

Port Waratah Coal Services – Expansion Plans and Future Challenges



Australian Coal Preparation Society Presentation

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Commercial in Confidence

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- Port Waratah Coal Services Ownership
- Recent Coal Chain Performance
 - Coal Chain Overview
 - 2007 Performance
 - 2008 Performance (year to date)
- Capacity Balancing System History
- Port Waratah Coal Services - Expansion and Improvement Plans
 - Expansion History
 - Future Expansion Options

- Port Waratah Coal Services Ownership

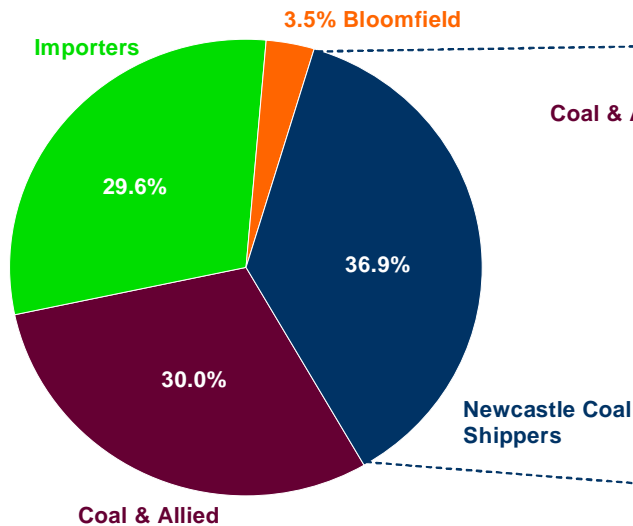
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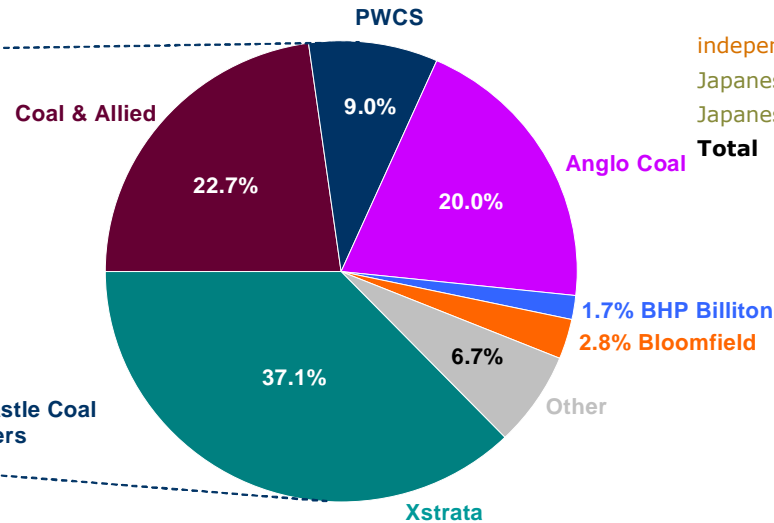
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PORT WARATAH COAL SERVICES OWNERSHIP STRUCTURE

Port Waratah Coal Services Effective Ownership



Newcastle Coal Shippers Effective Ownership



	No. of Directors
Newcastle Coal Shippers	4
Bloomfield Collieries	
Coal & Allied	3 (including independent Chairman)
Japanese Trading	3
Japanese Power, Cement, Oil	
Total	10

- PWCS is an unlisted public company owned by the Hunter Valley Coal Industry (70%) and Japanese Coal Customers (30%)
- PWCS is the World's largest export coal handling facility and currently exports coal valued at well above \$5 billion per year
- PWCS' terminals are economically and socially an important part of regional, state and national economies
- PWCS owns and operates two coal handling facilities in the Port of Newcastle, Carrington Terminal at a capacity of 25 Mtpa and Kooragang Terminal at a current capacity of 77 Mtpa (incremental increases in capacity to Q1 2010)



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Hunter Valley Coal Chain - The Worlds Largest Coal Export Operation



- 40 Coal Mines
- 16 Producers
- 27 Load Points
- > 80 Different Brands of Coal



- 2 Above Rail Operators
- 30 Trains/15,000 trips per year
- 2 Track Owner/Operators
- Haulage distances up to 350km



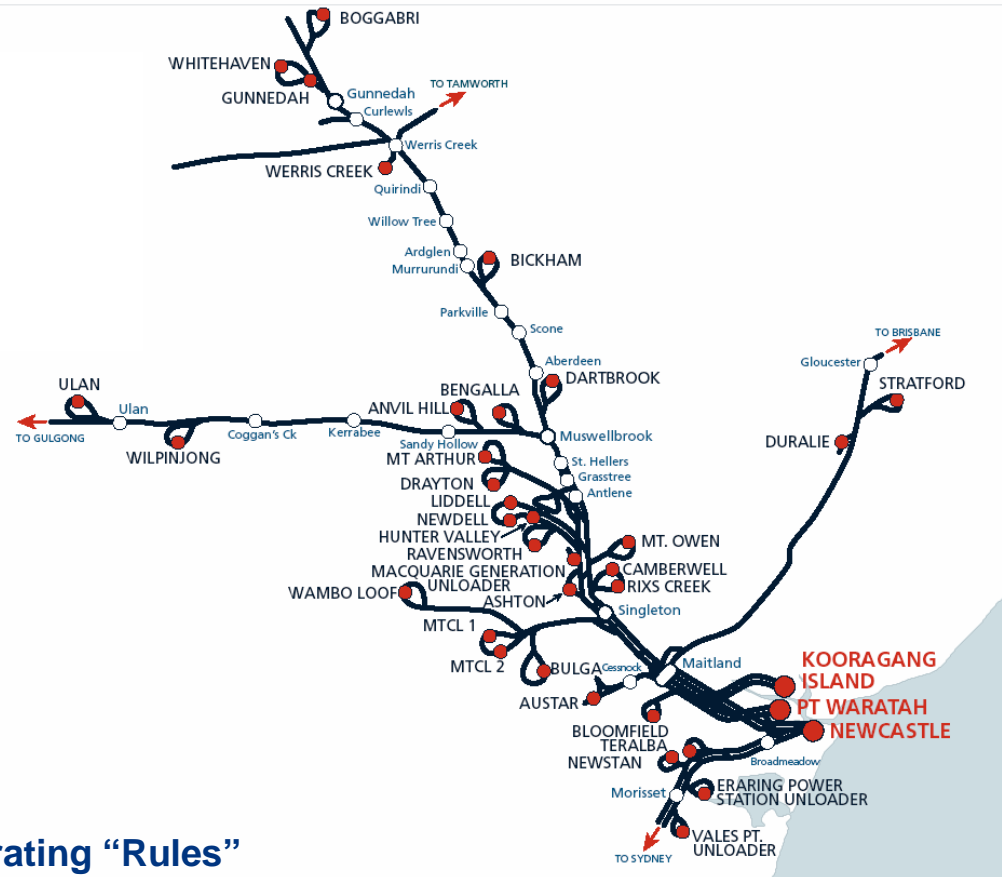
- 2 Coal Loading Terminals
- 5 Dump Stations
- 2.2 Mt of Working Stockyard
- 5 Ship Berths and Loaders



