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8 February 2007

General Manager Adjudication
Australian Competition and Consumer Commission
470 Northbourne Avenue
Dickson. ACT. 2602

ATTENTION: Mr Scott Gregson

Dear Mr Gregson

NON CONFIDENTIAL - Annual Report (2006) Queue Management System
At Dalrymple Bay Coal Terminal, Hay Point, Queensland

In accordance with The Australian Competition and Consumer Commission's final determination of Authorisation A30239, A30240 and A30241, please find **attached the *non confidential version* of the 2006 Annual Report on the operation of the Queue Management System at Dalrymple Bay Coal Terminal**, Hay Point, Queensland, Australia, for public viewing.

Yours faithfully

KIM GEBERS
Chief Executive & General Manager

Att.

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*** ***Non Confidential Version*** ***

Annual Report - 2006

QUEUE MANAGEMENT SYSTEM AT

DALRYMPLE BAY COAL TERMINAL

in accordance with The Australian Competition & Consumer Commission's final determination of Authorisation A30239, A30240 and A30241

As prepared by Dalrymple Bay Coal Terminal Pty Ltd for The Australian Competition & Consumer Commission

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1.0 INTRODUCTION AND PURPOSE OF REPORT AND SUMMARY

1.1 Introduction and purpose of report

This report ("Report") by Dalrymple Bay Coal Terminal Pty Limited ("DBCTPL") to the Australian Competition & Consumer Commission ("Commission") is intended to provide the Commission with information relating to 2006 on the operation of the Queue Management System ("QMS") at Dalrymple Bay Coal Terminal ("Terminal") in accordance with the Commission's final determination of authorisations A30239, A30240 and A30241.

1.2 Executive Summary

Throughout 2006, DBCTPL has continually sought to improve Terminal efficiency and to maximise Terminal throughput through the implementation and review of strategic and operational initiatives. The QMS has become an effective tool to support the Terminal's goal to maximise Terminal efficiency and throughput, whilst also providing a positive public benefit through the effective reduction of demurrage by maintaining the vessel queue at an optimum working level.

This report indicates that the first three QMS objectives are being achieved through the application of the QMS and as a consequence the fourth is being achieved, restoring Dalrymple Bay Coal Terminal's reputation as an efficient, reliable and low demurrage Terminal.

The QMS targets a working queue of 15 ships. For 2006, the vessel queue has been maintained at an average level of 13.9, with a peak of 25 in June 2006, and a minimum of 3 in September 2006. The economic benefit of efficiently managing the queue is reflected in the notional net demurrage. Notional net demurrage has reduced significantly from 508 US cents per tonne for the month of April 2005 when DBCTPL made application to the Commission to an average of 122 US cents per tonne for 2006[1].

An operational concern was raised by one User regarding Entitlement allocated but not consumed. These shortfalls have come about principally as a result of unplanned "losses" in system capacity, and in respect of each User the misalignment between;

- availability of coal,
- sales of coal, and
- vessel availability,

not as a result of Terminal or supply chain operational inefficiencies or the QMS.

2.0 QUEUE MANAGEMENT SYSTEM OBJECTIVES

The key objectives of the Queue Management Procedures are to:

(a) ensure a fair, equitable and transparent allocation of System Capacity (and where applicable Queue Adjustment System Capacity) from time to time between Users;

(b) achieve and maintain a Working Queue, so as to minimise deadweight demurrage costs to all Users;

(c) maximise utilisation of System Capacity, hence maximising Coal exports from the Terminal; and

(d) restore and maintain the reputation of the Terminal as a reliable and low demurrage facility[2]

[1] The determination of Notional Net Demurrage is based upon a nominal value of $17,000 US / day.
[2] Clause 3, Terminal Regulations. p.p. 6-7.

