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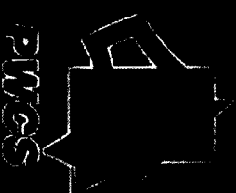
High performance. Delivered.

Port Waratah Coal Services Limited

Medium Term Draft Solution Design

Industry Forum 3

September 2nd, 2004





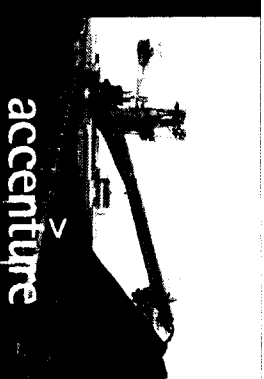
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FOR DISCUSSION PURPOSES ONLY

This document was prepared by Accenture for PWCS as a discussion document only. It should be considered incomplete without the accompanying verbal commentary. It is intended to further the design of a solution in consultation with industry participants.

Objectives



- Present an overview of the proposed Medium Term Solution Design (Draft) for discussion
- Workshop key outstanding elements of the design with a view to:
 - ✓ Identifying issues relating to the design
 - ✓ Identifying preferred alternatives or suggestions for improving the design
- Present and discuss a draft timetable and approach to implementing the solution, including requesting demand forecasts, making an application to the ACCC and preparing the legal framework to implement the solution

Note:

- Nothing in this document is binding or final
- PWCS will issue a more detailed design document (the Objectives Principles & Protocols Document) for further consultation
- Moving forward, PWCS will be seeking final forecasts and preparing an application for the ACCC seeking authorisation

Agenda



- 9.30 Introductions
- 9.45 Update on Capital Projects and Long-Term Solution
- 10.15 Medium Term Draft Solution Overview

Morning Tea

- 11.00 Breakout Groups 1: Outstanding Design Issues
 - Quarterly allocation
 - Flexibility provisions
 - Audit triggers and approach, including arbitration & options/alternatives
 - Compensation for under-use of allocation
 - Triggers

Lunch

- 1.00 Breakout Groups 2: Auction Controls
 - Conduct of auction: sealed-bid; open outcry (i.e. real-estate auction); online English auction
 - Price controls i.e. maximum allowable bid price; clearing price safety net
 - Volume controls i.e. minimum bid volumes to cap exposure to auction price

Afternoon Tea

- 2.15 Next Steps:
 - Demand Forecasts
 - ACCC Authorisation
 - Legal Framework
 - Timetable

Objectives

Update on Capital Projects & Long Term Solution



Long Term Solution Components



Physical Initiatives:

- Project Enhance 120 modelling & analysis has shown that a throughput capacity of 100+Mtpa can be achieved through a combination of process improvement and Capex by 2008.
- Due to the concentrated efforts over last 18 months (ie IDT, Improvement Teams, HVCCLT etc) the scope for process improvement capacity gains is diminishing.
- Most of the capacity improvement initiatives now are capital based.
- Lifting load point capability is the most critical issue over next 18 months, key areas to be addressed include;
 - Increasing train/day peaking capacity to match cargo build times of all load points.
 - Reducing load rate variability.
 - Planning around random vessel arrival patterns.

Commercial Initiatives:

- Formalisation of HVCCLT
- Creation of System Rules
- Introduction of Long-Term ToP

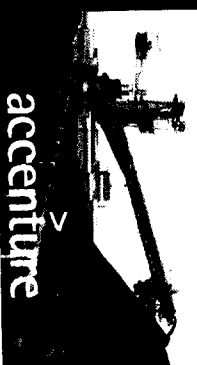
4 Year Capacity Plan – Key Initiative Summary



