12 December 1997

Industry Commission
Australian Black Coal Industry Inquiry
Locked Bag 2
Collins Street East Post Office
MELBOURNE, 8003

Dear Sirs,

RE: PORT WARATAH COAL SERVICES SUBMISSION

Please find attached our Submission to the Australian Black Coal Industry Inquiry. Our submission is in two parts. First we have provided a brief overview of the Hunter Valley Coal Chain (HVCC) and its inherent complexities. In the second section we have attempted to highlight the larger issues confronting PWCS in its business environment. In focussing on these areas we are aware that there are numerous other important issues to be addressed both operationally and commercially. We have elected to concentrate on the areas chosen as we believe they are important to be brought to the attention of an inquiry of the type being undertaken.

Finally we extend an invitation to members of the Commission to visit PWCS to further discuss the issues raised or indeed other matters of importance that may be brought to the attention of the inquiry.

Yours faithfully,

David Brewer
General Manager

Attachment

Section One
Background - Hunter Valley Coal Chain Complexity

PWCS business is that of receiving, handling and loading coal for its customers. The key

characteristics of PWCS operations can be described as follows:

· provides coal handling services on a cargo assembly basis to 37 customers

· receives coal from 26 loading points by road, rail and ship

· handles approximately 105 coal types

· blends 90% of cargoes

· assembles an average of 40 cargoes for 22 vessels each day

· operates a stockpile lead time of only 4 to 12 days (due to cargo assembly methodology)

· Loads vessels with from approximately 30,000 to 180,000 tonnes and with up to 6 individual cargoes per vessel.

The method of operation of PWCS and the Hunter Valley coal industry is markedly different

from any other coal handling port in the world (with the possible exception of Port Kembla).

Over the past ten years PWCS throughput has grown at a rate in excess of 7.5% compounded while infrastructure capacity has increased from ~38 to 66 million tonnes per annum.

Hunter Valley Coal Chain ("HVCC") participants recognise that the operating capacity and effectiveness of the HVCC is impacted by changes to planning and delivery of transport schedules resulting from:

· a number of "short term" changes to information in relation to cargo components, cargo size, train size, and coal and load-point availability;

· inherent HVCC process variability, resulting from non-performance of HVCC components to standards/plans, a long and complex process chain, and the cumulative impact of non-performance by individual HVCC participants;

· HVCC participants' desire for maximum flexibility in relation to transport and shiploading plans;

· the impact of climatic conditions. including rain at mines, Port closures and the effects of rain and wind at PWCS;

· changes in the timing of vessel arrivals, and the impact these changes have in planning for "turn of arrival" loading; and

· industrial relations issues experienced by HVCC participants.

The complexity and variability of the HVCC, including PWCS' operations, results in a requirement to provide infrastructure (and implement operating procedures) with more flexibility/capacity than other world competitive coal handling operations (de; PWCS' operating capacity would be higher, and the costs of providing coal handling services

would be lower, if PWCS were not required to provide for the level of flexibility demanded by some Coal Exporters).

Section Two

Capacity Allocation

There has been considerable discussion in both the Coal Industry and Government circles concerning the queue of vessels off the Port of Newcastle.

It may be useful to first understand the current 'turn of arrival' system which effectively acts as capacity allocation system for coal loading (ie 'who gets what').

· Vessel arrivals to the Port of Newcastle are agreed between the Coal Exporter and their buyer. PWCS is not a party to this Agreement. PWCS exercises no control over the arrival schedules.

· Vessels will be loaded in turn of arrival, the order of which is based on their actual time of arrival off the Port of Newcastle provided that:

1. conditions pertaining to the Contract (Coal Handling Services Agreement - 1997) between PWCS and the Coal Exporter have been fulfilled;

2. the vessel is ready in all respects to receive the cargo; and

3. having regard to the Port of Newcastle conditions or restrictions.

Therefore the ordering of a vessel is not linked to the PWCS ability to load or the coal chain's ability to deliver coal to the port.

The exact reasons for the continuing presence of the queue are the subject of much debate. Clearly however demand is in excess of supply capability and recent forecasts indicate a continuation of this trend. Further, statistical studies by PWCS of the arrival patterns off Newcastle indicate that, due to their exponential distribution, from time to time lengthy queues are inevitable. Indeed the Turn of Arrival system under which PWCS operates, serves to exacerbate the problem; in effect it leads to vessels 'racing' to Newcastle to ensure that they secure a place high in the queue.

The current systems are clearly not producing the desired result and as a consequence Coal Exporters are considering methods of allocation of PWCS shiploading capacity to facilitate efficient utilisation of resources. It is important to ensure that any method to allocate resources does not serve to actually restrict or reduce the overall throughput.

This issue has been discussed at senior levels within the coal exporting companies and PWCS. The difficulty with resolving a complex issue such as this is accentuated by the

common user philosophy which underpins the PWCS operating environment, by the ownership structure of PWCS (and the lack of alignment of shareholding with throughput entitlements) and the competing business objectives of the Coal Exporters.

Given this environment short term 'fixes' such as the recent moratorium on vessel acceptances have been implemented. There is currently discussion concerning a simple allocation system involving entitlements determined according to historical forecasts and demand 'smoothed' through use of laycan periods. Again this proposal is considered to be relatively short term in nature.

