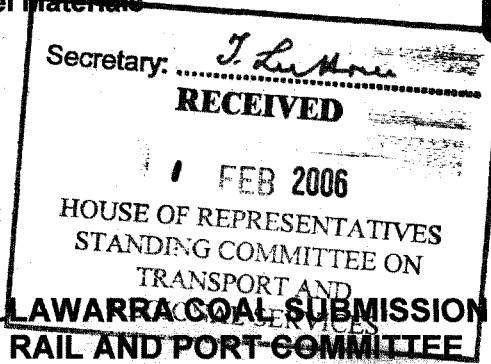




Illawarra Coal - Carbon Steel Materials

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**BHP BILLITON ILLAWARRA COAL SUBMISSION TO THE ROAD,
 RAIL AND PORT COMMITTEE**

INTRODUCTION AND BACKGROUND

The history of Illawarra Coal began in the early part of the 20th century when the Port Kembla Steelworks was established by the Hoskins Brothers. The fledgling steel industry - by both design and good fortune - was located near both coking coal of the highest quality and harbour facilities. Initially coal was delivered directly from the coal mines located on the escarpment to a centralised coal washing facility within the Port Kembla steelworks for use in the local production of steel. Illawarra Coal remains the supplier of over 90 per cent of coking coal to the Port Kembla Steelworks.

The first port for coal shipments was established in the 1880's to transport coal produced from the Mt Kembla mine. The Port Kembla coal loader commenced operation in 1964 and has been upgraded several times since.

The Port Kembla Coal Terminal is one of New South Wales' first examples of privatisation. Once run by the Maritime Services Board, in 1990 it was leased by a consortium of coal companies and is operated by Illawarra Coal by agreement on behalf of the coal companies. It is recognised as one of the great success stories of the Wollongong area and is central to Australia's overseas earning capacity.

Over the next 80 to 90 years, the coal closest to the Steelworks was extracted and mining moved westward. In some cases the initial rail system was replaced by road transport.

EXECUTIVE SUMMARY - ILLAWARRA COAL

Illawarra Coal now consists of four longwall mines; two serviced by rail, and two by road. Appin and West Cliff Mine utilise a central coal storage and processing facility, located on the West Cliff Mine site, some 40 km north-west of Wollongong. Coal is transported by road from West Cliff to the Port Kembla Steelworks. Dendrobium and Delta Mines are located on the Illawarra Coastal Plain and use rail transport to link to a central processing and storage facility at the Port Kembla Steelworks.

Illawarra Coal produces about 7,000,000 tonnes of premium-quality coking coal and 1,000,000 tonnes of energy coal. Approximately 3,000,000 tonnes of coking coal is supplied to the BlueScope

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Port Kembla Steelworks, another 1,000,000 tonnes is shipped to the Whyalla Steelworks owned by OneSteel with the remaining 3 million plus tonnes being exported around the world.

250,000 tonnes of Coking coal is also supplied annually by road to the locally based Illawarra Coke Company, being approx. 90% of that Company's raw material supply. Illawarra Coal also supply 90% of the raw materials required for Zinifex in South Australia, which is shipped in small vessels from Port Kembla.

As the Committee may be aware, Illawarra Coal, BlueScope and OneSteel were once part of the same company. These three separate entities (each shareholder owned) have retained solid business relationships since the demerger.

It is worth noting that Australia's steel industry relies heavily on Illawarra Coal for the supply of process critical, hard coking coal. In the case of the Port Kembla Steelworks, the premium quality of the coal resource combined with the freight advantage that is intrinsic to the close proximity of our coal mines, are key strategic advantages that BlueScope enjoys over its worldwide competitors, enabling Australian steel production to remain competitive worldwide. Likewise, with the Whyalla Steelworks, the lowered freight rate achieved by back loading coal and iron ore over a relatively small distance, provides OneSteel, with a competitive advantage.

Illawarra Coal contributes to the State and National economies. It brings to this region in excess of 2,000 direct jobs, more than 3,000 indirect jobs and local expenditure which exceeded \$285 million in the year ending June 2005. Almost \$485 million was spent in the Australian economy by Illawarra Coal on goods and services in the year ending June 2005. EBITDA for the 2005 year for Illawarra Coal was \$117 million. Illawarra Coal paid more than \$78 million in local, state and federal taxes. We are active supporters of the local community, last year spending \$500,000 in our local communities. This represents a substantial proportion of community funding, as you would expect from an organisation that plans to be working in this area, 30, 40 and 50 years into the future.

Following a period of more than 20 years of decline in the coking coal business, BHP Billiton is in a phase of reinvestment in Illawarra Coal. The reinvestment totals almost half a billion dollars and is one of the largest investments seen in this region for many years. The first major pillar of this reinvestment is the Dendrobium Mine, which was approved and commenced construction in late 2001 with full (longwall) production commencing in 2005. Dendrobium was the first new mine to be introduced to the Illawarra region in more than 20 years and it represents more than \$300 million in investment by BHP Billiton. The Dendrobium Mine has 30 years or more of reserves.