3.0 REPORT DETAILS

Table 1 sets out various statistics required in Section 7.138 of the Commission determination dated 15 December 2005[3]:

Table 1 – QMS Operation Information

	Volume of Coal Exported	Declared System Capacity	Aggregate Entitlement Allocated	Aggregate Entitlement Consumed	Aggregate Entitlement Not Consumed	Aggregate Entitlement Swapped or Transferred	Minimum Length of the Vessel Queue No. of Vessels	Maximum Length of the Vessel Queue No. of Vessels	Queue Adjustment System Capacity[5]
January 2006	4,519,232	4,550,832	4,550,832	4,579,472	0	351,501	7	12	No
February 2006	3,938,762	4,266,405	4,266,405	3,996,070	115,438	2,303,546	10	16	No
March 2006	4,195,553	4,486,190	4,486,190	4,088,567	399,633	2,330,000	10	19	No
April 2006	3,991,502	4,512,047	4,512,047	4,387,615	102,256	468,953	6	16	No
May 2006	3,655,312	4,065,329	4,065,329	4,213,150	0	505,811	15	24	No
June 2006	4,409,978[4]	4,090,882	4,090,882	4,140,069	15,989	1,288,394	17	25	No
July 2006	4,293,188	4,471,170	4,471,170	4,112,222	178,714	592,804	12	23	No
August 2006	4,555,096	4,865,604	4,865,604	4,295,382	476,166	615,000	12	20	No
September 2006	4,241,938	4,706,076	4,706,076	3,939,525	656,489	515,330	3	14	No
October 2006	4,269,633	4,865,604	4,865,604	5,096,219	88,974	797,039	4	15	No
November 2006	4,482,780	4,706,076	4,706,076	3,825,879	617,103	805,349	7	17	No
December 2006	3,965,487	4,461,480	4,461,480	4,332,862	259,592	244,604	8	18	No
Annual Total	***50,518,461***	***54,047,693***	***54,047,693***	***51,007,032***	***2,910,353***	***10,818,331***	***n/a***	***n/a***	***n/a***

Notes: All volumes given in tonnes unless otherwise stated. *Source: DBCTPL*

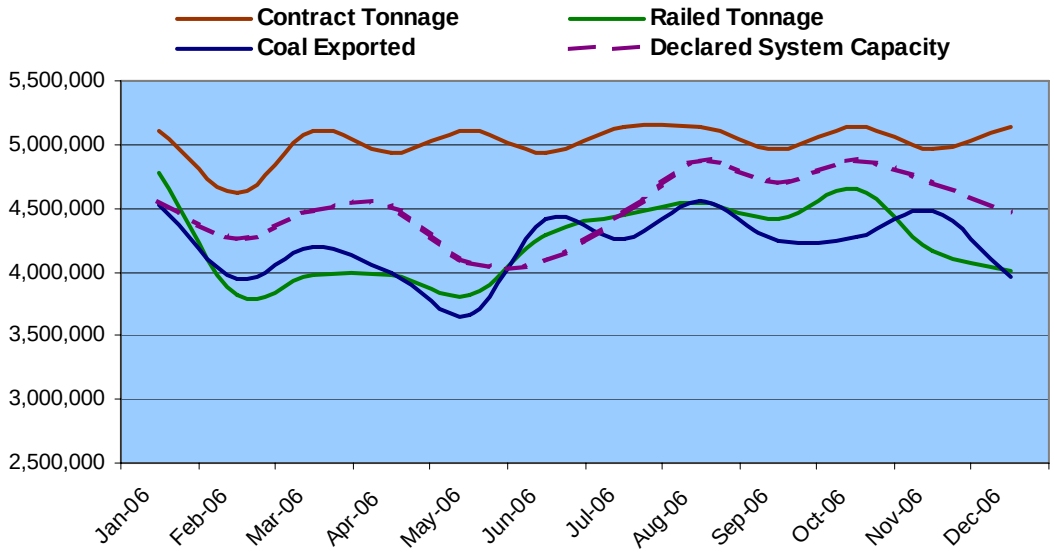
- **Expansion Projects at the Terminal and their impact on System Capacity**
  BBI 7x Expansion project has commenced, but in 2006 has had no material impact on System Capacity. Short gain initiatives, including the reinstatement of Reclaimer 1 have increased Terminal outloading capacity, but have not realised an increase in System Capacity due to Rail and Inloading System constraints.
- **Expansion Projects in the Goonyella Coal Chain and their impact on System Capacity**
  There have been no material expansion projects in the Goonyella Coal Chain (impacting on the Terminal) other than BBI 7x Expansion project.
- **Proposed Expansion Projects for 2007 in the Goonyella Coal Chain or at the Terminal**

  BBI 7x Expansion project will continue. The stockyard will be increasingly constrained from January 2007 as a result of construction works - Around 16% of the yard is expected to be occupied by construction areas at this time. Stockyard loss is expected to peak at 25% between May & August 2007. The Independent Expert has included consequential lost capacity into the released declared System Capacity Figures.

