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QR NATIONAL
NETWORK SERVICES

Mr John Hall
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
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Dear John

FY2011/12 Annual Variation of Reference Tariffs

Thank you for your letter of 12 May 2011 requesting QR Network to provide to the Queensland Competition Authority (QCA) further information in support of its revised System Forecasts and proposed Reference Tariffs for FY2011/12.

At the time of lodging the revised System Forecasts and proposed Reference Tariffs on 11 April, QR Network noted there was considerable uncertainty regarding the FY2011/12 forecasts due to the extraordinary events which occurred within the 2nd and 3rd quarters of the current financial year. Accordingly, QR Network nominated System Forecasts which were consistent with the mid-point of a feasible range extending from 202.0 to 220.0 million tonnes.

Additional information has become available following the lodgement of the original proposal which supports a more conservative approach to determining the Reference Tariffs for FY2011/12. Accordingly, QR Network submits revised System Forecasts which in aggregate are at the bottom end of the range (202.0 million tonnes).

In relation to the inclusion of the difference in revenue expected to be recovered from the AT_1 Reference Tariff between the approved System Forecasts and the Revised System Forecasts, QR Network believes it has met the requirements of the 2010 Access Undertaking for the reasons outlined in the attached submission.

Please find attached a revised proposal and submission addressing:

- An adjustment to the revised System Forecasts to the lower bound of a feasible range; and

- The inclusion of the AT_1 revenue difference in the System Allowable Revenue.

QR Network advises that the attached submission is suitable for public disclosure. However, consistent with previous requests and agreement with the QCA, we request the attached financial models not be disclosed.

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QR NATIONAL NETWORK SERVICES

Should you have any enquiries please contact Dean Gannaway on 07 3235 2055 or via email dean.gannaway@qrnational.com.au

Regards,

[redacted]

Michael Carter
Chief Executive Officer
QR Network Pty Ltd

18 May 2011

FY2011/12 Annual Variation of Reference Tariffs

Revised System Forecasts and Treatment of Incremental Maintenance Costs

18 May 2011

QR NATIONAL

FY2011/12 Annual Variation of Reference Tariffs

Revised System Forecasts and Treatment of Incremental Maintenance Costs

Introduction

On 11 April 2011, QR Network Pty Ltd (QR Network) submitted to the Queensland Competition Authority (QCA) revised System Forecasts and proposed Reference Tariffs for the 2011-12 year (the Submission). The Submission was made pursuant to a number of obligations in Schedule F of QR Network's 2010 Access Undertaking (the 2010 Undertaking).

The primary objective of the process for submitting revised System Forecasts and proposed Reference Tariffs is to ensure forecasts are sufficiently robust to minimise the quantum of revenue cap adjustment amounts. This objective was reinforced in stakeholder submissions to QR Network's November submission on the 2009/10 Revenue Cap.

When making the Submission, QR Network noted that there was significant uncertainty regarding the impact that recent significant regional and global events may have on forecast network utilisation by coal carrying train services in the Central Queensland Coal Region (CQCR). Due to this uncertainty the submission:

- Included reference to a possible range of volume forecasts between 202 and 220 million tonnes (mt) per annum:
- Nominated an approximate mid-point of this range (209.9mt) as a basis for developing the proposed Reference Tariffs;
- Recognised that stakeholders may be in a more informed position than QR Network and therefore able to improve the robustness of the point estimate within this range; and
- Noted that QR Network may request that the QCA consider a variation to the nominated System Forecasts and consequential variations to the proposed System Forecasts on the basis of any information that became available.

The QCA sought stakeholder comments on the Submission by 3 May 2011. The QCA has advised QR Network that only one submission was received by the QCA. A copy of that submission, by the Queensland Resources Council (QRC), was provided to QR Network for response.

The QRC submission did not include any information which would allow QR Network to evaluate the robustness of the proposed forecasts, or enable the QCA to assess the reasonableness of the point estimate submitted by QR Network. Due to recent developments and the lack of any further information by stakeholders which would improve the confidence in the point estimates included in the Submission, QR Network considers it reasonable to request the QCA consider a revised set of System Forecasts which are consistent with meeting the objective of volume reset.

The QCA also wrote to QR Network on 12 May 2010 requesting it provide information as to why the QCA should approve a variation in System Allowable Revenues associated with the variations in forecast revenue from the AT1 reference tariff component attributable the variation in the System Forecasts.

This supplementary submission has been prepared to provide the QCA:

- A revised set of System Forecasts and the basis for the revision;
- A summary of the matters relevant to the variation of system allowable revenues attributable to the incremental maintenance charge;
- Revised System Allowable Revenues; and
- Revised proposed Reference Tariffs.