With this investment comes the need to ensure that supporting infrastructure including road, rail, and ports is efficient and cost-effective for the long term.

SUMMARY OF CURRENT TRANSPORT OPERATIONS

The Dendrobium and Delta Mines are serviced by rail links to a centralised coal storage and processing facility, located within the Port Kembla Steelworks. In the case of Delta Mine, a combination of State Rail and Illawarra Coal owned rail lines are used. The Dendrobium Mine is linked to the purpose-built washery within the Port Kembla Steelworks by a 5 km long rail line, which is fully owned by Illawarra Coal. This rail line was established in the 1800's, originally for the

transport of coal from the Mount Kembla mine. The rail line has been upgraded over many years to the current modern standards.

After processing at the Port Kembla Steelworks, the coal is then stored in adjacent stockpiles before being transported the short distance to the Port Kembla Coal Terminal by truck. It is hard to imagine how this link could be improved commercially.

A condition of consent for the Dendrobium Mine is the imposition of a curfew on the operating hours for this rail link. The curfew currently limits rail transport to between the hours of 6.00 am and 11.00 pm. As far as we are aware, this is the only rail line in New South Wales to have such a curfew imposed. In any case, this curfew requires that we increase movements outside of the curfew hours and results in sub-optimal use of the infrastructure, including locomotives and railway wagons, which lie idle during the curfew hours. As a result, the cost of transport of the coal from the mine to the processing works is elevated.

The movement of the clean coking and energy coal to the Port Kembla Coal Terminal has impacts on other port movements. By the imposition of curfews on some coal movements, these coal movements become concentrated and affect coal deliveries by other coal producers, as receival facilities become congested at peak times. For completeness, please note that the waste material from the processing of the raw coal, termed Coal Wash, is loaded on to trucks that have previously delivered clean coal to the Port Kembla Steelworks or Coal Terminal for the return journey to our West Cliff Mine, where it is emplaced. This assists in maximizing the efficiency of the truck fleet in that 30 per cent of the fleet are utilized in both directions, rather than having the trucks returning empty to the mine.

For West Cliff, coal is delivered to the Port Kembla Coal Terminal between the hours of 7.00 am and 6.00 pm. Delivery by road transport is currently prohibited outside these hours as a result of a curfew imposed in 1982 under State Environmental Planning Policy No. 7, implemented when the new facilities at Port Kembla Coal Terminal commenced operations. This Policy was introduced to control the activities of the high number of mines with road hauled coal operating at that time and also encourage the use of rail facilities. Since then, more than 80% of these mines have closed, yet the curfews remain in place. Delivery occurs outside of the Port Kembla Coal Terminal curfew hours to the BlueScope steelworks.

Illawarra Coal believes that the SEPP7 curfew sub-optimises the road transport fleet and generates a greater than necessary impact on the community and industry by concentrating transport during the non-curfew hours. Our figures indicate that the start and stop nature of operations at the coal terminal imposed by the curfew creates increased traffic movements at the least convenient times to the community. At 6.30 am, it is necessary for all road haulage to be diverted to the terminal and likewise at 5.30 pm we revert with all vehicles directed to the Port Kembla Steelworks.

Noise studies undertaken indicate there would be no measurable impact on residents from noise or traffic movements specifically associated with coal movements should we be allowed to deliver coal to the coal terminal at night.

The Illawarra Coal business is committed to responsible environmental management and reducing impacts associated with its operations. However, we ask the Committee to recognize that the

curfews in place do reduce the effectiveness of transport operations and therefore the ability to utilize the port infrastructure to its capability.

Another impediment which has, we believe, adverse effects on the community and financial impacts to our business is the existing Gross Vehicle Mass Limit applying to our road transport fleet. The vast majority of our trucks are a B-Double configuration, operating on roads designated for their use and having a GVML of 62.5 tonnes. Other specified B-Double routes have weight limits of 68 tonnes operating under the Mass Limits Accreditation Program. As the Committee would appreciate, this has obvious impacts, primarily increasing the number of trucks required to move a certain freight load and that the trucks are operating at less than their designed and optimum capacity.

Over the last ten years, the safety and operability of B-Double vehicles has improved substantially. Modern trucks have much more efficient braking systems tyres and suspension, quieter engines and bodies. Other enhancements include GPS tracking, accurate loading facilities designed to correctly spread the weight of the cargo over the vehicle's axles, anti-splash designs, and more efficient gross vehicle mass to weight ratios. We have professional drivers operating on roads equipped with passing lanes and noise barriers. Stringent safety programs are in operation which include:

- Fatigue Management Programs
- Professional Driver Training and auditing standards
- TruckSafe Accreditation Scheme
- Proactive maintenance programs
- BHP Billiton Fatal Risk Control Protocol's which are leading edge, industry best practise, harm reduction standards.

