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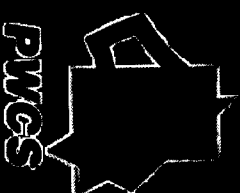
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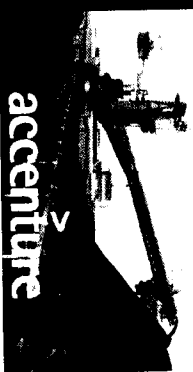
Port Waratah Coal Services Limited

2005 Draft Solution Design

Industry Forum 2

August 10th, 2004





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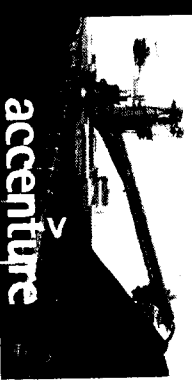
FOR DISCUSSION PURPOSES ONLY

This document was prepared by Accenture for PWCS as a discussion document only. It should be considered incomplete without the accompanying verbal commentary. This document does not convey a recommendation or decision by PWCS. It is intended to further the design of a solution in consultation with industry participants.

The options presented are illustrative and non-exhaustive, and do not constitute a recommendation by PWCS or Accenture.

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Objectives



- Present a draft 2005 Solution Design for discussion
- Workshop each element of the design with a view to:
 - ✓ Identifying issues relating to the design
 - ✓ Identifying preferred alternatives or suggestions for improving the design
 - ✓ Establishing the indicative level of support for the emerging design
- Present and discuss a draft timetable and approach to implementing the solution

NOTE:

No decision has been made on the solution design for 2005.

The material presented here represents a draft solution based on extensive consultation and feedback provided by the industry

Further work is required to develop the solution detail, and implementation of any solution will be subject to ACCC and PWCS Board approval.

Agenda

- 9.30 Introductions & Solution Overview
- 10.00 Demand & Supply Forecasts – Solution Presentation

Morning Tea

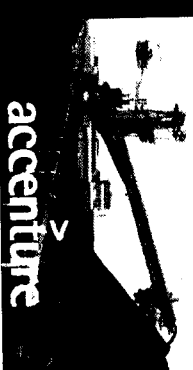
- 10.30 Breakout Groups 1: Demand & Supply Forecasts
- 11:15 Demand & Supply Balancing – Solution Presentation
- 11.45 Breakout Groups 2: Demand & Supply Balancing

Lunch

- 1.00: Allocation Management – Solution Presentation
- 1.30 Breakout Groups 3: Allocation Management

Afternoon Tea

- 3.00 Implementation Timetable & Group Discussion

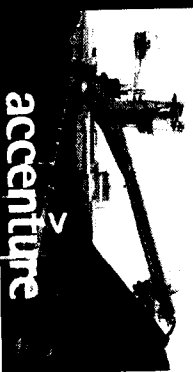


Objectives



Solution Overview

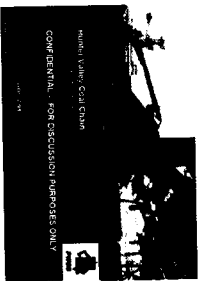
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The Process to arrive at the 2005 Draft Solution

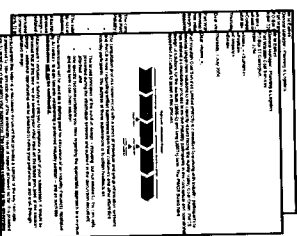
Industry Meetings:

Individual Discussions with all PWCS Customers
 Producer CEO Briefings
 Briefing Sessions for other stakeholders

