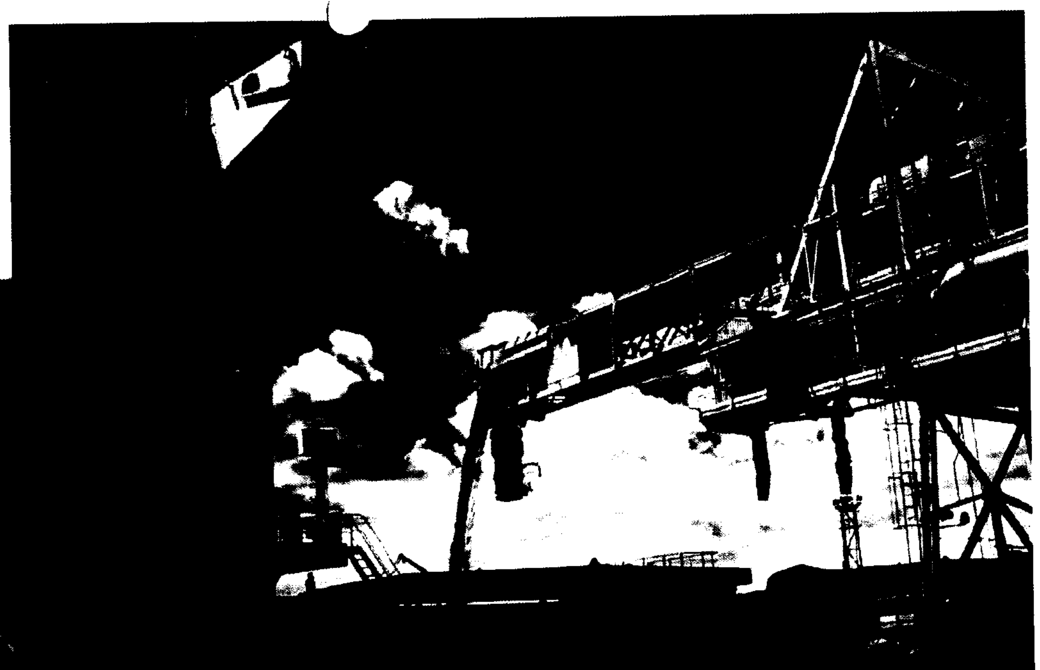



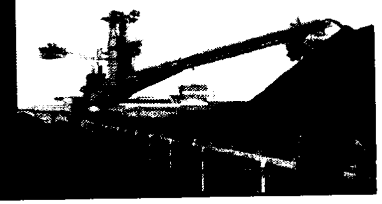
Hunter Valley Coal Chain

Industry Forum 1: Coal Chain Solution

19th July, 2004

PWCS

national



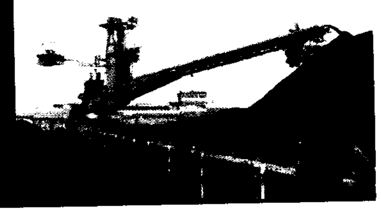
1. Introduction

2. Medium Term
   - Summary of Survey Results
   - Discussion

3. Long Term
   - Summary of Survey Results
   - Discussion

4. Next Steps & Close

1. Introduction – Demand



Forecasts provided by current and potential Hunter Valley producers indicate aggregate demand of 96Mt in 2005.

Aggregate Nomination	***2004 CDS****	***2004 Barlow Jonker***	***2005***	***2006***	***2007***
Barlow Jonker	81,000	86,872	**94,775**	**97,724**	**98,439**
Nomination	N/A	N/A	**96,249**	**112,795**	**123,335**

* 2004 CDS includes an additional 1mt capacity released by the Administrator

Increases in Nominations	***2005***	***2006***	***2007***
Producer nominations increasing greater than 10% (compared with BJ) (out of 16 Producers)	6	9	13
Aggregate Nominations from New Mines	1,985	7,050	8,410

