CBH Operations
Proposed 2009/10 Shipping Capacity Access Allocations

This document proposes a new mechanism and framework for the allocation of CBH grain export terminals shipping capacity for the 2009/10 season and beyond. Subject to industry feedback, it is intended to trial these business rules in 2009/10 and, if required, further refine them for 2010/11.

The primary aim of this proposal is to efficiently allocate export capacity, in an equitable and transparent way, and without adding costs to the WA Grain Supply Chain. Please note that the automation of these mechanisms for 2009/10 will be subject to the implementation cost and time required to design and install systems onto CBH StockNet.

CBH have engaged PWC to assist in the development of a market based mechanism consistent with the principles established in this Agreement.

1. Background

The 2008/9 season experienced unprecedented demand for export shipping capacity. The excess of demand over capacity led to delays in the grain export program over the period from Jan to April 2009.

Shipping capacity is defined as the ability for CBH to accumulate and outload grain into a vessel in any given period. It is comprised of core capacity, surge capacity plus grain shipped under the direct to port access undertaking (core and surge capacity are defined in Sections 4.4 and 4.5 of this document). CBH will advise its core capacity each year depending upon crop size and prevailing circumstances.

The primary purpose of this proposed CBH Shipping Capacity Access mechanism is to ensure shipping terminal capacity continues to be allocated on equitable, transparent, commercial and competitive terms, while addressing the identified bottlenecks and operational issues.

The following design “principles” have guided the formulation of the proposed allocation mechanism:

- To provide fair & equitable access to all market participants.
- To ensure a sustainable and efficient supply chain.
- A governance framework that is transparent & accountable.
- Process designed to efficiently allocate capacity and minimise associated administrative costs.
- Any surplus revenue to be returned to growers.
- Process designed to minimise performance risk.
- Provide operational flexibility for all parties.
- Market forces to be allowed to set price in the primary market.
- The purpose of the secondary market is to maximise efficiency of the allocation process NOT to allow profit taking through speculation.
- Solution to be based upon a robust technology platform.

2. Proposed Approach 2009/10 Season

Two mechanisms exist for exporters to access the CBH network:

1. Grain Express (utilising the CBH network and supply chain), or
2. Direct Port Access (utilising a non CBH grain accumulation chain).

Please note that Direct Port Access arrangements will attract a different fee structure to the CBH FOB fee levied under Grain Express. The CBH charging structure under Grain Express will be available in the 2009/10 CBH Grain Services Agreement. The fee structure covering Direct Port Access will be made available in the 2009/10 CBH Port Terminal Services Agreement.

The proposed allocation approach should allow exporters to establish operational commitment for the accumulation of their grain within agreed ship loading and export windows. The allocation of export shipping capacity will be conducted in three separate processes governing three distinct periods:

1. Harvest Shipping Period (uncertain shipping demand),
2. The Peak Shipping Period (heavy shipping demand), and
3. The Standard Shipping Period (flat shipping demand).

3. Harvest Shipping Period

The period from 15 October to 15 January ('Harvest Shipping Period') will include specific parameters to accommodate flexible arrangements for stock controls.

3.1. Each port zone will have specific windows and commodities that are required for Harvest Shipping.

3.2. Exporters will be invited to forward expressions of interest (EOI) to export during the Harvest Shipping Period.

3.3. If CBH accepts an EOI then the provision of available shipping capacity to the nominated port facility is committed subject to the exporter guaranteeing its ability to obtain Grain Entitlement 48 hours prior to loading the vessel.

3.4. Confirmation of shipping slots will be via a separate CBH contract. Exporters will be required to pay the full FOB Export Outloading Charge upon execution of the contract.

3.5. Exporters may trade their Harvest Shipping booking slot to another exporter who has executed a Grain Services Agreement with CBH and in line with the secondary market business rules. CBH will consent to a transfer and charge a nominal administration fee.

3.6. After the vessel has been loaded, and provided the shipper has adhered to the business rules, CBH will rebate the shipper an amount linked to the charging structure for that season (eg 25% of FOB fee). Note that shippers exporting under Direct Port Access arrangements will not attract the rebate as this discount acts as a reward for the creation for efficiencies generated up-country during the harvest period.

3.7. During the Harvest Shipping Period, allocations will not be limited by entitlement or any other reference point. In the event of minor over subscription, CBH will allocate capacity on a pro rata basis. In the event of significant over subscription, CBH will allocate capacity through the auction process.

4. Peak Shipping Period

January 15 through to 30 June ("Peak Shipping Period") are expected to be high export demand months regardless of annual crop size. During this period it is anticipated that demand for shipping capacity will be at its peak.

4.1. Overview

4.1.1. Shipping capacity during the Peak Shipping Period will be allocated via an auction process ("primary market"). This market based approach will enable market forces to set a value on peak period shipping slots thus balancing the supply of export capacity with demand for export capacity. Market participants will be able to trade capacity purchased at auction ("secondary market", refer to 6 below) to provide operational flexibility.