Form of Submission

This supplementary submission has been prepared to amend aspects of QR Network's submission to the QCA on 11 April 2011 (the April Submission).

Only those aspects relevant to the revised inputs are included in this supplementary submission. Accordingly, tables in this supplementary submission should be read as substituting those tables in that earlier April Submission.

QR Network acknowledges the timeframes associated with the QCA's requirement to consult on this supplementary submission and consider any further submission in order to approve the revised System Allowable Revenues and proposed Reference Tariffs by 4 July 2011.

To assist the QCA in its approval process QR Network has prepared two versions of the System Allowable Revenues and proposed Reference Tariffs which are based on either:

1. The QCA accepting QR Network's proposed position with respect to the incremental maintenance charge; or
2. The QCA rejecting QR Network's proposed position with respect to the incremental maintenance charge.

Defined terms used in this submission have the meaning given in the 2010 Undertaking.

Revised System Forecasts

The 2010 Access Undertaking requires QR Network to provide to the QCA the data and assumptions used to estimate the revised System Forecasts. The approach to arriving at an unbiased point estimate on the System Forecasts to be used for the purpose of determining the proposed Reference Tariffs involves a degree of subjectivity and exercise of judgement using information available at that time.

Due to this uncertainty and the resultant large confidence intervals, QR Network relied upon a reasonable range of tonnage forecasts in preparing the April Submission but nominated the mid-point of that range as the basis for determining the point estimate for System Forecasts. This approach largely reflected the uncertainty of flood recovery rates and the high degree of information asymmetry between QR Network and coal producers regarding their anticipated supply and demand circumstances. Since the lodgement of the submission, additional information has become available, which supports adopting a more conservative approach to nominating the revised System Forecasts within that range. This position has been informed through:

- a slower than expected recovery in coal train movements in the Central Queensland Coal Network over the last two months with continuing difficulties in accessing coal and coal producers' expectations that this will continue in some part into next year.
- analysis of system ramp up capability and in particular taking into account the challenge to build stockpiles leading into the next wet season;
- commentary by third party stakeholders (such as the RBA);
- the public statements made by coal producers and above rail operators to the market;
- indications provided by coal producers as to ongoing impacts at least until December 2011 particularly in the Goonyella system; and
- the absence of any information provided in the consultation process which would allow QR Network to have a greater degree of confidence of the previously submitted revised System Forecasts.

Given the continued level of uncertainty and having regard to our earlier submission, QR Network considers it reasonable and prudent to adopt a point estimate at the lower end (rather than the mid-point) of the range already submitted.

In addition, the revised 2011/12 year forecast of 202.0mt represents an approximate 20% (or 35mt) increase on 2010/11 total tonnages for Central Queensland relative to the 2010/11 revised forecast. This increase should be considered in the context of the largest ever year to year increase in annual throughput being 23mt. This historical growth constraint is largely attributable to the time taken for the supply chain to ramp up into sustained high production levels. It is reasonable to expect similar lag effects could be associated with recovery from such a significant exogenous and widespread disruption to production across the Bowen Basin.

The revised System Forecasts are summarised in the table below:

	March submission mt	**Revised mt**	**Variance mt**
Goonyella	115.8	110.5	(5.3)
Blackwater	63.6	61.0	(2.6)
Moura	13.0	13.0	-
Newlands	17.5	17.5	-
Total	**209.9**	**202.0**	**(7.9)**

The revised total is the bottom of the range set out in QR Network's cover letter accompanying the April Submission.

This more conservative approach to arriving at revised System Forecasts is primarily related to ongoing concerns regarding coal availability attributable to production disruptions arising from flooding to Queensland mines. A number of external factors support the view that full recovery in production may not occur until the latter part of the 2011 calendar year.

The concern relating to the residual flood impacts and the Transitional Environmental Programs is referenced by the Reserve Bank of Australia's May Statement of Monetary Policy which noted:

> *"Coal production, in particular, has fallen significantly, and the recovery is taking longer than earlier expected due to ongoing difficulties in removing water from flooded mines."*[1]

An extract of the RBA's commentary on these issues is included in Box 1 below. The QRC also noted at a recent presentation:

> *"...75% of coal mines have needed TEPs - helping to SLOWLY remove many thousands of megalitres of water..."*[2]

Box 1. Extract from Reserve Bank of Australia's Statement of Monetary Policy

Coal production continues to be constrained by flooded pits, with many of the state's coal mines working below full capacity and a number of miners yet to remove their declarations of force majeure.

