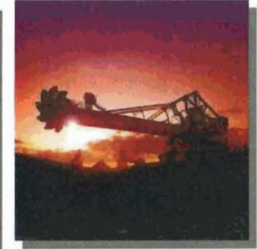
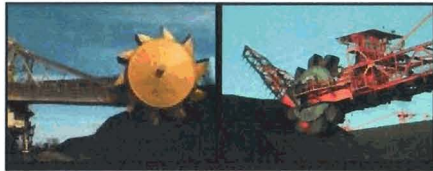


# *Port Waratah Coal Services Limited*



## **Medium Term Capacity Distribution System** **Australian Competition and Consumer Commission** **Report for 2006**

*If it's not safe, don't do it that way*



## ***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 2006.

In summary:

- PWCS and the Hunter Valley Coal Chain are continuing to expand capacity and are implementing the Integrated Coal Chain Capacity Plan.
- A total of 79.8 Mt were exported through the Port of Newcastle in 2006. This represents a 0.6% decrease over export coal throughput at the Port of Newcastle in 2005.
- Allocation was available in excess of the declared capacity for the Coal Chain for each quarter during 2006.
- 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.

The average vessel queue for 2006 was 23.

- Producers voted in September 2006 not to provide industry support for the MTCDS to continue in 2007.

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







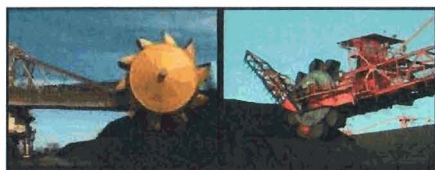
## ***Rail, Port and Other Expansion Projects***

Key initiatives commenced or completed during 2006 are:

- Construction work for the expansion of PWCS' facilities to a capacity of 105 Mtpa continued throughout 2006 and is forecast to be complete in Quarter 1 2007, nine months ahead of schedule.
- The PWCS Board has approved \$18.3 million to date for engineering studies, associated regulatory approvals, early engineering and associated activity for the expansion of PWCS' facilities beyond a capacity of 105 Mtpa.
- A Capacity Maximisation Program commenced at PWCS early in 2006 with a focus on continuous improvement from current assets, asset integrity, further expansion and establishing a commercial framework with Customers.
- The Newcastle Coal Infrastructure Group is seeking consent from the NSW Department of Planning to construct and operate a coal export terminal in the Port of Newcastle with capacity up to 66 Mtpa.
- ARTC completed its Sandgate Grade Separation in November 2006.
- ARTC has commenced work on the Ulan line centralised train control and passing loops and Stage 1 of the Muswellbrook yard duplication.
- PacificNational has ordered an additional 330 wagons.
- Ongoing alignment of maintenance across the Coal Chain.
- Ongoing improvements at Load Points.