4.1.2. Participation in the primary and secondary markets will be limited to accredited exporters and coarse grain exporters. Failure to nominate shipments in accordance with the accumulation guidelines and within the shipment window will result in the forfeiture of slots and the loss of the payment made for these slots.

4.1.3. Following extensive canvassing of alternative mechanisms, two "auction" methodologies have been proposed, one ascending price auction and one descending price auction. We believe that both of these mechanisms could be successfully implemented. Option A, the ascending price auction, is our preferred solution because it would involve less "execution" risk for participants and we believe it would also place less stress on the supporting technology and required response times. Option B would provide a faster auction process, but might create greater execution pressure and risks for market participants, because there is less transparency, and less time for participants to change strategy as the auction process evolves. These two mechanisms are described below, with a summary of risks and benefits in Appendix 1.

Note: The commodity being sold at auction will be the shipping capacity for a specified Port Zone and date range. The price paid at auction will be referred to as the "shipping capacity premium". The shipping capacity premium is additional to the FOB charge on core capacity and the FOB + surge charge on surge capacity.

4.2. Option A: Ascending Price Mechanism

The preferred mechanism for the primary market is a series of open ascending price auctions with the highest bidder successful in each auction. Bidders will remain confidential, but prices will be openly published. Key features of these auctions are as follows:

4.2.1. Time slots will be auctioned in "lots". Each lot will have the following attributes: a unique identity number (preceeded by "C" or "S" to indicate core or surge capacity); load date (this will be a half month time period); Port Zone; and quantity. By way of example:

- Lot No.: C-1
- Load date: 16 to 31 Jan-10
- Port Zone: Kwinana
- Quantity: Max 10,000 MT less 5% at shippers option

4.2.2. Lot quantities may be either Max 10,000MT's or Max 1,000MT's (tolerance will always be less 5% at shippers option). The 2 lot sizes provide shippers with more flexibility in matching export capacity to cargo sizes.

4.2.3. Lots are auctioned individually: one lot per auction.

4.2.4. All auctions will open at $0/MT and bids will increase in minimum increments of $0.25/MT (participants have the option to increase their bid by more than $0.25/MT). The winning bid will be referred to as the "shipping capacity premium" for that lot. A bid of $0/MT will be considered a valid bid.

4.2.5. An opening bid of $0/MT is permissible. If no bids are received for 3 minutes, the auction will be closed and the lot will be "passed in" for re-auction later. The re-auction process varies slightly for core and surge capacity (see below).

4.2.6. The most recent bid will be openly declared.

4.2.7. Last bid wins: if no new bids are received for a minimum period of 30 seconds (this will be reviewed during system testing), the last bid is the winner. This is the electronic equivalent to the auctioneers hammer falling when no further bids are received.

4.2.8. Immediately upon completion of bidding, the successful bidder will designate this lot to be delivered to port via direct access arrangements or via Grain Express (refer to 4.8). Once submitted, the designation cannot be changed.

4.2.9. Auctions will run sequentially. As soon as one lot is sold, the auction for the next lot begins.

4.2.10. On completion of each round of auctions, the Market Operator will issue a "Shipping Certificate" to the successful bidders. There will be one certificate for each lot that was sold. Each certificate will record whether the lot is to be delivered to port via Grain Express or Direct Access, for example:

- Lot No.: C-1
- Load date: 16 to 31 Jan-10
- Port Zone: Kwinana
- Quantity: Max 10,000 MT less 5% at shippers option
- Delivery: Direct Access

4.2.11. Exporters will be required to submit valid shipping certificates for an amount equal to the quantity to be loaded at time of vessel nomination.

4.2.12. Settlement terms are discussed in section 4.6.

Core Capacity

4.2.13. An estimated 80% of Core capacity for the entire Peak Shipping Period will be auctioned during the month of October. This is intended to provide exporters with sufficient certainty to make forward sales. The balance of core capacity will be auctioned at the time of the surge auctions.

4.2.14. An auction schedule for core capacity during the 09/10 peak shipping period will be released to all market participants in September 2009. This schedule will provide auction dates and the capacity to be auctioned on each date by time slot and zone. Refer to Appendix 2 for a sample auction schedule.

4.2.15. The schedule will be accompanied by an auction catalogue that will provide a list of lot numbers, the attributes of each lot, and the period during which these lots will be auctioned. Refer to Appendix 3 for a sample auction catalogue.

4.2.16. Auctions will run from 8am to 5pm WST. We anticipate an average auction to take approximately 5 minutes, i.e. 100 to 110 lots may be auctioned in a 9 hour day. Accordingly, it may take up to 12 days to auction all lots in a high crop season. The Market Operator will manage this process by spreading auctions over a 4 week period. Approximately 25% of capacity will be auctioned over a 2-3 day period in the first week of October. A further 25% in the second week etc. (refer to the sample auction schedule, Appendix 2).

4.2.17. If no bids are received in the first 3 minutes of the auction it will be closed and the lot will be "passed in" to be re-auctioned immediately prior to the surge auction for the same date range. (For avoidance of doubt, these lots will still be core capacity slots and will not be subject to the surge fees).

4.2.18. Lots can only be re-auctioned once. Any lot that is "passed in" a second time will be allocated as per the standard shipping period allocation mechanism (refer to section 3 below).