Throughput Threshold	Key Initiative	Est. Completion By (Based on 2003 Forecast)
To Achieve 85Mtpa	<p>Maintain train fleet re-powering (UPTWO) configuration plus;</p> <ul style="list-style-type: none"> • New Capacity/Stockpile Planning (4 Queues) • KCT process improvement (belt deviations & chutes) • Key load point upgrades – quick wins (HV & MTOWW) • CCT Stackers 2 & Reclaimer 1 recommissioned • 2 additional PN consists • Integrated Planning System 	<p>Q3 2004</p> <p>Q4 2004</p> <p>Q1 2005</p> <p>Q1 2005</p> <p>Q2 2005</p> <p>Q3 2005</p>
To Achieve 90 to 95Mtpa	<p>All of 85Mtpa plus;</p> <ul style="list-style-type: none"> • Jerry's Plains Coal Terminal • Ulan CTC • Whittingham Branch line duplication • Hanbury Grade Separation • Muswellbrook Yard extension • KCT Pad C extension • Drayton Branch Extn 	<p>Q1 2006</p> <p>Q1 2006</p> <p>Q1 2006</p> <p>Q1 2006</p> <p>Q2 2006</p> <p>Q2 2006</p> <p>Q2 2006</p>
To Achieve 95 to 105Mtpa	<p>All of 90 to 95Mtpa plus;</p> <ul style="list-style-type: none"> • Half Pad D and Stacker at KCT (Approved within KCT Stage 3 DA) • Minimbah and Nundah Bank grade reduction • Key load point upgrades (HV, Ulan, Liddell) • Eliminate refuelling constraints KCT • CCT belt upgrade to 3000tph • PN back to BIG train fleet configuration (ie 80 and 60 wagon consists) • Mainline Bi Di signalling 	<p>Q1 2007</p> <p>Q1 2007</p> <p>Q1 2007</p> <p>Q1 2007</p> <p>Q1 2007</p> <p>Q1 2007</p> <p>Q1 2007</p> <p>Q4 2007</p>
To Achieve >105Mtpa*	<p>All of 95 to 105Mtpa plus;</p> <ul style="list-style-type: none"> • Muswellbrook-Antiene duplication • 1 additional train (60 wagon consist) • Upgrade secondary load points to Benchmark levels • Complete Remaining KCT Stage 3 	<p>Q4 2007</p> <p>Q4 2007</p> <p>Q4 2007</p> <p>Q1 2008</p>

Items shown in bold/blue are approved for construction/implementation
 * Modelling of capacity above 105Mt still being undertaken

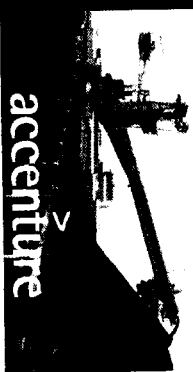
4 Year Capacity Plan – Key Initiative Summary



Throughput Threshold	Key Initiative	Status as at 1 September 2004
To Achieve 85Mtpa	<p>Maintain train fleet re-powering (UPTWO) configuration plus;</p> <ul style="list-style-type: none"> • New Capacity/Stockpile Planning (4 Queues) • KCT process improvement (belt deviations & chutes) • Key load point upgrades – quick wins (HV & MTOMW) • CCT Stacker 2 & Reclaimer 1 recommissioned • Additional consists • Integrated Planning System 	<ul style="list-style-type: none"> • Implementing (HVCCLT) • Implementing (PWCS) • Review commenced (RTCA) • St 2 by Q3/04, Rec 1 by Q1 2005 (PWCS) • Trains ordered, delivery March 05 onwards • Commenced Detail Design (HVCCLT)
To Achieve 90 to 95Mtpa	<p>All of 85Mtpa plus;</p> <ul style="list-style-type: none"> • Jerry's Plains Coal Terminal • Ulan CTC • Whittingham Branch line duplication • Hanbury Grade Separation • Muswellbrook Yard extension • KCT Pad C extension • Drayton Branch Extn 	<ul style="list-style-type: none"> • Funding approved, GH&D designing • Awaiting action (ARTC) • Awaiting action (ARTC) • Going to construct tender (ARTC) • Awaiting action (RIC/ARTC) • Detailed Design commencing (PWCS) • Awaiting action (ARTC)
To Achieve 95 to 105Mtpa	<p>All of 90 to 95Mtpa plus;</p> <ul style="list-style-type: none"> • Half Pad D and Stacker at KCT (Approved within KCT Stage 3 DA) • Minimbah and Nundah Bank grade reduction • Key load point upgrades (HV, Ulan, Liddell) • Eliminate refuelling constraints KCT • CCT belt upgrade to 3000tph • PN back to BIG train fleet configuration (ie 80 and 60 wagon consists) • Mainline BI DI signalling 	<ul style="list-style-type: none"> • Detail Design commencing (PWCS) • No Progress, concept stage (ARTC) • Design stage (RTCA) In discussion (Xstrata) • In discussion (PN) • Study underway (PWCS) • Dependent on all above (HVCCLT/PN) • Slow progress (ARTC)
To Achieve >105Mtpa*	<p>All of 95 to 105Mtpa plus;</p> <ul style="list-style-type: none"> • Muswellbrook-Antiene duplication • 1 additional train (60 wagon consist) • Upgrade secondary load points to Benchmark levels • Complete Remaining KCT Stage 3 	<ul style="list-style-type: none"> • Awaiting action (ARTC) • Depends on demand • Concept only • Study underway (PWCS)