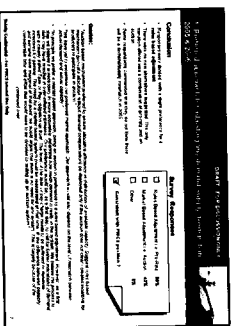


Design Principles Discussion Document

Industry Meetings:
 Individual Discussions with all PWCS Customers



Written Input

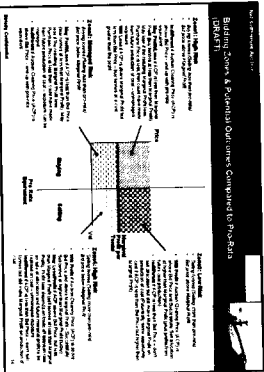


Industry Forum 1
 19th July
 Newcastle

Industry Meetings:

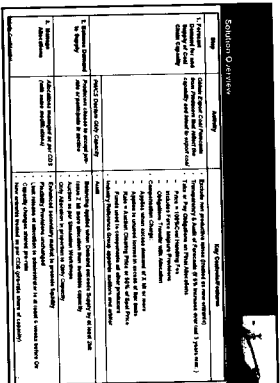
Individual Discussions with all PWCS Customers

Auction Simulation Workshops



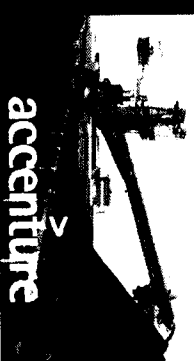
4th and 9th August

DRAFT SOLUTION



Industry Forum 2
 10th August
 Newcastle

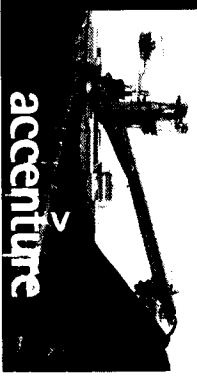
Ongoing Consultation & Solution Design



Step	Activity	Key Controls/Features
1. Forecast Demand for and Supply of Coal Chain Capacity	Obtain Demand Nominations (Export Coal Forecasts) from Producers that reflect the capability and intent to export coal	<ul style="list-style-type: none"> • Exclude non productive mines (treated as new entrants) • Transparency & Audit of Nominations • Take or Pay Obligations • Industry Reference Group appoints Auditors and Arbiter
	PWCS Declare Qtrly Capacity	<ul style="list-style-type: none"> • Audit
2. Balance Demand to Supply	Producers choose to accept pro-rata or participate in auction	<ul style="list-style-type: none"> • Pro-Rata Allocation or Auction as per Simulation Workshops • Each Producer receives a Quarterly Allocation for the year
3. Manage Allocations	Allocations managed as per CDS (with some modifications)	<ul style="list-style-type: none"> • Secondary trading (1 way & 2 way) • Includes flexibility provisions • Capacity changes shared pro-rata • New entrants treated as per CDS (pro-rata share of capacity)

Objectives

Demand & Supply Forecasting



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1. Demand Nomination – Process



Proposed Approach:

- Producers nominate their demand requirements for 2005 on a mine by mine basis
- Non-productive mines are excluded from the nomination process (incorporated as new entrants)
- A producer's Nomination will be the lesser of:
 - their forecast nomination
 - an expert assessment (audit) of the reasonableness of their forecast (*refer 1. Demand Nomination - Controls*); or
 - arbiter's decision (*refer 1. Demand Nomination - Controls*)
- Total nominated demand is calculated as the sum of all producer nominations

Suggestions / Ideas for Discussion:

- Producers who fail to submit a nomination will receive a nomination equal to 80% of their 2004 CDS allocation

Rationale:

- Preserves common user provisions and gives equal treatment to 'old' and 'new' tonnes
- Is reflective of immediate, rather than future e.g 2007, requirements
- Ensures allocation is not issued until it can be used



1. Demand Nomination – Controls

Take-or-Pay:

- Producers' allocations will attract a take-or-pay obligation to PWCS
- TOP price will apply to all allocation used and allocation unused (beyond the flex limits).