4.2.19. Successful bidders will pay the FOB fee + the shipping capacity premium within 3 days of completion of auction (refer to 4.6).

Surge Capacity

Surge auctions will follow the same mechanism as core capacity with the following amendments:

4.2.20. 20% of Core and any necessary surge capacity will be auctioned 2 months prior to load date (ie surge capacity for 16-31 January 2010 will be auctioned by 15 November 2009). Capacity sold in the 2nd core plus surge auctions will be dependent upon the uptake of Direct Port Access capacity. Grain Express Capacity sold in surge auctions will then be adjusted accordingly.

4.2.21. Any lots passed in during the surge auctions will be re-auctioned once at the end of the surge auction. Any lot that is "passed in" a second time will be allocated as per the standard shipping period allocation mechanism (refer to section 3 below).

4.2.22. Successful bidders will pay the FOB fee + surge fee + the shipping capacity premium within 3 days of completion of auction (refer to 4.6).

4.3. **Option B: Descending Price Mechanism**

The alternative mechanism for the primary market is a series of open descending price auctions with the first bidder successful in each auction. Bidders will remain confidential, but prices will be openly published. The key benefit of Option B is that it would be significantly quicker than option A, but there is greater execution risk to participants. Option B varies from option A as follows:

4.3.1. The auction opens with the seller's offer, which descends in incremental amounts until a bidder accepts the offer. The most recent offer is openly declared to all participants simultaneously.

4.3.2. The opening price will be set by the Market Operator immediately prior to auction.

4.3.3. Price will descend in increments of $0.10/MT every 10 seconds (this will be reviewed at time of system testing).

4.3.4. Once the offer has fallen to $0/MT the lot will be passed in and re-auctioned with the surge capacity as per option A.

4.3.5. Time slots will be auctioned in lots as per option A, but the Market Operator will offer 5 lots in each auction. Participants may bid for any number from 1 to 5 lots inclusive. The auction continues until all 5 lots are sold or passed in. For example, the auction may open at $5.00/MT and descend in increments of $0.10/MT. When the offer falls to $4.70/MT one bidder may decide to buy 2 lots. The offer for the remaining 3 lots will continue to descend until they are either purchased or "passed in".

4.3.6. To further simplify the process, we propose that there will only be one lot size in the primary market under Option B. All lot quantities will be Max 5,000 MT's less 5% at shippers option.

4.3.7. As per Option A, we propose to auction slots over a 4 week period, but we anticipate the total process will be very much quicker because:

- Lots are auctioned in batches of 5 lots per auction, thus the process should be 5 times quicker even if each takes 5 minutes.
- We would expect auctions to take less than 5 minutes because the Market Operator can adjust the opening price based on the performance of previous auctions ie the auction may open at $4.00/MT if similar lots have been sold at $3.00/MT in a previous auction.

4.3.8. We anticipate that the total time for auctioning of core capacity would be reduced from 12 days to 2 days (ie 4-5 hours per week for 4 weeks).

4.4. **Definition of Core Capacity**

4.4.1. Core Capacity will always be dependent upon the size of the crop in any given year and will therefore be subject to change in that context.

4.4.2. Transport resources are contracted to CBH to move bulk grain from country storage sites to Port Terminals, Transfer Sites or Outturn Sites on the basis of a consistent weekly / monthly through-put. CORE transport resource levels are selected on the basis of a clearing/emptying the majority of the country storages so they are operational for the next seasons harvest. A priority for CBH is to focus on the clearing of all Primary sites, with any anticipated carry-over stock to be held in secondary/satellite storages.

4.4.3. Factors such as export shipping demand, carry-over stocks and new harvest production outlook have large influences on storage site clearance plans.

Core Transport Resources

4.4.4. Transport resources that are contracted to CBH on long term agreements that provide a dedicated grain transport service with pre-set tonnage targets and prescriptive transport routes on a daily/weekly/monthly/annual basis. Typically CBH has separate transport contractors within each shipping zone, except for our State wide rail transport service provider

4.4.5. Core transport resources have been contracted on the basis of providing the industry/growers the most efficient transport resource, performing on

a set and consistent basis. Over provision of core transport resources will unnecessarily add to supply chain cost.

Resource Allocation

4.4.6. The key issue when determining core/surge transport capacities is the projected seasonal transport task for grain to port.

4.4.7. CBH will provide the CORE transport capacity based on a flat application of resources over the full year to clear storage in preparation for the following season. Note that despite a flat application, CORE resources can be deployed in such a way as to increase accumulation capacity for specific periods. Concentrating movement demand on short haul and relatively efficient out-loading locations will dramatically impact capacity despite utilising the same resource base.

4.4.8. CORE will therefore be subject to change on a calendar month basis. For example, when grain stock is cleared from efficient rail sites, the tonnage per day (TPD) will drop. Therefore CBH will have greater CORE clearance capacity in the early months then depleting stocks will drop CORE capacity for the latter month's accumulations.

4.4.9. CORE Capacity assumptions

Based on CBH 5 yr average of 10.07 million MTs; these are the CORE assumptions.