Coal stocks remain depleted and rail and port operators report significant spare capacity. Since December, 68 Transitional Environmental Programs have been issued in Queensland authorising the removal of flood waters from mines (a process known as 'de-watering'), subject to environmental conditions. These conditions have constrained the amount of de-watering that has occurred to date as river stream levels have fallen (high stream levels are required to prevent the build-up of pollutants in the environment). Additional rainfall across the Bowen Basin has also slowed the recovery in the level of coal production. As a result, coal production is now expected to remain below normal levels until well into the June quarter.

RBA staff estimates suggest that the fall in coal production subtracted up to½ percentage point from GDP growth in the December quarter and will have subtracted an additional ¾ to 1 percentage point from growth in the March quarter, a larger impact than had been expected in February. Coal production is, however, expected to add significantly to GDP growth in the June and September quarters as production levels continue to recover.

Source: RBA Statement of Monetary Policy – May, Box B.

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[1] Reserve Bank of Australia (2011) Statement of Monetary Policy, May, p. 2.
http://www.rba.gov.au/publications/smp/2011/may/pdf/0511.pdf

[2] Queensland Resources Council (2011) Seasonally Adjusted – A strong outlook. Surat Basin Coal and Energy Conference, Brisbane, 11 May 2011.
http://www.qrc.org.au/_dbase_upl/Surat%20Basin%20CoalEnergy_11May2011.pdf

In relation to the TEPs, QR Network is aware that they have needed to be amended which adds to the evidence that recovery is taking longer than expected. On 31 March the QRC Chief Economist advised that DERM is being cautious with allowing saline water in the pits from being discharged into local waterways. Due to this approach at 31 March only 18 out of 54 mines were at full production, 32% of mines were between 20 and 30% and 5 not producing at all. The prospect of the water inundation affecting the production throughout the remainder of 2011 calendar year was noted by the Chief Executive of the QRC as quoted below:

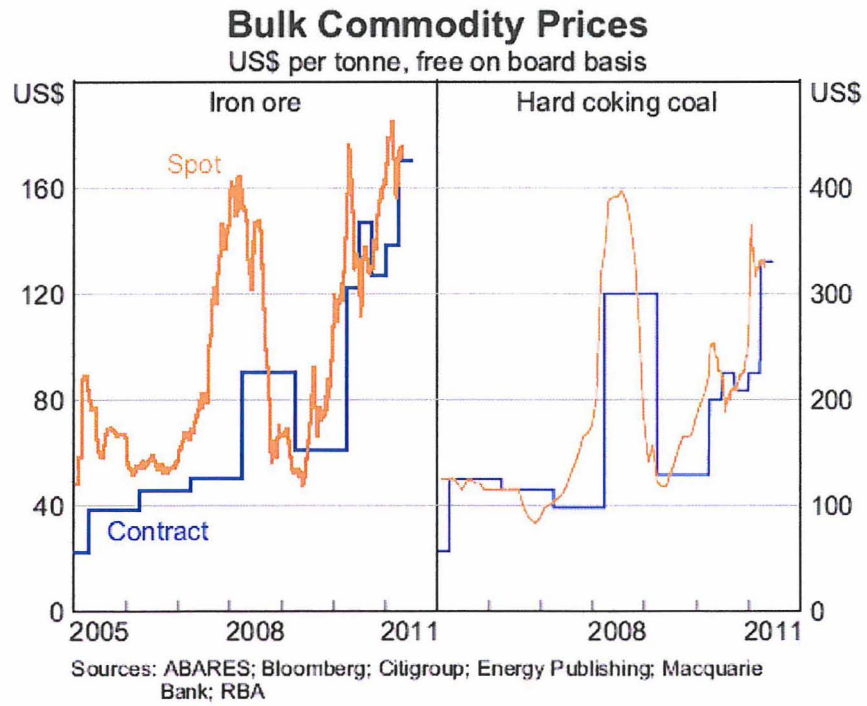
> *"Rather the mines, at a lot of effort and cost, have been able to move some of the water out of coal pits to other parts of the site so they can ramp up production. The good news is we will see improvements in production month by month; but for many mines, they will still be suffering the impacts of water inundation right through to the end of 2011," Mr Roche said*[3]

The potential for ongoing constraints in coal availability is also evident in recent market transactions for coal supply contracts which have seen contract prices struck at significantly higher levels than previous periods. The RBA (p.13) also notes:

> *"Coking coal contract prices for the June quarter appear to have been settled around 45 per cent higher than they were in the March quarter, largely reflecting the impact on global coal trade from the heavy flooding and the subsequent loss of production in the coal mining regions of Queensland. Contract prices for thermal coal for the Japanese financial year 2011/12 have reportedly been settled around 33 per cent above the 2010/11 contract price."*

Figure 1 below shows the RBA graph of current spot and contract prices against previous periods. QR Network observes that current contract prices are in excess of US$300 per tonne. These levels were last seen prior to the demand spikes prior to the Global Financial Crisis (GFC). However, most global macroeconomic forecasts assume a return to positive and normal economic growth with a moderate increase in steel demand. Accordingly contract price outcomes will be partly attributable to supply side factors and risk premiums regarding recovery rates in production and consequential effects on coal availability.

