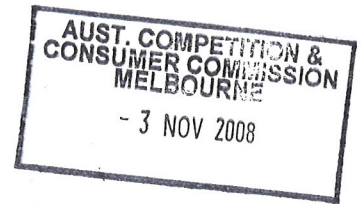


27 October 2008

Michael Carter
Executive General Manager

Mr Paul Dunn
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001



Dear Mr Dunn

QR Network Pty Ltd (QR Network) – Application for exemption to register as a Network Service Provider

QR Network is seeking a full exemption from the requirement under the National Electricity Law and clause 2.5 of the National Electricity Rules for registration as a Network Service Provider and the operation of Chapter 5 of the *National Electricity Rules* (NER) in relation to its owned, controlled and operated electric distribution network.

This request for exemption has addressed all the requirements referred to in the guidelines (the Guidelines) issued by the National Electricity Code Administrator on July 1998, as required by clause 2.5.1(e) of the NER and made available from the AER website on the date of this letter. The relevant sections within this request identify the principles and information requirements specified in clauses 6 and 11 of the Guidelines to which they relate.

Background

QR Network Pty Ltd was legally formed as a wholly owned subsidiary of QR Limited on 1 September 2008. QR Network is a leading infrastructure business operating a 10,000 kilometre network that serves the coal, freight, intermodal and passenger markets. Approximately, 2000 kilometres of this network is serviced by an overhead electrical distribution system supporting train operations.

QR Network provides open access to regulated rail transport infrastructure to accredited rail operators on appropriate commercial terms and conditions. Subject to the relevant Access Agreement, QR Network undertakes the supply and sale of electricity to operators of electric trains.

Relevant Network (6.1, 6.2 and 11.3)

The purpose of the QR electrified network is to provide power to electric trains at a nominal voltage of 25,000 volts. This supply voltage on the overhead wiring system is connected to the moving vehicles via sliding pantographs on the trains and is transformed on board the train and rectified (and sometimes inverted) to power the train motors, which are either DC or three phase AC.

The electrified network is a highly specialized distribution system and can be divided into 4 sub-systems:

1. Brisbane metropolitan network;
2. North Coast Line;
3. Blackwater Coal System; and
4. Goonyella Coal System.

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A schematic of the nominated overhead electrical distribution system and a brief technical description of the (**Nominated Network**) are included at attachment A. The Nominated Network includes:

- those parts contained wholly within premises owned by QR Network, and
- adjoining third party owned electric overhead infrastructure that either forms part of Rail Transport Infrastructure, or is part of Other Rail Infrastructure; as defined within the *Transport Infrastructure Act 1994* (TIA) where the supply of electricity is controlled by QR Network.

QR Network requests the exemption apply to the sale and supply of electricity to the Nominated Network and all future expansions or extensions of that network.

The provision of the network and the supply of electricity to other parties is incidental to the business of being a railway manager and provided for the sole purpose of powering electrical rollingstock and back-up supply to railway signals and other minor loads. Due to the two phase nature of the supplied electricity and issues associated with supply reliability when isolating the distribution network for rail infrastructure maintenance and capital expansion closures, electricity is not supplied to fixed installations, except for the abovementioned backup supplies.

Relevant Exemptions (6.8, 11.1 and 11.2)

QR Network is seeking a full exemption from the requirement to register as a Network Service Provider and the application of Chapter 5 of the NER while it maintains a jurisdictional exemption either through Chapter 1 Part 6 of the *Electricity Act 1994* (the Act) or is issued a Special Approval under section 208 of the Act.

Prior to the formation of QR Network Pty Ltd, the Network Business Unit of QR Ltd was subject to a specific exemption under section 20Q of the Act from the prohibition on operating a supply network and the restriction on the sale of electricity as required under sections 88A and 89 respectively. It is anticipated that the Act will be amended to include a similar specific exemption for QR Network Pty Ltd.

As an interim measure, QR Network has been issued a Special Approval (No. SA03/08) by the jurisdictional regulator. The Special Approval, commencing on 1 September 2008 and expiring on 31 August 2018 or unless otherwise terminated, permits QR Network to:

Supply electricity, using electricity infrastructure that forms part of the rail transport infrastructure owned by QR Network, to a third party for use by the third party—

- *in connection with the building or use of electrical installations and other works as part of a system of electric traction or for signalling purposes; or*
- *for powering electric rolling stock and railway signals; and*

Sell electricity to a third party for the purposes described above.

Where third party means—

QR Limited;

QR Passenger Pty Ltd;

Airtrain Citylink Limited; or

any other person who, under an arrangement with QR Network, is entitled to access and use QR Network's rail transport infrastructure.

Electrical Safety (6.3)

QR is on a journey to ZERO Harm working towards achieving zero injuries. A clear vision, goal and core set of principles for safety are setting the foundation for making the transition to becoming world-class in safety.

An important tool in the achieving the objective of Zero Harm is the development of safety management systems. QR Network takes its responsibilities in relation to electrical safety very seriously and maintains and operates the distribution system in accordance with industry best practice and all applicable laws, regulations and standards.