Resources:
Level 6A 3SG Trains + 10 NG Trains (includes 2 trains feeding Merredin)
Assuming full crew availability for all trains set through-out Western Australia.

Geraldton Zone:
Two narrow gauge trains
A dedicated and contracted road fleet.
Total Projected Geraldton Zone Capacity = **5,989 MTs per day**

Kwinana Zone:
Six narrow gauge trains
Three standard gauge trains
Total Kwinana Zone (excludes road) = **12,250 MTs per day**

Albany Zone:
Two narrow gauge trains
Two dedicated and contracted road fleets
Total Albany Zone = **5,765 MTs per day**

Esperance Zone:
Two dedicated and contracted road fleets
Standard gauge rail as required
Total Esperance Zone = **6,143 MTs per day**

4.4.10. Deployment of the CORE transport resource

On the basis of an average 10.07 million MT's crop, Table 1 provides an indication of how CORE transport resource capacity can be deployed. These figures are based upon assumptions relating to the geographic spread of the crop and its subsequent directional flow, grain availability

and prevailing weather conditions amongst many other factors. CBH anticipate that the earlier part of the shipping season will generally have relatively efficient stock selections, which will facilitate a shorter haul and more efficient loading sites. This period is also more prone to favourable weather for operations.

Please note that that allocation of capacity will always be subject to season by season operational uncertainties. These are export clearance numbers and do not include domestic demand. Please also note that these are CORE transport resource assumptions only and do not include SURGE.

Table 1: Deployment of CORE transport resource

MONTH	GERLADTON	KWINANA	ALBANY	ESPERANCE
November	100,000	250,000	120,000	90,000
December	150,000	350,000	140,000	110,00
January	150,000	375,000	150,000	130,000
February	170,000	470,000	180,000	180,000
March	170,000	470,000	180,000	180,000
April	170,000	470,000	180,000	180,000
May	150,000	450,000	180,000	160,000
June	140,000	420,000	180,000	160,000
July	130,000	350,000	180,000	140,000
August	85,000	300,000	180,000	120,000
September	75,000	245,000	95,000	75,000
October	55,266	154,987	70,000	70,482
TOTAL	1,545,266	4,304,987	1,835,482	1,600,000

4.5. **Definition of Surge Capacity**

4.5.1. The extent and nature of surge transport resources will vary depending upon requirement. CBH will generally utilise its contracted resources as these are a known quantity both operationally and commercially. The cost of surge is based upon the anticipated movement requirement and the basket of sites intended to be cleared.

4.5.2. Surge will be performed from country storage sites to either Port Terminals, Transfer Sites or Outturn Sites over the CORE resource capacities / capabilities. Surge strategies include utilising the CORE transport resource base + SURGE transport resources via longer hours/days of transport operation, reducing cycle times, increasing transport resources(more trucks and rail wagons) transferring grain from less efficient rail sites to more efficient rail sites/rail resources and road transporting grain from rail sites direct to Port Terminals.

4.6. **Auction Settlement**

The following settlement terms apply equally to options A and B:

4.6.1. The FOB fee and surge fee (where applicable) will be invoiced and settled along with the shipping capacity premium. Settlement to be made on the 3rd banking day after the auction ("T+3").

4.6.2. If settlement is not received by that deadline, the purchaser will be deemed to be in default. The lot will be re-auctioned in the next round of

auctions and the defaulting party will be excluded from the next round of auctions.

4.7. **Auction Platform**

4.7.1. It is currently intended that the auction system will be hosted via CBH's "Loadnet" web application regardless of whether option A or B is selected. Subject to validation of a suitable system.

4.7.2. The auction system will be a mechanical process driven by the principles outlined in this document.

4.7.3. The operation of the auction process will be routinely reviewed both internally and externally to ensure compliance with business rules.

4.8. **Direct Port Access Arrangements**

Exporters requiring direct port access arrangements will be subject to the same auction process as those using the Grain Express process. It should be noted that:

4.8.1. Market participants requiring direct access will be required to purchase export capacity either via the core capacity auctions in October or via the core and surge auctions 2 months prior to the applicable month of loading.

4.8.2. Successful bidders will be required to designate each export capacity slot as "Direct Access" or "Grain Express" immediately on completion of the auction. It is envisaged that the auction software will provide a check box where the successful bidder in each auction is able to designate "Direct Access" or "Grain Express".

4.8.3. The designated access arrangement will be recorded on the Shipping Certificate issued by the Market Operator.

4.8.4. Certificates are not interchangeable. In other words, a "Direct Access" certificate cannot be sold as a "Grain Express" certificate in the secondary market.

4.8.5. The total throughput of each port may vary depending upon the direct access uptake. The capacity sold in surge auctions will be adjusted accordingly.

4.9. **Auction Proceeds**

4.9.1. It is not the intention of the CBH Group that the shipping capacity allocation process form part of a new revenue stream for CBH Operations, or add to the cost of the West Australian grain supply chain for Growers.

