Attachment I - Summary of Allocation Usage under Capacity Distribution System

The purpose of this Attachment is to provide a very practical explanation of loading allocations as opposed to capacity and why any under use of loading allocation does not necessarily translate to lost exports.

Background

The Proposed Medium Term CDS manages vessel arrivals. Under the CDS, each coal producer is given a 'loading allocation' for each calendar quarter. A producer's quarterly loading allocation equates to their allowable vessel arrivals in that period. Loading allocation is time-specific, that is, it is applicable to a calendar quarter. Loading allocation is considered 'used' at the time of vessel arrival.

PWCS customer service staff check that a producer has available quarterly loading allocation when a customer 'nominates' a vessel to PWCS. Vessel nomination equates to an application for coal handling services for a given vessel that is forecast to arrive on a given date.

Each producer is required to use all of their loading allocation within each quarter, within certain tolerances, or to exchange or transfer that allocation with or to another producer. The tolerances are typically plus or minus 90,000 tonnes of the producer's quarterly allocation. Any under-use of allocation within the tolerance is carried forward (credited) to the producer's allocation for the following quarter. Any over-use of allocation is deducted from the producer's allocation in the following quarter.

If the tolerance allowance is included, it is clear that the CDS loading allocation or permitted arrivals in each quarter is significantly greater than the theoretical capacity. Loading allocation is independent of capacity.

The data in Table I1 below was extracted from PWCS's CDS register on 17 September 2004.

Table I1: Available Allocations 2004

Quarter	Available (incl flex)	Annualised Available Allocation [Mt pa]	Allocation 'Used'
Q2	18,557,000	75.5	approx 230,000 t < (base) allocation
Q3	22,229,877	89.4	approx 300,000 t < (base) allocation
Q4	21,515,000	85.6	

Source: Accenture

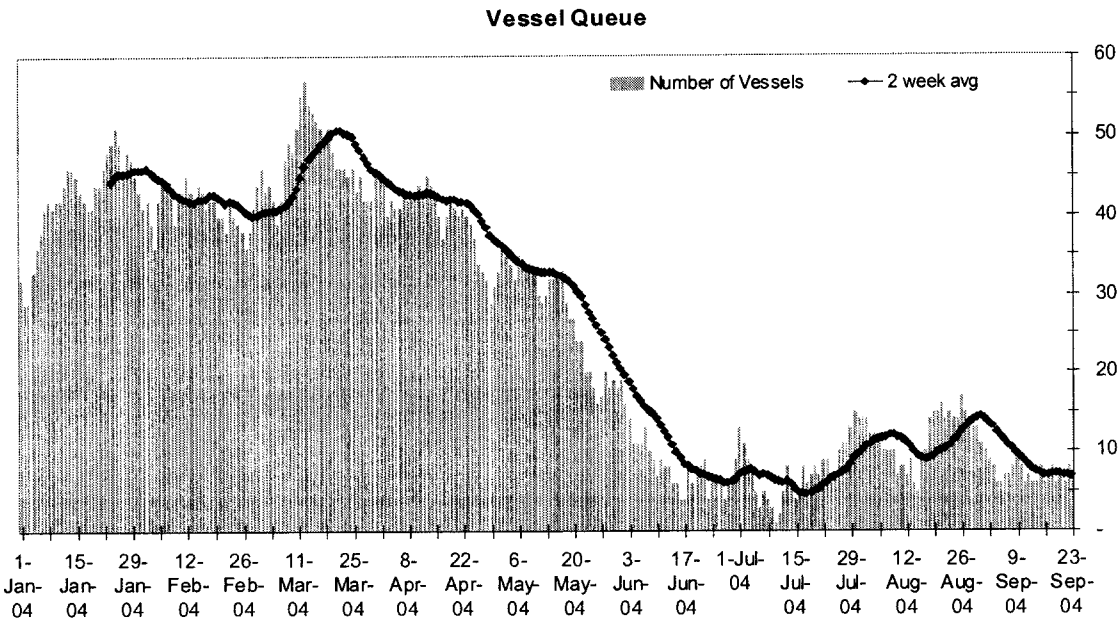
The number of vessels in the queue at the end of any period will be equal to the number of vessels in the queue at the start of the period, plus the arrivals over the

period, less the shiploading. Shiploading is linked to coal chain capacity, although it varies from time to time due to the fluctuations of stocks in the cargo assembly yards.

