

29<sup>th</sup> July 2007

Mr Michael Roche  
Chief Executive  
Queensland Resources Council

Mr Bruce Wilson  
Director General  
Queensland Transport

Dear Mr Roche and Mr Wilson

**RE: Goonyella Coal Chain Capacity Review**

I am pleased to report that the above review has been completed. This letter gives an overview of the study and summarises the key findings and recommendations. These findings and recommendations have been finalised following the feedback received following the presentation to all stakeholders involved in the supply chain on Friday 6<sup>th</sup> of July, 2007. Attached to this letter is the detailed supporting information assembled during the study.

**Background**

The review of the Goonyella Coal Chain was jointly commissioned by the Queensland Government and the Queensland Resources Council representing those Coal Producers that presently make use of the system. The impetus for commissioning the review was the perceived inability of the supply chain to match the rate at which the producers can extract coal and meet their contract tonnages. There was also a lack of clarity on what the projected capacity of the total supply chain will be in future years and what initiatives are required to achieve these future capacities.

The broad objectives of the study were to:

- Identify system constraints (both actual and perceived).
- Have stakeholders agree on realistic throughput targets against contracted throughput.
- Recommend a reporting regime to restore customer confidence.
- Make recommendations focussed on improving:
  - Transparency
  - The capacity of the system to deliver contracted throughput
  - Confidence in capacity forecasts.

The review was conducted by Stephen O'Donnell who was previously the CEO of Pacific National. He has also held senior executive roles in the Queensland mining industry. He was supported by consultants from Partners in Performance, an

organisation specialising in business improvement, particularly at the operational level.

During the review, discussions were held with all the major stakeholders in order to obtain an assessment of issues as seen from their perspective and give input on potential solutions. Follow up discussions were held as considered necessary. The discussions involved, but were not limited to, the following groups:

- Senior ministers and officials of the Queensland Government
- The Board and senior management of Queensland Rail
- CEO's and senior executives of the coal producers
- Senior executives associated with the Dalrymple Bay Coal Terminal, Hay Point Services Coal Terminal and the Ports Corporation of Queensland.
- Queensland Competition Authority.

I am pleased to report that the review team received the full co-operation of all stakeholders in gathering of information and in the testing of emerging findings and recommendations.

### **Initial Perceptions**

As discussions with relevant stakeholders proceeded, it became apparent that the current situation had a long and complex history commencing around the time Babcock and Brown (BBI) acquired the lease for the Dalrymple Bay Coal Terminal (DBCT). Many events have occurred which have impacted the capacity of the coal chain. Examples include:

- The decision by the coal producers through the regulatory process during 2004-06 to question the financial details underpinning the proposed price of the port expansion at DBCT; and
- The failure of a stacker reclaimer at DBCT in February 2004.

During this period the export coal market has experienced a sustained increase in demand, in excess of the capacity of the supply chain. Global coal price levels have also markedly increased.

Rail contracts were entered into prior to 2003/04 at a time when cost was the prime requirement of coal producers. These contracts pre-dated the lift in global coal prices. Contracts were structured to minimise the required amount of rolling stock. However, this had the effect of reducing total system capacity due to lack of flexibility in meeting the typical variations that the supply chain experiences.

Export shipments from DBCT have been below port and rail contracted tonnages over the last twelve months, leading to significant concern on the part of coal producers.

There is significant complexity in managing the supply chain from both strategic and operational viewpoints. This complexity is primarily a function of the number of

entities directly associated with it. Eight coal producers operating across 13 mines, BBI (long term port leaseholder), DBCT P/L (port operator), QR Network Access

(QRNA), QR National (QRN) responsible for rail haulage. In addition there are regulatory, commercial and shareholder interfaces with the QCA, ACCC, PCQ and the State Government. When the system is underperforming there is ample opportunity to blame other parties, particularly due to the lack of transparency in the provision of some data relating to the performance of the system.

Coal producers have a common interest in maximising the performance of the supply chain but in other arenas they are fierce competitors. There are individual contracts between the port and the coal producers as well as between the rail haulage provider and the coal producers. There is no process to ensure that these contracts reconcile with each other and that they in total add up to the available capacity of the system. When issues arise, given the complexity of the interfaces between the parties, it is usually well beyond the capability of any one party to resolve the point of difference.

Close cooperation and transparency of information are vital ingredients to resolution of issues associated with underperformance of the coal supply chain. **However, there is no person or entity with the authority to pull stakeholders together to obtain an outcome.** Despite the goodwill of all parties to move forward, relationships can become dysfunctional as pressure mounts to do something while individual parties address issues from their own perspective.