4.9.2. Proceeds from the auction of this capacity less costs less rebates paid for harvest shipping and direct operational costs associated with surge, will be returned to Growers by the most efficient and equitable means possible.

5. Standard Shipping Period.

The months from 1 July to 15 October are expected to have less demand and will revert back to an EOI process.

5.1. CBH will offer the whole Standard Shipping Period for EOI by 15 May with contracts issued by 1 June.

5.2. Exporters will be invited to forward expressions of interest to export during the Standard Shipping Period. Exporters can submit an EOI and be given capacity in the absence of entitlement.

5.3. Where the EOI's received exceed core capacity for any window, CBH will revert back to the Peak Shipping Period process and auction for that window.

5.4. Where the EOI's received are less than the core capacity for a window. CBH will allocate as per the EOI's received and will continue to accept any further EOI's on a "first come first served basis". In the event that these further EOI's are received at the same time and exceed the remaining core and surge capacity for that window, CBH will:

5.4.1. Initially offer bidders any spare capacity available at other ports.

5.4.2. If (5.4.1) above fails, revert to the auction process.

5.5. If CBH accepts an EOI then the provision of available shipping capacity to the nominated port facility is committed subject to the exporter committing to obtain Grain Entitlement prior to nominating a vessel and in line with the business rules.

5.6. Confirmation of shipping slots will be via a separate CBH contract. Exporters will be required to pay the full FOB Export Outloading Charge upon execution of the contract.

5.7. Exporters may trade their Standard Shipping booking slot to another customer who has executed a Grain Services Agreement with CBH and in line with the secondary market business rules. CBH will consent to a transfer and charge an administration fee.

6. Secondary Market

To provide all market participants with optimal operational flexibility, it is proposed that a "secondary" market will be implemented. This secondary market will facilitate market participants to adjust their positions, through selling/buying registered capacity.

The proposed design of the secondary market has also been guided by a set of design principles:

- Secondary market should seek to limit excessive speculative trading.
- The market design should facilitate the matching of bid /offers of willing sellers and buyers to enhance operational flexibility.
- The secondary market mechanism should be cost effective to implement.
- The secondary market should not be allowed to detract from the final effective operational performance of the shipping task.

It is envisioned that this market would operate as a bilateral market between willing registered buyers and sellers. For the 2009/10 season trades will be initiated through direct buyer to seller contact. In future seasons CBH may seek to further facilitate the efficient operation of this market through development of a web enabled brokerage platform.

Key features of the proposed secondary market are described below and summarised in Appendix 4:

6.1. The commodity being traded in the secondary market is either the shipping certificate that was purchased at auction in the primary market or the booking

slot obtained in either the Harvest Shipping Period or the Standard Shipping Period.

6.2. To ensure final operational performance and comply with the requirements of the Wheat Export Marketing Authority (WEMA), CBH will be required to register the ownership transfer of all shipping certificates or booking slots at a nominal administration fee.

6.3. It is the responsibility of buyers/sellers to ensure that the counterparty to a transaction is an approved market participant. A register of approved market participants will be maintained by CBH. It is envisaged that this register will be made available to all market participants via "Loadnet".

6.4. Off market trades will not be recognised by CBH.

6.5. All approved market participants with a valid shipping certificate or booking slot will be free to trade that certificate in the secondary market. There will be no limit on the number of certificates that can be traded, or the number of times that each certificate can be traded, within the time period specified below.

6.6. The secondary market for core capacity will open immediately upon completion of the core capacity auctions but not prior to that date.

6.7. Secondary market transactions may continue until 30 days prior to the commencement of the first day of the load date range.

6.8. Buyers that purchase shipping certificates within 3 days of auction should note section 4.6 of this document – if settlement is not received within 3 days of auction, the lot will be re-auctioned in the next round. It is the buyer's responsibility to ensure that the time slot they are purchasing has been settled and validated by the Market Operator. Any transactions in the secondary market prior to within 3 days of the auction are at buyers risk.

6.9. Settlement of costs is between the buyer and the seller. CBH will transfer the certificate to the buyer and perform any final reconciliation with the buyer.

7. Market Structure

In order to ensure the governance framework is transparent and accountable, we propose to introduce the following governance bodies / mechanisms:

Governance mechanisms

The key mechanisms for governance are:

a. Market rules and procedures.

b. Independent reviews to ensure compliance with those rules and procedures.

c. Independent reporting of compliance to be made available on Loadnet.

d. A formal (twice yearly) process of consultation with market participants.

Governance bodies

Key governance bodies are as follows:

e. The Market Operator is the organisation to manage the day-to-day operations of the market in accordance with the business processes and rules.

f. Market Assurance is provided by both internal and external reviews to assess compliance with the rules.

g. Market Reference Group is a representative body to provide feedback on the operation of the market and suggestions for improvement.

8. General Business Rules

8.1. Submission of EOI's

8.1.1. EOI's offered will be in 2 week windows being the first and last half of the month for each port zone.

8.1.2. Submissions must include maximum lift by window/port zone/commodity.

8.1.3. EOI's can be for old and/or new season's grain.

8.1.4. EOI's can be submitted without grain entitlement by any customer holding a Grain Services Agreement with CBH.

8.1.5. Exporters need to indicate multi port requirements on the EOI.

8.2. Vessel Nominations – Harvest Shipping Period

8.2.1. For the Harvest Shipping Period only, vessel nominations do not require grain entitlement, but entitlement must be in place prior to the ship being able to load.