* Actual capacity yet to be modelled - depends on the interaction of demand, trains, track and port operations

4 Year Capacity Plan – Capital Cost Summary



- Through a combination of load point & port receival upgrades and reverting to bigger train fleets the need for KCT Stage 3 capital can be deferred beyond 105Mtpa.
- Due to inter-dependency, all initiatives need to be completed to achieve threshold level
- **Of the capital required to achieve 95Mtpa, 78% is approved**

Estimated Capital Required to Achieve Around 95 Mtpa Throughput	
PWCS	\$12.5M (\$9M Approved)
RIC/ARTC	\$53.5M (\$25M Approved)
Pacific National Producers (load points)	\$56.5M (\$55M Approved)
Total Capital	\$48M (\$45M Approved)
Estimated Capital Required to Achieve Around 105 Mtpa Throughput	
PWCS	\$50*M
RIC/ARTC	\$70M
Pacific National Producers (load points)	\$5M
Total Capital	\$30*M
Estimated Capital Required to Achieve Around 120 Mtpa Throughput	
PWCS	\$135M
RIC/ARTC	\$35M
Pacific National Producers	\$27M
Total Capital	\$30*M
Total Capital \$227M	

* Estimate, yet to be confirmed

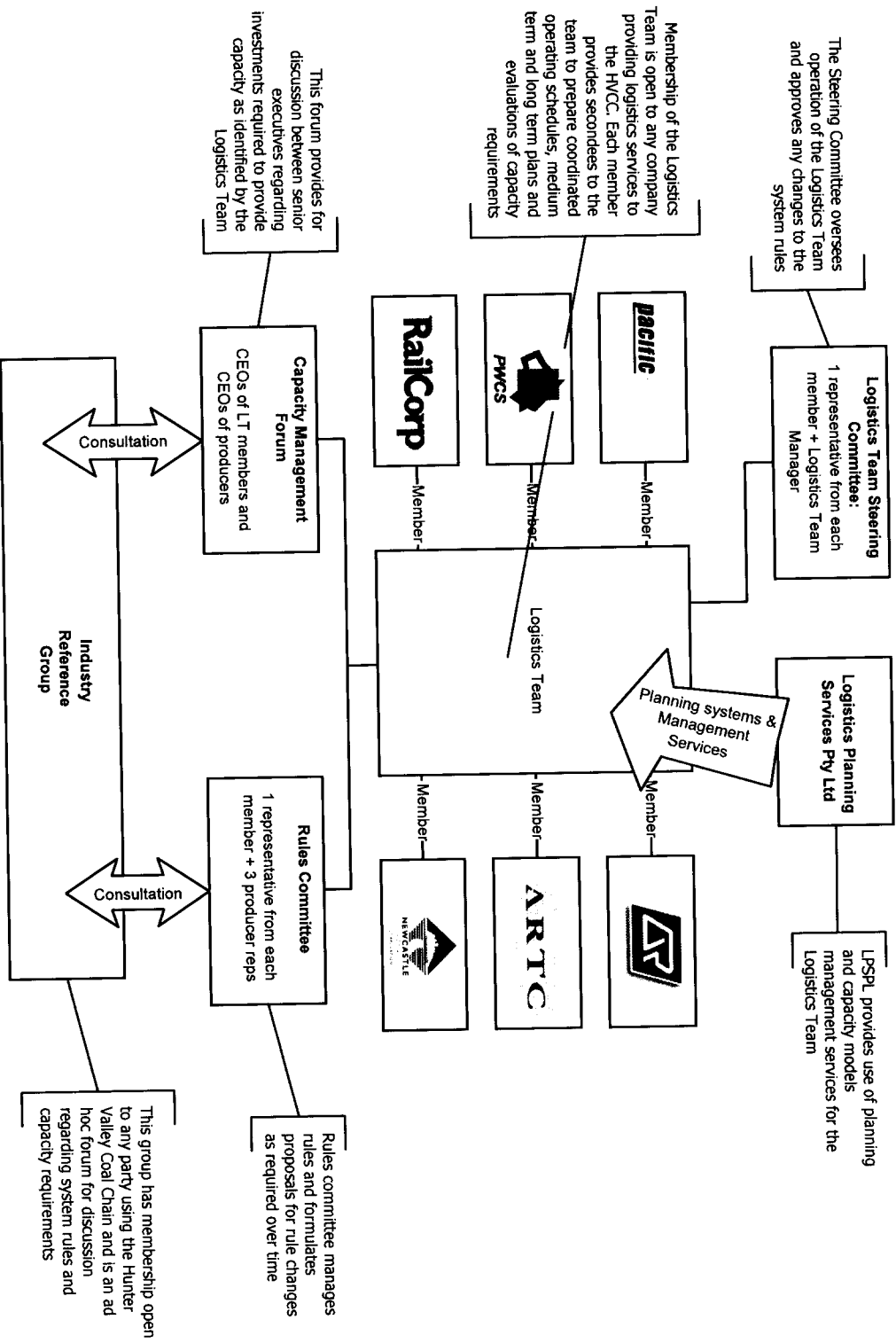
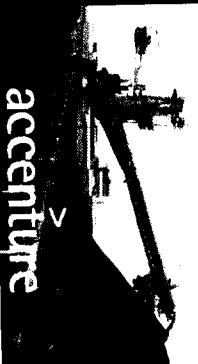
Objectives For The Long Term Solution



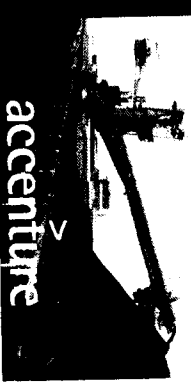
The objectives of the long term solution are:

- Maximise throughput of the HVCC within its current capabilities while minimising total supply chain costs.
- Achieve future system capacity consistent with verified demand.
- Provide access to the coal chain in a disciplined, fair and unbiased manner.
- Provide a mechanism for equitable management of capacity when exceeded by demand.
- Provide an environment for continual improvement.

Formalisation of HVCCLT (DRAFT)



Characteristics Of Long Term Solution (DRAFT)



Consistent with the objectives, characteristics of a solution would include:

- For the purpose of planning and scheduling treat the HVCC as a single system.
- Provide a set of Rules applicable to all parties designed to maximise throughput and provide for disciplined operation of the system.
- Use the Logistics Team as a vehicle for cooperative planning for the benefit of the HVCC as a whole.
- Identify, on a system basis, projects required to achieve desired system capacity.
- Incorporate mechanisms in commercial relationships to encourage investment (eg take-or-pay commitments).
- Provide processes for consultation.
- Recognise that the producer is ultimately responsible for securing capacity.

