU proposes an adjustment to the System Allowable Revenue for Goonyella of \$2.0 million.

With respect to sub-paragraph (iii), QR Network is currently not aware of any events which give rise to a deduction to System Allowable Revenue for breach of an Access Agreement or negligence by QR Network.

2.3 Total Actual Revenue

2.3.1 Introduction

Clause 5.1 of Part A defines Total Actual Revenue as:

- (i) *for AT₂₋₄ in relation to an Individual Coal System Infrastructure, the total revenue from AT₂₋₄ (including the amount of any Take or Pay amounts, Relinquishment Fees and transfer fees under Subclause 7.4.4 of the Undertaking which QR Network is entitled to be paid but, for the avoidance of doubt, less the amount of any reductions of those amounts in accordance with the Undertaking, and with the revenue from the AT₂ component calculated to reflect any variations made pursuant to clause 4 of Part A) arising from all Access Agreements in relation to that Individual Coal System Infrastructure that QR Network has actually earned over the relevant Year (whether or not actually collected by QR Network); and*
- (ii) *for the AT₅ component of Access Charges for each of the Blackwater System or the Goonyella System, the total revenue from the AT₅ component of Access Charges arising from all Access Agreements in relation to that Individual Coal System Infrastructure that QR Network has actually earned over the relevant Year (whether or not actually collected by QR Network),*

provided that:

- (iii) *in calculating the Take or Pay amounts, Relinquishment Fees and transfer fees under Subclause 7.4.4 of the Undertaking which QR Network is entitled to be paid for the purposes of determining the Total Actual Revenue for AT₂₋₄ under paragraph (i), QR Network is deemed to have contracted on the terms of the relevant Standard Access Agreement (as defined under the Undertaking, the 2005 Undertaking or the 2001 Undertaking, as applicable) that applied on the date of execution or renewal of an Access Agreement except for:*

- *those Access Agreements which have been altered from that form in accordance with the terms of the Undertaking, the 2005 Undertaking or the 2001 Undertaking (as applicable) which applied on that date, for which QR Network's entitlement will be calculated to reflect the terms of such Access Agreements;*
- *a New Access Agreement to the extent entered into as part of transferring Access Rights from an Old Access Agreement executed under or prior to the 2001 Undertaking, pursuant to Paragraph 7.4.4(f) of the Undertaking, which has not been renewed after 30 June 2006, for which QR Network's entitlement to Take or Pay amounts and Relinquishment Fees will be calculated on the basis that QR Network has contracted on the terms of:*
 - (A) for an Old Access Agreement executed under the 2001 Undertaking, the relevant Standard Access Agreement (as defined under the 2001 Undertaking) that applied on the date of execution of that Old Access Agreement; or*
 - (B) for an Old Access Agreement executed prior to the 2001 Undertaking, the terms of that Old Access Agreement; and*
- *for the avoidance of doubt, an Access Agreement executed prior to the 2001 Undertaking, for which QR Network's entitlement will be calculated to reflect the terms of that Access Agreement.*

With respect to Subparagraphs (i) and (ii), Total Actual Revenues for AT₂₋₄ (all CQCR systems) and AT₅ (Blackwater and Goonyella only) for 2008/09 have been determined in accordance with the following methodology:

- Revenue amounts from each of the AT₂₋₄ and AT₅ Reference Tariff components have been extracted from QR Network's billing model (refer Section 2.3.2). The model contains the amounts invoiced in accordance with QR Network's Access Agreements with QRNational Coal (as discussed further below, amounts invoiced for Train Services operated by Pacific National Pty Ltd (PN) were determined separately).
- Adjustments have then been made for non-system specific Train Services operating across the Goonyella and Blackwater systems for which re-allocations of Total Actual Revenue are required (refer Section 2.3.3).

