



Michael Carter
Executive General Manager

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

Dear John,

PROPOSED ADJUSTMENT CHARGES – 2009/10

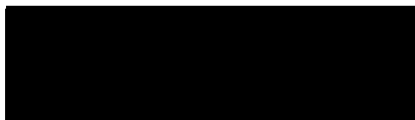
In accordance with Clause 2.3, Part A of Schedule F of QR Network's 2008 Access Undertaking, please find attached a submission concerning proposed Adjustment Charges for the 2009/10 year.

The variation is calculated in accordance with Clause 2.3.1 and will be recovered from, or reimbursed to, Access Holders following the QCA's approval, which for the purposes of the interest calculation is assumed to be October 2010.

The submission explains the relevant components of the calculations and provides a number of supporting financial models. The submission document (but not the financial models) is presented in a manner which is suitable for publication, should the QCA choose to do so, in accordance with Clause 2.3.4(b).

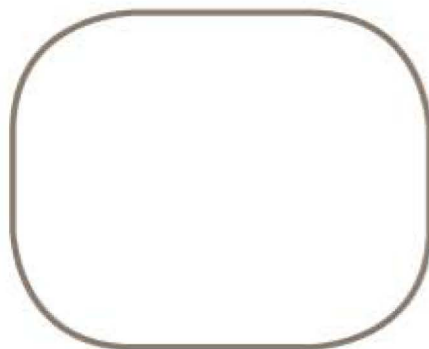
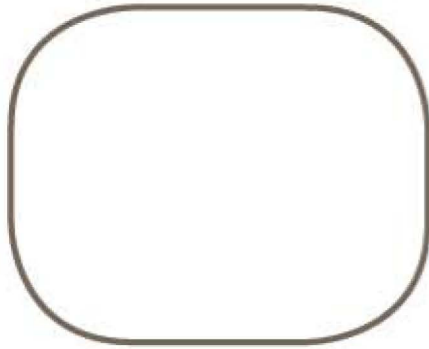
Please contact Greg Selkirk on (07) 3235 5250 should you have any queries regarding the submission.

Yours faithfully



Michael Carter
Chief Executive Officer
QR Network Pty Ltd

6 September 2010



QR Network
Access
Undertaking
(2008)

*Proposed Adjustment
Charges 2009/10
September 2010*

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Provided concurrently with submission (but not for publication) are adjustment Charge models for QRNational Coal and Pacific National.

1. Introduction

1.1 Background

Schedule F of the 2008 Undertaking sets out the pricing arrangements for coal-carrying Train Services in the Central Queensland Coal Region (CQCR).

The Schedule F Amendment was approved by the Queensland Competition Authority (QCA) on 30 June 2010. In particular, the amendment covered Reference Tariffs for the period 1 July 2009 to 30 June 2010 (i.e. the Reference Tariffs were backdated to 1 July 2009). Up until the QCA's approval of the Schedule F Amendment, Access Charges had been collected on the basis of the 2008/09 Reference Tariffs adjusted for movements in the Brisbane All Groups Consumer Price Index (CPI), per Clause 3.2 of Part A of the Schedule F prior to the Schedule F Amendment.

The Schedule F Amendment included a new Clause 2.3 which allows for the difference between Access Charges based on the new Reference Tariffs and the Access Charges collected based on the 'roll forward' for CPI to be collected from, or returned to, Access Holders.

1.2 Adjustment Charges

Clauses 2.3.1(a) and 2.3.2(b) of the new Schedule F provide that where the Undertaking specifies that a Reference Tariff is applicable or effective from a date which is prior to the Approval Date, or if the QCA approves a variation of a Reference Tariff in accordance with Clause 2.2 and that variation applies from or takes effect on a date prior to the date on which the QCA approves the variation, QR Network is entitled to recover from, or will reimburse to, each relevant Access Holder the Adjustment Amount. The Adjustment Amount is recovered or reimbursed by making adjustments to the Access Charges (Adjustment Charge) payable by Access Holders so as to recover, or reimburse, the Adjustment Amount.

