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QLD COMPETITION AUTHORITY

30 SEP 2011

DATE RECEIVED

Mr. John Hall
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear John,

2010/11 Revenue Cap

In accordance with Clause 3.2.6, Part B of Schedule F of QR Network's 2010 Access Undertaking, please find attached a submission concerning proposed Revenue Adjustment Amounts for the 2010/11 year.

Calculations of the Revenue Adjustment Amounts are in accordance with Clauses 3.2 and 3.3 of Part B. If approved by the QCA, the Revenue Adjustment amounts will be applied in the determination of Reference Tariffs for the 2012/13 year.

The submission explains the relevant components of the calculations and provides both an attachment and supporting financial models. The submission document and Attachment A (but not Attachments B and C and the financial models) are presented in a manner which are suitable for publication, should the QCA choose to do so, in accordance with Clause 3.2.10.

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

Regards,



Michael Carter
Chief Executive Officer
QR Network Pty Ltd

29 September 2011



QR Network Access Undertaking (2010)

Revenue Adjustment Amounts
(2010/11 Revenue Cap)
September 2011

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Attachments

Provided concurrently with submission (for publication)

- A. Revenue Adjustment Amounts – summary sheet

Provided concurrently with submission (not for publication)

- B. Explanatory document regarding Take or Pay methodology
- C. Report by Synergies Economic Consulting
- Models supporting various adjustments to Total Actual Revenues, including Adjustment Charge and rebate models
- Models supporting various adjustments to System Allowable Revenues, including MCI and CPI models
- Take or Pay model, together with worksheet showing the impact on Take or Pay amounts of various capping approaches

1. Introduction

1.1 Background

Schedule F of QR Network's 2010 Access Undertaking (the 2010 Undertaking) sets out the form of regulation to apply to coal-carrying Train Services on the Central Queensland Coal Region (CQCR).

The 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. The 2007 submission was approved by the QCA on 24 March 2008, and the Reference Tariff variation contained therein was implemented on 1 July 2008 for the 2008/09 year.

The 2007/08 revenue cap submission (the 2008 submission) was submitted to the QCA on 31 October 2008 and approved on 20 February 2009. The Revenue Adjustment Amounts contained in the 2008 submission were reflected in Reference Tariffs contained in the Draft Amending Access Undertaking for the 2008 QR Network Access Undertaking approved by the QCA on 30 June 2010, with the Reference Tariffs being backdated to 1 July 2009 for the 2009/10 year.

The 2008/09 revenue cap submission (the 2009 submission) was submitted to the QCA on 28 August 2009 and approved on 20 November 2009. The Reference Tariffs for the 2009/10 and 2010/11 years, incorporating both the 2007/08 and 2008/09 Revenue Adjustment Amounts, were reflected in the 2010 Undertaking approved by the QCA in October 2010.

The 2009/10 revenue cap submission (the 2010 submission) was submitted to the QCA on 29 November 2010 and approved on 21 April 2011. The Revenue Adjustment Amounts contained in the 2010 submission were reflected in Reference Tariffs approved by the QCA in June 2011 and implemented on 1 July 2010 for the 2011/12 year.

1.2 Form of submission

Clause 3.2.1 requires that the following matters be addressed by QR Network, for each relevant Individual Coal System Infrastructure:

- Calculation of an AT₂₋₄ Revenue Adjustment Amount;
- Calculation of an AT₅ Revenue Adjustment Amount; and
- An Increment.

This submission details the methodology, data and assumptions used to determine the Revenue Adjustment Amounts and the Increments. The Revenue Adjustment Amounts cover the AT₂₋₄ Reference Tariff components for the Blackwater, Goonyella, Moura and Newlands systems, and the AT₅ and EC Reference Tariff components for the Blackwater and Goonyella systems, for the 2010/11 year.

This submission sets out a step-by-step explanation of the relevant components of the calculation of the Revenue Adjustment Amounts and Increments, consistent with Clause 3.2, as follows:

- Section 2 sets out the calculation of the Adjusted System Allowable Revenues for AT₂₋₄ and AT₅ in accordance with Clause 3.2.2.
- Section 3 sets out the calculation of the Revenue Adjustment Amounts, including Total Actual Revenues, for AT₂₋₄ and AT₅ in accordance with Clauses 3.2.1(a), 3.2.3, 3.2.4 and 3.2.5.
- Section 4 sets out the calculation of the Increments, in accordance with Clauses 3.2.1(b) and 3.3. In this regard, QR Network confirms that no Increment is being claimed for any CQCR system.

As per the 2010 submission, this submission does not set out the adjustments to 2nd Year System Allowable Revenue associated with the Revenue Adjustment Amounts, the Increments and a return on capital amount. A separate submission on these matters will be made to the QCA by 28 February 2012 for the 2012/13 year in accordance with Clauses 3.1 and 3.4 and following the QCA's approval of the Revenue Adjustment Amounts.

Attachment A provides a summary of output from QR National's financial models that were used to calculate the Revenue Adjustment Amounts for each system. This submission and Attachment A are presented in a format which is suitable for publication, should the QCA choose to do so, in accordance with Clause 3.2.10.

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

- QR Network's billing model;
- The Adjustment Charge model;
- The Take or Pay model and related worksheet;
- The rebate model; and
- The MCI and CPI model.

The models contain specific information on individual Train Services. QR National requests that consistent with previous submissions the models are not published. The model outputs are summarised in this submission.