2.3.2 Revenue per QR Network's billing system

The revenue amounts per QR Network's billing model are summarised in the table below for 2008/09.

| System | AT ₂₋₄ \$ | AT ₅ \$ |
|------------|-------------------------|-----------------------|
| Blackwater | 153,835,608 | 22,348,646 |
| Goonyella | 112,152,422 | 35,506,697 |
| Moura | 30,631,795 | n/a |
| Newlands | 29,592,665 | n/a |

QR Network confirms that billing revenue for AT₂ on the Blackwater system includes the capacity multiplier earned in accordance with Clause 4 of Part A.

A copy of the billing model has been provided to the QCA concurrently with this submission.

2.3.3 Adjustments for non-specific Train Services

The 2008 Undertaking allocates coal carrying Train Services in the CQCR between four (4) systems - Newlands, Goonyella, Blackwater and Moura.

Reference Tariffs developed for these systems assume that Train Services operate specifically within a system. However, it is possible that Train Services operate non-specifically, either between systems or partly on non-system infrastructure.

In this regard, a number of non-specific Train Services operated during the 2008/09 year. Access Charges for these Train Services had negotiated outside the existing Reference Tariff structure. The Train Services operated:

- From the Minerva mine to the Port of Gladstone via the Blackwater system. These Train Services operated throughout the 2008/09 year.
- From the Lake Vermont mine in the Goonyella system to the Port of Gladstone via the Blackwater System. This Train Service operated from January to June 2009.

- From the Moorvale and Coppabella mines in the Goonyella system to APCT in the Newlands system via the North Coast Line (NCL). These Train Services operated from July to December 2008.
- From the Carborough Downs mine in the Goonyella system to Gladstone via the Blackwater system. This Train Service operated during October and November 2008 and February and March 2009.

For Minerva, a re-allocation of Access Charge revenue to the AT₂₋₄ Reference Tariff components for Blackwater is required as the revenue was recorded as AT₁ for the Blackwater system. The revenue has been re-allocated in accordance with the Minerva DAU approved by the QCA.

For Moorvale, Coppabella and Carborough Downs, a re-allocation of Access Charges to the AT₂₋₄ Reference Tariff components for Goonyella, Blackwater and/or Newlands is required as the revenue was recorded as AT₁ for the Blackwater system (for Carborough Downs) or the Newlands system (for Moorvale and Coppabella). Revenues have been re-allocated in accordance with the 2008 submission.

For Lake Vermont, an interim Access Charge in the same structure as Reference Tariffs (AT₂₋₄ and AT₅) was negotiated pending the QCA's approval of the Lake Vermont DAU. In QR Network's billing system this revenue was attributed to the Blackwater system, and hence some re-allocation is required to the Goonyella system.

In addition, a number of coal carrying Train Services operated pursuant to a 'test train' agreement between QR Network and PN. A re-allocation of Access Charge revenue from this agreement to the Blackwater and Goonyella systems has also been made.

Detailed calculations supporting allocations for the Train Services are contained in financial models provided to the QCA concurrently with this submission. The methodologies for each of the re-allocations are summarised below.

Minerva mine

As indicated in the 2007 and 2008 submissions, revenue for this Train Service was earned at a rate per GTK negotiated prior to 29 June 2007. This revenue was

reflected in QR Network's billing system only as AT₁ notwithstanding that the amount recovered exceeded the long run incremental cost of providing access. The notional AT₂₋₄ components of this revenue were not reflected in the billing model.

The Revenue Adjustment Amount for AT₂₋₄ for Blackwater has been adjusted consistent with the 2008 submission and the Minerva DAU approved by the QCA .

No adjustment is required to Total Actual Revenue for AT₅ for this Train Service as it was diesel hauled.

Lake Vermont mine

As indicated above, revenue for these Train Services was earned pursuant to an interim Access Charge.

