



Port Waratah Coal Services Limited

Medium Term Capacity Distribution System

Australian Competition & Consumer Commission

Report for 2005

Executive Summary



The purpose of this report is to provide an update to the Australian Competition and Consumer Commission (“Commission”) on capacity expansion initiatives in the Hunter Valley Coal Chain and the operation of the Medium Term Capacity Distribution System (“MTCDS”) for 2005.

In summary:

- Incentive to expand Hunter Valley Coal Chain - PWCS and the Hunter Valley Coal Chain are continuing to expand capacity and are implementing the Integrated Capacity Master Plan.
- Increase in aggregate coal exports - A total of 80.3 Mt were exported through the Port of Newcastle in 2005. This represents a 3.2% increase over export coal throughput at the Port of Newcastle in 2004.
- Opportunity for Producers to reduce stockpiling costs / opportunity for export growth - Allocation was available in excess of the declared capacity for the Coal Chain for each quarter during 2005 and there was no shortage of available allocation in any quarter.
- Improved capacity utilisation through use of flexibility provisions / maximisation of throughput - Producers took advantage of the MTCDS’ flexibility provisions including transfers of allocation, use of conditional allocation, pre-quarter notification of surplus allocation, nomination of vessels during the overlap period and the use of inter-quarter flexibility tonnages.
- Decrease in vessel queue / improved reputation - The average vessel queue for 2005 was 15 compared with an average vessel queue of 43 in the quarter prior to the commencement of the Short Term CDS.
- Decreased demurrage - Indicative demurrage savings to the industry are approximately US\$164 million for 2005.
- Industry support for MTCDS - More than 50% of Producers in number and more than 75% of Producers in volume voted to continue the MTCDS in 2006.

Unless otherwise stated, all tonnages contained in this report are rounded to the nearest thousand tonnes (‘kt’).

Rail, Port and Other Capacity Expansion Projects



Key initiatives completed or commenced in 2005 include:

- April 2005 -The PWCS Board approved \$170 million for the expansion of PWCS' capacity to 102mtpa. Construction is scheduled for completion in 2007.
- May 2005 - QRNational commenced phased introduction of three train consists (222 wagons and 6 locomotives) which was completed by the end of 2005.
- June 2005 - A Capacity Enhancement Strategy (CES) Project, jointly sponsored by PWCS and HVCCLT commenced with the main objective of the project to identify and release latent capacity at the Port.
- July 2005 – Each of PWCS and the Newcastle Coal Infrastructure Group (NCIG) lodged a binding submission to the Regional Land Management Corporation for a thirty-five year lease of a 136 hectare site on Kooragang Island to build a third coal loader. On 26 August 2005 the NSW Minister for Ports and Waterways announced that NCIG was the winning proponent to develop Newcastle's third coal loader.
- October 2005 -Two additional PacificNational ('PN') train consists (176 wagons and 4 locomotives) became operational.
- November 2005 - The PWCS Board approved \$6.4 million for an engineering study and associated regulatory approvals to expand PWCS' capacity to 125mtpa. Detailed engineering and dredging design has commenced and is expected to be completed in Q4 2006.
- November 2005 – The PWCS Board approved \$3.3 million to increase the rate for the new fourth stacking stream to 8,000 tph as part of PWCS' current expansion project. This will increase total PWCS capacity to approximately 105 Mtpa.
- Ongoing alignment of maintenance across the Coal Chain and Load Point improvements

Rail, Port and Other Capacity Expansion Projects



The activities undertaken in 2005 form part of the Integrated Capacity Master Plan. The following Integrated Capacity Master Plan is currently under review and will be reprinted in light of demand forecasts received by PWCS.

Key Initiatives – Phases I	Estimated Capacity	Avail' By	Status as 1 December 2005
<ul style="list-style-type: none"> •Additional train consists (PN & QRN) •Integrated Planning System (HVCCLT) •Additional effective path combinations for M-A Sector (ARTC) •Minimbah and Nundah Bank headway reduction - 80 km/h (ARTC) 	87 Mtpa	Q1 2006	<ul style="list-style-type: none"> •Actions identified to access additional wagons and paths. •80 km/h speed requirements being assessed by ARTC
All of 87Mtpa plus; <ul style="list-style-type: none"> • Sandgate Grade Separation (ARTC) • Full track duplication Antiene - Muswellbrook & Yard rationalisation (ARTC) • Ulan CTC (ARTC) • Part Gunnedah and Ulan Section track upgrades (ARTC) • Lower Hunter Signal Box Rationalisation (ARTC) • Construct Half Pad D and Stacker at KCT, Stage 3D (PWCS) • Wambo Coal Terminal (Wambo Mine) • Key load point upgrades (RTCA & Xstrata) 	100 Mtpa	Q4 2007	<ul style="list-style-type: none"> •Sandgate construction commenced •ARTC reviewing its Hunter Valley Corridor Strategy •PWCS Stage 3D expansion commenced April 2005 •Wambo Coal Terminal commenced February 2005 •RTCA and Xstrata LP upgrades approved.