4.0 VOLUME OF COAL EXPORTED

Goonyella coal supply chain capacity is determined by the capability of constraint/s, either operating mode or asset capability, less planned losses (eg maintenance and interruption from construction). This is the basis for System Capacity determined by the Independent Expert.

Figure 1 – Terminal Throughput



Source: DBCTPL

Irrespective of declared System Capacity, market demand can play a large role in the volume of coal exported for a given period. The deviation between coal actually exported and declared System Capacity (which takes into account planned losses) is a result of unplanned losses together with unavailability of coal to be loaded or ships to load (factors which are often aligned with market demand and therefore sales).

It is important to be aware that there is no direct relationship between when coal is exported and Entitlement is consumed. Entitlement is consumed when a vessel actually arrives at the port, (not at berthing of the vessel) except when a User exercises their option to reallocate one vessel per month if the vessel arrives within the first 5 days of the succeeding month and there is Entitlement available.

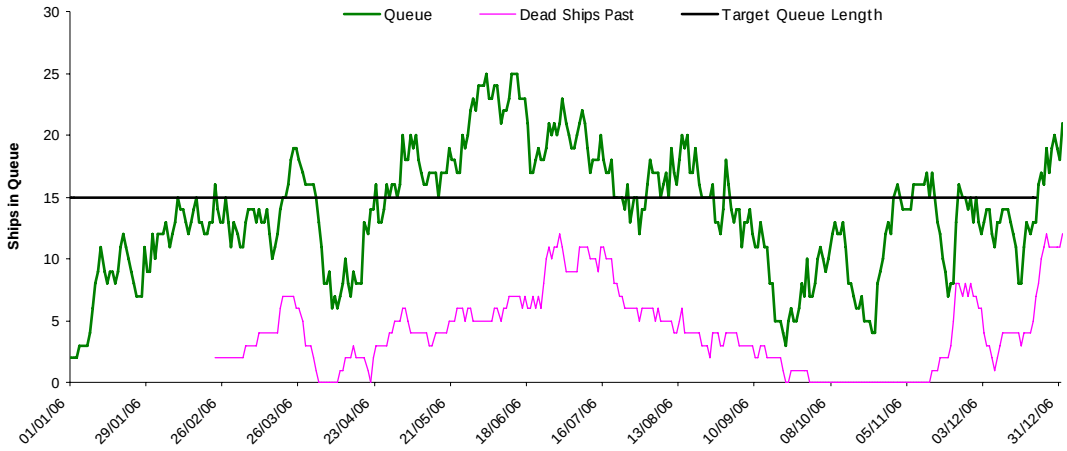
It is DBCTPL's opinion that the QMS, and the way it has operated in practice, has not materially contributed to the difference between System Capacity, as determined by the Independent Expert, and actual tonnages exported. Issues that reduced the potential volume of coal exported throughput in 2006 to less than the theoretical System Capacity (and having not been taken into account in the forecast of System Capacity by the Independent Expert) included:

- Rail provider – industrial action (February);
- Above rail (locomotive) reliability (April, May, June, July);
- Rail crewing issues (June, September through December);
- Weather – Cyclone Wati, Cyclone Larry and high wind events (March, April);
- Below rail maintenance – ballast cleaning machine (BCM) (February, May);
- Implementation of Coal Transport Plan 27 (CTP27) (June);
- Derailments & dewirements on the rail system & at the Terminal (February, March);
- Slow unloading due to coal quality (July through December);
- Stockyard constraints due to high yard stock levels (November); and
- Insufficient vessels to load (September).

5.0 QMS EFFECT ON QUEUE AND DEMURRAGE

DBCTPL acknowledges, as it did in the September 2005 review, that a number of factors, including the increased focus on the queue and Goonyella Coal Chain Integrated Planning team (GCCIP) may have contributed to the initial reduction in the vessel queue. Figure 2 and Figure 3 demonstrate that the application of the QMS has continued to maintain an optimal vessel queue for the reporting period, thereby reducing demurrage costs and improving the Terminal's reputation as a low demurrage Terminal.