As this submission has been prepared on the basis that the proposed Reference Tariff in the Lake Vermont DAU is approved an adjustment has been made to the Total Actual Revenue for AT₂₋₄ to reflect the revenue that QR Network would be entitled to collect from that Reference Tariff. This has resulted in a net reduction of Total Actual Revenue for the CQCR of \$1.2 million. Consistent with the DAU, the minimum CCC has then been allocated to the Blackwater system with the balance of revenue allocated to the Goonyella system.

No adjustment has been made to Total Actual Revenue for AT₅ for this Train Service. Whilst the Train Service operated for most of the 2008/09 year as a diesel hauled service, only a small number of services were electrically hauled in June 2009. Given the small amount of AT₅ revenue in the Blackwater system (around \$10,000), it has been assumed that the amount did not exceed the minimum CCC for Blackwater and that accordingly no re-allocation is required.

Moorvale and Coppabella mines

As per the 2008 submission, revenue for these diesel Train Services was earned at a rate per GTK ('000) reflecting arrangements for APCT-bound traffics negotiated prior to 29 June 2007. All revenue was reflected in the billing model as AT₁ for Newlands.

The Total Actual Revenues for AT₂₋₄ for Goonyella and Newlands have been adjusted consistent with the 2008 submission.

The total value of the adjustment to Total Actual Revenue for Goonyella and Newlands for AT₂₋₄ for these Train Services is \$0.6 million and \$0.2 million respectively. No adjustment is required to Total Actual Revenue for AT₅ for these Train Services as they were diesel hauled.

Carborough Downs mine

As per the 2008 submission, revenue for these electric Train Services from the Goonyella system to Gladstone was earned at a rate per GTK and is reflected in the billing model as AT₁ for Blackwater.

The Total Actual Revenues for AT₂₋₄ and AT₅ for Goonyella and Blackwater have been adjusted consistent with the 2008 submission.

The total value of the adjustment to Total Actual Revenue for the Train Services is \$0.5 million for AT₂₋₄ and \$0.3 million for AT₅ for Blackwater and \$0.2 million for AT₂₋₄ and \$0.1 million for AT₅ for Goonyella.

Test Train Services

During the year revenue was received from PN for test Train Services operated in the Goonyella and Blackwater systems. Revenue was earned pursuant to an Access Charge in the agreement between QR Network and PN for these services which comprised only the AT₁ and AT₂ tariff components. The revenue was determined separately from QR Network's billing model provided as part of this submission.

QR Network notes that some of the test Train Services operated by PN may have met the definition of a "coal-carrying Train Service" given that as part of the testing they carried coal (albeit with varying operating restrictions). QR Network confirms that for these services the 2-part tariff was modified to equate to the Access Charge QR Network would have earned under the Standard Access Agreement.

Clause 3.5.1 requires that unless written advice from the QCA is received, QR Network must calculate all Access Charges used for coal-carrying Train Services in

the CQCR by reference to the relevant Reference Tariff (being the 6-part tariff). Accordingly and for the purposes of this revenue cap submission, QR Network has included in Total Actual Revenues for AT₂₋₄ and AT₅ for the Goonyella and Blackwater systems the revenue which QR Network would have been entitled to earn pursuant to the Standard Access Agreement.

The total value of this adjustment is \$1.3 million for AT₂₋₄ for Goonyella and \$0.2 million for AT₂₋₄ for Blackwater.

2.3.4 Adjustments for Take or Pay, Relinquishment Fees and transfer fees

With respect to Sub-paragraph (iii), an adjustment for Take or Pay, Relinquishment Fees and transfer fees QR Network is entitled to earn for the 2008/09 year has been made in accordance with the methodology below.

Pre-UT1 Take or Pay

For Take or Pay amounts on Access Agreements executed prior to UT1 (also known as 'grandfathered' Train Services), QR Network confirms it was not entitled to earn any Take or Pay amount.

UT1 and UT2 Take or Pay - CQCR

UT1 and UT2 Take or Pay amounts for Train Services within the CQCR have been determined in accordance with the methodology set out in the 2008 submission. A copy of the Take or Pay model for these Train Services has been provided to the QCA concurrently with this submission.