Figure 1. Graph 1.15 from the Statement of Monetary Policy – May 2011



[3] Newborn, J. (2011) Port ready to ramp up for export boost, Daily Mercury, 17 May, p.7

QR Network notes historical annual throughput for the pre and post-GFC as shown in Figure 2 below was less than assumed in QR Network's revised System Forecasts. Accordingly, current contract prices for thermal and coking coal may include some price signals as to the capacity of Bowen Basin coal mines to fully restore mining activities.

Figure 2. Annual CQCR Throughput Levels (million tonnes per annum)

Pre-GFC	GFC Year	Post-GFC
2007/08	2008/09	2009/10
158,485,464	163,219,806	186,485,974

These views are consistent with communications from the key coal producers in the CQCR, as follows:

> *"The Bowen Basin has been significantly affected by persistent wet weather for a large part of the 2011 financial year that continues to delay recovery efforts, particularly for large open cut operations. As Queensland Coal (Australia), resultant in-pit water accumulation has severely restricted overburden removal and broader mining activities. Force majeure remains in place for the majority of our Bowen Basin products with production, sales and unit costs likely to be impacted, to some extent, for the remainder of the calendar year[4]."*
>
> *"Force majeure has been lifted in all but one of our Queensland Coal mines."*[5]
>
> *"Met coal pricing settled at record highs demonstrating the impacts of prolonged wet weather on the met coal supply chain."*[6]

[4] BHP (2011) BHP Production Report for the Nine Months Ended 31 March 2011. ASX Release date 20 April 2011. http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01172859

[5] RIO Tinto (2011) Addresses by the Chairman and Chief Executive to AGM, Perth, 5 May. http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01177987

[6] Macarthur Coal (2011) Macquarie Bank Australia Conference Presentation, 5 May. http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01177438

Treatment of Maintenance Costs in System Allowable Revenue

In response to concerns raised in the QRC submission regarding the inclusion of maintenance costs in the System Allowable Revenues arising from variations to the System Forecasts, the QCA correspondence of 12 May 2011 requested that:

- QR Network provides further information in support of its Submission and why we believe it meets the requirements of the 2010 Undertaking; or
- Alternatively, QR Network may submit to the QCA an alternate proposal for its assessment.

QR Network notes the concerns are in principle related to QR Network being compensated for costs it will not incur if the proposed forecasts volumes are reliable and robust. In addressing this issue, it is worthwhile summarising both the purpose of the AT_1 charge and the how the System Allowable Revenues are derived. Therefore it provides a price signal and not a means to allocate costs.

The AT_1 Reference Tariff component (the incremental maintenance charge) represents how current utilisation of the network by the train service will incrementally affect the required maintenance of the asset over its useful life.

The System Allowable Revenue which is comprised of the AT_{2-4} Reference Tariff components consists of the balance of the revenue that QR Network is entitled to earn from the non-electrified sections which would result in QR Network expecting to earn the revenue it is entitled to earn. While it is represented and defined as revenue from AT_{2-4} it is comprised of the efficient costs QR Network does not recover from AT_1.

The basis with which QR Network prepared the revised System Allowable Revenues in the April Submission is consistent with our understanding on the operation of Schedule F Part B, Clause 3.1.2(c) of the 2010 Undertaking which is set out below:

> *"QR Network will submit to the QCA by 28 February of each Year during the Term the proposed adjustments, for each Individual Coal System Infrastructure, arising from any difference between the relevant revised System Forecast and the System Forecast used for the purpose of determining the System Allowable Revenue for that Individual Coal System Infrastructure, to:*
>
> *1) the System Allowable Revenue for the Individual Coal System Infrastructure for each subsequent Year during the Term; and*
>
> *2) the Reference Tariffs for the Individual Coal System Infrastructure for the next Year.*
>
> *The QCA will approve the revised System Forecast, System Allowable Revenues and Reference Tariffs for each Individual Coal System Infrastructure if it considers that the revised System Forecast is reasonable and the consequential adjustments to System Allowable Revenues and Reference Tariffs are calculated properly."*

Of importance in this drafting is the reference to the "System Forecast used for the purpose of determining the System Allowable Revenue". As discussed above, the System Allowable Revenue is determined by deducting from the approved revenues the revenue expected to be recovered from AT_1 consistent with the System Forecasts.