- Approx. 1000 vessels per year
- Average vessel size is 89kt
- Avg 2 Cargoes per Vessel
- Tidal constrained river port



- 10% Domestic Consumption
- 90% Export – mostly Thermal coal
- 65% to Japanese & Korean markets

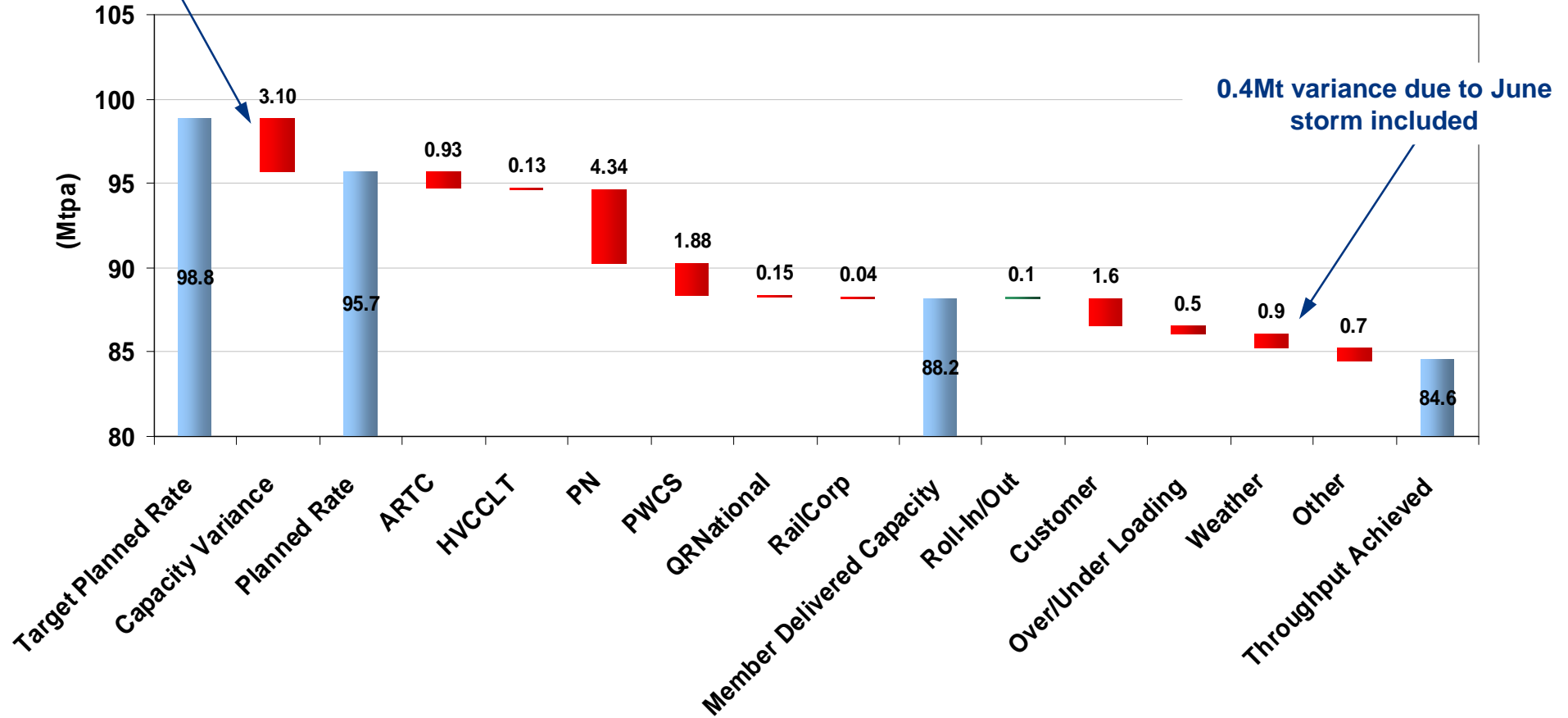


Operating "Rules"

- Turn of arrival, cargo assembly vessel servicing
- Approx 1.2Mt to 1.5Mt of Terminal working stockpile capacity
- Approx 3.0Mt to 4.0Mt of total working washed coal stockpile capacity at mines
- Average cargo assembly task;
 - 260,000t/day, 42 train trips
 - 17 to 19 load points/day required