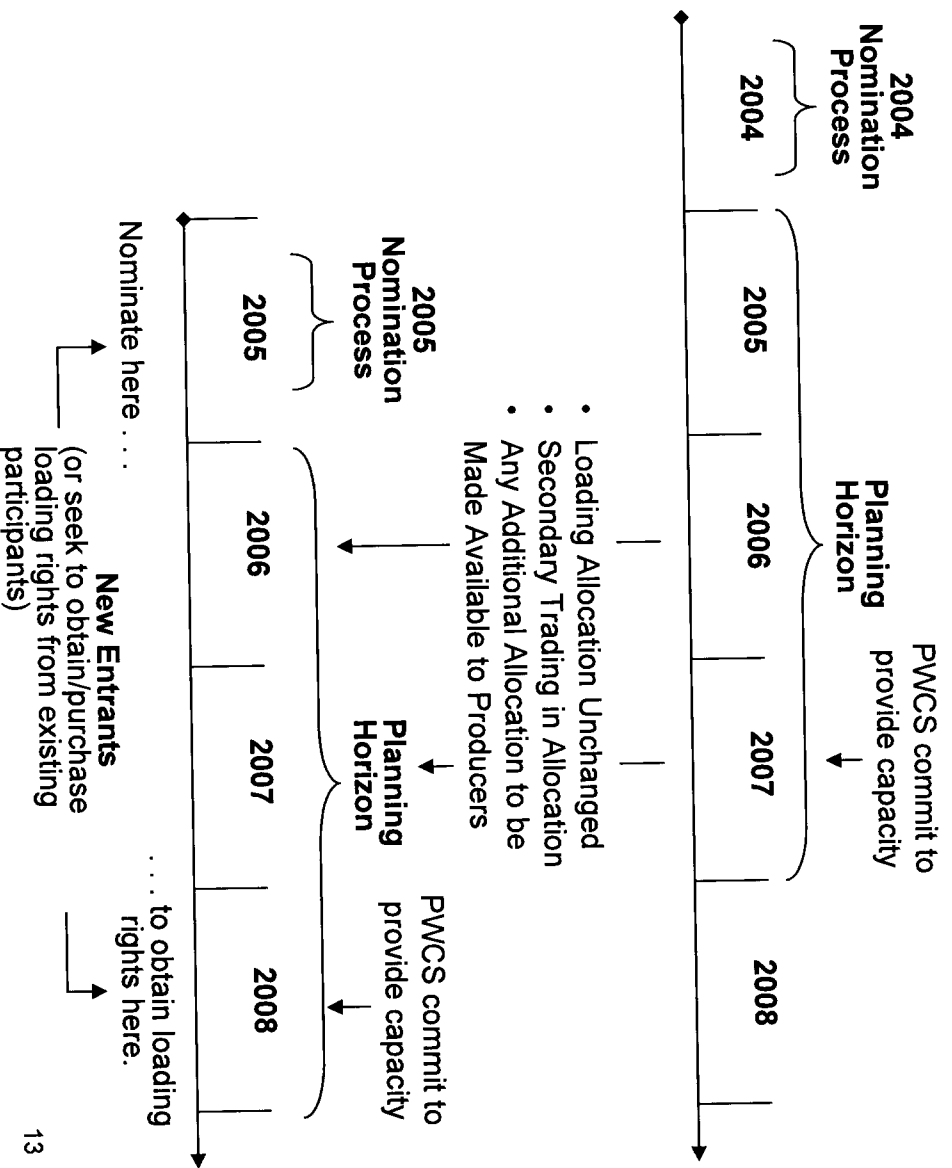
Long-Term TOP (DRAFT)



Illustrative Only

The long term process will create a mutual obligation to provide and use capacity. Three years provides a compromise between sufficient time to plan and deliver capacity, while still providing flexibility to producers and new entrants.