8.2.2. All other terms contained in the Export Accumulation Guidelines will apply.

8.3. Vessel Nominations – Peak and Standard Shipping Periods

8.3.1. As per the Export Accumulation Guidelines.

8.3.2. All vessel nominations must be supported by valid shipping certificates or Standard Shipping Period booking slots equal to the quantity of grain to be loaded.

8.4. Vessel Arrivals for the Harvest Shipping Period

8.4.1. CBH will not load a vessel if the exporter does not have sufficient grain entitlement.

8.4.2. A vessel must arrive within the nominated laycan window period to earn a rebate during the Harvest Shipping Period only.

8.4.3. If a vessel arrives within 7 days from the last day of the laycan window, and the exporter has entitlement CBH will load the vessel without penalty.

8.4.4. If a vessel arrives or the exporter does not have entitlement after 7 days from the last day of the laycan window, the exporter will forfeit the full FOB Export Outloading Charge.

8.4.5. If a vessel arrives or the exporter does not have entitlement after 7 days from the last day of the laycan window, it will be at CBH's discretion to load the vessel and the exporter will be re-charged the full FOB Export Outloading Charge.

8.5. Vessel Arrivals outside of Harvest Shipping Period

8.5.1. CBH will not load a vessel if the exporter does not have sufficient grain entitlement.

8.5.2. If a vessel arrives or the exporter does not have entitlement after 7 days from the last day of the laycan window, the exporter will forfeit the full FOB Export Outloading Charge.

8.5.3. In the event that the ship arrives subsequent to the closure of the laycan, CBH will make reasonable endeavours to place the vessel in the shipping queue and load it in accordance with the Export Accumulation Guidelines (EAGs) without compromising other shippers or the shipping queue.

8.5.4. CBH will always use its discretion in the favour of the exporter in the event that other exporters are unduly affected.

8.5.5. Where CBH is able to place the vessel in the queue and load it, the exporter will again be charged the full FOB Export Outloading charge.

8.6. Amendments to Shipping Slots

8.6.1. It will be at CBH's discretion to consider and apply minor amendments to the contracts in the interest of operational flexibility and efficiency.

8.6.2. All amendments accepted by CBH will be updated on the stem.

8.7. Despatch/Demurrage

8.7.1. Arrangements for Dem/Des risk sharing in 2009/10 will be as per the 2008/9 Grain Services Agreement. That is, CBH and the exporter will agree at the time of vessel nomination whether these arrangements will apply on a cargo by cargo basis.

8.8. Payments and Forfeitures

8.8.1. If the exporter does not make payment within the payment terms for the Harvest and Standard periods CBH at its discretion may re-offer or auction the shipping capacity relevant to that contract.

8.8.2. Refer to section 4.6 for payment terms and forfeitures relating to the Peak Shipping Period.

8.8.3. All other fees and charges pursuant to the Grain Services Agreement will apply and be charged to the customer after the vessel has been loaded.

8.8.4. CBH will reconcile the FOB and surge (if applicable) on the loaded tonnes compared to contracted capacity tonnes. As there is a 5% less tolerance on the contracted capacity, CBH will reconcile to this amount. Tonnage shipped below the 5% will be treated as a forfeiture of capacity and will not be reimbursed.

8.8.5. CBH will not reconcile premiums paid in the primary market on shipped tonnages.

9. The Next Steps

CBH expects to complete its consultation process with key stakeholders during May 2009, and will then be in a position to finalise a project plan and advise stakeholders of key milestones (eg finalisation of detailed business rules, training of system users).

#	Heading	Option A	Option B	Risk and Benefits
1	Bidding mechanism	▪ Bids ascend in increments of $0.25/MT	▪ Offers descend every 10 seconds in increments of $0.10/MT	▪ Option A provides participants with the opportunity to respond to competitor bids. ▪ Option B is less transparent in the sense that there is no warning of competitor bids ie only the offer is visible to participants. ▪ Option B is not as common as the ascending mechanism, but is still a well established and successful method (eg Dutch Tulip auctions).
2	Closing mechanism	▪ Last bid wins if no new bids are received for a period of 30 seconds ▪ Lot is passed in	▪ Offer is accepted by first bidder ▪ Lot is passed in	▪ Option A is the electronic equivalent to an auction of cars or cattle where the auctioneer's hammer falls once the bidding has stopped. ▪ Another common type of ascending auction is to set a time limit on bids as per EBay. This approach was rejected as unsuitable for our purposes because most bids are likely to be submitted in the last few seconds of the auction. This places more pressure on both the participants and the technology. ▪ Option B arguably carries more technology risk than Option A because it only allows 10 seconds to respond to each offer (and possibly less than 10 seconds if a competitor is quicker to bid). Option A always provides the bidder with 30 seconds to respond to each bid.
3	No of lots per auction	▪ Individual lots	▪ Multiple lots (5 lots per auction)	▪ Multi lot auctions were rejected under Option A because they require the market operator has to balance supply and demand. This is a complex process and therefore less robust than individual lot auctions. ▪ Multiple lot auctions are easier to manage in the descending process. This ability to run multi lot auctions will make the descending process significantly quicker.
4	Price	▪ Opening price = $0 / MT ▪ Bids increase in increments = $0.25/MT	▪ Opening price set by the auctioneer (CBH) ▪ Price descends in increments of $0.10/MT every 10 seconds.	▪ Option B is likely to be quicker because the Market Operator is able to set the opening price at a level close to the sales price of similar lots in earlier auctions. For example, lots 1 and 2 are both10,000MT's loading 16-31 Jan FOB Kwinana. If lots 1 sells at $4.00/MT, then the auction for lot 2 might open at $5.00/MT. It would take less than 2 minutes for the offer to descend from $5.00/MT to a level of around $4.00/MT (assuming the auction descends at $0.10/MT every 10 seconds).
5	Lots passed in	▪ No bids are received for a period of 3 minutes from opening of auction.	▪ Descending offer reaches zero.	▪ The treatment of lots that are passed in, is the same under both options.