2.1Mt variance due to June storm included

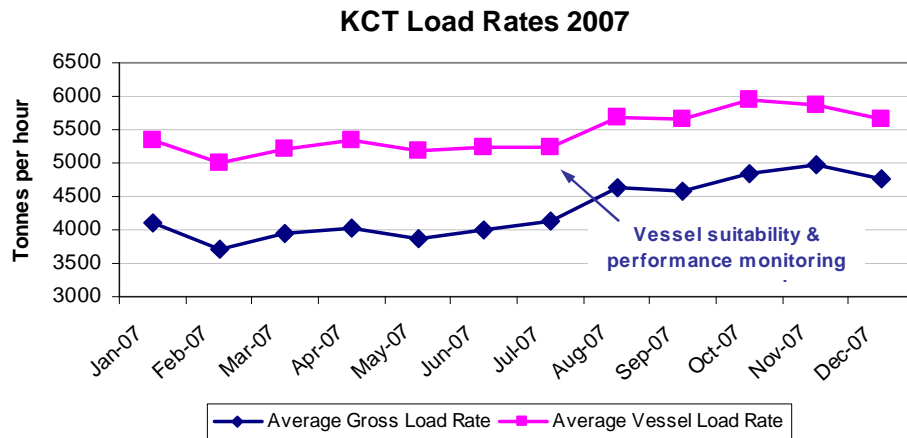
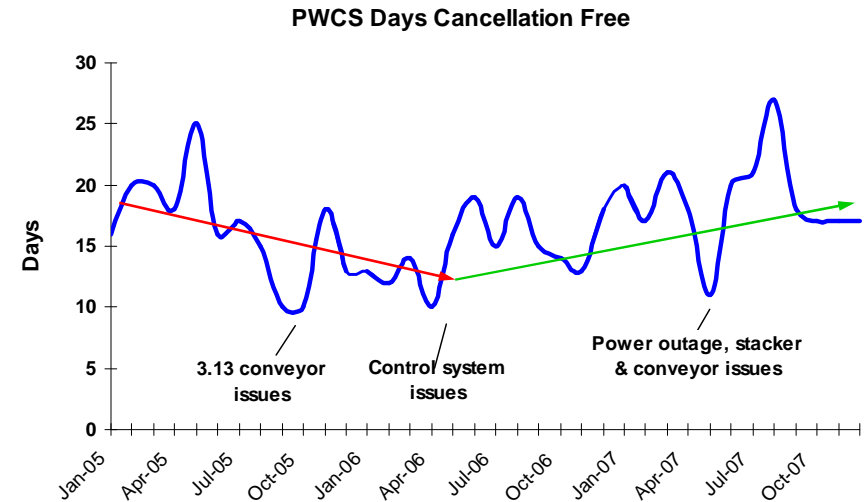
Hunter Valley Coal Chain Performance - 2007



2007 Operational Performance Summary



- Set a new record safety performance as measured by number of consecutive days serious injury free
- Commissioned expansion of Project 3D under budget and ahead of schedule (March 2007)
- Commenced Project 3Exp whilst undertaking 3D expansion and operating at record levels
- Made major improvements in operational reliability, finished the year under budget.
- New Certified Agreement for employees covered under award – Christmas Day is now a normal “Working Day”



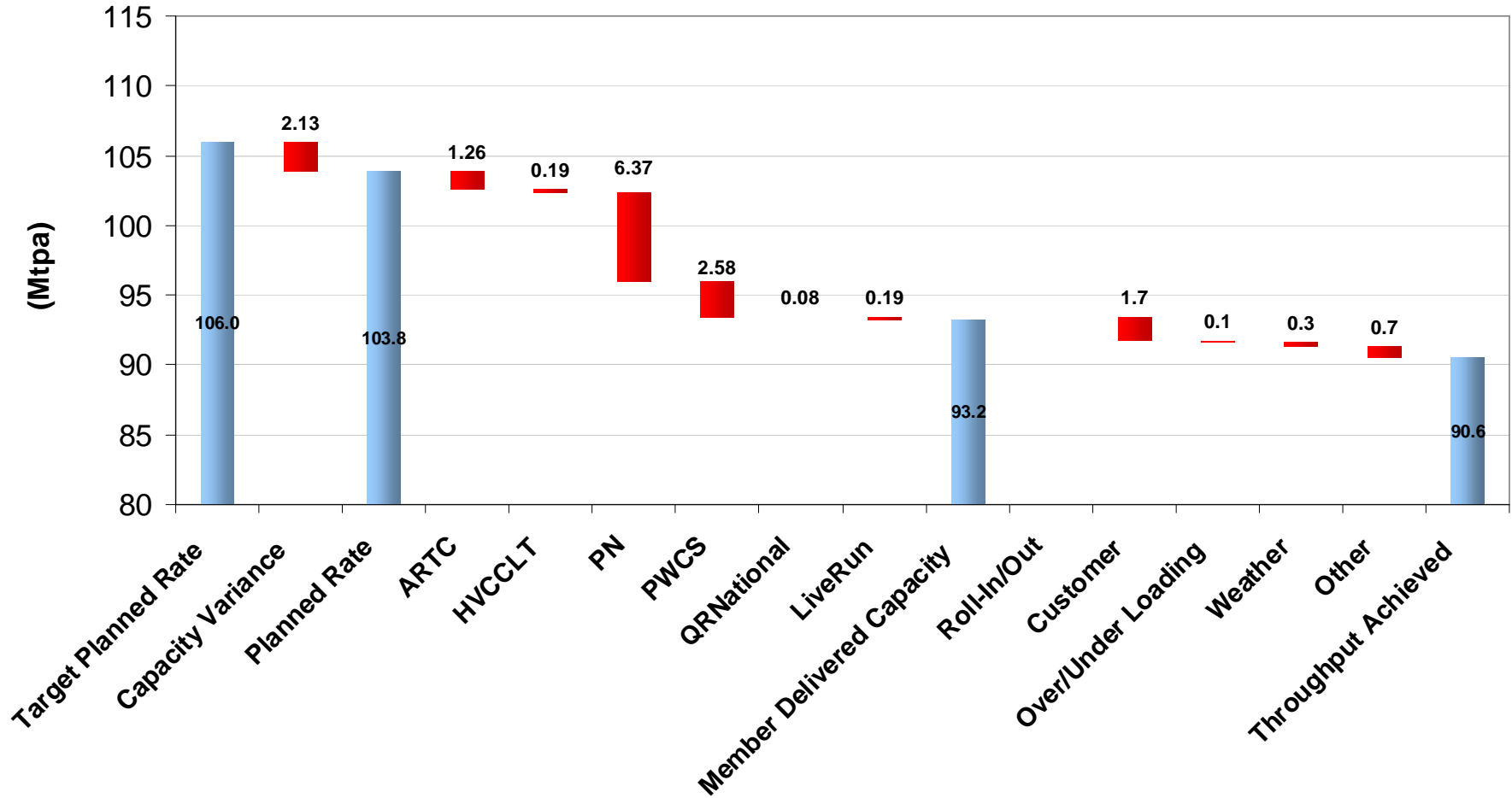
- Formed new operating department, Live Run and Operational Improvement group
- From June 2007 worked closely with NPC, Vessel Owners / Agents / Operators to improve ship loading performance. Significant improvements in Vessel and Gross Load rates achieved;
 - VLR up from average 5,100tph in 2006 to 5,800 tph
 - GLR up from average 3,800tph in 2006 to 4,800 tph