It is therefore reasonable to consider a revision to the System Allowable Revenue associated with the revised System Forecasts as being consequential to the difference between the revised System Forecast and the current System Forecast.

QR Network notes the exclusion of AT_1 from the Revenue Cap adjustment was also intended to expose QR Network to some volume risk within the relevant year. The consequential adjustments to the System Allowable Revenue are not inconsistent with that principle as it remains at risk if the actual volumes differ from the approved System Forecasts.

Adjustments to the relevant System Allowable Revenues also ensure that Reference Tariffs remain consistent with the pricing principles in section 168c of the QCA Act. The approved System Allowable Revenues as at 1 October 2010 represent the QCA's acceptance of the efficient maintenance costs. To the extent that required maintenance scope and therefore cost does not vary within the relevant year to the extent assumed by the reduction in revenue from the AT_1 Reference Tariff component, then Reference Tariffs will not provide QR Network with adequate revenue to meet the efficient costs of providing the Declared Service.

The AT_1 represents those aspects of the approved maintenance costs which are variable with volumes. Maintenance costs associated with tasks such as periodic inspections are required regardless of volume and are therefore excluded from the AT_1 reference tariff. However, it does not represent QR Network's variable costs. Section 4.2 of *Working Paper 2 – Usage Related Infrastructure Maintenance Costs in Railways* identifies the following maintenance activities as examples of works which are a function of tonnage:

- Ballast undercutting;
- Ultrasonic testing;
- Rail grinding; and
- Track recording

All of these maintenance activities involve investment in plant and equipment which results in significant fixed capital costs being reflected in the AT_1 Reference Tariff component. Fixed ownership costs like depreciation and cost of capital are the biggest driver of these costs.

Accordingly, there is a material disconnect with the variation in the adjustment to maintenance costs and when the maintenance will need to be undertaken associated with not adjusting the System Allowable Revenues for the change in System Forecasts. QR Network acknowledges that some reduction in maintenance costs will arise from the lower volumes. This may be particularly true of reactive maintenances tasks linked to train operations. However, the vast majority of planned maintenance activities for the 2011/12 year will still be undertaken, partly in response from requests from coal industry stakeholders to utilise the improved track availability to complete mechanised activities in advance of the return on tonnages to normal levels. The consequential effect of lower volumes being a deferment of maintenance activities expected to occur in future regulatory periods (see Box 1).

Due to the material lag between changes in volumes and the maintenance impacts QR Network would be penalised (rewarded) where the System Forecasts are lowered (increased) and the maintenance allowances in the future regulatory period are determined with reference to volume adjusted maintenance scope in that period.

In the absence of normalised life cycle maintenance charge/costs, the exclusion of $4.6 million from the System Allowable Revenue would result in QR Network not recovering the efficient maintenance costs within the UT3 period. This outcome is not consistent with the objective of ensuring that QR Network is not incentivised to under-maintain the asset.

QR Network considers that it is appropriately and correctly meeting the requirements of Clause 3.1.2(c) and requests that the QCA approve the adjusted System Allowable Revenues consistent with inclusion of the revenues attributable to the difference in AT_1 revenue between the original and revised System Forecasts.

Finally, it is worth noting that the Bowen Basin has experienced extreme and persistent rainfall since August 2010. This extraordinary weather event has actually increased the maintenance task for given tonnage level due to the degradation of track strength arising from persistent saturation while axle loads remain the same. Network Services has sought to actively manage this degradation through the use of blanket and targeted speed restrictions. Notwithstanding these measures the current and future maintenance tasks will need to increase as a consequence of the significance of this event.

Box 2. Case Study – Rail Grinding

Rail grinding is largely fixed cost and this fixed costs is over the 10-15 year life of the plant and not seasonally variable.

Grinding is undertaken on a tonnage profile from tight curves every 10MTonnes to straights every 40 MTones. However there is only one grinder and it has to sweep the whole Network periodically to cater for all the various tonnage ups and downs across the system. Therefore this tonnage grinding trigger is translated to a periodic measure (6 weeks). The grinder has to be in each part of the network every 6 weeks. Given duplicated track and the timeframes required to plan maintenance for the grinder and interface this with planning track access this timeframe historically only varies slightly despite changes in tonnages.