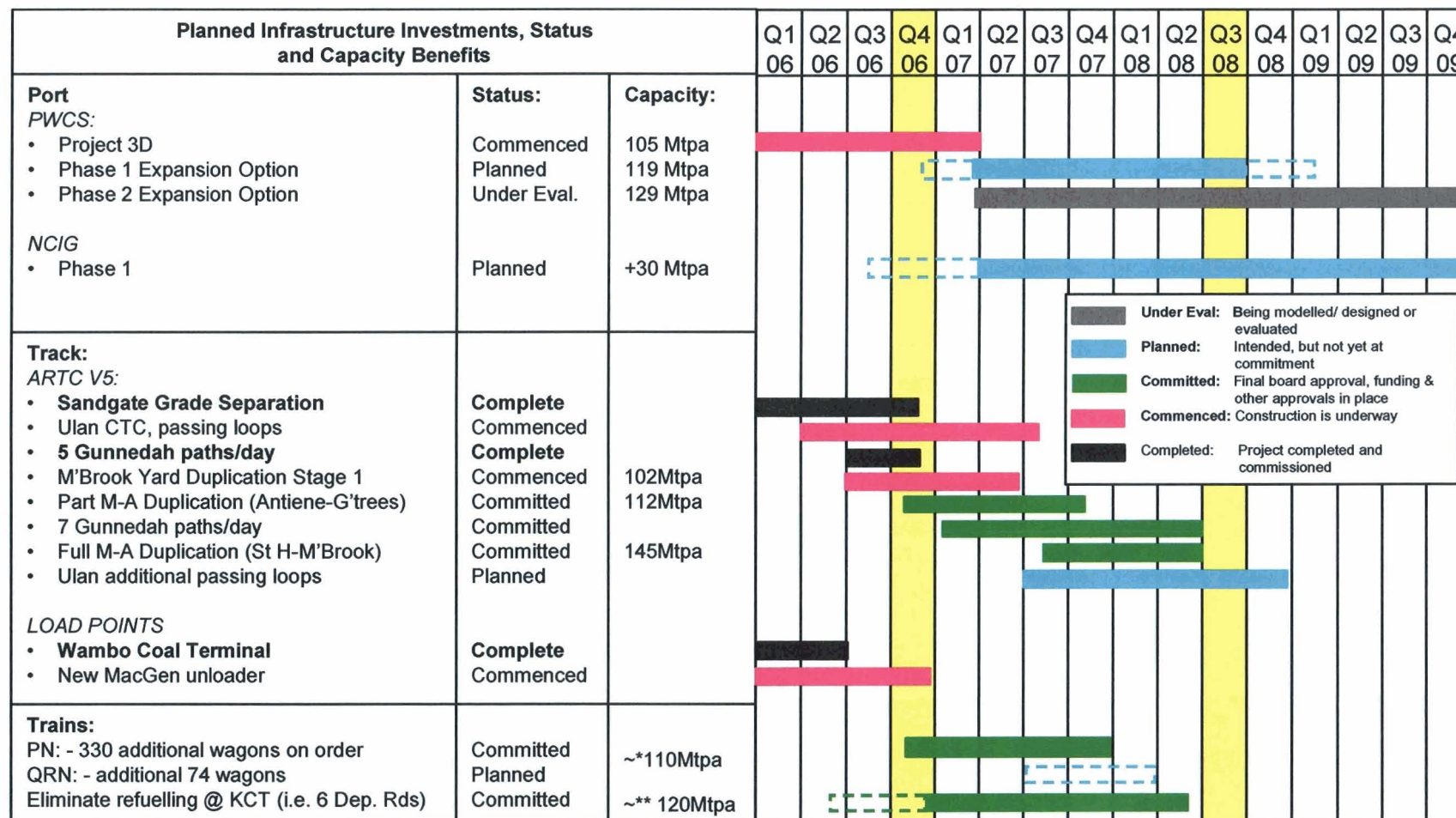






# Rail, Port and Other Expansion Projects

The table below summarises the key initiatives from the Integrated Coal Chain Capacity Plan:

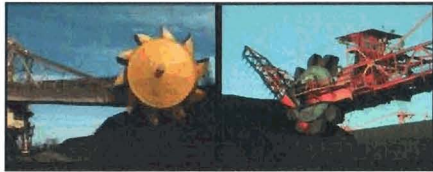


Note(\*): Rolling stock system capacity at end of 2007 is approx 110 Mtpa in a stand alone configuration as modelled by HVCCLT, market forces will drive investment in adequate rolling stock capacity!?

Note(\*\*): Refuelling at KCT currently constrains throughput at ~95-100 Mtpa

Source: Hunter Valley Coal Chain Logistics Team

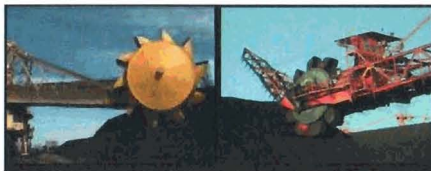




## ***Total Volume of Coal Exported Through the Port of Newcastle***

During 2006, a total of 79.8 Mt were exported through the Port of Newcastle.

- This represents a decrease of 0.5 Mt or 0.6% over export coal throughput at the Port of Newcastle in 2005.