This submission, being for the 2009/10 year, represents compliance by QR Network with Clause 2.3.3(b)(ii) which requires QR Network to submit a Reference Tariff variation – in the form of an Adjustment Amount - to the QCA in the event that the Undertaking specifies that a Reference Tariff is applicable or effective from a date

which is prior to the Approval Date. The Schedule F Amendment gives rise to QR Network's requirement to lodge the submission.

Clause 2.3.4(a) requires that where QR Network submits an Adjustment Amount in accordance with Clause 2.3.3, the submission must:

- Identify, subject to Clause 2.3.9, the Access Holders in respect of whom the proposed Adjustment Charges are to be applied;
- Set out the proposed Adjustment Charges for each Access Holder including details of how those proposed Adjustment Charges were calculated; and
- Indicate the billing period(s) in respect of which the proposed Adjustment Charges are to be applied.

The Adjustment Charges apply for the period 1 July 2009 to 30 June 2010 (invoicing from 1 July 2010 will be on the basis of the Schedule F Amendment). QR Network proposes that the Adjustment Charges be recovered from, or reimbursed to, Access Holders as soon as possible following the QCA's approval. The calculations of the interest amount are based on the QCA's approval at its October 2010 Board meeting such that the Adjustment Charge will be recovered from, or reimbursed to, Access Holders along with the monthly invoices for October 2010.

The Adjustment Charges cover the following Reference Tariff components:

- Access Charges for track infrastructure (AT_{1-4});
- Access Charges for electric infrastructure (AT_5); and
- Access Charges for electric traction (EC).

1.3 Form of submission

This submission details the methodology, data and assumptions used to determine Adjustment Charges for the Blackwater, Goonyella, Moura and Newlands systems for the 2009/10 year.

This submission sets out a step-by-step explanation of the relevant components of the calculation of the Adjustment Charge, consistent with Clause 2.3, as follows:

- Section 2 sets out the basis for calculation of the difference in Access Charges based on the 2008/09 'roll forward' Reference Tariffs received during 2009/10 and Access Charges based on the Reference Tariffs approved by the QCA on 30 June 2010.
- Section 3 sets out the basis for calculation of the interest amounts, in accordance with Clause 2.3.2.
- Section 4 sets out a discussion of any other issues relevant to this submission.

In addition, a number of detailed financial models were prepared by QR Network and have been provided to the QCA in electronic form in support of this submission. The models set out the Access Holders to whom the proposed Adjustment Charges are to be applied, together with the proposed Adjustment Charges for each Access Holder, in accordance with Clause 2.3.4(a).

The Access Holders during the 2009/10 year were QRNational Coal and Pacific National only. The financial models have been provided separately these Access Holders in advance of this submission, and comments received have been reflected in this document. A copy of the document will be provided to the Access Holders and the Queensland Resources Council immediately following its submission to the QCA.

This submission is presented in a format which is suitable for publication, should the QCA choose to do so, in accordance with Paragraph 2.3.4(b). However, the models contain specific information on individual Train Services and accordingly QR Network requests that the models are not published. Notwithstanding this request, the model outputs are summarised in this submission.

In this submission:

- References to the 2008 Undertaking are to QR Network's 2008 Access Undertaking effective 24 October 2008;
- References to the Schedule F Amendment are to the QCA's approval dated 30 June 2010 of QR Network's proposed new Schedule F in the 2008 Undertaking;
- Unless otherwise specified, all references to Clauses are Clauses in Part A of the Schedule F Amendment; and

- Defined terms used in this submission have the meaning given in the 2008 Undertaking.