Source: Hunter Valley Coal Chain Logistics Team

Rail, Port and Other Capacity Expansion Projects



Key Initiatives – Phases II	Estimated Capacity	Avail' By	Status as 1 December 2005
All of 100Mtpa plus; <ul style="list-style-type: none"> •Minimbah/Nundah Bank headway – re-signalling and/or 3rd track (ARTC) •Complete Gunnedah and Ulan Section track upgrades (ARTC) •Full Bi-Di signalling Maitland to Minimbah (ARTC) •Upgrade all inbound streams and construct 4th Berth at KCT (PWCS) •3 to 4 additional train consists •Further key load point upgrades 	110 Mtpa	Q4 2008	<ul style="list-style-type: none"> •ARTC reviewing its Hunter Valley Corridor Strategy •Further expansion at KCT has PWCS Board concept endorsement, detail design studies have commenced. •Preliminary modelling by HVCCLT commenced
All of 110Mtpa plus; <ul style="list-style-type: none"> •Extend Pads C & D at KCT to full length (PWCS) •3 to 4 additional train consists •Further key load point upgrades 	120 Mtpa	Q3 2009	<ul style="list-style-type: none"> •Further expansion at KCT has PWCS Board concept endorsement, detail design studies have commenced.
Key Initiatives – Phase III	Estimated Capacity	Avail' By	Status as 1 December 2005
All of 120Mtpa plus; <ul style="list-style-type: none"> •Construct 3rd Port expansion (NCIG) •Whittingham Branch line grade separation (ARTC) •Full mainline Bi-Di signalling •4 additional train consists •Key load point upgrades 	150 Mtpa	2010/11	<ul style="list-style-type: none"> •Detail design study commenced by NCIG •ARTC reviewing its Hunter Valley Corridor Strategy •Preliminary modelling by HVCCLT commenced

Source: Hunter Valley Coal Chain Logistics Team

Total Volume of Coal Exported Through the Port of Newcastle



- During 2005, a total of 80.3 Mt were exported through the Port of Newcastle. This represents an increase of 2.5 Mt or 3.2% over export coal throughput at the Port of Newcastle in 2004.
- There were three occasions during 2005 when new monthly records for throughput were established for the Hunter Valley Coal Chain - 87 Mtpa in January 2005, 88 Mtpa in September 2005 and 91 Mtpa in October 2005.
- October 2005 was the first time the Hunter Valley Coal Chain had achieved a monthly outcome in excess of 90 Mtpa.

Declared Annual Coal Chain Capacity



The Coal Chain capacity for each quarter of 2005 was declared in November 2004 and adjustments were made as required throughout the course of the year.

2005	Quarter 1 (kt)	Quarter 2 (kt)	Quarter 3 (kt)	Quarter 4 (kt)	Total (kt)
Declared Capacity	20,219	20,618	21,500	22,004	84,342
Adjustments ⁽¹⁾		498	(250)	(1,185)	(937)
Adjusted Coal Chain Capacity	20,219	21,116	21,250	20,819	83,403

- (1) The adjustments to Coal Chain capacity during 2005 were due to changes to the timing of construction and maintenance work (including the ARTC's Sandgate flyover project), reliability related issues and unplanned constraints (including a two day rail strike).

Volume of Available Allocation



The table below provides the volume of available allocation for each quarter of 2005.

2005	Quarter 1 (kt)	Quarter 2 (kt)	Quarter 3 (kt)	Quarter 4 (kt)
Loading Allocation	20,219	20,617	21,499	22,004
Conditional Allocation ⁽¹⁾	1,011	1,031	1,077	1,116
Available Capacity Adjustments ⁽²⁾		498	(214)	(1,185)
Available Allocation	21,230	22,146	22,362	21,935
Flexibility Adjustments ⁽³⁾		(8)	481	916
Adjusted Available Allocation	21,230	22,137	22,842	22,851

- (1) Conditional Allocation was available to all Producers throughout 2005 with the exception of two periods; 1 January 2005 to 16 January 2005 and 27 June 2005 to 20 July 2005.
- (2) The Administrator made adjustments to available allocation following announcements that the Coal Chain Capacity had been revised.
- (3) The flexibility adjustments reflect the use by Producers of the inter-quarter flexibility provided in the MTCDS, ie under or over use in the previous quarter within applicable flexibility limits.

Allocation was made available to one new mine which commenced operation in Quarter 3 of 2005. Allocation for this mine for both Quarters 3 and 4 was transferred from Producers who notified the Administrator of surplus allocation prior to the start of the quarter. This method eliminated the need for forced adjustments to Producer allocations.

Volume of Allocation Utilised



The table below provides the volume of allocation utilised for each quarter of 2005.