Number of New Mines included in the forecast period (2005-2007): 7

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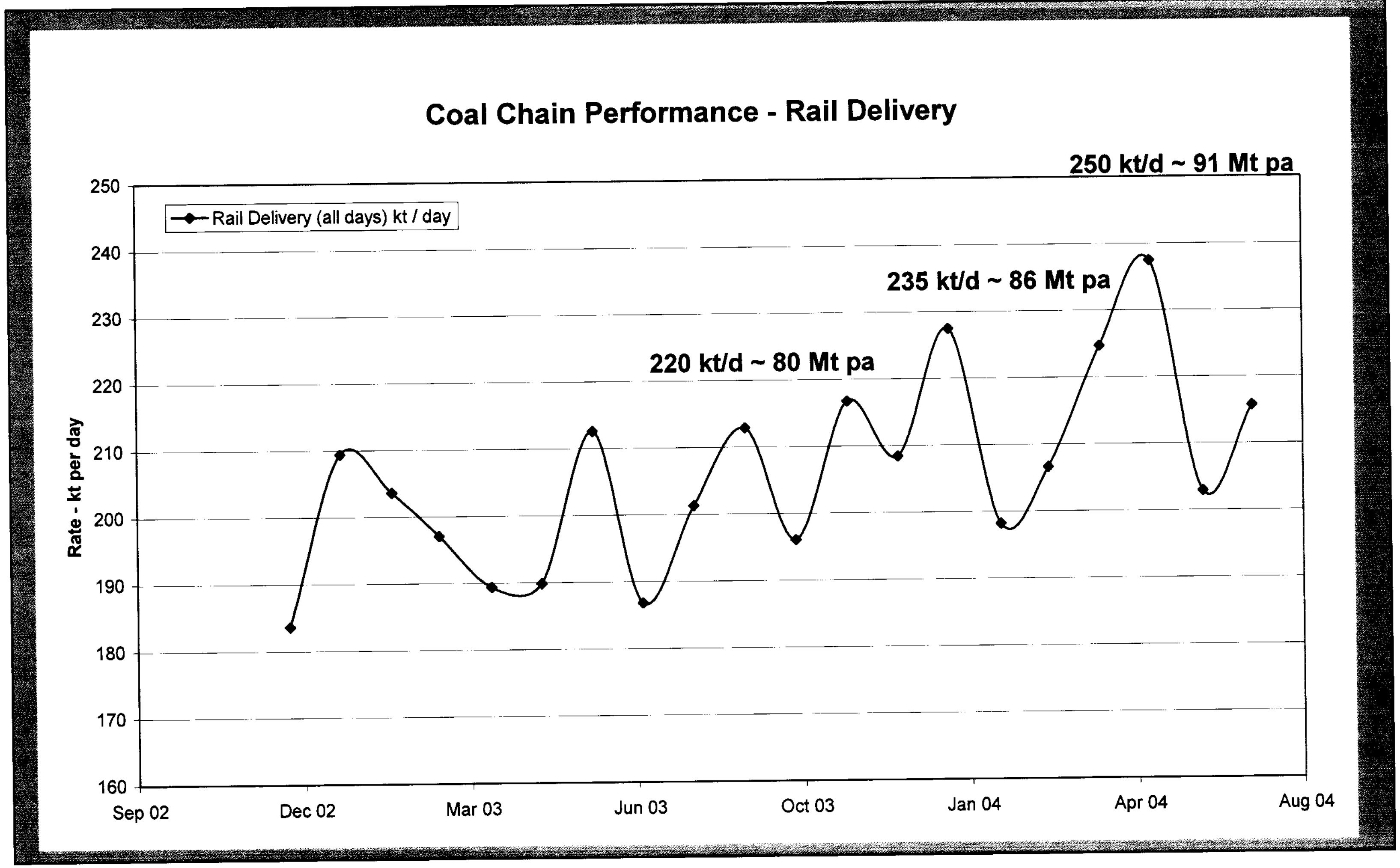
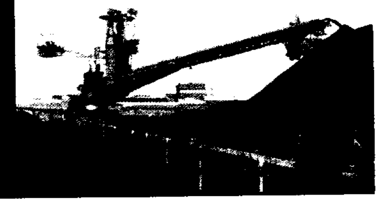
1. Introduction – Supply

Significant increases in Rail Delivery rates have boosted coal chain performance in '04