There is not infinite grinder capacity or flexibility. When the grinder is at a location (the set 6 weekly program to sweep the whole network), then it may choose to not grind, but the costs of being there will remain as there will always be a nearby site in the system that does require grinding. If the choice is made to "not grind", then the grinder will not be back for another 6 weeks (it must continue on its path to get around the whole network) and any increase in tonnage profile in the next 6 weeks will put rail and wheel wear rates and crack propagation (broke rail) at risk.

The rail grinder grinds to output a given rail profile (designed to minimise rail and wheel wear). Therefore less tonnage means less amount of rail to be removed (ground) on any given visit and small savings in grinder stones may be made but this is not significant in the cost of the product. Also possible changes in rail renewal timeframes may occur if the change in tonnage profiles were long term (20-30 year rail life currently).

Option 1 – No Adjustment to Maintenance Costs

System Allowable Revenues

The System Allowable Revenues that are shown below have been derived according to the same methodology and process as was presented in the April submission, using the revised forecast volumes (i.e. 202mt). The incremental changes to System Allowable Revenues for each of the pricing input adjustments due to the volume reset can be seen in detail in the financial models accompanying this submission.

The proposed System Allowable Revenues as a result of non-Revenue Cap adjustments are summarised for each CQCR system in the tables below and are exclusive of any adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast. The following tables replace the tables in part 7.2, page 26 of the April submission.

Table 1.1

System Allowable Revenues 2011/12		
System	**AT_{2-4} $**	**AT_5 $**
Blackwater	232,118,013	64,646,407
Goonyella	261,297,271	80,063,742
Moura	42,926,705	n/a
Newlands	30,318,551	n/a
Total	**566,660,540**	**144,710,149**

Table 1.2

System Allowable Revenues 2012/13		
System	AT_{2-4} $m	AT_5 $m
Blackwater	236,073,589	82,404,883
Goonyella	265,363,355	82,146,208
Moura	43,468,298	n/a
Newlands	31,320,651	n/a
Total	**576,225,893**	**164,551,091**

Revised Proposed Reference Tariffs

The proposed Reference Tariffs as a result of the non-Revenue Cap adjustments are summarised for each CQCR system in the table below and are exclusive of any adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast. The following tables replace the tables in part 7.3, page 26 of the April Submission.

Table 1.3

2011/12						
System	**AT_1 $**	**AT_2 $**	**AT_3 $**	**AT_4 $**	**AT_5 $**	**EC $**
Blackwater	0.82	1,922.06	4.54	1.53	4.46	0.80
Goonyella	0.57	1,217.73	4.85	1.04	2.17	0.80
Moura	1.52	575.73	11.95	1.49	n/a	n/a
Newlands	1.59	257.42	5.76	0.82	n/a	n/a

The System Premium or System Discount for Train Services are set out in the table below.

Table 1.4

2011/12	
Nominated Loading and Unloading Facilities	**AT_3 $**
Stanwell	(1.59)
South West Blackwater	3.72
Minerva	1.96
Lake Vermont via Gladstone	0.00

Option 2 – Adjustment to Maintenance Costs

System Allowable Revenues

The System Allowable Revenues that are shown below have been derived according to the same methodology and process as was presented in the April Submission, using the revised forecast volumes (i.e. 202mt), except for the adjustment to revenues attributable to the reduction in maintenance costs. The incremental changes to System Allowable Revenues for each of the pricing input adjustments due to the volume reset can be seen in detail in the financial models accompanying this submission.

The reduction in revenues aligns with the difference between the revenue collected via the AT_1 tariff (AT_1 revenue) under the originally approved volume forecast (i.e. 223mt) and the revised volume forecast presented in this submission (i.e. 202mt).

The respective AT_1 revenues and the resultant difference is shown in the table below.

Table 2.1

System	AT1 Revenue (223mt) $m	AT1 Revenue (202mt) $m	Difference $m
Blackwater	29,672,300	27,967,239	1,705,060
Goonyella	23,462,678	21,057,216	2,405,462
Moura	4,901,664	4,166,580	735,083
Newlands	6,026,176	6,264,358	(238,182)
Total	**64,062,818**	**59,455,394**	**4,607,424**

These revenue amounts are equivalent to the incremental change to the System Allowable Revenues for the 2011/12 year.

The proposed System Allowable Revenues as a result of non-Revenue Cap adjustments are summarised for each CQCR system in the tables below and are inclusive of the adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast. The following tables replace the tables in part 7.2, page 26 of the April Submission.