Achievement of the Objectives

The objectives of the CDS were to equitably decrease and manage the vessel queue without compromising throughput. The queue has decreased from a maximum of 56 in March 2004 to an average of approximately 10 vessels. Figure I1 below details the vessel queue

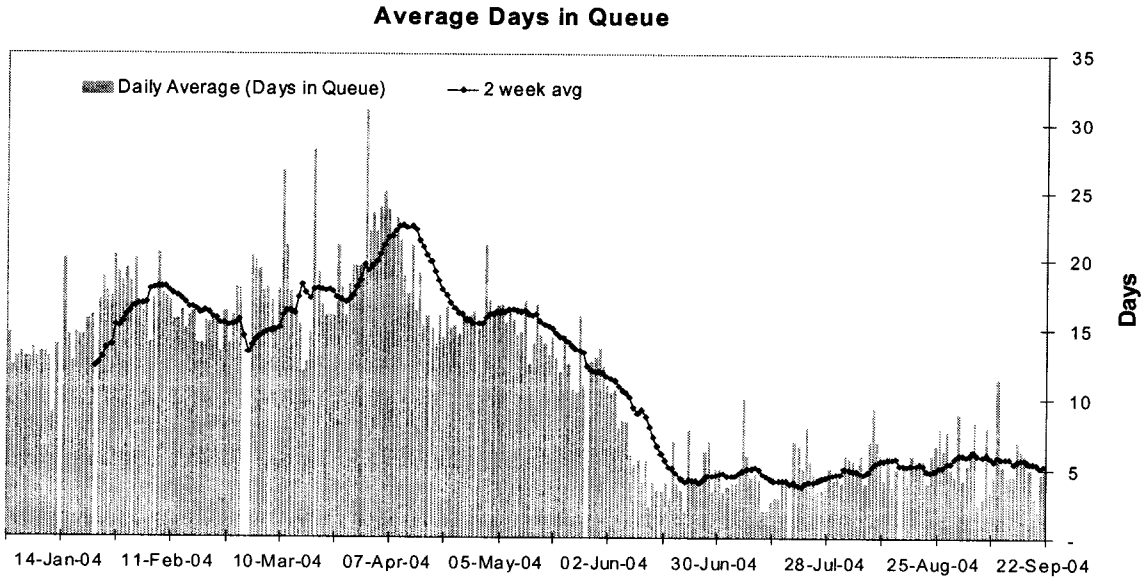
Figure I1: Vessel Queue January 2004 - September 2004



Source: Accenture

Per-tonne demurrage is a function of the time that each vessel spends in the queue. The vessel wait time has decreased with the queue length. The two week historical average wait time has decreased from approximately 25 days to a current level of approximately 5 days, as outlined in Figure I2 below.

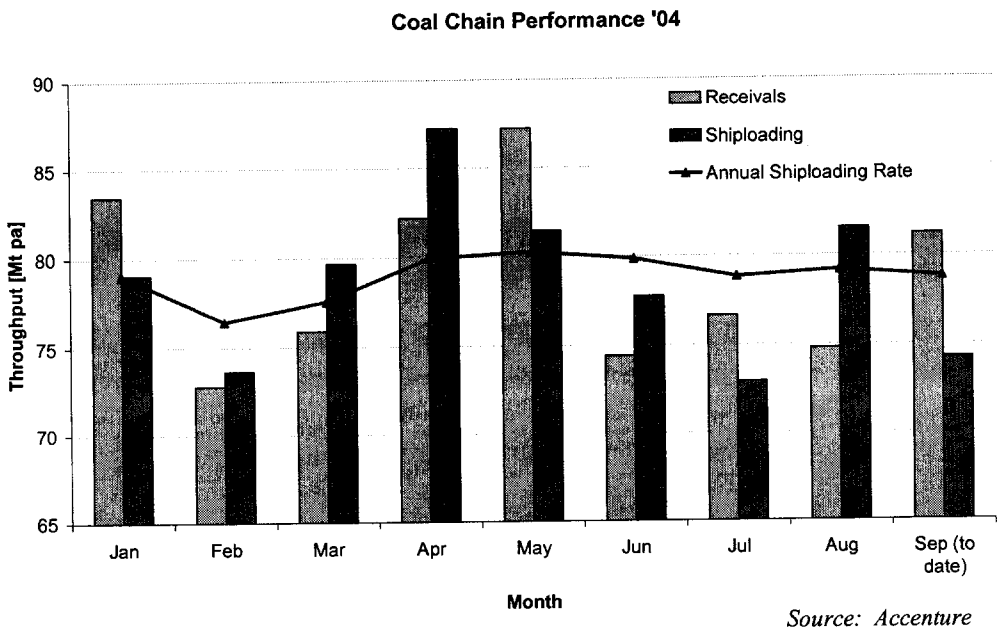
Figure I2: Average days in queue
January 2004 - September 2004