QR National has also provided billing information in relation to electricity costs and connection services. This information is provided to support the relevant adjustments to System Allowable Revenue as discussed in Section 2. As per the 2010 submission, QR National confirms there are confidentiality provisions in the respective supply agreements and accordingly also requests that the information is not published.

In this submission:

- References to QR Network are to QR Network Pty Ltd, the provider of access services in accordance with the 2010 Undertaking;
- References to QR National are to QR National Network Services, which is lodging the 2011 submission on behalf of QR Network;
- References to UT1 are to the period covered by QR's 2001 Access 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 2010 Undertaking, including the pricing arrangements effective from 1 July 2009;
- Unless otherwise specified, all references to Clauses are references to the Clauses in Part B, Schedule F of the 2008 Undertaking; and
- Defined terms used in this submission have the meaning given in the 2008 Undertaking.

1.3 Summary

1.3.1 Basis of submission

This fifth revenue cap submission, being for the 2010/11 year, represents compliance with Clause 3.2.6 which requires QR Network to submit the Revenue Adjustment Amounts and Increments (if any) to the QCA by 30 September after the end of each Year of the Term of the 2010 Undertaking.

1.3.2 Revenue Adjustment Amounts

The combined total of the Revenue Adjustment Amounts for 2010/11 represents a net recovery from Access Holders of \$49.2 million, comprising a recovery of \$19.2 million for AT₂₋₄ and a recovery of \$30.0 million for AT₅. If approved, these Revenue Adjustment Amounts will result in a net upwards variation in Reference Tariffs for 2012/13.

As indicated above, no Increment is being claimed in respect of the 2010/11 year.

Recoveries from Access Holders have been calculated for Goonyella AT₅, Blackwater AT₂₋₄ and AT₅, and the Moura and Newlands systems (both AT₂₋₄), whereas in the Goonyella system a return to Access Holders for AT₂₋₄ has been calculated.

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

System	AT ₂₋₄ \$m	AT ₅ \$m	Total \$m
Blackwater	18.856	20.272	39.127
Goonyella	(2.585)*	9.680	7.095
Moura	0.282	n/a	0.282
Newlands	2.670	n/a	2.670
Total	19.224	29.951	49.175

* Note: return to Access Holders.

These amounts compare with Revenue Adjustment Amounts (which, for the 2007 to 2009 submissions, are inclusive of return on capital amounts) 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
2009	4.6	28.3	32.9
2010	(6.1)*	6.0	(0.1)*
2011	19.2	30.0	49.2

* Note: return to Access Holders.

1.3.3 Commentary

Revenue Adjustment Amounts are caused by actual throughput varying from the parameters underlying the regulatory forecasts (System Forecasts) which form a key parameter for the determination of Reference Tariffs.

Throughput on all systems fell significantly short of the relevant System Forecast. By comparison, total tonnages for the year totalled 164 million compared with the total of the System Forecasts of 207 million, a shortfall of around 20%. The shortfall in system gross-tonne-kilometres (gtks), on which the system Take or Pay 'trigger test' is based, was around 20%.

A summary of regulatory forecast tonnage throughput by system, compared with actual tonnages, is provided in the table below.

System	Forecast mt	Actual mt	Variance %
Blackwater	63.1	49.8	(21)
Goonyella	112.4	88.5	(21)
Moura	14.0	9.9	(29)
Newlands	17.5	15.8	(11)
Total	207.0	164.0	(21)

The primary driver of the shortfall was significantly above-average rainfall between November 2010 and February 2011, with the greatest impact being the rain event over the Christmas-New Year period which closed the Blackwater system for around 3 weeks (the Rolleston branch was closed for considerably longer). Unlike previous years, the rainfall not only affected rail operations – albeit for a relatively short time – but also coal availability as flooded mines were unable to resume loading coal despite the rail network being available.

In all systems other than Newlands the shortfall was sufficient to trigger the payment of Take or Pay amounts. In Newlands, the shortfall - adjusted for QR Network cause - was not sufficient to trigger Take or Pay.

Accordingly, all systems other than Goonyella recorded under-recoveries of the AT₂₋₄ Reference Tariff component and both Blackwater and Goonyella recorded under-recoveries of the AT₅ component). The significant difference in the AT₅ Revenue Adjustment amounts relative to AT₂₋₄ is explained by the fact that under the Standard Access Agreement Take or Pay amounts are not collected in respect of AT₅.

Take or Pay amounts have been calculated strictly in accordance with the Standard Access Agreement. During discussions with Access Holders on the application of the Standard Access Agreement, a number of issues arose regarding the interpretation of the relevant application of the UT1, UT2 and UT3 Access Agreements. These issues are discussed further at Section 3.

2. Adjusted System Allowable Revenues

2.1 Introduction

Clause 3.2.2 states that:

The Adjusted System Allowable Revenue for AT₂₋₄ or the AT₅ component of Access Charges is the sum of the following components of relevant System Allowable Revenue:

a) *the component relating to the recovery of QR Network's maintenance costs, adjusted to reflect:*

(i) *for the maintenance costs of maintaining branchlines for new loading facilities (that became operational after the Commencing Date), \$15,000.00 per kilometre of new Track comprised in those branchlines; and*

(ii) *for maintenance costs to which Clause 3.2.2(a)(i) does not apply, the difference between:*

A. *the actual MCI value less the approved X-Factor for the relevant Year; and*

B. *the forecast MCI value less the approved X-Factor that was used for the purpose of determining the Reference Tariffs for the relevant Year;*

b) *the components relating to the recovery of QR Network's:*

(i) *cost of electric energy for traction; and*

(ii) *costs associated with the connection of QR Network's electrical traction system to an electricity transmission or distribution network,*

adjusted to reflect the difference between:

(iii) *the actual costs for the relevant Year; and*

- (iv) *the forecast costs used for the purpose of determining the Reference Tariffs for the relevant Year;*
- c) *the component relating to the recovery of QR Network's operating costs, excluding those costs referred to in Clause 3.2.2(a), adjusted to reflect the difference between:*
 - (i) *the actual CPI value less the approved X-Factor for the relevant Year; and*
 - (ii) *the forecast CPI value less the approved X-Factor that was used for the purpose of determining the Reference Tariffs for the relevant Year; and*
- d) *all components excluding those costs referred to in Clause 3.2.2(a), (b) or (c).*

2.2 Maintenance Costs

2.2.1 Branchlines for new loading facilities

With respect to Clause 3.2.2(a)(i), QR Network confirms that no branchlines for new loading facilities were commissioned during the 2010/11 year.

2.2.2 Maintenance Cost Index (MCI)

With respect to Clause 3.2.2(a)(ii), QR National has calculated a net recovery from Access Holders of \$2.6 million for AT₂₋₄ and \$194,000 for AT₅. The methodology for determining the MCI adjustment is as per the 2010 submission and is re-produced below together with the parameters included as part of the 2010 submission.

The MCI is a weighted index composed of a number of separate indexes. The QCA approved the weightings in its Pricing Decision in June 2010, these are set out in the table below.

	Fuel	Accommodation	Consumables	Labour	Assets
Index Weights	3.2%	1.5%	34.9%	44.5%	15.9%

Each index of the MCI was forecast over the UT3 period using forecast indexes compiled by BIS Shrapnel. The approved forecast indexes are given in the table below.

	Fuel	Accommodation	Consumables	Labour	Assets	Weighted Index	Weighted Index – X-Factor
Jan-08	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Jul-10	98.6	95.2	99.7	116.8	101.2	107.4	105.6
Jul-11	101.2	97.6	100.5	121.9	102.4	110.3	107.7

At the end of the year each index of the MCI was updated to reflect actual price movements. The actual indexes were calculated and are provided below.

	Fuel	Accommodation	Consumables	Labour	Assets	Weighted Index	Weighted Index – X-Factor
Jan-08	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Jul-10	96.6	113.1	101.8	118.1	101.2	109.0	106.7
Jul-11	105.2	115.7	105.1	123.3	102.4	112.9	109.6

For the 2010/11 year, the actual MCI less the X-Factor is greater than the forecast MCI less the X-Factor. The difference can be explained by each component of the actual MCI rising more than each component of the forecast MCI.

In particular, the actual accommodation index rose substantially while the forecast index fell slightly below the January 2008 index. This rise was due to an incorrect calculation for the forecast accommodation index whereby the figure was derived by moving forward the 2005 index figure by the forecast Consumer Price Index (CPI) rather than the 2009 index figure. This did not have a significant impact on the overall weighted index, with accommodation's share of the weighting being only 1.5%. The most significant increase was in the consumables index which rose 4.6 index points against the forecast and which also has a high share of the weighting at 34.9%.

Applying the respective forecast and actual MCI-X to the maintenance costs approved by the QCA (in 2007/08 dollars) gives the results summarised in the table below.

	AT ₂₋₄ \$m	AT ₅ \$m	Total \$m
QCA Approved Maintenance Cost Allowance (\$2007/08)	137.530	10.098	147.627
QCA Approved Maintenance Cost Allowance 2010/11	148.127	10.876	159.003
Adjusted Maintenance Cost Allowance 2010/11	150.771	11.070	161.841
Net Recovery	2.645	0.194	2.839

In view of the above, the net recovery for each CQCR system is summarised in the table below.

System	AT ₂₋₄ \$m	AT ₅ \$m	Total \$m
Blackwater	1.025	0.084	1.110
Goonyella	1.223	0.110	1.333
Moura	0.215	n/a	0.214
Newlands	0.182	n/a	0.182
Total	2.645	0.194	2.839

2.3 Operating Costs Consumer Price Index (CPI)

With respect to Clause 3.2.2(c), QR National has calculated a net recovery from Access Holders of approximately \$863,000. The methodology for determining the CPI adjustment is set out below.

Forecast CPI figures for Brisbane over the UT3 period were taken from the mid-point of the Reserve Bank of Australia's forecast CPI band. The forecast CPI-X was used to move the QCA approved operating costs (in 2007/08 dollars) to derive the approved operating costs (in 2010/11 dollars). At the end of the year QR Network

derived the actual CPI-X figure which was used to move the QCA approved operating costs (in 2007/08 dollars) to derive an adjusted operating cost allowance.

The following table shows the actual versus forecast CPI-X values:

	Forecast CPI	Actual CPI	Forecast CPI-X	Actual CPI-X
Jul-08	100.0	100.0	100.0	100.0
Jul-09	102.0	102.0	102.0	102.0
Jul-10	104.5	105.3	103.9	104.5
Jul-11	106.4	109.3	105.8	107.5

*Note: X-factor only applied to the increase in CPI from July 2009.

Applying the respective forecast and actual CPI-X to the operating costs approved by the QCA (in 2007/08 dollars) gives the following results:

	AT ₂₋₄ \$m	AT ₅ \$m	Total \$m
QCA Approved Operating Cost Allowance (\$2007/08)	50.650	n/a	50.650
QCA Approved Operating Cost Allowance 2010/11	53.572	n/a	53.572
Adjusted Operating Cost Allowance 2010/11	54.435	n/a	54.435
Net Recovery	0.863	n/a	0.863

*Note: risk premium allowance is not subject to the X-factor.