PWCS believes that any solution will have to be long term (ie not a stop gap but represent a fundamentally different way of doing business) and will have to consist of a logical set of market driven rules that govern the entitlements of users to use the facility.

Impact of New Rail Providers

The following comments are based on the expectation that the Commission is aware of the opening up of access to the rail freight business in NSW.

· The deregulation of rail freight may create a competitive rather than cooperative scheduling environment. The PWCS' Contract with its customers requires it to manage the assembly of cargoes for those customers. With multiple rail operators PWCS will require a way of managing the receival and unloading of trains from all rail freight operators.

· The deregulation of `.he rail freight environment may see rail fleets with different performance and capacity levels, eg; different load rate performance at Loading Terminals, different transit speeds and different unloading rates, etc.

· If the system does not cater for differences in fleet capabilities, then rail programmes will be less accurate. This will cause issues in a competitive rail environment in relation to timetabled PWCS rail receival arrival and departure times.

· The introduction of new rail freight operators may require PWCS to manage their scheduling and/or the adoption of a closer relationship with RAC.

· The issue of logistics management may have been overshadowed by a focus on the commercial arrangements and potential cost savings. There is a need for industry wide understanding of the potential operating inefficiencies that will be generated in the absence of sensible coordination. PWCS believes that this is a key issue to consider particularly seven the complexities that can arise through the use of common facilities.

Introduction of a User Pays System at PWCS

PWCS currently provides its coal handling services under a common charge regime ie the same per tonne cost is charged to each user of the facility. PWCS believes there is merit in investigating a user pays regime for PWCS services for the following reasons:

· the possibility of a competitive terminal being established to export Hunter Valley coal would mean in all likelihood that a common charge could not be sustained;

· the impost of cost reflective charges for the different services provided may serve as a driver for more efficient behaviour by PWCS and customers alike;

· will serve to eliminate the current cross-subsidisation that is a characteristic of a common charge approach;

· differential charges (possibly consisting of an access charge and variable operating charge) could support the adoption of an economically sensible capacity allocation scheme (discussed above);

· differential pricing has the potential to better inform future investment decisions to be made by PWCS.

It would appear that there is little the Government can do in relation to the above suggestions for reform as they are essentially matters for the industry. However the following issues are of note:

1. PWCS lease conditions that require that it be a 'common user' facility may need revision. There are a number of leases which are held with various State Government entities. Alternatively the interpretation of the 'common user' requirement will need revision.

2. PWCS would most likely be considered a natural monopoly under the National Competition Policy and any changes to the access regime/pricing structure would need to comply with that legislation.

Recognition of Bottlenecks

PWCS is but one link in a chain that consists of a number of different users and infrastructure service providers. In a supply chain such as the HVCC, the ability of the various participants to recognise and address physical and operational 'bottlenecks' is critical. PWCS believes that the following significant barriers serve to complicate. this process:

· Lack of commercial arrangements and therefore commercial drivers to provide sufficient economic incentive to rapidly implement change when required;

· Lack of a 'competitive mentality' driven by history of excess capacity and perhaps influenced by ownership structures;

· Lack of alignment of commercial objectives.

Further, our preliminary investigations show significant *potential* capacity gains for the HVCC through infrastructure expansion in the following areas:

1. Increased rail fleet capacity.

2. Increased track capacity at selected load points (eg Mt Thorley).

3. Bi-directional signalling at certain rail junctions to allow optimum sequencing of trains into PWCS unloading terminals.

Need for Interface Commercial Agreements

This issue is reflected in a number of the above discussion points. The pressure for increased performance has resulted in the traditional ways of doing business being replaced by more stringent commercial arrangements. These arrangements need to clearly reflect the obligations on the parties and be underpinned by a system of financial incentives and penalties.

PWCS is moving toward such arrangements both with FreightCorp and the Newcastle Ports Corporation. The ability to have sensible commercial arrangements throughout the HVCC is crucial to support ongoing improvement initiatives.

PWCS Stage 3 Expansion and Associated Issues

PWCS has in the past undertaken a 'step by step' approach to infrastructure expansion to increase nameplate capacity to the current 66 million tonnes per annum (mtpa). This has been in response to steady growth in demand for Hunter Valley coal, growth that is anticipated to continue. In December 1996 Development Consent was granted by the NSW Minister for Urban Development for PWCS to continue this 'step by step' expansion to a *possible* nameplate capacity of 100 mtpa.

This development consent was the subject of an appeal (by a resident of a community adjoining the rail corridor to the port) in the Land and Environment Court on the grounds of the effect of rail noise and vibration impacts on local communities. This appeal was subsequently dismissed though not without delaying progress of the expansion by 12 months. Subsequently a further appeal to the original decision has been lodged in the NSW Supreme Court. This process has since been overshadowed by the passing in the NSW Parliament of legislation enabling the expansion to proceed.

The implications of rail noise and vibration impacts in the Hunter Valley are wide ranging and community pressure may affect the development of new mines, infrastructure expansion etc. Government we believe has a key role in providing the

appropriate legislative and administrative framework for statutory approvals and appeals to be dealt with in a timely fashion.