If the coal trucks were allowed to operate at the same weight limit as on other roads, it has the potential to benefit both the community and our business.

FUTURE BUSINESS PLANS

The current business plan for Illawarra Coal sees us expanding our production capacity equal to 14 million tonnes by the year 2011. Such expansion is necessary to ensure our competitiveness and to enable continuity of hard coking coal supply to the Port Kembla and Whyalla Steelworks, Illawarra Cokeworks, Zinifex and the expanding export market.

The Dendrobium rail line has sufficient capacity for our current production. We have no plans for the expansion of Dendrobium Mine in the near term. If this were to occur, it would require additional trains with possibly more wagons, per movement, and possibly relaxation of the existing curfew.

Our plans provide for the expansion of the West Cliff facility. This expansion will increase the road-based movements from West Cliff to the Port Kembla Coal Terminal, albeit being a relatively small proportion of the traffic on the roads from West Cliff to the Terminal. In 2003, the volume of our coal freight passing through the freight corridor was approximately 1% of the total volume of traffic captured by RTA data. If we achieve our expansion plans, our total volume of traffic will grow, however we would expect at the same time the traffic in the Wollongong region would also increase. We would ask the Committee to consider the need to provide a safe and efficient transport route from our West Cliff facility to the Port Kembla region now and into the future.

In our discussions with the coal terminal management, we understand there are concerns about the terminal's ability to handle such an increase in road movements, and the impact this might have on the terminal's rail movements.

An area of particular interest to the community has been the Maldon Dombarton rail link. As our Delta and Dendrobium Mines are located on the coastal plain, there is no benefit for connection to the Maldon Dombarton rail link.

At our West Cliff washery, we have at least 15 years of serviceable life from the facility. We have no plans to develop other mine sites or new mines within this timeframe. Beyond this time, the continued operation of our mines will be dependent upon our ability to transport the coal from these new mining areas. The options available are to connect the workings to the processing facilities by underground conveyors; generally an impractical solution, or to build a new service facility to service these workings.

A new service facility; the most likely option, would require a new transport route to the Port Kembla region. This may be via rail including the Maldon Dombarton rail link or by road transport. It is worth noting that to the west and north of our existing facility at West Cliff there are no B Double rated or approved roadways. Therefore, the longer term, life of our mines will be dependent upon new service transport routes being available.

The decision on a new mine site or underground link will be dependent upon the costs and practicality of both options. If we do build a new washery, it may be in a location that can be linked to the Maldon Dombarton rail link. Naturally, the viability of this option would depend on the construction cost of the spur line from the rail link to the mine site, the surrounding geographical features and impacts on conservation and water catchment areas and native flora and fauna. The complexity of studies required to determine the viability of any such link would take a great deal of time and money and always be subject to intense scrutiny and debate from regulatory and community bodies.

Finally, the Delta Mine is now a small mine with a relatively short life of between one and four years. We do not foresee any need to change the current use of our privately owned and State rail owned rail system. In recent years, we have worked closely with the Rail Access Corporation and PacificNational to improve access to the rail line to ensure optimal efficiency of coal transport on the section of line that also carries passenger rail traffic so as to minimise the effects on passenger traffic.

SUMMARY AND REQUEST FOR ASSISTANCE

Illawarra Coal believe that to realise the potential capability of our existing and future business needs, 3 key transport infrastructure and regulatory conditions must be reviewed as soon as possible.

We would ask the Committee for your assistance in considering our request to remove the curfews on our truck movements from West Cliff Mine to the Port Kembla Coal Terminal under State Environmental Planning Policy No 7.

We would further request that the curfews imposed on our rail movements from the Dendrobium Mine under its current Development Consent be re-considered and removed wherever possible.

Finally, that the Gross Vehicle Mass Limits imposed on our road transport fleet be brought into line with those imposed on other Australian businesses.

CONCLUSION

In conclusion, we ask the Committee to consider our role as a key component of the Australian steel industry through the supply of hard coking coal. We operate in a business environment of intense competition within Australia and overseas. The inequitable application of Gross Vehicle Mass Limits and curfews on our operations, increase our costs and make it harder for us to compete with businesses which do not have these restrictions imposed on them.

We must grow and continue to reduce our costs to remain competitive. We are a significant user of the Illawarra region's roads. We do this with State of the Art equipment, using professional personnel operating in a safe and environmentally responsible manner.

We need flexibility in our operating environment and benchmark levels of road transport infrastructure that grow with our own and the community's needs.

We do not foresee in the near to medium future any need for an increase in rail facilities to service our existing or future operations.

Statistics to support the figures quoted in this submission are available.



Wendy Tyrrell
General Manager Sustainable Development & External Affairs