Numerous receivals and shiploading records established.

Record	Month	Kt	Mtpa
PWCS monthly total receivals	Dec-07	8,137	97.6
PWCS monthly total shiploading	Dec-07	8,438	101

Record	Month	Vessels	Vessels/Yr
Total number of vessels loaded	Dec-07	102	1,224

Hunter Valley Coal Chain Performance - 2008 YTD (End May 2008)

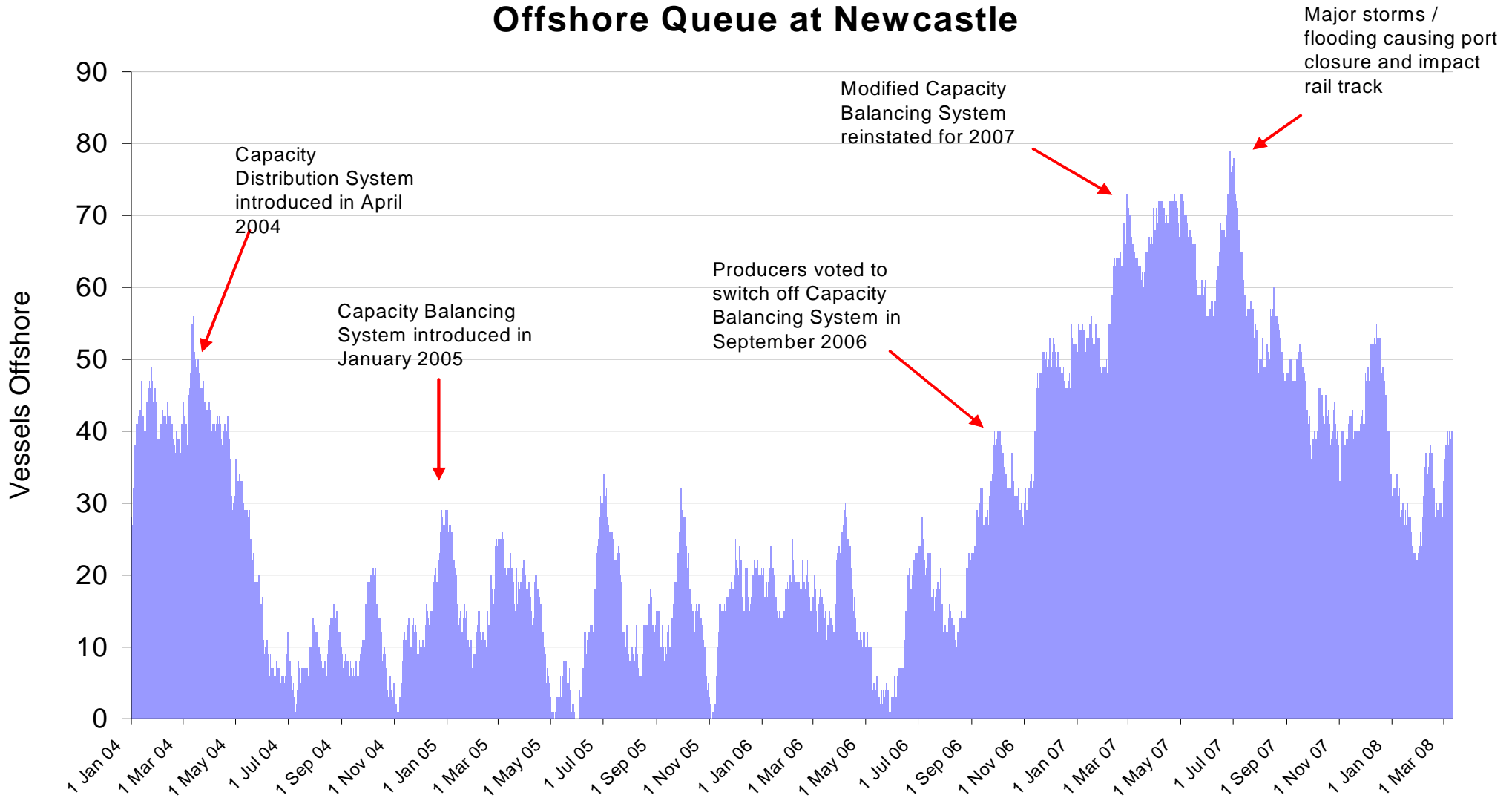


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Offshore Queue at Newcastle

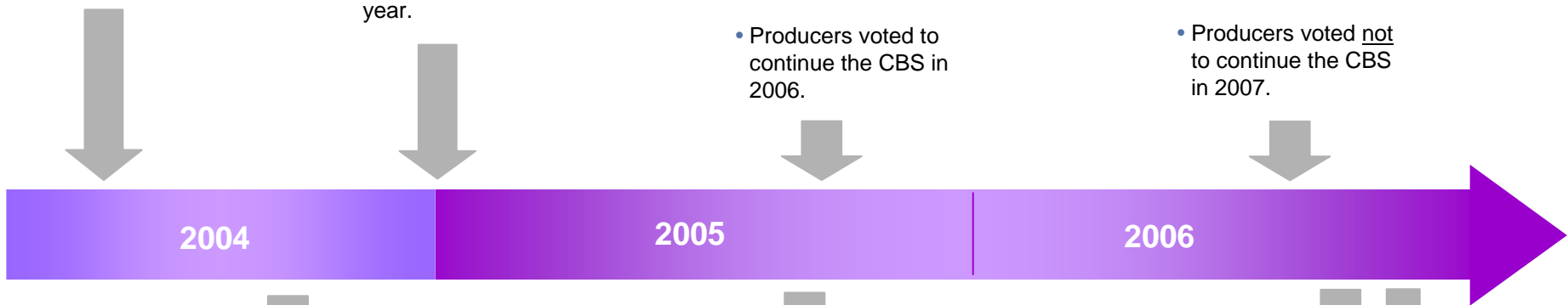


- In April 2004, PWCS introduced a Capacity Distribution System (CDS) with ACCC authorisation until the end of 2004.

- In January 2005, PWCS introduced a medium term Capacity Balancing System (CBS). The CBS was authorised by the ACCC until the end of 2007. The CBS required the support of producers to continue each year.

- Producers voted to continue the CBS in 2006.

- Producers voted not to continue the CBS in 2007.



- PWCS introduced 1 year binding take or pay demand nominations.

2005
99 Mt

- PWCS introduced 3 year binding take or pay demand nominations.

2006	2007	2008	2009 *	2010 *
103 Mt	119 Mt	132 Mt	150 Mt	165 Mt

* Indicative only

- PWCS provided the opportunity for producers to reduce their existing binding take or pay demand nominations.

2007	2008
107 Mt	116 Mt

↓ 12 Mt ↓ 16 Mt

- PWCS sought indicative long term demand forecasts from producers.

