



23 November 2012

Mr John Hall

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

By Email: To: rail@qca.org.au

Dear Mr Hall,

Revenue Adjustment Amounts (2011/12 Revenue Cap)

I refer to the QCA's invitation to provide submissions regarding QR Network Pty Ltd's (QRN) Revenue Adjustment Amounts (2011/12 Revenue Cap) dated September 2012 (**Submission**). Vale Australia Pty Ltd (**Vale**) appreciates the opportunity to provide this submission as part of the consultation process to assist the QCA's assessment of Submission.

Capitalised terms in this letter have the meaning given in the 2010 Access Undertaking (**Undertaking**) unless otherwise defined.

Given the significant impact of weather events and weaker demand on actual railings during 2011-12, represented by an 18% shortfall of actual usage compared to forecast volumes across the Central Queensland Coal Region, the QCA's assessment of the accuracy of QR Network's revenue-cap applications will be particularly important. Vale notes that according to the Submission, this 18% volume shortfall resulted in a revenue deficit of around 2.0%, which highlights the significant role which take or pay is now playing in securing QR Network's regulated revenues. The fact that this 2.0% revenue deficit is fully recoverable by QR Network in 2013-14, meaning that QR Network ultimately suffers no loss from the extraordinary weather events and the weaker demand for coal, highlights the extent to which QR Network is insulated from the risks faced by its end customers.

Vale also notes the low risk QR Network has under section 3.2.3(d), of the Undertaking, due to a breach of an Access Agreement for Negligence. Under this section QR Network is only subject to a reduction of the revenue cap if it is unable to provide 10% or more of Train Services for any single origin-destination pair. Vale believes the risk of an event, or events, triggering this situation are very low which also demonstrates how low the risk is for QR Network to not achieve the full annual revenue cap amount each year.

Vale believes the above issues are important in any future risk versus return discussions in the development of the next undertaking.

In terms of the details of QR Network's Submission, given the current contractual arrangements between end-customers, above-rail operators (QR National and Pacific National) and QR Network, only the Authority and QR Network have access to the information required to prepare and assess this Submission. This includes the contracted paths within QR Network's Access Agreements (by individual train service), various commercial agreements (such as the Access Facilitation Deeds), and QR Network's financial models used to determine revenue adjustments.

In the absence of the above information, Vale is constrained in its ability to draw conclusions or make absolute recommendations regarding the Submission. As such, the process of independent verification by the QCA (which must include verification and consultation with individual coal companies) is critical to ensuring a thorough assessment by the QCA of QR Network's Submission.

Industry relies heavily on the QCA undertaking a thorough assessment of this Submission, and requests that the QCA maximises transparency, subject to substantiated confidentiality constraints in order to assist end-customers to confirm and understand the nature of the proposed revenue adjustment.

For further information regarding this submission please contact myself on (07) 3136 0911.

Yours sincerely,



Bob Skuza
General Manager Logistics
Vale Australia Pty Ltd