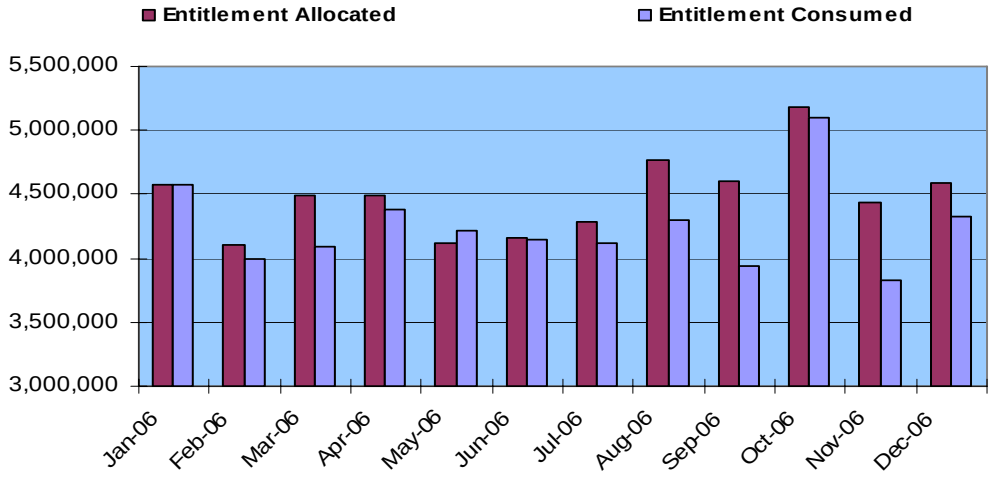
Figure 2 – Queue Management Mode



Source: DBCTPL

There is a direct correlation between a lack of coal availability due to mine production issues and the number of dead ships in the queue. If the specific coal that is unavailable is required for multi-parcel ships it can significantly impact on the vessel queue length, as it did in 2006. Figure 2 demonstrates this correlation between the length of the vessel queue and dead ships.

Figure 3 – Entitlement



Source: DBCTPL

Queensland Rail and DBCTPL had planned major maintenance activities during February, May and July that reduced declared System Capacity. In June, the Integrated Planning Group (IPG) implemented CTP27, to instil a robust planning framework to address variability within the supply chain and minimise the impact of the constraints within the system. The CTP process was designed to align the rail to export requirements.

The notional net demurrage, which is based upon a nominal value of $17,000 US per day, was 508 US cents per tonne when DBCTPL made application to the Commission in April 2005.

6.0 ENTITLEMENT MANAGEMENT

To ensure the application of QMS process is fair, equitable and transparent, DBCTPL distributes a weekly report pursuant with Section 8 of the Queue Management Procedures. In addition to this, DBCTPL distributes a daily report to provide Users with current information on the preloading status, entitlement consumed, and a system summary.

The Terminal Regulations also provide a process for disputes to be resolved expeditiously by an Independent Administrator, who also undertakes 6 monthly audits of the due administration of the QMS.

Regular forums are facilitated by DBCTPL to encourage Entitlement swaps or transfers.

7.0 USER CONCERNS

One User has raised a number of concerns relating to the process flow associated with swaps and transfers of Entitlement and has suggested that the operation of the QMS has led to the tonnage being exported being less than declared System Capacity. These issues are discussed further below.

Unused Entitlement is not being transferred or swapped in a timely manner.

DBCTPL is not privy to negotiations between Users in regard to potential swaps, and cannot comment on how many instances there may have been where one User could not utilise its full Entitlement, but declined to transfer that Entitlement to another User. However, as indicated above, the level of swaps is quite significant and (for example) in September 2006 no User utilised its full Entitlement - suggesting that insufficient sales of coal or vessels to transport coal (or both) accounted for the difference in declared System Capacity and tonnages shipped in respect of that period.

Users who have excess Entitlement have been actively utilising the flexibility of QMS to trade (swapping and transferring entitlement). These Users individually participate in approximately 20% of transactions completed and up to 30% of Allocated Entitlement tonnes that were traded. The flexibility of the swap provisions has been demonstrated by a number of transactions that have been made up to 100 days in advance of the effective date during the operation of the QMS in 2006.