1.4 Summary

The net total of the Adjustment Charges for 2009/10, including interest, to be recovered from Access Holders is \$161.3 million comprising:

- Reference Tariff 'differences' totalling \$156.8m, including:
 - \$102.4 million recovery for AT₁₋₄;
 - \$56.5 million recovery for AT₅; and
 - \$2.1 million re-imburement for EC.
- Net interest of \$4.4 million.

The recovery is net of a small re-imburement for Access Holders on the Newlands system due to an average decline in Access Charges for that system.

The net Adjustment Charges for each CQCR system are summarised in the table below.

System	AT ₁₋₄ Difference \$m	AT ₅ Difference \$m	EC Difference \$m	Interest \$m	Adjustment Charge \$m
Blackwater	30.689	27.130	(0.586)	1.628	58.861
Goonyella	71.780	29.419	(1.516)	2.809	102.492
Moura	0.050	n/a	n/a	0.005	0.055
Newlands	(0.130)	n/a	n/a	0.001	(0.129)
Total	102.390	56.549	(2.102)	4.443	161.279

Note: small errors due to rounding.

The total of the Adjustment Charges represents around 20% of QR Network's total allowable revenue for the CQCR as approved by the QCA for 2009/10.

The Adjustment Charges have been calculated on the assumption that the QCA approves QR Network's submission on or before 31 October 2010. This assumption is on the basis of advice received from Access Holders regarding the rail haulage agreements in place at this time.

The total of the Adjustment Charges above excludes an amount of \$2.9 million relating to Past Train Services for which rail haulage agreements have already ceased. Access Holders have confirmed that Adjustment Charges to the value of a further \$5.8 million relate to rail haulage agreements which are expected to cease on 31 October. Approval of the Adjustment Charges effectively transfers this amount to 2011/12 Access Charges via the 2009/10 revenue cap arrangements, which is then collected from all Train Services rather than from the specific Trains Services concerned. A more detailed discussion of this issue is provided at Section 4.1.

Comments on the apparent discrepancy between the AT_{1-4} difference and the interest amount for the Newlands system are provided at Section 4.2.

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2. Adjustment Amount

2.1 Introduction

Paragraph 2.3.1(c) states that the Adjustment Amount shall incorporate:

“the aggregate of the differences, for each relevant Access Holder for each calendar month (or part thereof) since the date on which the Reference Tariff or the variation of the Reference Tariff was to apply or take effect (“Effective Date”) until the Approval Date or the date on which the variation of the Reference Tariff was approved by the QCA, as applicable (“Approval Date”), between:

- (i) the Access Charges paid or payable by that Access Holder in respect of the Train Services operated by or for that Access Holder during that calendar month (or part thereof); and*
- (ii) the Access Charges that would have been paid or payable by that Access Holder in respect of those Train Services if the Access Charges were calculated in accordance with the Reference Tariffs or the variation of Reference Tariffs referred to in Clause 2.3.1(a) or (b) on and from the Effective Date; and*

2.2 Access Amount Calculation

The total value of the Access Charges (i) paid and (ii) that would have been paid by Access Holders for AT₁₋₄, AT₅ and EC are summarised in the table below.

AT₁₋₄

System	(i) \$m	(ii) \$m	Difference \$m
Blackwater	195.954	226.643	30.689
Goonyella	158.656	230.437	71.780
Moura	35.575	35.625	0.050
Newlands	42.923	42.793	(0.130)
Total	433.108	535.498	102.389

AT₅

System	(i) \$	(ii) \$	Difference \$
Blackwater	26.942	54.072	27.130
Goonyella	42.130	71.548	29.419
Moura	n/a	n/a	n/a
Newlands	n/a	n/a	n/a
Total	69.071	125.620	56.549

EC

System	(i) \$	(ii) \$	Difference \$
Blackwater	7.850	7.264	(0.586)
Goonyella	22.521	21.005	(1.516)
Moura	n/a	n/a	n/a
Newlands	n/a	n/a	n/a
Total	30.371	28.269	(2.102)

The Access Charges payable by Access Holders for individual Train Services are set out in detail in the financial models supporting the calculation of the Adjustment Charges, and which have been provided to the QCA concurrently with this submission. These models are linked to QR Network's billing models.