Suggestions / Ideas for Discussion:

- TOP obligation will attach to the final allocation after the adjustment (pro-rata or auction) on a per tonne basis
- The TOP price will be:
 - equivalent to the coal handling fee currently levied by PWCS; or
 - a higher compensation charge will apply to unused allocation (beyond flex limits) if demand exceeds capacity by > XMt
 - The compensation charge will be equal to the Auction Clearing Price (or 50% of the Spot Price Index)
 - Compensation funds will be distributed pro-rata to compensate all other producers [flexibility tolerances for compensation charge subject to further detailed design]
- TOP obligation will also transfer with loading allocation
- TOP obligations will include a *force majeure* clause to provide relief from TOP in the event of inability to fulfil obligations outside of the producer's control [FM clause subject to further detailed design]
- If port capacity decreases, there will be an exemption from those TOP charges

Rationale:

- To encourage flexibility, a producer may still underuse within their flexibility limits without having to pay TOP on those tonnes
- The compensation charge reflects the higher cost of unused allocation when the market is heavily constrained. Funds are used to compensate other producers for the loss of capacity



1. Demand Nomination – Controls

Transparency:

- Each producer's demand nomination will be made available for inspection by other producers

Suggestions / Ideas for Discussion:

- Only aggregate demand nominations will be made available for inspection, rather than mine-by-mine.

Rationale:

- Demand nominations made transparent to encourage a cooperative approach to demand nominations and ensure accuracy
- Transparency by mine may improve accuracy but may be commercially sensitive



1. Demand Nomination – Controls

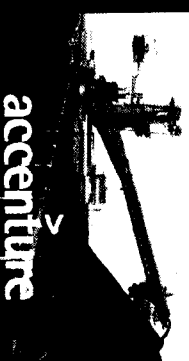
- Audit:**
- Demand nominations will be subject to independent audit to determine whether the producer has ability to produce and deliver to port a volume of coal at least equal to forecast

Suggestions / Ideas for Discussion:

- Auditor (and arbiter) to be appointed by an Industry Reference Group
- Only demand nominations that are more than a 5% increase on the maximum port throughput over the past 3 years will be subject to audit. (Should there be other audit triggers?)
- Audits will be funded by PWCS
- The audit should take into account (but not be limited to):
 - appropriate authorisations (mining lease, development consent)
 - capacity of plant/equipment (e.g. wash plant, stockpile capacity etc)
 - mine plans and budgets
 - # employees & shifts in budget plans
 - train contracts and loading point capacity (aggregate forecasts for each specific load point to determine feasibility)
 - plans for domestic vs export production
 - historical exports
- **Arbitration:** a suitable person will be appointed by the Industry Reference Group to act in the role of arbiter in the event of a disputed outcome. The decision of the arbiter will be final and binding.

Rationale:

- To validate demand nominations



2. Capacity Declaration – Process

Proposed Approach:

- PWCS declare annual coal chain capacity, in conjunction with HVCCLT, based on actual historical performance in 2004, adjusted for known maintenance for the duration of the proposed solution and expected performance gains in 2005
- PWCS/HVCCLT will monitor coal chain performance regularly and revise coal chain capacity as necessary (*refer Allocation Management*)

Suggestions / Ideas for Discussion:

- PWCS declare annual and quarterly coal chain capacity

Rationale:

- Relies on empirical evidence where possible, but incorporates forecast improvements to ensure 'best' estimate of available capacity
- Quarterly declaration is made to allow for increases in capacity over the year. Allocation to producers will reflect capacity increases across the year, rather than smoothed evenly for each quarter
- HVCCLT representative of coal delivery system, and is therefore best positioned to estimate available (declared) capacity



2. Capacity Declaration – Controls

Proposed Controls:

- Audit – the declared capacity is subject to audit by an independent expert to ensure accuracy
- Transparency – decision rationale and supporting information used by PWCS/HVCC will be made available to producers

Rationale:

- If Producer nominations are subject to audit the capacity declared should be subject to audit to ensure accuracy
- Consistent with the principle of transparency, which has been deemed to ensure confidence in the solution

Objectives

Demand & Supply Balancing