Table 2.2

System Allowable Revenues 2011/12		
System	AT_{2-4} $	AT_5 $
Blackwater	230,412,952	64,646,407
Goonyella	258,891,809	80,063,742
Moura	42,191,622	n/a
Newlands	30,556,733	n/a
Total	**562,053,116**	**144,710,149**

Table 2.3

System Allowable Revenues 2012/13		
System	AT_{2-4} $m	AT_5 $m
Blackwater	236,073,589	82,404,883
Goonyella	265,363,355	82,146,208
Moura	43,468,298	n/a
Newlands	31,320,651	n/a
Total	**576,225,893**	**164,551,091**

Revised Proposed Reference Tariffs

The proposed Reference Tariffs as a result of the non-Revenue Cap adjustments are summarised for each CQCR system in the table below and are inclusive of the adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast. The following tables replace the tables in part 7.3, page 26 of the April Submission.

Table 2.4

2011/12						
System	AT_1 $	AT_2 $	AT_3 $	AT_4 $	AT_5 $	EC $
Blackwater	0.82	1,922.06	4.51	1.52	4.46	0.80
Goonyella	0.57	1,217.73	4.80	1.03	2.17	0.80
Moura	1.52	575.73	11.73	1.46	n/a	n/a
Newlands	1.59	257.42	5.81	0.82	n/a	n/a

The System Premium or System Discount for Train Services are set out in the table below.

Table 2.5

2011/12	
Nominated Loading and Unloading Facilities	**AT3** **$**
Stanwell	(1.58)
South West Blackwater	3.64
Minerva	1.87
Lake Vermont via Gladstone	0.00

Revenue Adjustment Amounts (Revenue Cap) Impacts

The Revenue Cap Amounts presented in the April Submission remain unchanged and can be seen in part 8.3, page 29.

The proposed adjustments to Reference Tariffs however will change in line with the revised volume forecast and are shown in the tables below. The following tables replace the tables in part 8.4, page 30 of the April Submission.

Table 3

System	AT_3 $	AT_4 $	AT_5 $
Blackwater	0.13	0.04	0.67
Goonyella	(0.11)	(0.02)	(0.07)
Moura	(0.65)	(0.08)	n/a
Newlands	(1.08)	(0.15)	n/a

The cross-system traffics of Lake Vermont via Gladstone and Gregory via Goonyella (GVG) have a weighted incremental change applied to their relevant Reference Tariff components, in line with cross-system pricing rules. For clarity, the incremental Reference Tariff adjustments for these traffics have been identified separately in this submission in the table below.

System	AT_3 $	AT_4 $	AT_5 $
Lake Vermont via Gladstone	0.07	0.03	0.51
GVG	(0.10)	(0.02)	(0.03)

Proposed Adjustments to System Allowable Revenues - No Adjustment to Maintenance Costs

The Revenue Adjustment Amounts have been applied to the System Allowable Revenues. The proposed System Allowable Revenues (inclusive of revenue and non-revenue cap impacts) exclusive of any adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast are shown in the table below

The following table replaces the table in part 8.5, page 31 of the April Submission.

System Allowable Revenues 2011/12		
System	**AT_{2-4} $**	**AT_5 $**
Blackwater	237,539,193	74,410,606
Goonyella	256,093,186	77,494,157
Moura	40,720,811	n/a
Newlands	24,931,863	n/a
Total	**559,285,053**	**151,904,763**

Proposed Reference Tariff – No Adjustment to Maintenance Costs

The proposed Reference Tariffs for each CQCR system (inclusive of non-revenue cap and revenue cap impacts) exclusive of any adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast are shown in the table below.

The following tables replace the tables in part 8.6, page 31 of the April Submission.

2011/12						
System	**AT_1 $**	**AT_2 $**	**AT_3 $**	**AT_4 $**	**AT_5 $**	**EC $**
Blackwater	0.82	1,922.06	4.67	1.58	5.13	0.80
Goonyella	0.57	1,217.73	4.74	1.02	2.10	0.80
Moura	1.52	575.73	11.30	1.41	n/a	n/a
Newlands	1.59	257.42	4.69	0.66	n/a	n/a
Lake Vermont	0.76	3,139.80	4.92	1.56	4.45	0.80
GVG	0.58	1,217.73	4.75	1.51	2.27	0.80

The System Premium or System Discount for Train Services are in the table below.