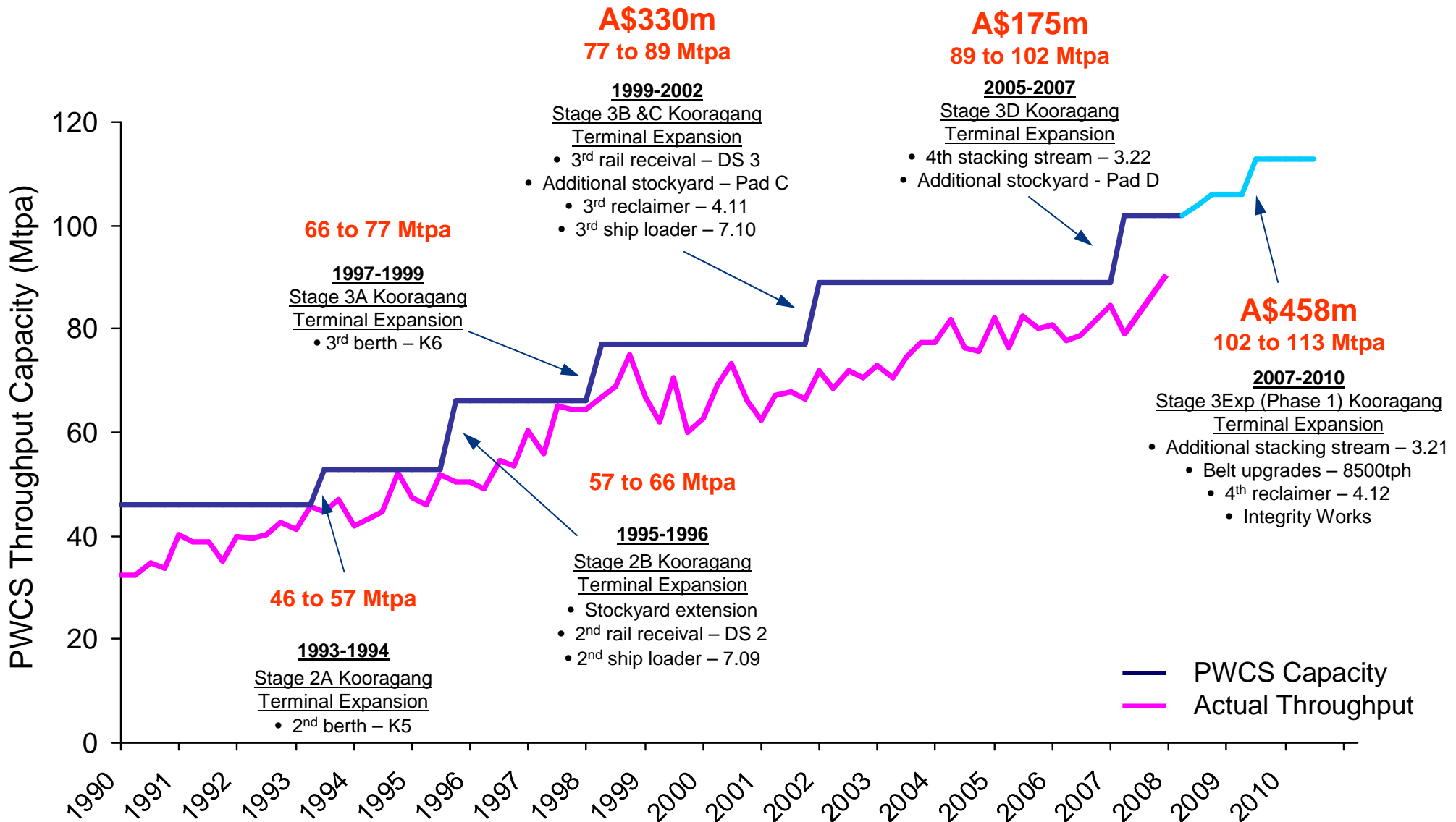
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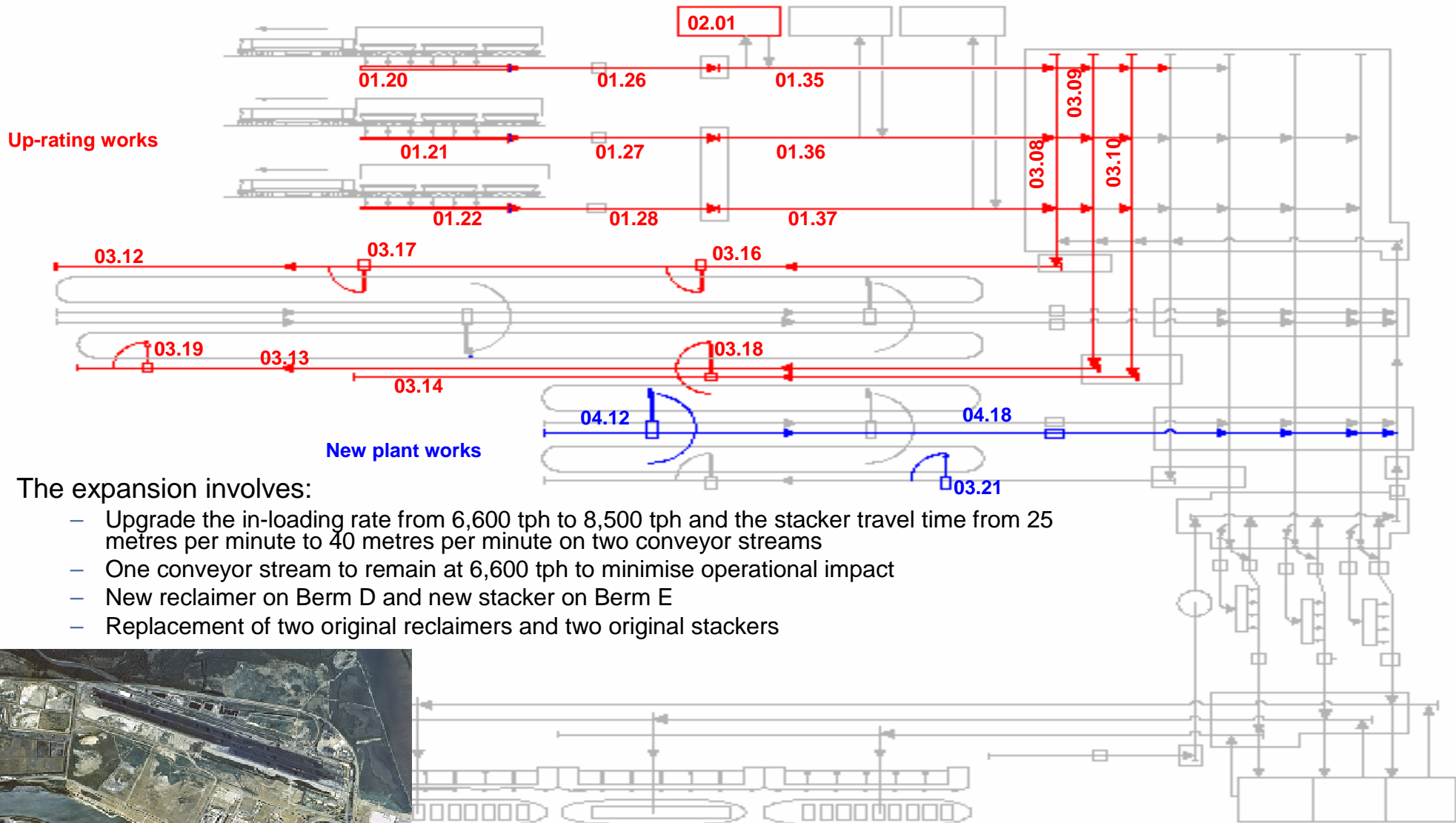
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PWCS Expansion Ahead of Coal Chain Throughput Over Last 15 Years