Appendix 1: Comparison of Options A and B

Conclusion:

- Option A is the preferred solution because it involves less risk for all participants because there is more time to watch the auctions develop and respond to changing conditions. The disadvantage of Option A is that it is very time consuming.
- Option B is presented as a much less time consuming alternative mechanism that we believe is a feasible solution, but would involve higher risk.

Appendix 2: Sample Auction Schedule – Core Capacity / Option A

Estimated core capacity for peak : 6,534 000's Tonnes

Zone	Auction Date	Core Capacity to be auctioned (000's Tonnes) by time slot / zone											
		16-31 Jan-10	1-14 Feb-10	15-28 Feb-10	1-15 Mar-10	16-31 Mar-10	1-15 Apr-10	16-30 Apr-10	1-15 May-10	16-31 May-10	1-15 Jun-10	16-30 Jun-10	Total
Kwinana	30 Sep-09 to 2 Oct-09	77	77	77	77	77	77	77	77	77	77	77	847
	7-9 Oct-09	77	77	77	77	77	77	77	77	77	77	77	847
	14-16 Oct-09	77	77	77	77	77	77	77	77	77	77	77	847
	21-23 Oct-09	66	66	66	66	66	66	66	66	66	66	66	726
	Total	**297**	**297**	**297**	**297**	**297**	**297**	**297**	**297**	**297**	**297**	**297**	**3,267**
Geraldton	30 Sep-09 to 2 Oct-09	33	33	33	33	33	33	33	33	33	33	33	363
	7-9 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	14-16 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	21-23 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	Total	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**1,089**
Albany	30 Sep-09 to 2 Oct-09	33	33	33	33	33	33	33	33	33	33	33	363
	7-9 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	14-16 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	21-23 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	Total	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**1,089**
Esperance	30 Sep-09 to 2 Oct-09	33	33	33	33	33	33	33	33	33	33	33	363
	7-9 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	14-16 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	21-23 Oct-09	22	22	22	22	22	22	22	22	22	22	22	242
	Total	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**99**	**1,089**