Source: Accenture

Receivals and shiploading are useful measures of coal chain performance. Coal chain performance is dependent on a range of complex variables. Receivals, which are a measure of the coal delivered to the terminals, and shiploading typically oscillate, relative to each other. That is, if shiploading is high in one period, then it is likely to be less than receivals in the following period. Shiploading can only exceed receivals if stocks decrease, and stocks are limited. In late September 2004, the annualised shiploading rate (year to date) was approximately 79 Mt pa. A secondary effect of the shorter queue is a smaller delay between vessel arrival and the time that the coal is required to be available. Figure I3 details the coal chain performance during 2004.

Figure I3: Coal chain performance January - September 2004



Source: Accenture

Operation of the CDS

The CDS is administered by an independent consultant. The central tool supporting the system is a custom built database. The database uses existing PWCS reports as inputs and creates daily reports for all producers.

Information on the operation of the scheme is disseminated widely and frequently. The industry is involved in the on-going monitoring and refinement of the scheme. Table I2 below summarises the available information and industry involvement.

Table I2: Reporting information on CDS

Item	Frequency	Audience
Producer Usage Reports	Daily	Producers
Producer Usage Graphs	Weekly	Producer CEO's / senior execs.
CDS Detailed Report	Weekly	PWCS, HVCCLT
CDS Summary Report	Weekly	Industry
Industry Consultation Meetings	Monthly / Bi-Monthly	Industry Representatives
Ad-hoc reporting	On request	Producers, PWCS, HVCCLT
System Support, via telephone and site visits	On request	Industry

Source: Accenture

The facility to re-distribute loading allocation has been widely used. It both increases per-producer flexibility and enables to re-distribution of allocation to those with demand. Table I3 below summarises the volume of transfers and swaps of allocation to date.

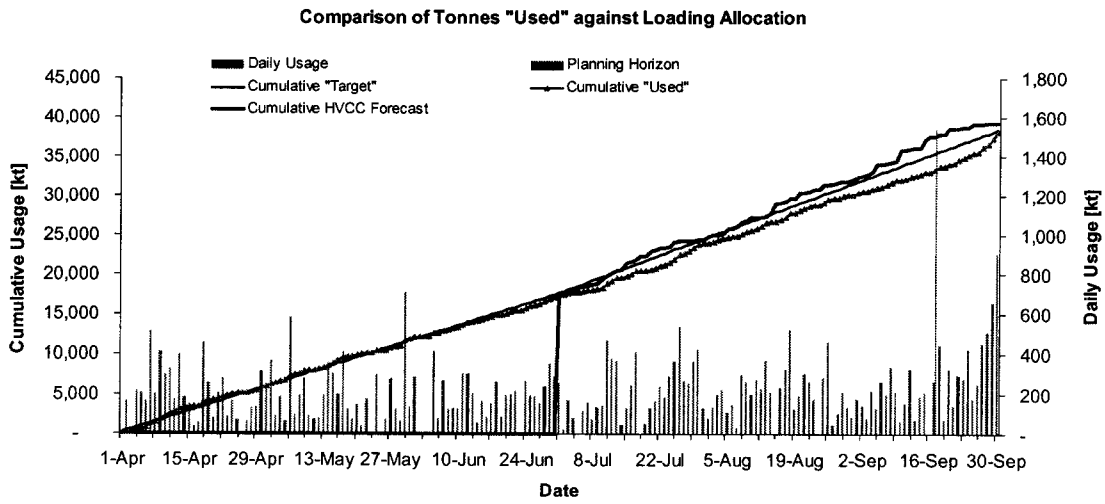
Table I3: Volume of transfers and swaps (to September 2004)

	Items	Tonnes
Transfers	12	814,000
Swaps	10	805,000

Source: Accenture

Coal chain throughput is tracked and reported relative to both producer forecasts and a theoretical average required usage rate. Deviations from the required rate affect the queue length. For instance, in Figure I4 below, which details actual usage in Q's 2 and 3, had the actual arrival rate been higher (the red line track more closely to the straight black line) then the queue through the quarter would have been slightly longer.

Figure I4: Comparison of tonnes "used" against loading allocation April - September 2004



Source: Accenture

[Confidential - information deleted]