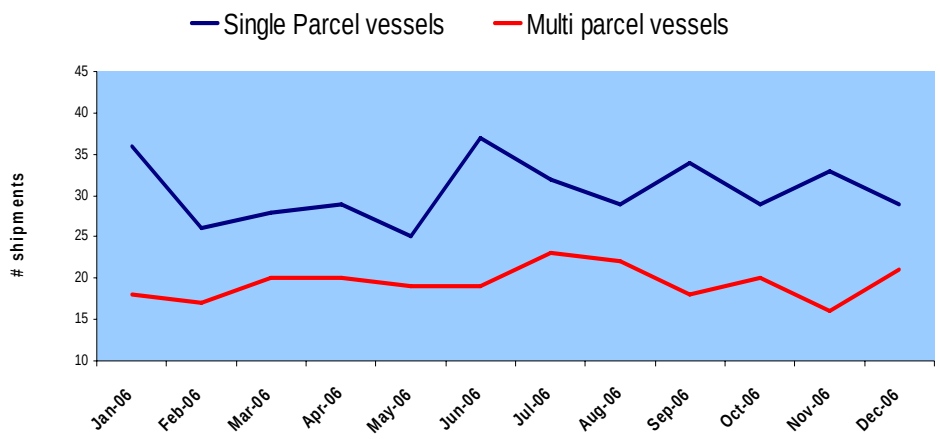
The monthly rolling period of Entitlement is too short and limits flexibility.

The User has suggested moving to a 3 monthly rolling period for entitlement. DBCTPL continues to hold concerns that a quarterly QMS system would be detrimental to the overall objective to reduce and maintain the vessel queue at a workable level. The concern is that there remains the potential for Users to front end load the queue at the beginning of the quarter to achieve seniority in the queue. In conjunction with this the service levels required by a User erode System Capacity for the period after Entitlement has been allocated. Service level refers to blending, stockpile mixing, slow unloading or other special handling requirements. Hence, introducing a quarterly QMS may introduce increased variability and negatively impact on System Capacity.

It was also alleged that a monthly QMS would result in lost exports due to the lack of flexibility to meet customer needs. As such, this would result in a reduction in ship size and an increase in multi-parcelling. This outcome has not eventuated. The QMS has had minimal impact on the vessel mix which has remained constant at an average deadweight of 96,380 tonnes per ship since the introduction of the QMS. Figure 4 also demonstrates there has not been an increase in customer requirement for multi-parcelling.

7.0 USER CONCERNS CONT.

Figure 4 – Vessel Parcel Mix



Source: DBCTPL

The variance between System Capacity declared by the Independent Expert and the tonnage exported as a result of QMS.

In a supply chain that is constrained in part due to non-aligned operating modes, and in part due to insufficient infrastructure or infrastructure capability, the QMS has provided an element of certainty and introduced an operational rigour that supports the efficient utilisation of available resources. DBCTPL's two train unloading stations and the above rail provider's infrastructure are operating close to maximum utilisation in the current operating mode. This is important, because losses in these systems are unable to be recovered, therefore eroding actual tonnages able to be exported, irrespective of the operation of the QMS.

See the comments in Section 5 of this report on the views of DBCTPL as to reasons for the discrepancy between declared System Capacity and actual tonnages exported.

Concerns regarding the application of Section 6.1 of the Queue Management Procedures.

Some Users also expressed concerns in 2006 about the perceived inflexibility of Section 6.1 in the Queue Management Procedures, which is commonly referred to as the '14-day rule'.

In summary, if a User or ship fails to meet a 14-day milestone, alters information after the milestone or attempts to re-stem tonnages on a vessel due to part of the cargo not being available when the vessel is due to berth in turn, then it is deemed to be "non-conforming" and in accordance with Section 6.1 of the QMS, the vessel must cede turn of arrival berthing priority to successive vessels

In 2006, very few of the vessels that were classified as "non-conforming" were delayed more than about 7 days, and some were not delayed at all.

8.0 OUTCOMES AND CONCLUSIONS

In summary DBCTPL is effectively managing the application of QMS to ensure the key objectives, stated in Section 2, are being met.

DBCTPL has implemented systems and processes to support and record all transactions associated with the allocation, swaps and transfers of System Capacity. To ensure DBCTPL's management and application of the QMS process is fair and equitable and being managed in an open and transparent manner, these systems and processes have been independently audited by Ernst & Young on an interim quarterly and formal six monthly basis. These audits conclude that DBCTPL have "effective control procedures in relation to the QMS"[7] in place.

8.0 OUTCOMES AND CONCLUSIONS CONT.

The ship queue has been maintained at an average of 13.9 vessels and deadweight demurrage costs have been substantially reduced.

Terminal and supply chain efficiencies remain critical components in maximising System Capacity. DBCTPL will continue to work with system stakeholders to maximise this efficiency and therefore System Capacity by focusing on maximising the throughput at the constraints (or bottlenecks) within the supply chain.