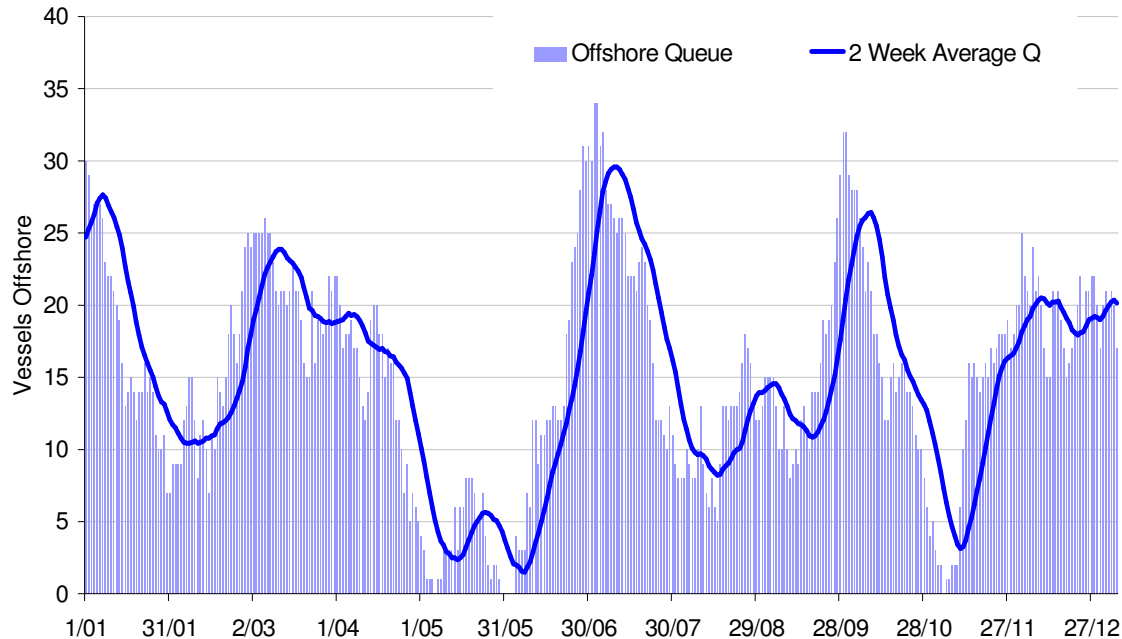
2005	Quarter 1 (kt)	Quarter 2 (kt)	Quarter 3 (kt)	Quarter 4 (kt)
Allocation Used ⁽¹⁾	20,264	19,946	20,266	19,315
Aggregate Under Use ⁽²⁾	-	-	105	491

- (1) Producers took advantage of the MTCDS' flexibility provisions including transfers of allocation, use of conditional allocation, pre-quarter notification of surplus allocation, nomination of vessels during the overlap period and the use of inter-quarter flexibility tonnages. Producers used a combined total of 65 kt of Conditional Allocation during 2005. Conditional Allocation was used in all quarters with the exception of Quarter 3. Transfers of allocation were extensively used by Producers with a total of 4,431 kt transferred in 79 transactions throughout 2005.
- (2) Represents the aggregate under use by Producers outside flexibility provisions at the end of each quarter and excludes unused Conditional Allocation, additional allocation made available by the Administrator but not taken up by Producers (eg additional capacity or physical compensation) and Events of Force Majeure.

Vessel Queue & Demurrage



Offshore Queue at Newcastle - 2005



Source: PWCS

- The vessel queue has demonstrated a clear cyclical pattern throughout 2005; peaking at the end of each quarter with troughs occurring towards the end of the first month of each quarter.
- Controls over the use of allocation are applied on a quarterly basis.
- Lower vessel arrival rates in the first two months of each quarter results in a significantly higher arrival rate towards the end of each quarter as Producers seek to minimise under use.

- The vessel queue reached a peak of 34 at midnight on 2 July and 3 July and was zero at midnight on seven occasions; 6 May 2005, 30 May – 3 June 2005 and 4 November 2005. The closing queue for 2005 was 20 vessels, 9 less than when the year began.
- The average vessel queue for 2005 was 15 vessels, almost a third of that seen in the quarter prior to the implementation of the Short Term CDS in April 2004 (where the average was 43 vessels).
- Consistent with the assumptions made by PWCS in its final submission that in absence of a CDS, the vessel queue would reach the level seen in March 2004 of 56 vessels, PWCS estimates that demurrage savings in the order of US\$164 million would have been made by the industry over the course of 2005.

Conclusion



- Overall, PWCS would like to note that 2005 was a successful year in terms of throughput achieved, capacity expansion and operation of the MTCDS.
- Throughput for 2005 increased by 3.2% and October 2005 was a record month for Shiploading.
- The operation of the MTCDS in 2005 has not taken any pressure off the need for investment to expand capacity at PWCS and in the Coal Chain.
- Producers have taken advantage of the flexibility provisions available under the MTCDS.
- Producers have voted both in number and volume for the continued operation of the MTCDS in 2006.