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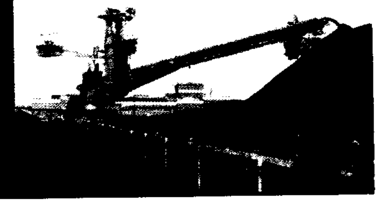
1. Introduction – Supply



Throughput Threshold	Key Initiative	Est. Completion By (Based on 2003 Forecast)
To Achieve 85Mtpa	**Maintain train fleet re-powering (UPTWO) configuration plus;** • New Capacity/Stockpile Planning (TOA Flex/10 day ETA & 4 Queues) • KCT process improvement (belt deviations & chutes) • CCT Stacker 2 & Reclaimer 1 recommissioned • 2 additional PN consists • **Integrated Planning System** • Ulan CTC • **Load point upgrades** • Jerry's Plains Coal Terminal	 Q3 2004 Q4 2004 Q4 2004 Q3 2005 **Q3 2005** Q3 2005 **Q4 2005** Q4 2005
To Achieve 90Mtpa	**All of 85Mtpa plus;** • Whittingham Branch line duplication • CCT belt upgrade to 3000tph • Hanbury Grade Separation • Muswellbrook Yard extension	 Q1 2006 Q2 2006 Q1 2006 Q2 2006
To Achieve 95Mtpa	**All of 90Mtpa plus;** • 3rd Stacker on Berm C at KCT • Minimbah and Nundah Bank grade reduction • Load point upgrades • Eliminate refuelling constraints KCT • PN back to BIG train fleet configuration (ie 80 and 60 wagon consists)	 Q4 2006 Q1 2007 Q1 2007 Q1 2007 Q1 2007
To Achieve 100Mtpa	**All of 95Mtpa plus;** • Muswellbrook-Antiene duplication • 1 additional train (60 wagon consist)	 Q4 2007 Q4 2007
To Achieve 105Mtpa	**All of 100Mtpa plus;** • Complete KCT Stage 3	 Q1 2008

Note: Items shown in blue are approved for construction/implementation

Source: Rob Oyston - HVCCLT

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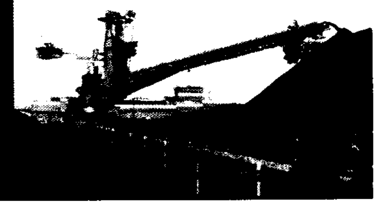
1. Introduction – Demand/Supply Balance



The forecasts indicate excess demand of approximately 10Mt in 2005, based on an estimated coal chain capacity of between 83-86Mt.

Year	Demand (Mt)	Capacity (Mt)	Mismatch (Mt)
2004	**88** (85 + 3 in queue)	**81**	**7**
2005	**96**	**83 – 86** (dependant on immediate Load Point upgrades, additional consist, planning changes)	**10-14**
2006	**113**	**88 – 90** (assuming improvements above plus track upgrades)	**23-25**
2007	**123**	**95** (requiring capital across the board)	**28**

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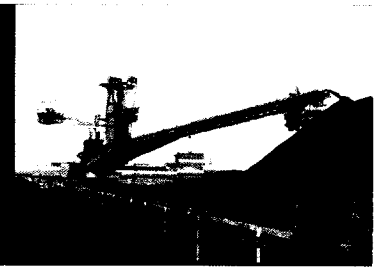
1. Introduction – A Coal Chain Solution is Required



From:

Capacity Distribution Solution

- Port focused
- Demand side control (no underlying solution)
- Short term
- No-choice to participants
- Limited incentive structures regarding utilisation of capacity
- No investment signals

To:

Capacity Provisioning Solution

- Coal Chain focused – integrated and interdependent solution to:
  - Deliver more capacity
  - Minimise bottlenecks from mismatch in capacity
- Demand side control only applied during medium-term period of constraint
- Long term
- Participants have choice
- Creates incentive structures and commercial signals to encourage efficient asset utilisation and investment

Design Principles:

Maximise Utilisation *Minimise Cost*
Transparent *Fair*
Equitable

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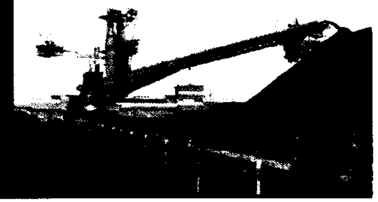
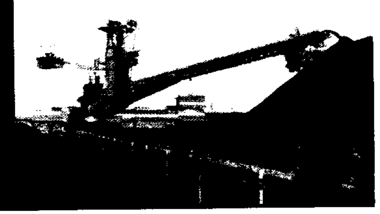