- Nominations conducted annually for three years in advance
- TOP Allocation made to Producers at Coal Handling Services Fee
- Mutual commitment between PWCS and Producers to provide and use the coal chain capacity
- A supply-demand balancing mechanism is required in 2005/06 and may be required in future years if demand exceeds the physical ability to provide capacity
- Secondary trading in Allocation to be provided as per existing CDS and 2005 Draft Solution
- Expected that allocation will be managed as per 2005 Draft Solution
- New entrants supported by either:
 - ✓ Ability to acquire allocation from incumbents
 - ✓ Provision of three years notice of intent to commence production, with TOP obligations
 - ✓ Access to any additional coal capacity that may become available within three years



Objectives

Medium Term Draft Solution Overview


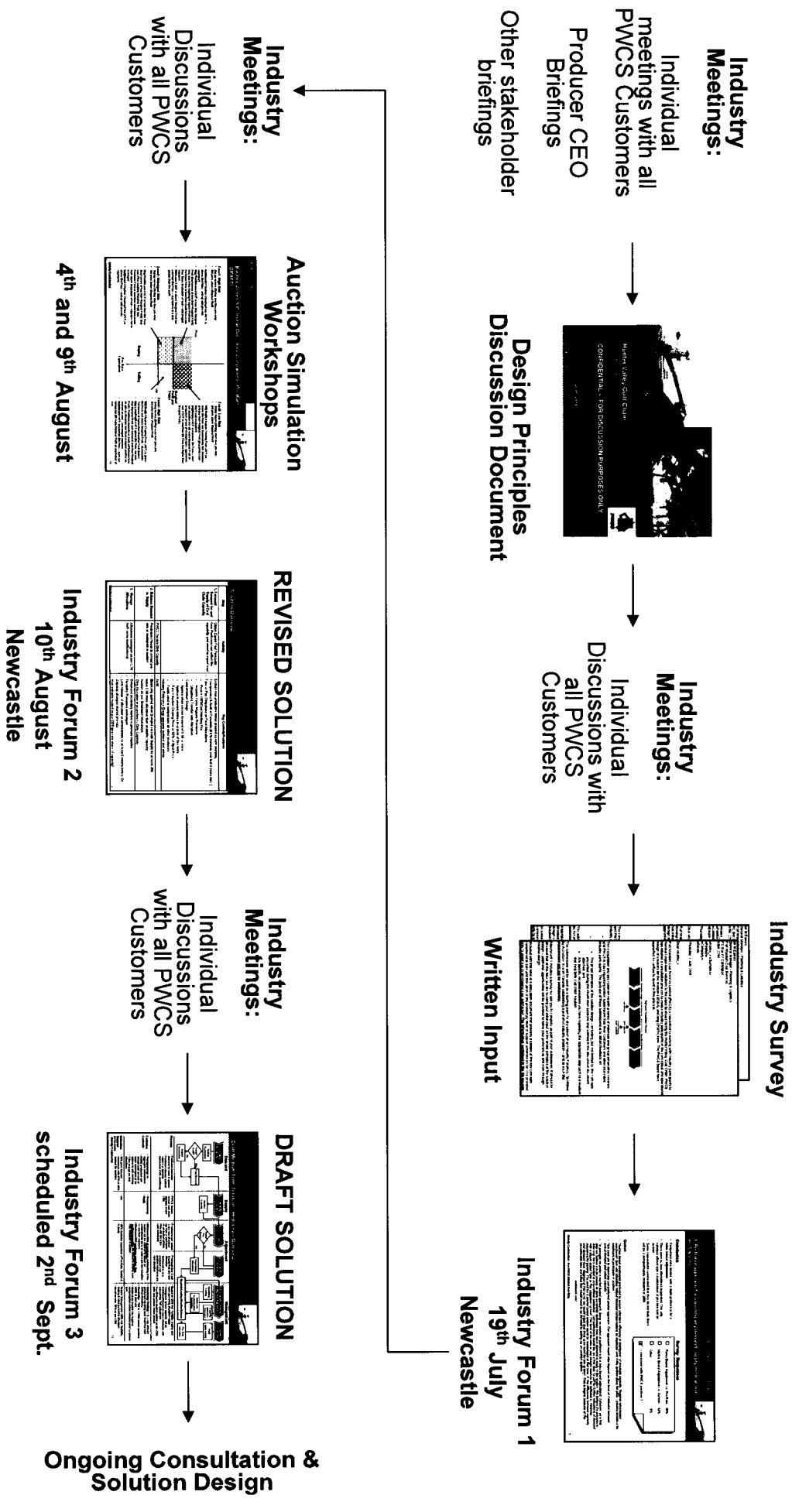




Objectives

- To ensure continued efficient operation of port.
- To minimise demurrage consistent with maximum coal chain throughput.
- To efficiently distribute the available coal chain capacity among producers in an equitable, transparent and accountable manner.
- Is to apply until coal chain supply logistics issues allow greater commercial alignment of demand, supply and coal chain capacity.