QR Network has an Entity Safety Management System (ESMS) as required by legislation. QR Network's ESMS complies with Section 66 of the *Electrical Safety Act 2002*. The ESMS is endorsed by the Electrical Safety Steering Committee (ESSC) before being lodged with the Electrical Safety Office (ESO).

As per the requirements of legislation QR Network arranges for an annual audit of the ESMS by an ESO accredited auditor. The result of the last audit in October 2007 was sent to the ESO indicating that QR is giving effect to the ESMS. Internal audits are planned and completed by QR Network staff or suitably qualified contractors, to ensure compliance with internal Standards and Specifications.

Legislation provides QR Network with a design exemption for Entity Works. QR Network has no electrical staff to maintain, operate and test the Entity Works. QR Network uses QR Ltd staff to complete its obligations or uses suitably qualified contractors to undertake construction of Entity Works.

Standards and Interface with the National Electricity Market (6.3 and 11.4)

As shown in the network description in Attachment A, the Nominated Network interfaces with the National Electricity through connections with three Network Service Providers. QR Network is required to maintain and operate the Nominated Network in accordance with the Access and Performance Standards prescribed in the Connection and Access Agreements.

Investment by operators in electric traction rollingstock with regenerative braking capabilities may also generate electricity that cannot be entirely consumed within the Nominated Network. The export of electricity from the Nominated Network is required to be negotiated with the relevant Network Service Provider under the terms and conditions of the Connection and Access Agreements following consultation with the National Electricity Market Management Company.

Interests of Third Parties (6.4, 6.5, 6.6, 6.7, 11.5 and 11.6)

The supply and sale of electricity on the Nominated Network is to third parties solely for traction purposes. Access to the services provided by the Nominated Network is subject to Part 5 – Access to Services of the *Queensland Competition Authority Act 1997* (the QCA Act).

These services are declared by regulation under section 97 of the QCA Act as follows:

*(2) The service is the use of **Rail Transport Infrastructure** for providing transportation by rail if the infrastructure is used for operating a railway for which QR Limited, or a successor, assign or subsidiary of QR Limited, is the railway manager.*

(3) The continuation of the declaration has effect only while the rail transport infrastructure remains a public facility.

Rail Transport Infrastructure is defined in Schedule 6 of the TIA and specifically includes overhead electrical power supply systems. Pricing for access to parts of the Nominated Network servicing coal carrying train services in the Goonyella and Blackwater coal systems are approved by the QCA in accordance with QR Network's approved access undertaking. Prices for access to the North Coast Line and Metropolitan systems are less than the economic cost of service provision and are subject to commercial negotiation.

Access to the Nominated Network is currently negotiated in accordance with QR Network's 2008 Access Undertaking which is due to expire on 30 June 2009. QR Network has given the QCA a voluntary Draft Access Undertaking for approval under the QCA Act to apply from 1 July 2009 for a proposed term of four years.

If during any period the Nominated Network is subject to an exemption and is not subject to an approved Access Undertaking, QR Network is required by law to negotiate an Access Agreement for access to the declared service in good faith. An Access Seeker may still seek arbitration if a negotiated outcome cannot be reached in accordance with the QCA Act. In making an Access Determination the regulator must have regard to the matters in section 120 of the QCA Act. These matters are consistent with the requirement in the Guidelines that the proposed charging regime governing the NSP's network should balance the needs to the network provider and end user.

An Access Holder may also dispute whether access to the Nominated Network has been provided in accordance with relevant provisions of the Access Agreement, by means of the dispute resolution provisions in the Access Agreement.

The sale of electricity by QR Network to third parties is not a declared service. However as infrastructure manager, QR Network undertakes the procurement of electricity on behalf of operators. The approach to the cost recovery for procuring electricity differs across the Nominated Network. Costs associated with providing electricity to operators on the North Coast Line and the Metropolitan network (passenger services) are fully passed through to those operators. Electricity is supplied to operators in the Central Queensland Coal Region through an Electricity Charge approved by the QCA. Accordingly, QR Network is subject to a degree of both cost and price risk in the supply of electricity for those services.

Principle 6.4 of the Guidelines states that the granting of the exemption should not unduly limit access of parties to the national electricity market (NEM) contrary to the market objectives. QR Network does not consider that the granting of the exemption will unduly limit access to the NEM.

The access framework does not limit an operator from procuring electricity from a retailer. However, QR Network notes that electricity supply agreements between an Electricity Retailer and large consumers are typically entered into on the basis of electricity supplied to a fixed meter. While on-train metering is progressively being offered by locomotive manufacturers, QR Network is not aware of instances where these meters have been utilised by a train operator for entering a supply agreement directly with an Electricity Retailer. Use of on-board meters for billing purposes would be subject to the commercial negotiation of terms and condition.