In view of the above, the net recovery for each CQCR system is summarised in the table below.

System	AT ₂₋₄ \$m	AT ₅ \$m	Total \$m
Blackwater	0.357	n/a	0.357
Goonyella	0.369	n/a	0.369
Moura	0.068	n/a	0.068
Newlands	0.069	n/a	0.069
Total	0.863	n/a	0.863

2.4 Electric Energy (EC) and Connection Costs

With respect to Clause 3.2.2(b), QR National has calculated a net return to Access Holders for the Goonyella and Blackwater systems of \$5.2 million.

With respect to EC costs, the net return is \$1.1 million represented by the difference between:

- The amounts paid to ERM Power Pty Ltd (ERM) for the consumption of EC, per invoices raised by ERM; and
- The revenues for the 2010/11 year associated with the EC Reference Tariff components for Goonyella and Blackwater.

The costs have been adjusted for revenues collected from QR Passenger Pty Ltd from electric Tilt Train services on the North Coast Line (NCL) in the Blackwater system, for which the comparable costs are reflected in the amounts paid to ERM.

With respect to connection costs, the net return is \$4.0 million represented by the difference between:

- The amounts paid to Powerlink Pty Ltd (Powerlink) for the connection of QR National's electric infrastructure to the Powerlink network, per invoices raised by Powerlink.
- The connection cost allowances included in the calculation of the AT₅ Reference Tariff components for 2010/11.

QR National has assumed no contribution to connection costs from electric Tilt Train services. The total value of the EC revenues from the Tilt Train has been applied to the EC adjustment, given the application of the adjustments (i.e. all against AT₅) and hence there is no difference to the revenue cap calculations by splitting these revenues.

2.5 Adjusted System Allowable Revenues for 2010/11

In view of the above, the Adjusted System Allowable Revenues are summarised in the tables below for 2010/11.

AT₂₋₄

System	Per Schedule F \$m	Adjustments \$m	Adjusted \$m
Blackwater	212.956	1.383	214.339
Goonyella	235.730	1.592	237.322
Moura	42.820	0.282	43.102
Newlands	32.265	0.251	32.516
Total	523.770	3.508	527.278

AT₅

System	Per Schedule F \$m	Adjustments \$m	Adjusted \$m
Blackwater	84.450	(0.718)	83.732
Goonyella	79.895	(4.277)	75.618
Total	164.345	(4.995)	159.350

A reconciliation of the amounts and total adjustments in this section is also summarised at Attachment A.

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3. Revenue Adjustment Amounts

3.1 Introduction

3.1.1 Total Actual Revenue for AT_{2-4}

Clause 3.2.3(a) states that the Total Actual Revenue for AT_{2-4} is the sum of:

Total revenue from AT_{2-4} for coal carrying Train Services that operated on the Individual Coal System in the Year, calculated using:

- (i) *for a Train Service that is a Reference Train Service and is not a Cross System Train Service, the AT_2 , AT_3 and AT_4 components of the relevant Reference Tariff; or*
- (ii) *for a Train Service to which Clause 4.2 applies, that part of the AT_2 , AT_3 and AT_4 components of the relevant Reference Tariff relating to that Individual Coal System allocated in accordance with the method used in the calculation of the relevant System Allowable Revenue as set out in Clause 4.2(g);*
- (iii) *for a Train Service that varies from the Reference Train Service due to it not complying with:*
 - A. *Clause 1.3.1(f) of Part A, the AT_2 component of the Access Charge (where the Access Charge varies from the Reference Tariff in accordance with Clause 3.2 of Part A) and the AT_3 and AT_4 components of the relevant Reference Tariff; or*
 - B. *any other part of Clause 1.3 or 1.4 of Part A, other than Clause 1.3.1(f) of Part A (with which it complies), the AT_2 , AT_3 and AT_4 components of the relevant Reference Tariff; and*
- (iv) *for a Train Service for which Clause 4.3 applies, the amount of the AT_2 , AT_3 and AT_4 components of the relevant Access Charge, that QR Network has actually earned over the relevant Year (whether or not actually collected by QR Network)”*

In addition, Clauses 3.2.3(c) and (d) state that the Total Actual Revenue for AT_{2-4} should also include:

- (c) *the System Allowable Revenue for AT₂₋₄ in relation to the applicable Individual Coal System which is attributable to assets under an agreement described by Clause 6.5.2(d)(i) of the Undertaking for the payment of a rebate less any rebate which is paid under that agreement.*
- (d) *any revenue from AT₂₋₄ that QR Network would have been entitled to earn under an Access Agreement in relation to the individual Coal System Infrastructure during the relevant Year but for QR Network's breach of that Access Agreement or negligence in the provision of Below Rail Services to the extent that such events of breach or negligence resulted in the non-provision of 10% or more of the total number of Train Services for any single origin-destination pair during the relevant Year.*

3.1.2 Total Actual Revenue for AT₅

Clause 3.2.5 states that the Total Actual Revenue for AT₅ is the sum of:

- (a) *total revenue from the AT₅ component of Access Charges arising from all Access Agreements in relation to coal carrying Train Services for the Central Queensland Coal Region that QR Network has actually earned over the relevant Year (whether or not actually collected by QR Network), calculated using:*
 - (i) *for a Train Service for which Clause 4.3 applies, the amount of the AT₅ components of the relevant Access Charges; or*
 - (ii) *if paragraph (i) does not apply, the AT₅ component of the relevant Reference Tariff; and*
- (b) *the System Allowable Revenue for AT₅ in relation to Central Queensland Coal Region which is attributable to assets under an agreement described by Clause 6.5.2(d)(i) of the Undertaking for the payment of a rebate less any rebate which is paid under that agreement.*
- (c) *any revenue from AT₅ that QR Network would have been entitled to earn under an Access Agreement in relation to the individual Coal System Infrastructure during the relevant Year but for QR Network's breach of that Access Agreement or negligence in the provision of Below Rail Services to the extent that such events of breach or negligence resulted in the non-provision of 10% or more of the total number of Train Services for any single origin-destination pair during the relevant Year.*

3.2 Access Revenues

With respect to Clause 3.2.3(a), access revenues for 2010/11 are as per QR National's billing models and are summarised in the table below.

System	AT ₂₋₄ \$m	AT ₅ \$m
Blackwater	158.609	57.782
Goonyella	178.898	62.322
Moura	29.481	n/a
Newlands	29.085	n/a
Total	396.074	120.105

The access revenues above exclude Cross System Train Services, coal services operated by Access Holders other than QRNational Coal and Pacific National, and transfer fees. Adjustments for these services are summarised in Section 3.3 below.

3.3 Adjustment to Access Revenues

To determine the Total Actual Revenues for each Reference Tariff component in each system, the following Train Services are included:

- Train Services that are Reference Train Services, per Clauses 3.2.3(a)(i) and 3.2.5(a)(ii);
- Train Services that are Cross System Train Services, per Clauses 3.2.3(a)(ii) and 3.2.5(a)(ii);
- Train Services which vary from the Reference Train Service in accordance with Clause 3.2 of Part A, in that a capacity (diesel) multiplier has been applied, per Clause 3.2.3(a)(iii)(A); and
- Train Services for which Access Charges apply which are not Reference Tariffs, per Clause 3.2.3(a)(iv) and Clause 3.2.5(a)(i).

QR National confirms that there are no Train Services to which Clause 3.2.3(a)(iii)(B) applies, being for any other Train Services which vary from the Reference Train Service.

To reflect these requirements, the access revenues per the Adjustment Charge model have been adjusted for the following:

- With respect to Clauses 3.2.3(a)(iv) and 3.2.5(a)(i), coal carrying Train Services operated from the Newlands system to destinations along the NCL and Mount Isa systems pursuant to Access Agreements between QR Network and QR National's Bulk East division (formerly the Australian Railroad Group). For destinations in the Mount Isa system an agreement was negotiated prior to 29 June 2007, with access charge based upon an agreed rate per gtk. These Train Services have been recalculated by applying the Newlands Reference Tariff and the appropriate AT_{2-4} revenue has been included as an adjustment. For destinations along the NCL a new Access Agreement has been executed, with access charges from 1 July 2010 being based upon the Reference Tariff for Newlands and included in the Adjustment Charge model.

The value of these Train Services is around \$646,000.

- With respect to Clause 3.2.3(a)(ii), the following Cross System Train Services, for which revenues are allocated in accordance with the relevant principles in Schedule F:
 - From the Gregory mine in the Blackwater system to Hay Point Coal Terminal via the Goonyella system;
 - From the Kestrel mine in the Blackwater system to Dalrymple Bay Coal Terminal via the Goonyella system;
 - From the Blair Athol and Moorvale mines in the Goonyella system to Gladstone Power Station via the Blackwater system;
 - From the Lake Vermont mine in the Goonyella system to Gladstone via the Blackwater system.

As indicated in the 2009 and 2010 submissions, access revenues for these traffics (with the exception of Lake Vermont via Gladstone and Gregory via Goonyella) are based on a negotiated AT_1 tariff, and accordingly a contribution to common costs (AT_{2-4} and AT_5) has been determined and allocated to the relevant coal systems as per 3.2.3(a)(ii) which is in

accordance with the method used in the calculation of the relevant System Allowable Revenue as set out in Paragraph 4.2(g).

For the Lake Vermont and Gregory mines, access revenues are based on the nominated Reference Tariffs, with allocation between systems in accordance with Schedule F.

The value of these Train Services totals \$28.7 million, comprising \$20.1 million for AT₂₋₄ and \$8.6 million for AT₅.

Detailed calculations supporting adjustments for these Train Services are contained in financial models provided to the QCA concurrently with this submission.

3.4 Take or Pay, Relinquishment Fees and Transfer Fees

3.4.1 Take or Pay

Take or Pay amounts for Train Services within the CQCR have been determined in accordance with the relevant Standard Access Agreement.

A copy of the Take or Pay model for these Train Services is provided to the QCA concurrently with this submission. Key parameters contained in the model were shared with QR National Coal and Pacific National prior to the Take or Pay amounts being invoiced and their feedback was incorporated within the model. The key parameters included:

- Contract entitlements
- Actual services operated
- Cancellations due to QR Network cause
- Consist information
- Average 'cost' per path not operated

An explanatory document on the application of the Take or Pay model is provided at Attachment B.

As the Take or Pay model now includes haulage information on both operators it was not possible to share the model with them (Take or Pay amounts in the 2009 and prior submissions were reviewed by QR National Coal as the only operator in the CQCR at that time). Rather, the Take or Pay model has been independently reviewed by Synergies Economic Consulting (Synergies) for compliance with the 2001, 2008 and 2010 Undertakings and the UT1, UT2 and UT3 Standard Access Agreements.

