

16 December 2011

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

Dear John

Sustainable Electric Traction Pricing – Draft Amending Access Undertaking

QR Network is pleased to submit to the Queensland Competition Authority a draft amending access undertaking (DAAU) to the approved 2010 Access Undertaking (2010AU) to implement key changes to the pricing arrangements for electric traction services.

A detailed financial analysis has been completed on the Goonyella and Blackwater systems and it shows that electric traction provides the most economically efficient outcome for the supply chain on both systems (including both above and below rail).

QR Network considers that the attached DAAU includes necessary changes to ensure that this benefit is achieved. Customers have sought greater certainty on this issue in order to make informed decisions within the next few months on transport contracts.

There are three main planks to the DAAU that are designed to provide better long term pricing stability and incentives for users of the rail network:

1. Implementing network pricing
2. Maximising asset utilisation
3. Smoothing revenue cap adjustments

Implementing network pricing

Customers are taking advantage of the interconnection of the Blackwater and Goonyella systems to provide greater options for coal transport. This is leading to the increased use of the railway as a network rather than as independent systems. Rail operators use the overhead electrical power systems as a network asset.

QR Network believes this should be reflected in the pricing of electric traction and the DAAU includes a single network price for the overhead traction system to ensure the benefits of a network asset are shared between all users of the facility. This will also provide greater certainty for customers on the electric pricing for both systems.

Maximising asset utilisation

Network pricing will provide an incentive for greater investment in and use of electric rollingstock in order to achieve high enough utilisation levels to capture the efficiency and cost benefits of electric traction.

However, in some cases, an operator may gain short-term or other benefits of employing diesel traction. These decisions should not be to the detriment of electric traction users who would bear higher costs because of the reduced efficiency in the system with diesel traction.

Therefore the DAAU provides a mechanism to charge that operator the additional costs to the system for running diesel trains beyond an allowable threshold. This does not remove the operator's choice to run diesel trains, but does recognise the real social costs to the supply chain of that decision.

Smoothing revenue cap adjustments

QR Network is seeking to smooth large revenue cap adjustments (such as the adjustment for the recent floods) over a longer time frame to reduce the pricing impact for customers. In particular, the DAAU allows that, where revenue cap adjustments would result in more than a 5% adjustment to electric traction costs in any single year, QR Network may defer recovery of that adjustment to one or more later years.

Upside potential

In addition to the above changes, electric traction offers network users significant upside not available with diesel traction. These include further operational efficiencies, innovation in electricity generation, improved long-term contractual arrangements and reduced interconnecting infrastructure costs.

QR Network has discussed the above concepts at a high level with supply chain users and there is a shared understanding of the importance of addressing these issues in a timely manner. A number of decisions about traction preference will be made within the next few months. These could have a significant bearing on the ability of the supply chain to capture the full benefits of greater electrification.

QR Network will continue to work closely with its customers and with the QCA to ensure we are able to implement key changes to the regulatory framework to secure the long term sustainability of the overhead electrical power supply systems and achieve the forecast efficiency benefits.

The submission is suitable for publication by the QCA on its website with the exception of Appendix C of the explanatory notes for the reasons stated within the Appendix.

Yours sincerely



Michael Carter
Chief Executive Officer
QR Network Pty Ltd