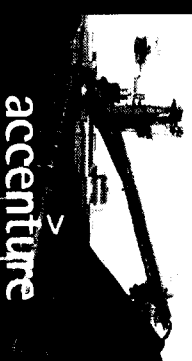
The Process to arrive at the Medium Term Draft Solution

What's new?

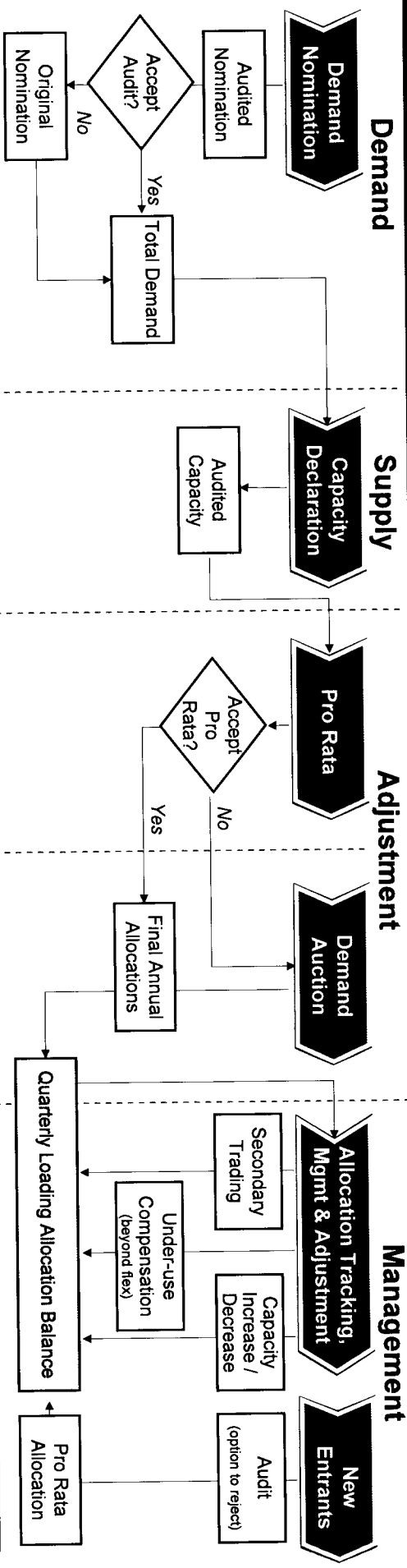
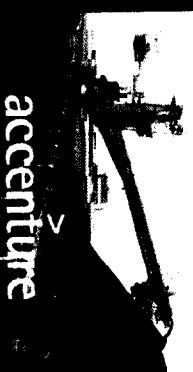


	<i>New Feature</i>
Take or Pay	<ul style="list-style-type: none"> Take or Pay obligations apply to all unused allocation outside flexibility limits at the end of a quarter at the coal handling services charge rate.
Audit	<ul style="list-style-type: none"> Triggers based on industry defined guidelines. The auditor's determination can be rejected and receive their demand forecast as a starting point for adjustment subject to financial commitment to delivery and restrictions upon selling allocation.
Capacity and Demand declaration and Balancing	<ul style="list-style-type: none"> Capacity declared quarterly Forecast Demand nominated quarterly for 2005 and annually for 2006 and 2007 Balancing applied if the imbalance is greater than 3Mt in 2005
Auction	<ul style="list-style-type: none"> Every producer must submit an unconditional bid up to at least their pro rata reduction
Compensation	<ul style="list-style-type: none"> Physical Compensation as per existing CDS. Financial Compensation for producers who rejected the demand auditor's determination. Producers will only be exempted from compensation if they notify the Administrator prior to the start of the quarter of their inability to use the allocation.
Flexibility limits	<ul style="list-style-type: none"> Flexibility limits between quarters -30kt to +150kt Upper flexibility reduced to 90kt at the end of the year