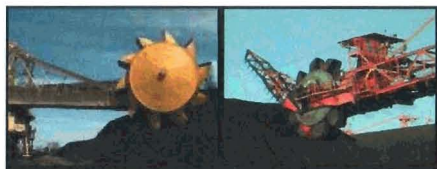
## ***Declared Annual Coal Chain Capacity***

The Coal Chain capacity for each quarter of 2006 was declared by the Hunter Valley Coal Chain Logistics Team in September 2005 and adjustments were made as required throughout the year.

<b>2006</b>	<b>Quarter 1</b> (kt)	<b>Quarter 2</b> (kt)	<b>Quarter 3</b> (kt)	<b>Quarter 4</b> (kt)	<b>Total</b> (kt)
Declared Capacity	21,551	21,416	22,483	22,055	87,505
Adjustments <sup>(1)</sup>	-	-	(600)	(740)	(1,340)
<b>Total</b>	<b>21,551</b>	<b>21,416</b>	<b>21,883</b>	<b>21,315</b>	<b>86,165</b>

- (1) The adjustments to Coal Chain capacity during 2006 were due to the rescheduling of planned maintenance and a 24 hour closure at PWCS on Christmas Day due to labour unavailability.





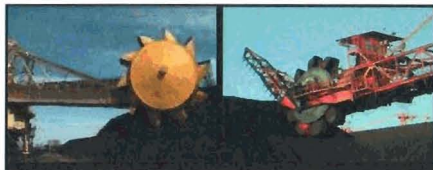
## Volume of Available Allocation

The table below provides the volume of available allocation for each quarter of 2006.

2006	Quarter 1 (kt)	Quarter 2 (kt)	Quarter 3 (kt)	Quarter 4 (kt)
Base Allocation	21,551	21,416	22,483	22,055
Conditional Allocation <sup>(1)</sup>	1,078	1,071	1,124	1,139
Capacity Adjustments <sup>(2)</sup>	(370)	-	(890)	(740)
Operational Allowance <sup>(3)</sup>	-	-	(897)	(147)
<b>Available Allocation</b>	<b>22,259</b>	<b>22,487</b>	<b>21,820</b>	<b>22,307</b>
Flexibility Adjustments <sup>(4)</sup>	1,125	698	825	964
<b>Adjusted Available Allocation</b>	<b>23,384</b>	<b>23,185</b>	<b>22,645</b>	<b>23,271</b>

- (1) Producers have been unable to use Conditional Allocation since 7 September 2006 due to high vessel queues.
- (2) The Administrator made adjustments to available allocation following advice from the Hunter Valley Coal Chain Logistics Team that the declared Coal Chain Capacity had been revised or that delivered capacity was forecast to be below the declared Coal Chain Capacity.
- (3) Operational Allowances were applied on two occasions due to high vessel queues.
- (4) 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.

Four new mines commenced in Quarter 4. Allocation for the new mines was sourced from physical compensation (arising from under use in Quarter 3), voluntary reductions from Producers and forced pro-rata reductions.



## ***Volume of Allocation Utilised***

The table below provides the volume of allocation utilised for each quarter of 2006.

<b>2006</b>	<b>Quarter 1</b> (kt)	<b>Quarter 2</b> (kt)	<b>Quarter 3</b> (kt)	<b>Quarter 4</b> (kt)
Allocation Utilised <sup>(1)</sup>	20,724	19,440	20,602	22,180
Aggregate Under Use <sup>(2)</sup>	-	424	-	-