The following comments are made with respect to the determination of these Take or Pay amounts:

1. Adjustment to UT1 Take or Pay

As discussed in further detail below, Subclause 2.2.6 relates to the capping of UT2 Take or Pay which is consistent with the relevant Standard Access Agreement approved by the QCA.

Neither the 2008 Undertaking nor the Standard Access Agreement contemplates the capping of UT1 Take or Pay amounts. QR's February 2006 submission proposed not to cap UT1 Take or Pay amounts on the basis that the likelihood of material liabilities being incurred by Access Holders was remote, due to both the low proportion paid relative to the Access Charge and the significant gap between actual and contracted tonnages which would be required to trigger a material payment. This proposal was supported by industry stakeholders and approved by the QCA.

Such a situation could arise where the system test is met, actual tonnages are significantly below contracted tonnages and the proportion of UT1 contracted tonnages (relative to grandfathered and UT2 tonnages) is high. Partly due to the impact of the GFC, this circumstance has arisen on the Blackwater system such that the aggregate amount of UT1 Take or Pay exceeds the under-recovery by \$6.1 million (\$7.2 million including cost of capital adjustment).

QRNational Coal, as Access Holder for the UT1 Take or Pay amounts, has approached QR Network with a request to reduce the Take or Pay to the extent of the over-recovery in the Blackwater system (i.e. to cap the UT1 Take or Pay), on the basis that QR Network was not entitled to earn these amounts.

Following discussions between QRNational Coal and QR Network:

- QR Network collected from QRNational Coal the UT1 Take or Pay amounts sought, pending a decision by the QCA on whether QR Network was entitled to earn the Take or Pay amounts in accordance with the 2008 Undertaking. The amount of UT1 Take or Pay collected is reflected in the Take or Pay model provided to the QCA concurrently with this submission.
- QRNational Coal indicated that it would write separately to the QCA on this issue following the QCA's publication of this submission.
- QR Network undertook to refund to QRNational Coal any UT1 Take or Pay amounts that the QCA determines that QR Network was not entitled to earn.

On the Goonyella, Newlands and Moura systems the UT1 Take or Pay amounts are not sufficient to result in an over-recovery prior to considering the UT2 Take or Pay amounts.

2. Adjustment to UT2 Take or Pay

Subclause 2.2.6 requires that in determining the UT2 Take or Pay amounts, QR Network will calculate the following for each system:

- (i) The amount of the under-recovery inclusive of:
 - o The aggregate amount of Take or Pay arising from grandfathered and UT1 Access Agreements (if any);
 - o Any Relinquishment Fees and transfer fees; and
 - o Any reductions related to the fee types in (b) above; and
- (ii) The aggregate amount of Take or Pay arising from UT2 Access Agreements.

QR Network confirms that on the Blackwater system the amount under (i) represents an over-recovery of revenue. Accordingly, no UT2 Take or Pay amounts were earned for this system. No proportional reductions of UT2 Take or Pay amounts were required in respect of the Goonyella, Moura and Newlands systems.

Take or Pay - Coppabella and Moorvale to APCT

During the 2008/09 year QR Network was entitled to earn revenue under the Take or Pay conditions of the Access Agreement for Train Services between Coppabella and Moorvale and APCT. As per the allocation of AT₂₋₄ revenue, the Take or Pay on these Train Services are required to be allocated to the Goonyella and Newlands system and the NCL. As the capacity constraint for these Train Services was on the NCL, the methodology for determining Take or Pay was consistent with Access Agreements for other Train Services utilising the NCL.

Take or Pay amounts have been allocated between the systems in proportion to the allocation of AT₂₋₄ revenue.

The total value of the adjustment to Total Actual Revenue for the Coppabella and Moorvale Take or Pay is \$0.9 million for AT₂₋₄ for Goonyella and \$0.2 million for AT₂₋₄ and for Newlands.