1. Introduction – Two Objectives

Two timeframes, each with separate objectives, have been identified as follows:

Component	*Timeframe*	*Objective*
A. Long-term Capacity Provisioning	2007 and beyond	• Encourage coordinated investment across whole of coal chain to meet future demand such that investment delivers greatest return • Create incentive for efficient utilisation of coal chain infrastructure
B. Medium-term Capacity Distribution	2005 and 2006	• Provide an equitable solution to balance demand with available capacity



1. Introduction – Today's Objective

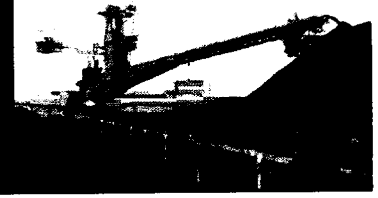
To provide an opportunity for the industry to inform PWCS, PN and other HVCC participants on the preferred solution design principles.

To assist this PWCS has circulated a questionnaire capturing the design principles being provided to date.

To achieve this objective we will:

- Provide an update on the solution design process
- Present alternative ideas and modifications proposed to the solution design principles
- Explore the solution design principles & proposed alternatives in smaller break-out groups

1. Introduction – How has the information been prepared?



Industry Meetings:

Individual Discussions with all PWCS Customers

Producer CEO Briefings

Briefing Sessions for other stakeholders

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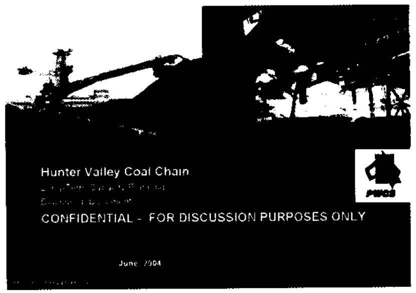

Design Principles Discussion Document

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Industry Meetings:

Individual Discussions with all PWCS Customers

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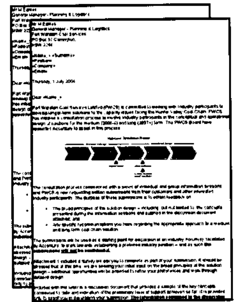
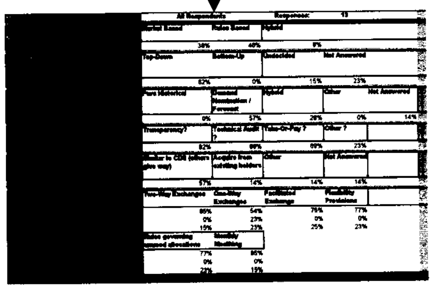
Questionnaire





Analysis & Collation

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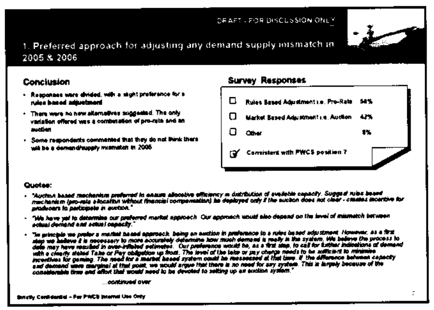
Summary Document



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Industry Forum 19th July Newcastle

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Ongoing Consultation & Solution Design

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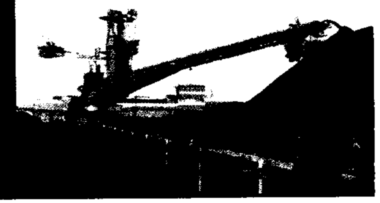
1. Introduction - Detailed Summary of Responses