A copy of Synergies' report is provided as Attachment C. The Synergies report was prepared on the basis of an interim review of the Take or Pay model as at 31 August 2011, subsequent changes have been made to the model (most notable for the capping issue referred to below) and have been provided to Synergies for final review. Synergies' report based on this model version will be provided to the QCA as soon as possible following this submission.

Both the explanatory document and Synergies' report contain information on specific entitlements between Access Holders and also between hauls. Accordingly, QR National requests that these Attachments are not published. Flowcharts setting out the summary application of Take or Pay to the UT1 and UT2 Standard Access Agreement have been provided as part of previous submissions (the UT3 methodology is the same as for UT2).

As indicated previously, Take or Pay was triggered in all systems except Newlands. UT2 caps were applied in the Moura system, whilst UT2 and UT3 caps were applied in the Goonyella system. No caps were applied in the Blackwater system. Further comments on the capping of UT2 and UT3 Take or Pay amounts in Goonyella are provided below.

The Take or Pay amount for Blackwater has been calculated net of a rebate applicable to a single haul which, under the relevant access facilitation arrangement, is applied only in the event that Take or Pay is triggered. Rebates for other mines (and also for the single haul) that are payable irrespective of whether Take or Pay is triggered have been determined separately, the calculation of the adjustment attributable to these variations is discussed further at Section 3.5 below.

The following comments are made with respect to issues raised during the calculation of these Take or Pay amounts:

Transfer of paths 'in excess' of entitlements

QR National confirms that consistent with past years:

- For the purposes of Annual Take or Pay, railings within a nominated month which were above the relevant monthly contract entitlement were included in the total actual number of services operated during the year; and
- For the purposes of Variable Take or Pay, railings within a nominated month which were above the relevant monthly contract entitlement were included in the total actual number of services operated during the relevant three (3) month period.

During discussions on the Take or Pay amounts, both operators requested consideration be given to the inclusion of additional railings for the purposes of mitigating Take or Pay amounts. These railings were either those in excess of the relevant annual contractual entitlement (origin/destination basis set out in Schedule 1 of the Standard Access Agreement) or 'ad hoc' hauls (i.e. hauls not set out in Schedule 1). The operators requested that these railings be transferred to other hauls with similarly located origins and/or destinations for which Take or Pay amounts had been calculated. The effect of this transfer would be to reduce the Take or Pay amount for the haul to which the railings had been transferred (with a corresponding increase in the relevant Revenue Adjustment Amount).

In all respects, QR National rejected these requests on the basis that:

- The Standard Access Agreement does not provide for the transfer of any entitlements for Take or Pay purposes, other than in accordance with the transfer provisions contained in the Access Agreement;
- Application of such a principle is inconsistent with the application of the Take or Pay model in past years; and
- QR National believes that the QCA would regard Take or Pay amounts on transferred excess entitlements as revenue it would be "entitled to earn", and

hence include the amounts within Total Actual Revenue whether or not QR National would have reached an agreement with operators for its exclusion.

Capping as between UT2 and UT3 contracts

For the first time, Access Agreements were executed post QCA approval of the 2010 Undertaking (i.e. they are UT3 hauls). Two hauls within those Access Agreements operated within the 2010/11 year.

Both the 2008 and 2010 Undertakings contain provisions for the capping of 'raw' UT2 and UT3 Take or Pay amounts in the event that Total Actual Revenues exceed System Allowable Revenues. QR National notes that whilst the principle associated with the capping is that any 'surplus' above System Allowable Revenues should be returned to Access Holders – this is enshrined in the 2008 and 2010 Undertakings and has not changed - the literal application of the Standard Access Agreements results in a differential application of the cap between UT2 and UT3 contracts.

Clause 5.2 of Schedule 3 of both the UT2 and UT3 Standard Access Agreements states that:

“For the purposes of the definitions of TR (Total Actual Revenue) and TATP (Total Actual Take or Pay), the amount of Take or Pay that QR (QR National) is entitled to earn will be calculated in accordance with Subclause 2.2.6, Part B, Schedule F of QR’s Access Undertaking as at the date of this Agreement.”

Both Standard Access Agreements confirm that the Take or Pay shall be calculated by reference to the Access Undertaking in force at the time the Access Agreement was executed.

QR National confirms that the capping mechanisms in the Standard Access Agreement differ between UT2 and UT3, in that:

- Total Actual Revenue is calculated for UT3 including variations in rebates due to volume; and
- UT2 Total Actual Revenue excludes variations in rebates.

The issue does not affect the capping in Blackwater as System Allowable Revenues exceed Total Actual Revenues inclusive of the rebate variations, however in Goonyella the capping has been applied as System Allowable Revenues exceeds Total Actual Revenues inclusive and exclusive of the rebate variations.

The Standard Access Agreements are clear with respect to the following:

- That the capping mechanism is different between UT2 and UT3; and
- Where there is any ambiguity between the application of the Standard Access Agreement and the Access Undertaking, the Standard Access Agreement takes precedence (effectively re-enforcing the differential treatment).

QR National also notes that the 2008 and 2010 Undertakings state that the Take or Pay QR National is “entitled to earn” must be based upon those Standard Access Agreements, and that the QCA is obliged to approve this submission provided it has been prepared in accordance with the relevant Undertaking.