A copy of the Take or Pay model for these Train Services has been provided to the QCA concurrently with this submission.

Relinquishment Fees and transfer fees

QR Network confirms that during 2008/09 no Access Rights were amended which entitled QR Network to earn revenue from Relinquishment Fees or Transfer Fees.

2.3.5 Total Actual Revenues

In view of the above, Total Actual Revenues for AT₂₋₄ and AT₅ for each system for 2008/09 are provided in the table below. A reconciliation of the amounts and total adjustments in this section to Total Actual Revenues is summarised at Attachment A, with full details provided in QR Network's financial model which is provided to the QCA concurrently with this submission.

| System | AT ₂₋₄ \$ | AT ₅ \$ |
|------------|-------------------------|-----------------------|
| Blackwater | 176,318,761 | 22,639,632 |
| Goonyella | 134,611,676 | 35,562,709 |
| Moura | 38,836,405 | n/a |
| Newlands | 30,924,072 | n/a |

2.4 Revenue Adjustment Amounts for 2008/09

In view of the above, the Revenue Adjustment Amounts for AT₂₋₄ and AT₅ for each system, calculated in accordance with Clause 3B.1, are summarised below.

| System | AT ₂₋₄ \$ | AT ₅ \$ |
|------------|-------------------------|-----------------------|
| Blackwater | 6,105,355 | (15,079,004) |
| Goonyella | (5,797,045) | (8,975,505) |
| Moura | (1,684,664) | n/a |
| Newlands | (2,318,635) | n/a |

More information on the calculation of each Revenue Adjustment Amount is provided at Attachment A, with full details provided in QR Network's financial model which is provided to the QCA concurrently with this submission.

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3. Increment

3.1 Introduction

Clause 3B.2.1 states that:

The Increment is calculated as follows for each relevant Individual Coal System Infrastructure:

- (a) *where the Total Actual Revenue for AT_{2-4} is less than or equal to the System Allowable Revenue for AT_{2-4} for the relevant Individual Coal System Infrastructure, the Increment equals zero (0);*
- (b) *subject to Paragraph 3B.2.1(c), where:*
 - (i) *the Total Actual Revenue for AT_{2-4} is greater than the System Allowable Revenue for AT_{2-4} for the relevant Individual Coal System Infrastructure;*
 - (ii) *QR Network is required by Subclause 3B.3.3 of Part B to submit a variation of relevant Reference Tariffs to the QCA; and*
 - (iii) *the QCA, when considering that variation, is reasonably satisfied that the difference between the Total Actual Revenue for AT_{2-4} and the System Allowable Revenue for AT_{2-4} for the relevant Individual Coal System Infrastructure ("Difference") has, in whole or part, arisen as a direct result of whole of coal chain activities or initiatives of QR Network (or its contractors) which have increased the efficiency of the Below Rail network,*

the Increment equals that proportion of the Difference, as determined by the QCA taking into account the extent to which the Difference has in whole or part arisen as a direct result of the whole of coal chain activities or initiatives of QR Network (or its contractors).
- (c) *In no circumstance will the Increment exceed an amount equal to two percentage points (2%) of the System Allowable Revenue for AT_{2-4} .*

3.2 Increment for 2007/08

As indicated at Section 2.4, the Revenue Adjustment Amount for AT₂₋₄ is negative for the Goonyella, Moura and Newlands systems i.e. Total Actual Revenue has failed to exceed System Allowable Revenue.

In addition, QR Network notes that whilst the Revenue Adjustment Amount for AT₂₋₄ is positive for the Blackwater system, this over-recovery is attributable to the UT1 Take or Pay issue discussed at Section 2.3.4 above.

Accordingly, no Increment will be sought for the 2008/09 year (i.e. in accordance with Sub-paragraph (a) the Increment equals zero (0)).