### **Current situation**

Many reports have been commissioned and improvement projects commenced. The Hay Point Services operation is in the last stages of an expansion of the port to take it from 38mtpa to 44mtpa. DBCT have commenced expansion work to lift capacity to 68mtpa as the expansion is commissioned in the first quarter of 2008 and have further construction work planned to take capacity to 85mtpa by the end of 2009.

**The current bottleneck in the system is lack of rail rolling stock capacity.** For example, if there were two more train sets in the Goonyella system, the bottleneck would more obviously be the fact that the two unloading stations at the port cannot cope with demand. **During the planned construction works at DBCT later this year the port will become the bottleneck until early next year when the port's capacity will lift to approximately 68mtpa. Following completion of this work, the bottleneck will return to being lack of rolling stock. QR's plans have yet to be finalised to address this situation.**

**This Review's study of the overall supply chain indicates that a business improvement program should be urgently commenced across the entire supply chain, with the initial focus being on Queensland Rail, reflecting the current bottleneck in the supply chain.**

A business improvement program focussing on the operation of the rolling stock and interfaces with the coal producers and the ports could liberate another 5mtpa, which would put the rail haulage capacity ahead of DBCT capacity until the port expansion

is completed. **This business improvement work could be expected to take about six months to realise these gains.**

### **Principal recommendations**

I have discussed the above analysis with all stakeholders in the Goonyella coal supply chain. I am pleased to report that there is full support from stakeholders for the following recommendations:

- **A central coordination role be created to oversee and if necessary coordinate all activities which span the whole of the supply chain.**

The position would be a part time role, paid for by the coal producers and be ultimately accountable to them. The individual in the role should preferably be Brisbane based and have had sufficient experience to allow the individual to effectively deal with senior personnel from all the stakeholders (Government, Coal Producers, Queensland Rail and BBI) to get outcomes in the best interest of the supply chain. To support this role, it is considered essential that all parties sign an MoU agreeing to support the role and provide information and resources as required.

**The central coordinator could for example:**

**Oversee preparation of master plans to ensure that future capacity is in line with forecasts; facilitate industry consideration of the northern missing link; and oversee short term planning and the establishment of business rules for daily optimisation of system capacity. A co located work group containing resources from the rail provider and DBCT would facilitate optimising the application of resources to service DBCT.**

For the position to be effective two full time resources should support the role. Widening the role of the current DBCT capacity planning consultant should be considered for one of these roles

I am pleased to report that all stakeholders support this recommendation and good progress has been made in giving effect to this recommendation.

- **QRN to immediately commence a process, including negotiating commercial contracts with users, to purchase additional train sets to allow it to meet projected volumes.**

This should be actioned as soon as possible as the equipment has a 2 year procurement lead time for delivery of the first additional locomotives to service the expansion plans of the ports. The situation of QRN's forward contracts also needs to be finalised as approximately 30% of QRN's business will be off contract in three years' time.

QRN has commenced a process of consultation with coal producers concerning the commercial terms underpinning the acquisition of additional rolling stock.

- **A business improvement program be commenced across the supply chain, starting immediately with Queensland Rail as this is the current bottleneck.**

This program should have external resources with expertise in managing programs to achieve gains in operational throughput. The program should be externally audited. The starting point for the program should be to focus on improving train cycle times. (Cycle time is total time for a coal train to depart from the train depot, travel to a designated mine, load with coal, travel to the dump station at the port, unload coal, return to the depot, complete any work required on the train and then be available to commence another cycle). Rigorous focus on actual cycle time performance against pre determined standards will start to identify where there are major losses occurring. Each of those areas of loss will then be the focus of an individual improvement program. In this manner, the program identifies the real areas for improvement, quantifies them to determine priority and then gets to work on them. The programs are usually well received by all participants as they work on the real issues at hand and many individuals undergo significant personal development as a result of their involvement (enhanced analytical capability, and leadership capability associated with implementing change).

QRN has now appointed an external organisation to resource this program which was expected to commence on Monday 23<sup>rd</sup> of July, 2007.

### **Other matters**

There are issues that the study was requested to examine which could not be adequately addressed in the time frame. For example, an important piece of work that needs to be quickly completed is an assessment of the capacity of the coal supply chain after the completion of the DBCT port expansion to 85mtpa. There is a strong view amongst coal producers that the actual capacity figure may be much lower than 85mtpa when the interface with the rail system is taken into account. This is potentially a serious issue for the producers given that they have contracted port tonnages up to the full 85mtpa.

Given the short time frame for the review and the requirement to interface with all stakeholders, this report should be looked upon as an initial scoping study to quickly identify opportunities to improve the overall performance of the coal supply chain. Progress is being made in implementing the recommendations. As the Business

Improvement Program gains traction, many new insights into opportunities to lift the capacity of the system will be identified.

Supporting information gathered during the review is attached.

Stephen O'Donnell