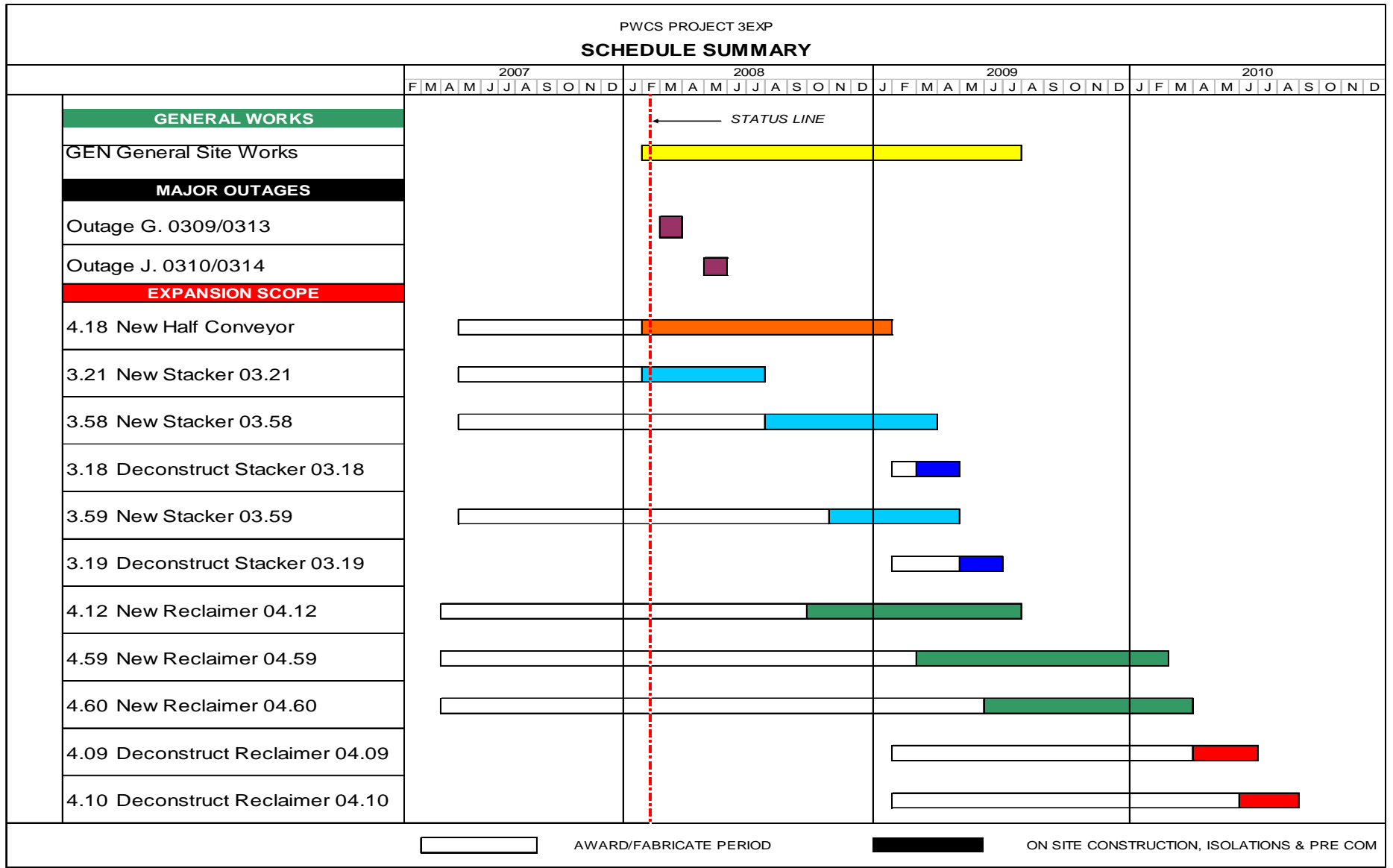






- The expansion involves:
 - Upgrade the in-loading rate from 6,600 tph to 8,500 tph and the stacker travel time from 25 metres per minute to 40 metres per minute on two conveyor streams
 - One conveyor stream to remain at 6,600 tph to minimise operational impact
 - New reclaimer on Berm D and new stacker on Berm E
 - Replacement of two original reclaimers and two original stackers