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"> • Non productive mines incorporated as new entrants • Audit of Nominations where required based on guidelines incorporating industry input • Aggregate forecasts are transparent to all producers • Take or Pay Obligations attach to Final Allocations: <ul style="list-style-type: none"> - TOP Price = Coal Handling Fee - Applies to unused tonnes in excess of flexibility limits at end of quarter - Includes Force Majeure Provisions - Obligations Transfer with Allocation • Producer Reference Group appoints auditors
2. Balance Demand to Supply	PWCS Declare Qtrly Capacity Producers choose to accept pro-rata or participate in auction	<ul style="list-style-type: none"> • Audit and Transparent • Balancing applied when Demand exceeds Capacity by >3Mt • Auction as per Simulation Workshops
3. Manage Allocations	Allocations managed as per CDS (with some modifications)	<ul style="list-style-type: none"> • Enhanced secondary market to promote liquidity • Flexibility Provisions of -30kt and +150kt between quarters, limited to +90kt annually. Period overlaps of +/- 5 days • Remove ability to "hand back" tonnes to the Administrator • Unused allocation volume deducted from future period as compensation • Capacity changes shared pro-rata according to post-adjustment allocations • New entrants required to give notice of at least one full quarter, provide a demand nomination and receive pro-rata allocation with TOP obligations

Draft Medium Term Solution – High Level Overview

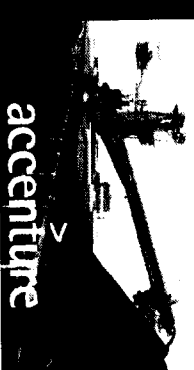


Process	Supply	Adjustment	Management
<ul style="list-style-type: none"> Producers nominate demand by mine & quarter Producers choose audited volume or demand nomination (with conditions) 	<ul style="list-style-type: none"> PWCS declare annual coal chain capacity as per CDS 	<ul style="list-style-type: none"> Producers can accept a pro rata allocation up front or participate in an auction (where they can bid a pro rata reduction) Producers buy & sell around their pro rata allocation Settlement is on a producer's net position relative to pro rata allocation 	<ul style="list-style-type: none"> Based on CDS incl. flexibility, trading and rules governing allocation usage Changes in system capacity will be distributed/shared on a pro rata basis with appropriate TOP adjustment New Entrants accommodated as per CDS (one quarter's notice and physical settlement)

Features/ Controls	Supply	Adjustment	Management
<ul style="list-style-type: none"> Transparency: on aggregate nominations Audit: producers can accept audit amount or retain nomination (& be subject to add controls) Take-or-pay: on final allocations 	<ul style="list-style-type: none"> Transparency Audit 	<ul style="list-style-type: none"> Minimum Bid: all producers participating in the auction will be required to submit an unconditional bid of at least a pro rata reduction to cap their exposure Maximum Bid: producers rejecting their audited nomination are limited to bidding a pro rata reduction in auction 	<ul style="list-style-type: none"> Secondary Trading: 1 & 2-way allowed (producers rejecting audit restricted from selling allocation) Flexibility: -30kt to +150kt across quarters; -30kt and +90kt at year end Under-Use: beyond flex requires compensation unless released prior to quarter start

Indicative Support (survey results)	Supply	Adjustment	Management
<ul style="list-style-type: none"> 56% pure demand nomination with 65% to 82% support for controls 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> 88% (includes supporters of Pro-Rata, Auction & Hybrid) 	<ul style="list-style-type: none"> System Management >80% incl. flexibility, trading & rules governing allocation New Entrants: 56% as per CDS

Objectives



Breakout Session 1 :

Outstanding Design Issues

- Quarterly allocation
- Flexibility provisions
- Audit triggers and approach, including arbitration & options/alternatives
- Compensation for under-use of allocation
- Triggers