	Invited	Submitted	Not Submitted
Producers	16	15 *	1
	AMCI Australia Pty Ltd Anglo Coal Australia Pty Ltd BHP Billiton Bloomfield Collieries Pty Ltd Camberwell Coal Pty Ltd Centennial Coal Company Ltd Donaldson Coal Pty Ltd Excel Coal Gloucester Coal Ltd Muswellbrook Coal Company Newpac Pty Ltd Rio Tinto Coal Australia Southland Coal Pty Ltd Speciality Coal White Mining Limited Xstrata Coal Australia Pty Ltd	Anglo Coal AMCI Australia BHP Billiton Bloomfield Camberwell Centennial Donaldson Coal* (provided consultant report) Excel Coal Gloucester Muswellbrook Newpac * Rio Tinto Coal Speciality Coal White Mining Xstrata Coal Australia	Southland Coal (non-productive producer being kept updated on progress)
Traders	5	4*	1
	Peabody COALTRADE EDF Trading AEP Energy Services Glencore International AG Noble Australia	AEP Energy Services Peabody COALTRADE EDF Trading Glencore International *	Noble Australia
Others	4	3 *	1
	Clark Shipping Coal Link Gray and Timmins Pty.Ltd	Clark Shipping Gray and Timmins *	Coal Link
Customers	JCD Australia Pty Ltd	JCD Australia *	
Total	25	22*	3

* "Submitted" includes written submissions in lieu of completed survey

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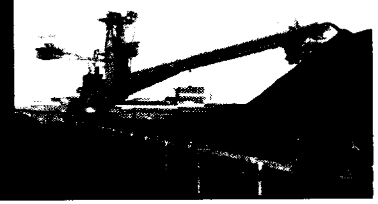


1. Introduction – Ensuring Success

Success is dependent on the level of commitment of the entire Hunter Valley coal chain industry to developing a solution:

- This is an industry challenge that requires an industry solution
- All input is welcome – there are many points of view represented across the industry
- Participation in individual meetings, questionnaires and forums is critical to ensure all points of view are considered and constructively evaluated
- Timely responses, engagement in the process and commitment of resources are critical
- This is an open forum and all comments and feedback are encouraged. Further extensive consultation will occur before any decisions on a solution are made.

[redacted]

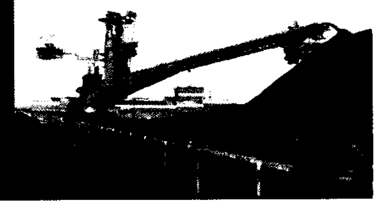
1. Introduction – Today's Agenda

Morning Session: Medium Term Coal Chain Solution, 10am-1pm

• Introduction	10.00-10.30am
• Summary of Survey Results – Medium Term Solution	10.30-11.15am *Break:* *11.15-11.30am*
• Discussion	11.30-12.45pm
• Lunch	12:45 -1.30pm

Afternoon Session: Long Term Coal Chain Solution, 1.30-4.30pm

• Summary of Survey Results – Long Term Solution	1.30-2.15pm
• Discussion	2:30- 4.15pm *Break:* *3.00-3.15pm*
• Next Steps & Close	4.15-4.30pm



1. Context

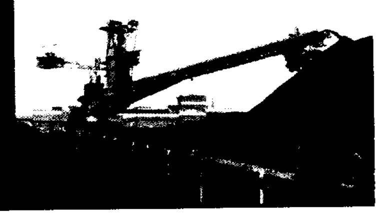
2. Forum Introduction

3. Medium Term
   - Summary of Survey Results
   - Discussion

4. Long Term
   - Summary of Survey Results
   - Discussion

5. Next Steps & Close

1. Preferred approach for adjusting any demand/supply mismatch in 2005 & 2006



Support was divided between rules-based and market-based. There was some support for a hybrid solution incorporating both options.

Conclusion

- Responses were divided
- There were no new alternatives suggested. The only variation offered was a combination of pro-rata and an auction
- Some respondents commented that they do not think there will be a demand/supply mismatch in 2005

Survey Response

☑	Rules Based Adjustment i.e. Pro-Rata	**35%**
☑	Market Based Adjustment i.e. Auction	**41%**
☐	Hybrid	**12%**
☐	Do Nothing	**12%**

Quotes:

- "Auction based mechanism preferred to ensure allocative efficiency in distribution of available capacity. Suggest rules based mechanism (pro-rata allocation without financial compensation) be deployed only if the auction does not clear - creates incentive for producers to participate in auction."
- "We have yet to determine our preferred market approach. Our approach would also depend on the level of mismatch between actual demand and actual capacity."