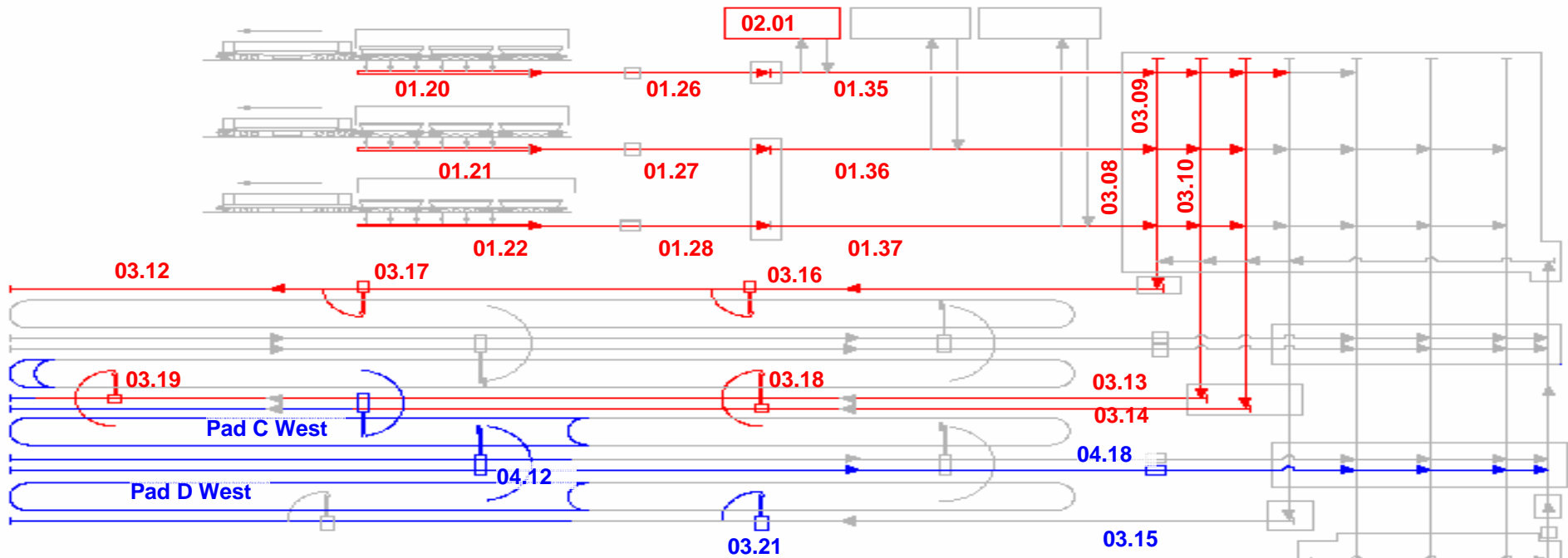




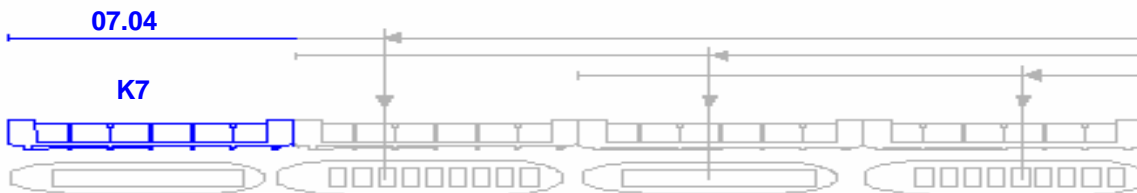
- \$220M forecast to be spent in the local area
- \$360M total forecast to be spent in Australia
- Remainder being spent on procurement of reclaimer and stacker components from overseas vendors
- Site engineering, construction, and supervisory work force will peak at around 230
- Major focus of the project team is to eliminate unplanned impact on capacity

New capacity	\$228M
Reliability work on existing plant	\$82M
Replacement of reclaimers	\$148M
TOTAL	\$458M

Beyond Project 3Exp – Future KCT Expansion Options



Phase 2 Expansion works in BLUE



Expansion Option	Delivered PWCS Capacity (Mtpa)
Project 3Exp	113
<i>Future Full Expansion Part 1</i> <ul style="list-style-type: none"> – 4th Arrival Road – Stacking Stream 1 upgrade – K7 Berth – Full Pads C & D 	128
<i>Future Full Expansion Part 2</i> <ul style="list-style-type: none"> – 4th Reival and 4th Ship Loading Stream (with Wait to Sail delays) 	145

Questions?

- In January 2007, Producers formed a Producer Working Group (PWG) to urgently consider options to reduce queue and demurrage costs.

- The ACCC granted CBS authorisation for 2007 only.

- PWG considered a number of options to respond to the capacity and demand imbalance for 2008.

- PWCS independently develops principles for a compromise solution.

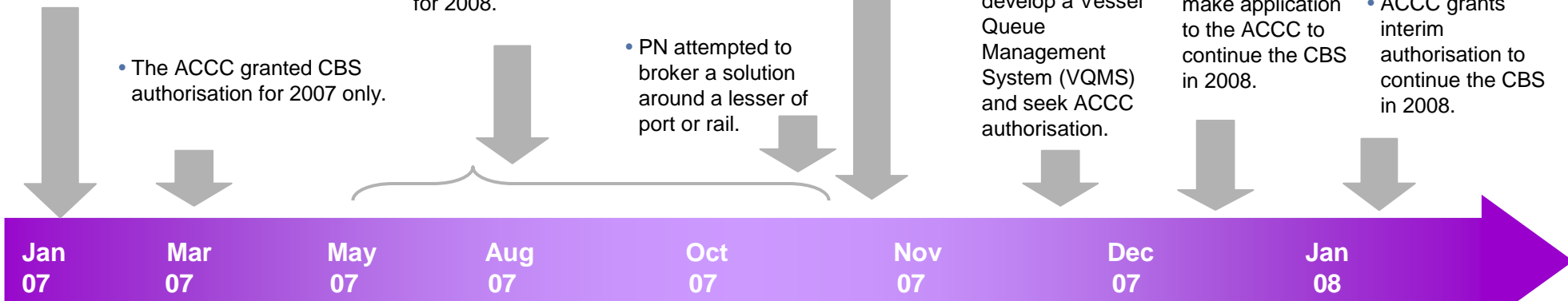
- PN attempted to broker a solution around a lesser of port or rail.

- In the absence of a solution, PWCS, PN and QR National jointly develop a Vessel Queue Management System (VQMS) and seek ACCC authorisation.

- Newcastle Port Corporation (NPC) and Donaldson Coal make application to the ACCC to continue the CBS in 2008.

- ACCC does not grant interim authorisation for the VQMS.
- ACCC grants interim authorisation to continue the CBS in 2008.

Actions



- Recommendations of the PWG included;
 - PWCS apply to the ACCC to reinstate the CBS for 2007.
 - The PWG continue to investigate short term systems to address potential demand and capacity imbalances for 2008.
- A number of Producers would only support the reinstatement of the CBS in its current form for 2007.

- **Producers could not reach agreement**
- It appeared that, based on the interpretation of rail contracts by rail providers, **some mines may not be able to deliver their coal to the port.**
- PWCS compromise solution circulated to producers for their meeting on 10 October 2008 in a further attempt to reach industry agreement.
- **Whilst some producers indicated willingness to compromise collectively producers still could not reach agreement.**
- **PWG was disbanded.**
- **In the absence of a solution from producers the default position is effectively the lesser of port or rail contracts.**

- Producers surveyed in relation to Coal Chain allocation for 2008 and beyond.
- Based on support from Producers, PWCS Board agrees to implement the NPC's proposal to continue the CBS in 2008.

- NSW Government announce the appointment of the Hon. Nick Greiner to assist the Hunter Valley coal industry to develop a new allocation system.

Consequences