4. Revenue Adjustment

4.1 Introduction

Subclause 3B.3.1 states that:

Where a Revenue Adjustment Amount has been calculated under Clause 3B.1 of Part B the equivalent System Allowable Revenue to that used in the calculation of that Revenue Adjustment Amount for the relevant Individual Coal System Infrastructure for the Year after the Year in which that Revenue Adjustment Amount was calculated ("2nd Year System Allowable Revenue") will be adjusted in accordance with this Clause 3B.3.

Subclause 3B.3.2 states that:

A 2nd Year System Allowable Revenue shall be adjusted as follows:

- (a) for an AT_{2-4} Revenue Adjustment Amount, by subtracting from the relevant 2nd Year System Allowable Revenue:
 - (i) that AT_{2-4} Revenue Adjustment Amount less the amount of the relevant Increment; and*
 - (ii) a return on capital amount, calculated by reference to the Discount Rate as applied to the amount in Subparagraph 3B.3.2(a)(i) over the period starting on the first day of the Year in which the Revenue Adjustment Amount is calculated and ending on the last day of the Year following that Year;**
- (b) for an AT_5 Revenue Adjustment Amount, by subtracting from the relevant 2nd Year System Allowable Revenue:
 - (i) that AT_5 Revenue Adjustment Amount; and*
 - (ii) a return on capital amount, calculated by reference to the Discount Rate as applied to the amount in Subparagraph 3B.3.2(b)(i) over the period starting on the first day of the Year in which the Revenue Adjustment Amount is calculated and ending on the last day of the Year following that Year.**

Subclause 3B.3.3 states that:

Where a 2nd Year System Allowable Revenue is adjusted under this Clause 3B.3, QR Network shall submit a variation of the relevant Reference Tariffs to the QCA with the object of recovering from or returning to Access Holders, as the case may be, the amount of the adjustment during the relevant Year using the modeling parameters and assumptions used to determine Reference Tariffs for the relevant Year.”

4.2 Revenue Adjustment for 2007/08

In view of the above, the variations to the System Allowable Revenues for AT₂₋₄ and AT₅ for the 2009/10 year have been determined by summing the following:

- The Revenue Adjustment Amounts for each Reference Tariff component for each system (refer Section 2.4); and
- A return on capital amount, represented by QR Network’s weighted average cost of capital compounded annually for two (2) years.

More information on these variations is provided at Attachment A. Full details of the variations are provided in QR Network’s financial model which is provided to the QCA concurrently with this submission.

Accordingly, the amounts of the variations (increases) to the System Allowable Revenues for 2009/10 are as follows:

| System | AT ₂₋₄ \$ | AT ₅ \$ |
|------------|-------------------------|-----------------------|
| Blackwater | 7,177,642 | (17,727,338) |
| Goonyella | (6,815,183) | (10,551,878) |
| Moura | (1,980,543) | n/a |
| Newlands | (2,725,858) | n/a |

The total amount of the variations is \$32.6 million, comprising \$4.3 million for AT₂₋₄ and \$28.3 million for AT₅.

4.3 New System Allowable Revenues and Reference Tariffs for 2009/10

In accordance with Subclause 3B.3.1, the variation for AT₂₋₄ will be applied on an equal basis against the AT₃ and AT₄ Reference Tariff components for each system for 2010/11 using the modelling parameters and assumptions used to determine the Reference Tariffs for the year.

As indicated at Section 1.2 above, the Reference Tariffs to which the variation should be applied form part of the 2009 Undertaking which is yet to be approved by the QCA. In this regard, QR Network confirms that:

- QR Network has proposed Reference Tariffs for each system to be presented as a single schedule (subject to a selected number of variations for nominated Train Services). The effect of this proposal is that for Blackwater and Goonyella the variations for each system will be against that system's Reference Tariff rather than the Reference Tariff for each cluster.
- QR Network proposes no change to the structure of Reference Tariffs. Accordingly, the AT₁ and AT₂ Reference Tariff components will continue to be fixed – AT₁ will represent the incremental maintenance cost of providing access and AT₂ will represent the incremental capacity cost – and accordingly will not vary. In addition, the electric charge (EC) Reference Tariff component and the QCA Levy will not vary.
- As indicated above, the variation will represent a 50% allocation between each of the AT₃ and AT₄ Reference Tariff components.
- QR Network has proposed a single AT₅ Reference Tariff component for the Goonyella and Blackwater systems. Consistent with this, the variation for AT₅ will be applied against the AT₅ Reference Tariff component for both systems using the modelling parameters and assumptions used to determine Reference Tariffs for UT3. For these systems, the variation will represent a 100% allocation against AT₅.

In view of the above, QR Network recommends that:

- The QCA accepts QR Network's proposed variations to System Allowable Revenue, being the Revenue Adjustment Amounts set out in Section 4.2 above; and
- The Revenue Adjustment Amounts, once approved by the QCA, are reflected in the Reference Tariffs approved by the QCA for the 2009 Undertaking.

This recommendation is consistent with the 2008 submission. Consistent with Paragraph 3.3.8(c) and the 2008 submission, QR Network will advise Access Seekers and Access Holders of the QCA's approval of the Revenue Adjustment Amounts.

Attachment A
Summary
2008/09



Total Actual Revenue

| | Billing model AT2 - AT4 | Adjustments | | | | | | Total |
|------------|----------------------------|-------------|---------------------|---------------------|----------------|--------------------|--------------------|-------------|
| | | Minerva | Lake Vermont DAU | Non-specific DAU | Train Services | Take or Pay UT1 | Take or Pay UT2 | |
| Blackwater | 153,835,608 | 9,690,985 | (3,031,769) | 749,327 | 15,074,610 | | | 176,318,761 |
| Goonyella | 112,152,422 | | 1,801,595 | 2,127,249 | 16,237,249 | 1,439,163 | 853,998 | 134,611,676 |
| Moura | 30,631,795 | | | | 319,806 | 7,884,804 | | 38,836,405 |
| Newlands | 29,592,665 | | | 161,311 | | 933,291 | 236,805 | 30,924,072 |
| | 326,212,491 | 9,690,985 | (1,230,175) | 3,037,887 | 31,631,665 | 10,257,258 | 1,090,803 | 380,690,914 |
| | Billing model AT5 | | | | | | | Total |
| Blackwater | 22,348,646 | | | 290,986 | | | | 22,639,632 |
| Goonyella | 35,506,697 | | | 56,012 | | | | 35,562,709 |
| Moura | n/a | | | | | | | |
| Newlands | n/a | | | | | | | |
| | 57,855,343 | | | 346,998 | | | | 58,202,341 |

System Allowable Revenue

| AT2 - AT4 | |
|------------|-------------|
| Blackwater | 170,213,406 |
| Goonyella | 140,408,721 |
| Moura | 40,521,069 |
| Newlands | 33,242,707 |
| | 384,385,903 |
| AT5 | |
| Blackwater | 37,718,636 |
| Goonyella | 44,538,214 |
| Moura | |
| Newlands | |
| | 82,256,850 |

Revenue Adjustment Amounts

| Total (at 2008/09) | | Total (at 2010/11) | |
|--------------------|--------------|--------------------|--------------|
| | 6,105,355 | | 7,177,642 |
| | (5,797,045) | | (6,815,183) |
| | (1,684,664) | | (1,980,543) |
| | (2,318,635) | | (2,725,858) |
| | (3,694,989) | | (4,343,942) |
| Total (at 2007/08) | | Total (at 2009/10) | |
| | (15,079,004) | | (17,727,338) |
| | (8,975,505) | | (10,551,878) |
| | - | | - |
| | - | | - |
| | (24,054,509) | | (28,279,216) |

Total Revenue Adjustment Amount (for 2009/10)

(27,749,498) (32,623,159)