



## HUNTER VALLEY COAL CHAIN COORDINATOR

12 May 2020

Department of Planning, Industry and Environment  
Locked Bag 5022  
Parramatta NSW 2124

### **HVCCC Submission in response to NCIG's Proposed Capacity Increase**

On 24 April 2020, the Department of Planning, Industry and Environment requested submissions from interested parties in relation to NCIG's Capacity Increase Proposal currently on public exhibition.

### **Role of HVCCC**

The Hunter Valley Coal Chain Coordinator Limited ('HVCCC') is a company limited by the guarantee of its Members, who are the coal Producers and Service Providers operating in the Hunter Valley. NCIG is one of two coal terminal operators in the Port of Newcastle and is a HVCCC Member. The role of HVCCC, pursuant to its Objects, is to 'plan and co-ordinate the co-operative operation and alignment of the Coal Chain in order to maximise the volume of coal transported through the Coal Chain, at minimum total logistics cost in accordance with the agreed collective needs and contractual obligations of Producers and Service Providers.' Anything that impacts or has the potential to impact the movement of coal in the Hunter Valley is a consideration for HVCCC.

### **Consideration**

HVCCC has considered NCIG's proposed nameplate capacity increase in the context of the whole of coal chain and having regard to the overarching obligation of HVCCC to consider the collective needs of all members. Although HVCCC has not formally modelled the proposal for its implications for the whole coal chain, HVCCC has assessed the proposal against known contractable limits and demonstrated performance of the coal chain, particularly NCIG.

It is the assessment of HVCCC that the proposed increase in the nameplate capacity of the NCIG terminal from 66 million tonnes per annum to 79 million tonnes per annum would benefit the Hunter Valley coal chain in terms of assisting to maximise the flow of coal and minimise the total logistics costs.

This submission provides an overview of the potential benefits the proposal may have in terms of maximising transport of coal through the Hunter Valley at minimum total logistics cost.

### **Benefit to Industry**

Increasing NCIG's nameplate would align its approval with its demonstrated capacity, delivering a potential increase of 13 million tonnes per annum (approximately 7 percent increase) to the coal chain's contractable terminal capacity, without requiring costly infrastructure investment that would normally be needed to achieve such an increase.

Although during 2019, NCIG's actual annual throughput was 54Mt, NCIG regularly achieved annualised throughput rates in excess of 70Mt to meet fluctuating demand and peaks around network disruptions. Similarly, peak annualised rates above NCIG's approved annual nameplate capacity have continued during 2020, for example an annualised rate of 74Mt was achieved during the week 20-26 April 2020 and a rate of 99Mt was achieved on 05 May 2020. NCIG's throughput for May 2020 is running at an annualised rate of 69Mt.

NCIG's ability to achieve throughput rates above its annual capacity helps sustain low vessel queues (which would otherwise invoke demurrage costs) and enhances capacity for Members (Service Providers and Producers) to achieve their contracted coal volumes despite forecast and unplanned disruptions in coal chain throughput.



NCIG's application outlines that the proposed increase in capacity is achieved through optimising existing infrastructure at a cost of less than \$10m, thereby avoiding large capital infrastructure costs that are ordinarily required for such capacity expansion. This relatively small investment for such a capacity increase combines to help maximise the potential flow of coal at minimum logistics costs and increases the potential value that coal chain Members may achieve from the shared infrastructure of the Hunter Valley coal chain.

Notwithstanding NCIG's demonstrated 'peaking' performance, HVCCC recognises that increasing predictable flow through the coal chain is preferable to depending on peaking capacity which inevitably pressurises the interdependent parts of the coal chain, such as the rail infrastructure and rail haulage providers. Additionally, it is preferable in terms of 'minimising total logistics costs' for the terminal throughput to *not* constrain the coal chain. HVCCC notes that the contractable annual terminal capacity (combined NCIG and Port Waratah Coal Service (PWCS)) already exceeds the contractable capacity of the enabling rail network by approximately 6 percent, and that approving the NCIG proposal would extend this contractable capacity difference to 11 percent.

Newcastle's two coal terminal providers operate with differing yet complementary models; the advantages of which endure beyond whether the NCIG proposal is approved or rejected. Whereas the PWCS terminal operates a highly efficient 'just-in-time' cargo assembly model, NCIG operates a predictable stockpile capability at the terminal end of the supply chain. The coal chain throughput is not likely to sustain concurrent high yet stable flow *and* peaking capacity without the balance of efficiency and resilience enabled by the differing terminal constructs.

The complementary terminal models enable HVCCC to maximise flow to the coal chain's capacity to meet peak demand and to smooth peaks that occur around forecast maintenance and unplanned disruptions such as track and train breakages (particularly in single rail line areas), extreme weather, floods, bushfires, etc. By reducing peaks for some Members, HVCCC ensures the benefits flow through the interdependent parts of the whole coal chain, including to other producers, vessels, rail haulage and rail infrastructure organisations.

Approving the NCIG proposal would increase the stockpiling capacity at the terminal end of the coal chain which reduces the whole coal chain's dependency on coal in transit between load points and terminals. Although terminal stockpiling appears *prima facie* less efficient than a 'cargo assembly' model, reducing dependency on coal in transit offers utility to Producers with mines at greater distances from the terminals who experience greater exposure to disruptive events. According to a 2019 Commodity Insights report (commissioned by HVCCC to assess the long-term demand and supply of Hunter Valley coal), as older mines close, the demand for Hunter Valley coal will increasingly be met by mines that are further from the terminals. Therefore, NCIG's proposal increases the contractable terminal capacity for the Producers who are more engaged in terminal stockpiling, which benefits the long-term evolution in the Hunter Valley coal chain without diminishing the significance and advantages of the two terminal systems.

## Summary

Although the NCIG proposal has not been modelled, HVCCC's support is aligned with its Objects as the proposal would increase the potential maximum capacity of this element of the coal chain at minimal total cost and matches nameplate approval with demonstrated results at the terminal. Expanding the contractable terminal capacity expands the potential benefit of the complementary terminal construct.

Please do not hesitate to contact me if you require any further information.

Yours sincerely,

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