

30 June 2009

Brian Flannery  
Managing Director  
Felix Resources Limited  
PO Box 10470, Brisbane Adelaide St  
BRISBANE QLD 4000

Dear Brian

### **West Blackwater Reference Tariff Proposal**

As you are aware QR Network and Felix Resources have obtained an extension of the deadline in response to the regulator's Draft Decision on the West Blackwater Reference Tariff Draft Amending Undertaking.

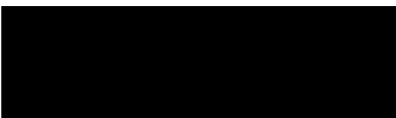
The purpose of this extension was to give time for QR Network and Felix Resources to resolve Felix Resources' concerns with the West Blackwater Reference Tariff in a way acceptable to QR Network.

We have discussed an alternate approach to determining a West Blackwater Reference Tariff which would be based on an allocation of the depreciated optimised replacement cost of Rail Infrastructure between Burngrove and Wurba Junction existing prior to the commencement of the Minerva project. This allocation results in a tariff equivalent to \$4.60 per net tonne as of 1 July 2007 and is to be applied from 1 July 2007.

QR Network is proposing to withdraw and resubmit a revised Draft Amending Undertaking based on the methodology and other terms outlined in the Attachment to this letter subject to Felix Resources' endorsement.

Would you please confirm your agreement to the proposed methodology in the Attachment by the close of 1 July 2009. This understanding will be confirmed to the QCA by including this exchange of letters in our submission documents.

Yours sincerely

A large black rectangular redaction box covering the signature area.A handwritten signature in cursive script, appearing to read 'Michael Carter'.

Michael Carter  
Executive General Manager  
QR Network Pty Ltd

**Proposed Methodology for Establishing the West Blackwater Reference Tariff**

<b>Term</b>	<b>Proposal</b>
Commencement Date	1 July 2007
Maintenance and Operating Costs	Optimised stand-alone coal estimate as per West Blackwater Reference Tariff Draft Amending Undertaking dated 30 October 2008.
Asset Valuation <ul style="list-style-type: none"> <li>• DORC Value at November 2005 <ul style="list-style-type: none"> <li>○ Minerva Project Costs</li> <li>○ Burngrove to Nogoia</li> <li>○ Nogoia to Wurba</li> </ul> </li> </ul>	\$71.1 million \$18.4 million \$36.4 million \$16.3 million
Asset Allocation for coal pricing <ul style="list-style-type: none"> <li>• Minerva Project Costs</li> <li>• Burngrove to Nogoia</li> <li>• Nogoia to Wurba</li> </ul>	100% coal     \$18.4 million Allocated     \$20.3 million Allocated     \$8.7 million
Asset Allocation	Based on ratio of actual non-coal train paths to contracted coal train paths in 2007-08.
Asset Allocator	53.4% applied to DORC Value (excluding Minerva Project Costs) and value of optimised passing loops and signalling (\$1.6 million).
Capital Base for Coal Pricing <ul style="list-style-type: none"> <li>• Opening Asset Value</li> </ul>	\$47.4 million at November 2005
Capital Expenditure (2006-07)	As per West Blackwater Reference Tariff Draft Amending Undertaking dated 30 October 2008.
Rolled Forward Capital Base at 1 July 2009	\$51.4 million
Allocator Review	Only on increase in Coal Train Services

<b>Reference Tariff from Commencement Date</b>	<b>Proposal</b>
AT1	\$0.71 per gross tonne kilometre
AT2	\$1470.72 per train path
AT3	\$4.00 per net tonne kilometre
AT4	\$1.68 per net tonne
QCA Levy	\$0.00560 per net tonne
Tariff Equivalent	\$4.60 per net tonne
Tariff Escalation	<ul style="list-style-type: none"> <li>• first escalation 1 October 2007 in line with CPI as per Standard Access Agreement.</li> <li>• UT3 Reference Tariff based on rolled forward Capital Base for coal pricing and regulatory approved inputs/allocations.</li> </ul>

F-2010-001

1<sup>st</sup> July 2009

Mr Michael Carter  
Executive General Manager  
QR Network Pty Ltd  
GPO Box 1429  
BRISBANE Qld 4001

Attention: Harry Simson

Dear Michael,

## **Proposed West Blackwater Reference Tariff**

We refer to your letter of 30<sup>th</sup> June 2009, regarding the proposed methodology for the determination of the West Blackwater Reference Tariff. We wish to advise that we agree to the proposed methodology.

In the event that this methodology is not approved by the Queensland Competition Authority we are of the understanding there will be the opportunity to submit our prepared response to the QCA's Draft March 2009 Decision.

We wish to thank you for your efforts with regards to this resolution.

Yours sincerely



Brian Flannery

**Managing Director  
Felix Resources Limited**