3. Interest

3.1 Introduction

Paragraph 2.3.1(d) states that the Adjustment Amount shall incorporate:

“the aggregate of the interest calculated in accordance with Clause 2.3.2 in respect of the amount of each difference comprising the amount calculated in accordance with Clause 2.3.1(c).”

Clause 2.3.2 states that:

“The interest referred to in Clause 2.3.1(d) must be calculated:

- a) in respect of the amount of each difference comprising the amount calculated in accordance with Clause 2.3.1(c);*
- b) on the basis that the interest:*
 - (i) accrues and is charged from day to day; and*
 - (ii) is capitalised at the end of each month and will thereafter itself bear interest;*
- c) at the rate equal to, for interest accruing in a month:*
 - (i) the mid-point of the one month Bank Bill Swap Rate as published by the Australian Financial Markets Association (or its successor) for the Business Day immediately prior to the 21st day of the previous month; or*
 - (ii) if that rate is no longer published, the rate will be an appropriate equivalent rate determined by QR Network, acting reasonably; and*
- d) for the period commencing on the date when the Access Charges paid or payable by the relevant Access Holder used to calculate the applicable difference in accordance with Clause 2.3.1(c)(i) were due and payable and ending on the date when the Adjustment Charge is to be due and payable.*

3.2 Interest Calculation

The following key assumptions have been adopted in the calculation of the interest amounts to apply to the Adjustment Amounts:

- Interest has been calculated by reference to the Adjustment Amount for each month for each individual Train Service.
- The interest for each individual Train Service is calculated by month, then capitalised for each month, ensuring that the capitalised amount itself bears interest (i.e. compounds on a month-by-month basis).
- Bank Bill Swap Rates (Rates) are only publicly available from the Australian Financial Markets Association (AFMA) for the day of publication. Where necessary, QR Network has obtained those Rates in arrears from the AFMA via Queensland Treasury Corporation.
- Rates are those published for the relevant business day immediately prior to the 21st of each month.
- Given the lead time associated with both the submission and the QCA's approval of the Adjustment Charge, the Rate for October 2010 is taken to be as for September 2010, being the rate published for 20 August 2010.
- Pursuant to Clause 2.2(d) of the Standard Access Agreement linked to the 2008 Undertaking, the Access Holder must pay to QR Network the amount of the invoice referred to in Clause 2.2(a) of the Standard Access Agreement within fourteen (14) days after receipt of the invoice. QR Network confirms that on the basis that the amount of interest accrued per haul is not material, it has **not** undertaken this calculation by reference to the date of issue and payment of every invoice issued for the 2009/10 year. Rather, it has been assumed that each invoice is received by the Access Holder on the 7th day following the end of each month and that interest accrues on the Adjustment Amount from the implied due date for payment, being the 21st day.

The total value of the interest calculated, together with the Access Charge 'difference' as set out in Section 2 above, are summarised in set out in the table below.

System	Difference \$m	Interest \$m
Blackwater	57.233	1.628
Goonyella	99.683	2.809
Moura	0.050	0.005
Newlands	(0.130)	0.001
Total	159.621	4.443

As indicated at Section 1.4 above, comments on the apparent discrepancy between the AT₁₋₄ difference and the interest amount for the Newlands system are provided at Section 4.2.

The interest calculations are set out in detail in the financial models supporting the calculation of the Adjustment Amount. The models have been provided to the QCA concurrently with this submission.