The 2008 Access Undertaking does not allow QR Network to refuse to sell or supply electric energy to another Access Seeker or Access Holder where it sells or supplies a QR Operational Business Group with electric energy in connection with Access. This requirement is expected to be retained in the 2009 Access Undertaking, when approved. If a dispute arises between an Access Holder or Access Seeker and QR Network regarding a refusal by QR Network to sell or supply electric energy (or procure such a sale or supply from a Related Party of QR Network) or the proposed terms and conditions on which QR Network (or a Related Party of QR Network) offers to sell or supply electric energy to the Access Holder or Access Seeker, the dispute may be referred to dispute resolution.

Additional Information

I trust the above information satisfies the principles to be assessed by the AER in considering the application for a full exemption.

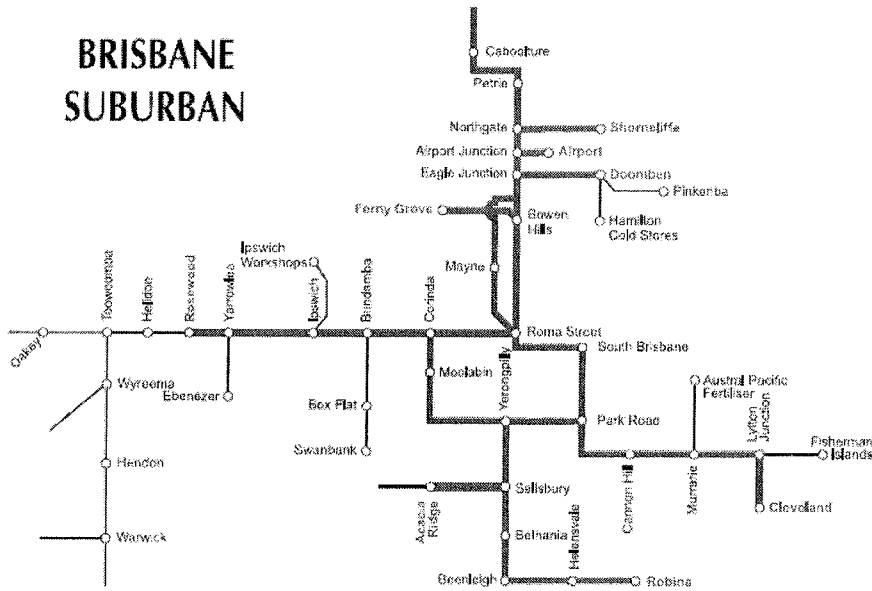
If you require any additional information or clarification, please contact Dean Gannaway on 07 3235 2335.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Carter', with a stylized flourish at the end.

Michael Carter
Executive General Manager
QR Network Pty Ltd

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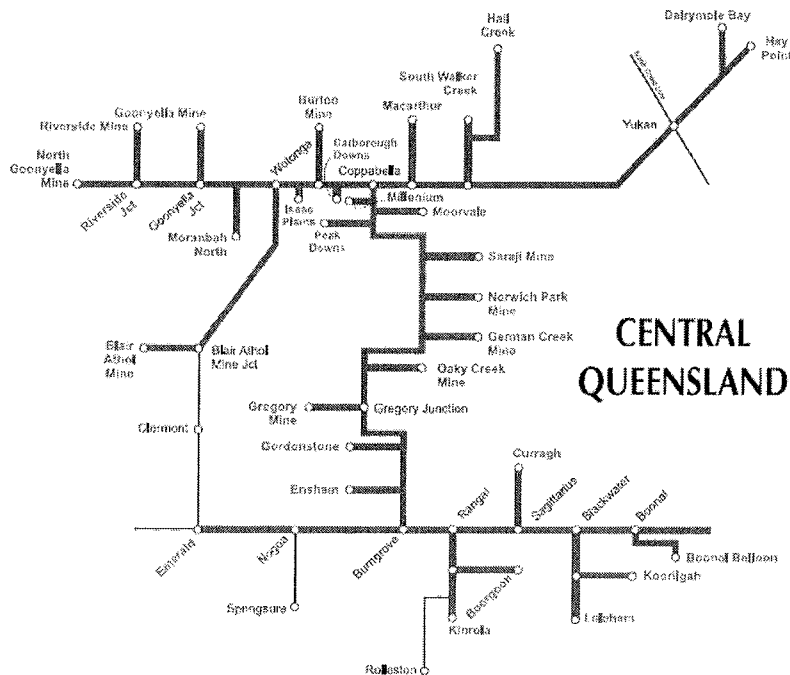


Blackwater Coal System from Gladstone to Gregory Junction

There are six 132kV / 50kV substations, located at Callemondah, Rocklands, Grantleigh, Dingo, Rangal and Gregory, (supplied by Powerlink), servicing predominantly coal freight trains.

Goonyella Coal System from Hay Point to Gregory Junction

There are eight 132kV / 50kV substations, located at Mt McLaren, Moranbah Sth, Norwich Park, Peak Downs, Coppabella, Mindi, Wandoo and Onooie, (supplied by Powerlink), servicing coal freight trains. Additional substations are soon to be constructed at Bolingbroke and Dalrymple Bay.



The 132kV/50kV substations supply 50kV to the overhead wiring which is stepped down to 25kV using regularly spaced autotransformers for use by the trains.