However, QR National believes that the application of the cap to UT3 Take or Pay is not as clear from either the Standard Access Agreements or the 2008 and 2010 Undertakings. In particular, it is not clear how the rebate variations should be applied towards UT3 Take or Pay. QR National believes there are three possible interpretations:

1. To apply the variations sequentially, by determining the cap firstly on UT2 Take or Pay for UT2 agreements only, then secondly on UT3 Take or Pay for UT3 agreements only (on the basis that UT2 Take or Pay is included in Total Actual Revenue);
2. To apply the variations proportionately, by combining the UT2 and UT3 Take or Pay and applying the UT2 cap to both amounts, then applying the UT3 cap to the remaining UT3 amounts on a proportionate basis (on the basis that the balance of the variations should have been allocated to the UT2 amounts); and
3. To apply the proportionate approach above but with a slight variance, being to apply all the variation to the balance of UT3 Take or Pay after the UT2 cap has been applied to both amounts.

In this regard, QR National confirms that:

- In Goonyella, only one UT3 haul operated during 2010/11 (the other haul operated in Blackwater);
- The 'gross' value of UT3 Take or Pay associated with this haul is \$3.0 million; and
- The rebate variation adjustment for Goonyella is \$4.6 million.

QR National has applied the second approach. Under this approach, the gross value of UT2 and UT3 Take or Pay has been reduced by \$1.7 million, represented by a \$1.3 million allocation towards the UT2 and UT3 caps according to the UT2 methodology (\$1.2 million and \$0.1 million, respectively) and a \$0.5 million proportional allocation of the rebate variation towards the UT3 cap (slight difference due to rounding) according to the UT3 methodology. The allocation of the rebate variation is equivalent to 10% based on the value of UT3 Take or Pay as a proportion of the sum of UT2 and UT3 Take or Pay.

If the third approach had been followed, the UT3 Take or Pay amount would cap fully, reducing the amount payable by \$3.0 million to \$nil. Under this approach the Take or Pay QR National is entitled to earn would be reduced by \$2.4 million and the AT₂₋₄ Revenue Adjustment Amount for Goonyella would increase by the same amount.

If a sequential (i.e. first) approach had been applied, UT2 Take or Pay would not cap. Accordingly, the value of UT2 Take or Pay would increase (relative to the proportionate approach) by \$1.2 million. However, the value of the UT3 cap would be the full \$3 million associated with the single haul. The increase in UT2 Take or Pay under this approach is due to the fact that the UT2 Take or Pay alone is not sufficient to trigger the UT2 cap. Under this approach the Take or Pay QR National is entitled to earn would be reduced by \$1.2 million and the AT₂₋₄ Revenue Adjustment Amount for Goonyella would increase by the same amount.

QR National believes that it is appropriate to allocate the rebate variation in proportion to the value of UT2 and UT3 Take or Pay rather than sequentially (i.e. has adopted the 2nd approach). The decision to apply this treatment is based upon:

- The principle, in both the Standard Access Agreements and 2008 and 2010 Undertakings, of proportional allocation of Take or Pay across all Access Agreements other than UT1; and
- The significant incremental impact on UT3 Take or Pay amounts relative to UT2.

The effect of QR National's proposed approach is that the balance of the rebate variation adjustment (i.e. \$4.1 million) is effectively transferred back to all Access Holders (UT1, UT2 and UT3) through the revenue cap mechanism. To the extent that access charges pass through haulage contracts to end customers, the adjustment is then returned and shared across all customers (rather than just UT3 customers) subject to the 2 year lag..

Discussions with Access Holders

QR National has briefed the relevant Access Holders on these issues and invited them and their customers to provide their views to the QCA as part of its consultation process.

Consistent with previous submissions a copy of QR Network's Take or Pay model has been provided to the QCA concurrently with this submission. A worksheet showing the detailed calculations supporting the three approaches above has also been provided.

The total value of Take or Pay amounts invoiced to Access Holders is \$77.1 million and is summarised in the table below for each system.

System	\$m
Blackwater	19.957
Goonyella	43.804
Moura	13.339
Newlands	Nil
Total	77.100

QR National confirms that as at the date of this submission some of these amounts have been invoiced to, but not collected from, Access Holders. QR National undertakes to liaise with the QCA to the extent that the final amounts collected by QR National vary following agreement with those Access Holders following this submission, including any resulting adjustments to the Revenue Adjustment Amounts.

3.4.2 Relinquishment Fees and Transfer Fees

During the 2010/11 year, two transfers occurred, one in the Goonyella system and one in the Blackwater System, which entitled QR National to earn revenue from transfer fees of around \$72,000.

No relinquishment fees were charged during the 2010/11 year.

3.5 Rebates

Pursuant to Clauses 3.2.3(c) and 3.2.5(b), Total Actual Revenues may be adjusted for:

- The System Allowable Revenue for AT₂₋₄ and AT₅ in relation to applicable Individual Coal System assets under an Access Facilitation Deed (AFD), being agreements described by Clause 6.5.2(d)(i) of the Undertaking for the payment of a rebate; less
- Any rebates which are paid under that agreement.

In principle, the adjustment is represented by the difference between actual and regulatory forecast tonnages, multiplied by the relevant rebate rate per tonne.

Adjustments for rebates covered under the AFDs represent a total net return to Access Holders of \$14.8 million, are applicable to the Blackwater, Goonyella and Newlands systems (there are no AFD arrangements covering mines in the Moura system).

QR National confirms that the rebate rates supporting the calculations are final rates for UT3 which were confirmed with the relevant AFD miners during 2010/11.

A copy of QR National's rebate model showing the calculations of these amounts has been provided to the QCA concurrently with this submission.