Appendix 3: Sample Auction Catalogue – Core Capacity / Option A

Catalogue for 1-2 Oct-09

Lot No.	Load Date	Load Zone	Quantity	Lot No.	Load Date	Load Zone	Quantity	Lot No.	Load Date	Load Zone	Quantity
C-1	16-31 Jan-10	Geraldton	10,000	C-33	16-31 Mar-10	Geraldton	10,000	C-65	16-31 May-10	Geraldton	10,000
C-2	16-31 Jan-10	Kwinana	10,000	C-34	16-31 Mar-10	Kwinana	10,000	C-66	16-31 May-10	Kwinana	10,000
C-3	16-31 Jan-10	Albany	10,000	C-35	16-31 Mar-10	Albany	10,000	C-67	16-31 May-10	Albany	10,000
C-4	16-31 Jan-10	Esperance	10,000	C-36	16-31 Mar-10	Esperance	10,000	C-68	16-31 May-10	Esperance	10,000
C-5	16-31 Jan-10	Geraldton	1,000	C-37	16-31 Mar-10	Geraldton	1,000	C-69	16-31 May-10	Geraldton	1,000
C-6	16-31 Jan-10	Kwinana	1,000	C-38	16-31 Mar-10	Kwinana	1,000	C-70	16-31 May-10	Kwinana	1,000
C-7	16-31 Jan-10	Albany	1,000	C-39	16-31 Mar-10	Albany	1,000	C-71	16-31 May-10	Albany	1,000
C-8	16-31 Jan-10	Esperance	1,000	C-40	16-31 Mar-10	Esperance	1,000	C-72	16-31 May-10	Esperance	1,000
C-9	1-14 Feb-10	Geraldton	10,000	C-41	1-15 Apr-10	Geraldton	10,000	C-73	1-15 Jun-10	Geraldton	10,000
C-10	1-14 Feb-10	Kwinana	10,000	C-42	1-15 Apr-10	Kwinana	10,000	C-74	1-15 Jun-10	Kwinana	10,000
C-11	1-14 Feb-10	Albany	10,000	C-43	1-15 Apr-10	Albany	10,000	C-75	1-15 Jun-10	Albany	10,000
C-12	1-14 Feb-10	Esperance	10,000	C-44	1-15 Apr-10	Esperance	10,000	C-76	1-15 Jun-10	Esperance	10,000
C-13	1-14 Feb-10	Geraldton	1,000	C-45	1-15 Apr-10	Geraldton	1,000	C-77	1-15 Jun-10	Geraldton	1,000
C-14	1-14 Feb-10	Kwinana	1,000	C-46	1-15 Apr-10	Kwinana	1,000	C-78	1-15 Jun-10	Kwinana	1,000
C-15	1-14 Feb-10	Albany	1,000	C-47	1-15 Apr-10	Albany	1,000	C-79	1-15 Jun-10	Albany	1,000
C-16	1-14 Feb-10	Esperance	1,000	C-48	1-15 Apr-10	Esperance	1,000	C-80	1-15 Jun-10	Esperance	1,000
C-17	15-28 Feb-10	Geraldton	10,000	C-49	16-30 Apr-10	Geraldton	10,000	C-81	16-30 Jun-10	Geraldton	10,000
C-18	15-28 Feb-10	Kwinana	10,000	C-50	16-30 Apr-10	Kwinana	10,000	C-82	16-30 Jun-10	Kwinana	10,000
C-19	15-28 Feb-10	Albany	10,000	C-51	16-30 Apr-10	Albany	10,000	C-83	16-30 Jun-10	Albany	10,000
C-20	15-28 Feb-10	Esperance	10,000	C-52	16-30 Apr-10	Esperance	10,000	C-84	16-30 Jun-10	Esperance	10,000
C-21	15-28 Feb-10	Geraldton	1,000	C-53	16-30 Apr-10	Geraldton	1,000	C-85	16-30 Jun-10	Geraldton	1,000
C-22	15-28 Feb-10	Kwinana	1,000	C-54	16-30 Apr-10	Kwinana	1,000	C-86	16-30 Jun-10	Kwinana	1,000
C-23	15-28 Feb-10	Albany	1,000	C-55	16-30 Apr-10	Albany	1,000	C-87	16-30 Jun-10	Albany	1,000
C-24	15-28 Feb-10	Esperance	1,000	C-56	16-30 Apr-10	Esperance	1,000	C-88	16-30 Jun-10	Esperance	1,000
C-25	1-15 Mar-10	Geraldton	10,000	C-57	1-16 May-10	Geraldton	10,000	C-89	16-31 Jan-10	Geraldton	10,000
C-26	1-15 Mar-10	Kwinana	10,000	C-58	1-16 May-10	Kwinana	10,000	C-90	16-31 Jan-10	Kwinana	10,000
C-27	1-15 Mar-10	Albany	10,000	C-59	1-16 May-10	Albany	10,000	C-91	16-31 Jan-10	Albany	10,000
C-28	1-15 Mar-10	Esperance	10,000	C-60	1-16 May-10	Esperance	10,000	C-92	16-31 Jan-10	Esperance	10,000
C-29	1-15 Mar-10	Geraldton	1,000	C-61	1-16 May-10	Geraldton	1,000	C-93	16-31 Jan-10	Geraldton	1,000
C-30	1-15 Mar-10	Kwinana	1,000	C-62	1-16 May-10	Kwinana	1,000	C-94	16-31 Jan-10	Kwinana	1,000
C-31	1-15 Mar-10	Albany	1,000	C-63	1-16 May-10	Albany	1,000	C-95	16-31 Jan-10	Albany	1,000
C-32	1-15 Mar-10	Esperance	1,000	C-64	1-16 May-10	Esperance	1,000	C-96	16-31 Jan-10	Esperance	1,000

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Appendix 4: Secondary Market

Secondary market attributes	Proposed approach	Comments
Secondary market opening	The secondary market for a specific capacity slot will open immediately upon completion of the initial primary auction for that slot but not prior to that date.	It is not intended to allow "forward" trading of capacity positions
Close of secondary market	When surge market opens	The open of the surge market for a specific capacity window
No of lots that can be traded by any one market participant	No limitation proposed	
Traded Lot size	10,000MTs or 1000MTs as per primary market but lots can be disaggregated subject to prior approval by CBH	Each disaggregated secondary market lot will be linked through registration nomenclature to the original primary market issue. This disaggregation will allow participants to better match to required shipment profiles
No of times a given capacity position can be traded	No limitation proposed	
Tolerances	As per delivery tolerances in primary market (5%)	
Eligible participants	Registered exporters or agreed coarse grain	Limitation on non-physical market participants i.e. banks/speculators
Terms of secondary market contracts	Bi lateral agreements between market participants	The terms of the contracts will not be set by the Market Operator, but should be consistent with the Market Operator's business rules

Appendix 5: Proposed Market Structure