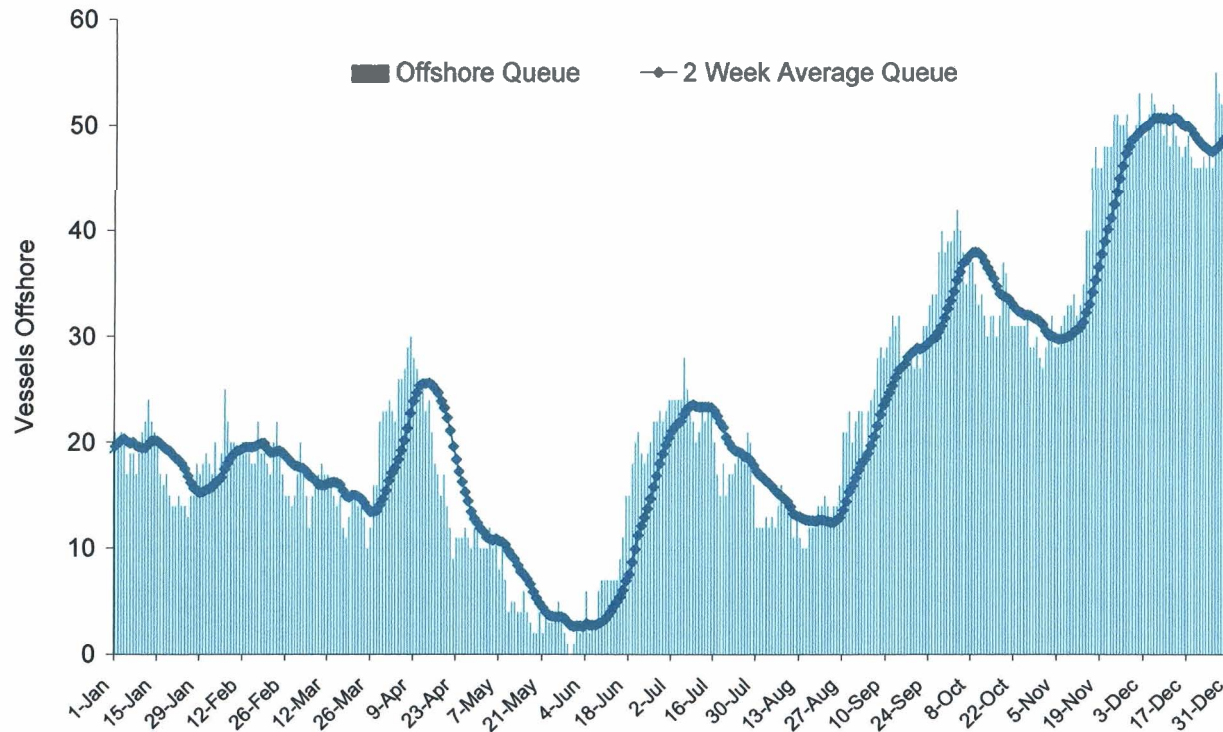
- (1) Producers took advantage of the MTCDS' flexibility provisions including transfers of allocation, use of conditional allocation, pre-quarter notification of surplus allocation, nomination of vessels during the overlap period and the use of inter-quarter flexibility tonnages. Producers used a combined total of 127 kt of conditional allocation during 2006. Transfers of allocation were extensively used by Producers with a total of 4,671 kt transferred in 73 transactions throughout 2006.
- (2) Represents the aggregate under use by Producers outside flexibility provisions at the end of each quarter and excludes unused conditional allocation, allocation available as a result of physical compensation but not taken up by Producers and Events of Force Majeure.





# Vessel Queues

Offshore Queue at Newcastle - 2006



- Controls over the use of allocation are applied on a quarterly basis resulting in a cyclical pattern to vessel queues.
- Lower vessel arrival rates generally occur in the first half of each quarter results in a significantly higher arrival rate towards the end of each quarter as Producers seek to minimise their under use.

- In the first half of 2006, the queue peaked at 30 vessels on 8 April 2006 and fell to zero vessels on 30 May 2006. The vessel queue was substantially higher over the second half of 2006, peaking at 55 vessels on 26 December 2006. The closing queue for 2006 was 51 vessels. Factors contributing to the increased vessel queues include natural peaks and troughs in demand, maintenance and reliability issues and poor weather which restricted rail and port movements.
- The average vessel queue for 2006 was 23 vessels, compared with 15 vessels in 2005.