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4. Other Issues

4.1 Past Train Services

Clause 2.3.9 states that, for the purposes of the calculation of the application of the Adjustment Amount to Access Holders (Clause 2.3.4(a)(i)):

- a) *an Adjustment Charge may only apply to an Access Holder (“New Access Holder”) that did not run the Train Services to which that Adjustment Charge relates (“Past Train Services”) if:*
- (i) the Access Holder who ran the Past Train Services no longer has (or, at the time when the Adjustment Charges are to be applied, will have ceased to have) a rail haulage agreement with the Customer for the Past Train Services in respect of Train Services with the same origin and destination as the Past Train Services;*
 - (ii) the New Access Holder has a rail haulage agreement with the Customer referred to in Clause 2.3.9(a)(i) (including that Customer’s successors and assigns) in respect of Train Services with the same origin and destination as the Past Train Services or the New Access Holder was that Customer (or is that Customer’s successor or assign); and*
 - (iii) the New Access Holder has been granted Access Rights with the same origin and destination as the Past Train Services in accordance with the process in Clause 7.3.7 of the Undertaking; and*
- b) *no Adjustment Charge will apply to an Access Holder who ran the Past Train Services if that Access Holder has, at the time when the Adjustment Charges are to be applied, ceased to have a rail haulage agreement with the Customer for the Past Train Services (including that person’s successors and assigns) in respect of Train Services with the same origin and destination as the Past Train Services provided that with the cessation of that rail haulage agreement, the applicable Access Rights were either relinquished or expired.*

QR Network confirms that there are a number of Train Services which are caught by these arrangements, being Train Services for which the rail haulage agreement for

the relevant Train Service Entitlement has ceased on account of its transfer from QRNational Coal to Pacific National. The value of the Adjustment Charges which would have been attributable to these Train Services totals \$2.9 million, and the Train Services are detailed in the financial models provided concurrently with this submission. Consistent with these arrangements, the Adjustment Charges attributable to these Trains Services will be recovered via QR Network's revenue cap submission for 2009/10. QR Network notes that these Adjustment Charges are then effectively collected from all Train Services in 2011/12 rather than from the specific Trains Services concerned.

In addition, Access Holders have confirmed that Adjustment Charges to the value of a further \$5.8 million relate to rail haulage agreements which are expected to cease on 31 October.

For the avoidance of doubt, QR Network confirms that:

- The Adjustment Charge calculation includes Past Train Services for which the Train Service Entitlement has ceased or been transferred, but where the relevant rail haulage agreement has remained in place; and
- There are no Train Services for which the relevant rail haulage agreement has ceased and has not been replaced by another haulage agreement.

This confirmation is based upon written advice received from QRNational Coal regarding Past Train Services operated by this Access Holder during the 2009/10 year. As at the date of this submission, QR Network was yet to receive written advice from Pacific National on whether there are any Past Train Services as defined by Clause 2.3.9. QR Network recommends that the QCA seeks this advice directly from Pacific National, and is pleased to amend the calculations to the extent that the advice is accepted by the QCA and affects the calculations.

To the extent that rail haulage agreements cease between the date of this submission and the date of the QCA's approval of the Adjustment Charges, the Adjustment Charges will need to be adjusted accordingly.

4.2 Adjustment Charge for Newlands

As indicated at Section 1.4 above, there appears to be a discrepancy associated with the re-imburement of the AT_{1-4} 'difference' and the recovery of interest on that difference. The discrepancy is explained by the following:

- The roll forward Access Charges collected during 2009/10 were based on a quarterly escalation of Reference Tariffs consistent with Schedule F prior to the Schedule F Amendment.
- The approved Reference Tariffs in the Schedule F Amendment are not escalated.
- On average, the approved Reference Tariffs (and hence Access Charges to be recovered or re-imbursed) are greater than for the roll-forward Reference Tariffs for the first half of the 2009/10 year - but are less for the second half of the year.
- Given the relative timing of the recovery and re-imburement, even though the sum of the effective Adjustment Charges is negative for the full year (i.e. results in a net re-imburement), interest has substantially accrued against the Adjustment Charges in the first half of the year (i.e. results in a net recovery).