3.6 Breach of an Access Agreement or Negligence

QR National confirms that during the 2010/11 year it did not receive any claim for breach of an Access Agreement or negligence for either:

- A Train Service which operated during the 2010/11 year; or
- A Train Service which operated during a prior year,

relating to an incident which resulted in the non-provision of 10% or more of the total number of Train Services for any origin-destination pair over the relevant Year.

Accordingly, no adjustments to Total Actual Revenues have been made, or are expected to be made, in accordance with Clause 3.2.3(d).

3.7 Total Actual Revenues

In view of the above, Total Actual Revenues for AT₂₋₄ and AT₅ for each system for 2010/11 are provided in the tables below. A reconciliation of the amounts and total adjustments in this section is also summarised at Attachment A.

AT₂₋₄

System	Access Revenues \$m	Adjustments \$m	Total Actual Revenues \$m
Blackwater	158.609	36.874	195.483
Goonyella	178.898	61.008	239.906
Moura	29.481	13.339	42.820
Newlands	29.085	0.760	29.845
Total	396.074	111.981	508.055

AT₅

System	Access Revenues \$m	Adjustments \$m	Total Actual Revenues \$m
Blackwater	57.782	5.678	63.461
Goonyella	62.322	3.616	65.938
Total	120.105	9.294	129.399

3.8 Revenue Adjustment Amounts for 2010/11

In view of the above, the Revenue Adjustment Amounts for AT₂₋₄ and AT₅ for each system, calculated in accordance with Clause 3.2.1, are summarised below.

AT₂₋₄

System	Adjusted System Allowable Revenues \$m	Total Actual Revenues \$m	Revenue Adjustment Amounts \$m
Blackwater	214.339	195.483	18.856
Goonyella	237.322	239.906	(2.585)
Moura	43.102	42.820	0.282
Newlands	32.516	29.845	2.670
Total	527.278	508.055	19.224

* Refund

AT₅

System	Adjusted System Allowable Revenues \$m	Total Actual Revenues \$m	Revenue Adjustment Amounts \$m
Blackwater	83.732	63.461	20.272
Goonyella	75.618	65.938	9.680
Total	159.350	129.399	29.951

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

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4. Increment

4.1 Introduction

Clause 3.3 states that:

Subject to Subclause 3.2.2, where for an Individual Coal System Infrastructure:

- (a) the Total Actual Revenue for AT₂₋₄ is greater than the System Allowable Revenue for AT₂₋₄ for the relevant Individual Coal System Infrastructure;*
- (b) QR Network is required by Subclause 3.4.3 to submit a variation of relevant Reference Tariffs to the QCA; and*
- (c) the QCA, when considering that variation, is reasonably satisfied that the difference between the Total Actual Revenue for AT₂₋₄ and the System Allowable Revenue for AT₂₋₄ 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, for the relevant Individual Coal System Infrastructure, equals that part 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).

4.2 Increment for 2010/11

As indicated in Section 1.4, all systems have significantly under-railed against the System Forecasts.

Accordingly, no Increment is being sought for the 2010/11 year.

**Attachment A
Revenue Cap Adjustment
2010/11**



Total Actual Revenue							System Allowable Revenue					Revenue Adjustment	
	Billing models AT ₄ (excl Cross System Traffic)	TAR Adjustments				Total	SAR per Schedule F	SAR Adjustments			Adjusted SAR AT ₂ - AT ₄	Total (at 2010/11)	
		Transfer fees	ARG (QNI & Bowen Coke Wks Coal)	Other non-specific Train Services (Cross System)	Take or Pay			Rebate Adjustments	MCI adjustment Maintenance Costs	CPI adjustment Operating Costs			
Blackwater	158,608,590	9,831		7,616,970	\$19,957,135	9,290,480	\$ 212,955,752	1,025,486	357,449		214,338,687	(18,855,680)	
Goonyella	178,898,222	62,400		12,500,554	\$43,803,901	4,641,062	\$ 235,729,731	1,222,799	368,990		237,321,520	2,584,619	
Moura	29,481,350				\$13,338,744	42,820,094	\$ 42,820,094	214,627	67,704		43,102,425	(282,331)	
Newlands	29,085,383		646,354		-	113,528	\$ 32,264,795	181,607	69,208		32,515,610	(2,670,345)	
	396,073,546	72,231	646,354	20,117,524	77,099,780	14,045,070	523,770,372	2,644,518	863,352	-	527,278,242	(19,223,737)	
	Billing models AT ₅ (excl Cross System Traffic)	Transfer fees	ARG (QNI & Bowen Coke Wks Coal)	Other non-specific Train Services (Cross System)	Rebate Adjustments	Total	SAR per Schedule F	MCI adjustment Maintenance Costs	CPI adjustment Operating Costs	Electric Energy Adjustment	Connection Charges Adjustment	Adjusted SAR AT ₅	Total (at 2010/11)
Blackwater	57,782,248			5,678,433		63,460,681	\$ 84,449,940	84,105		999,922	-1,801,699	83,732,268	(20,271,588)
Goonyella	62,322,315			2,893,637	722,215	65,938,167	\$ 79,894,969	110,060		(2,144,548)	(2,242,698)	75,617,782	(9,679,615)
Moura													-
Newlands													-
	120,104,563	-	-	8,572,070	-	722,215	164,344,909	194,165	-	(1,144,626)	(4,044,397)	159,350,051	(29,951,203)
Total Estimated Revenue Adjustment Amount (for 2010/11)												(49,174,940)	