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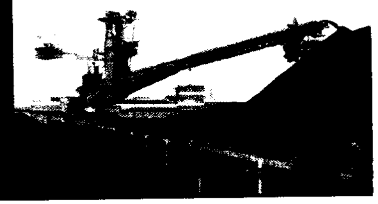
1. Preferred approach for adjusting any demand/supply mismatch in 2005 & 2006



Quotes: (continued)

- "In principle we prefer a market based approach, being an auction in preference to a rules based adjustment. However, as a first step we believe it is necessary to more accurately determine how much demand is really in the system. We believe the process to date may have resulted in over-inflated estimates. Our preference would be, as a first step, to call for further indications of demand with a clearly stated Take or Pay obligation up front. The level of the take or pay charge needs to be sufficient to minimise incentives for gaming. The need for a market based system could be reassessed at that time. If the difference between capacity and demand were marginal at that point, we would argue that there is no need for any system. This is largely because of the considerable time and effort that would need to be devoted to setting up an auction system."
- "We do not accept that there will necessarily be a mismatch in 2005. If a mismatch becomes evident, then we will agree to a rules-based adjustment."
- "Leave it to the market without intervention. Do everything possible in the short term to increase capacity and complete plans for expansion long term as a matter of urgency"
- "Not yet satisfied that an interventionist approach is needed."
- "There will need to be some recognition of base tonnes where the allocation leaves a mine in an non - operational position."

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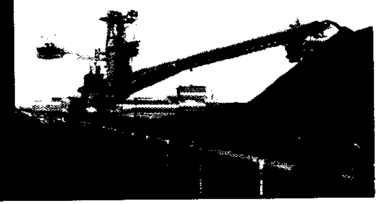
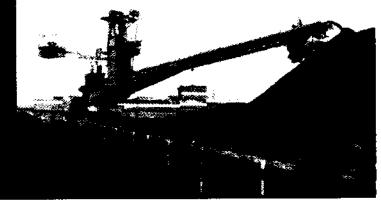
1. Preferred approach for adjusting any demand/supply mismatch in 2005 & 2006



Quotes: (continued)

- "Any short-term solution has to be simple - PWCS is a common user facility and the capacity distribution system now operating is probably the fairest and most uncomplicated solution for the next couple of years"
- "We believe that both the medium and long term solutions should be addressed concurrently to avoid opportunistic tonnage requests in 2005 that are a function of current prices to the detriment of those operations who have been projecting growth in prior years. A combination of both pro-rata and market based solution underpinned with long term take-or-pay commitments."
- "A mix of pro-rata and auction; for 2005 only subject to review - Need to understand reasons queue disappeared this year before agreeing to any changes for next year."
- "I have some reservations in respect to Auction system under current market conditions. If payment is to be funded by levy over tonnage we may find ourselves paying more than we would be for demurrage."
- "The port should never be the bottle neck for the export of coal ex Newcastle on an annualised basis. However, if production and demand exceed the capacity of the port at any given point in time then the port must have the last right of refusal to accept vessels to the maximum agreed capacity of the port. Hence a pro-rata rules based adjustment should apply. However there should also be a transparent method of being able to trade or swap the capacity to suit shipping schedules."

2. If a Market Based mechanism was implemented, what would be your preferred design?



Of those that preferred a market-based mechanism, the majority would prefer a top-down auction.

Conclusion

- Responses favoured a top-down auction if a market based mechanism were implemented
- No respondents favoured a bottom-up auction
- Some respondents were undecided
- Some respondents favoured a top-down auction **only if** there is an option for producers to "opt-out" and accept a pro-rata reduction instead.

Survey Response

☑	Top-Down Auction	**83%**
☐	Bottom-Up Auction	**0%**
☐	Other	**0%**
☐	Undecided	**17%**

Quotes:

- "There should be no "Top Down" auction without a preliminary pro rata reduction across all tonnes. Once the pro-rata distribution has taken place producers may opt not to participate in any Auction. It will be impossible to identify small parcels of inflated tonnes in larger quantities. The pro rata will help to reduce the tonnes available for gaming. Gaming will be an issue in any auction - regardless of the rules and will lead to reduced system throughput."
- "Top-down auction with pro-rata allocation"

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