2011/12	
Nominated Loading and Unloading Facilities	**AT_3 $**
Stanwell	(1.59)
South West Blackwater	3.72
Minerva	1.96
Lake Vermont via Gladstone	0.00

Proposed Adjustments to System Allowable Revenues - Adjustment to Maintenance Costs

The Revenue Adjustment Amounts have been applied to the System Allowable Revenues. The proposed System Allowable Revenues (inclusive of revenue and non-revenue cap impacts) inclusive of the adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast are shown in the table below

The following table replaces the table in part 8.5, page 31 of the April Submission.

System Allowable Revenues 2011/12		
System	**AT_{2-4} $**	**AT_5 $**
Blackwater	235,834,132	74,410,606
Goonyella	253,687,724	77,494,157
Moura	39,985,727	n/a
Newlands	25,170,046	n/a
Total	**554,677,628**	**151,904,763**

Proposed Reference Tariff - Adjustment to Maintenance Costs

The proposed Reference Tariffs for each CQCR system (inclusive of non-revenue cap and revenue cap impacts) inclusive of the adjustment to revenue attributable to the reduction in maintenance costs due to the revised volume forecast are shown in the tables below.

The following tables replace the tables in part 8.6, page 31 of the April Submission.

2011/12						
System	**AT_1 $**	**AT_2 $**	**AT_3 $**	**AT_4 $**	**AT_5 $**	**EC $**
Blackwater	0.82	1,922.06	4.64	1.57	5.13	0.80
Goonyella	0.57	1,217.73	4.69	1.01	2.10	0.80
Moura	1.52	575.73	11.08	1.38	n/a	n/a
Newlands	1.59	257.42	4.73	0.67	n/a	n/a
Lake Vermont	0.76	3,139.80	4.87	1.55	4.45	0.80
GVG	0.58	1,217.73	4.70	1.50	2.27	0.80

The System Premium or System Discount for Train Services are in the table below.

2011/12	
Nominated Loading and Unloading Facilities	**AT_3 $**
Stanwell	(1.58)
South West Blackwater	3.64
Minerva	1.87
Lake Vermont via Gladstone	0.00

Revised Monthly System Forecasts

This table replaces the one shown in Attachment A of the April 2011 Submission.

Month	System Gtk (,000 gtk)			
	Blackwater	Goonyella	Moura	Newlands
Jul 2011	2893417	3237168	238441	363530
Aug 2011	2957177	3167291	223681	358827
Sep 2011	2768774	3088290	221591	340510
Oct 2011	2843088	3182778	225600	300176
Nov 2011	2709447	3075639	217796	326690
Dec 2011	2795361	3052651	204803	325984
Jan 2012	2834517	3109470	224464	325740
Feb 2012	2461350	2602267	221713	234571
Mar 2012	2856130	2837526	243276	319199
Apr 2012	2897179	3212722	238290	348417
May 2012	3035275	3305301	240612	371787
Jun 2012	3075929	3244751	234774	333248

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QR NATIONAL NETWORK SERVICES

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

Dear John

FY2011/12 Annual Variation of Reference Tariffs

Thank you for your letter of 12 May 2011 requesting QR Network to provide to the Queensland Competition Authority (QCA) further information in support of its revised System Forecasts and proposed Reference Tariffs for FY2011/12.

At the time of lodging the revised System Forecasts and proposed Reference Tariffs on 11 April, QR Network noted there was considerable uncertainty regarding the FY2011/12 forecasts due to the extraordinary events which occurred within the 2nd and 3rd quarters of the current financial year. Accordingly, QR Network nominated System Forecasts which were consistent with the mid-point of a feasible range extending from 202.0 to 220.0 million tonnes.

Additional information has become available following the lodgement of the original proposal which supports a more conservative approach to determining the Reference Tariffs for FY2011/12. Accordingly, QR Network submits revised System Forecasts which in aggregate are at the bottom end of the range (202.0 million tonnes).

In relation to the inclusion of the difference in revenue expected to be recovered from the AT_1 Reference Tariff between the approved System Forecasts and the Revised System Forecasts, QR Network believes it has met the requirements of the 2010 Access Undertaking for the reasons outlined in the attached submission.

Please find attached a revised proposal and submission addressing:

- An adjustment to the revised System Forecasts to the lower bound of a feasible range; and

- The inclusion of the AT_1 revenue difference in the System Allowable Revenue.

QR Network advises that the attached submission is suitable for public disclosure. However, consistent with previous requests and agreement with the QCA, we request the attached financial models not be disclosed.

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QR NATIONAL NETWORK SERVICES

Should you have any enquiries please contact Dean Gannaway on 07 3235 2055 or via email dean.gannaway@qrnational.com.au

Regards,

[redacted]

Michael Carter
Chief Executive Officer
QR Network Pty Ltd

18 May 2011