

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO PROJECT PLANNING AND FUNDING APPLICATIONS FOR MAJOR WESTERN AUSTRALIAN INFRASTRUCTURE PROJECTS

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
FRIDAY, 5 MARCH 2010**

SESSION ONE

Members

Mr J.C. Kobelke (Chairman)
Mr J.M. Francis (Deputy Chairman)
Mr A. Krsticevic
Ms R. Saffioti
Mr C.J. Tallentire

Hearing commenced at 10.07 am**NOLAN, MS ANNE****Director General, Department of State Development,
examined.****McGOWAN, MS GAIL DENISE****Deputy Director General, Department of State Development,
examined.**

The CHAIRMAN: We have some formalities that I will immediately go through. This committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the house itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as contempt of Parliament. Have you completed the “Details of Witness” form?

The Witnesses: Yes.

The CHAIRMAN: Do you understand the notice at the bottom of the form?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read an information for witnesses briefing sheet?

The Witnesses: Yes.

The CHAIRMAN: Do you have any questions relating to your appearances before the committee today?

The Witnesses: No.

The CHAIRMAN: The committee received a submission from the Department of the Premier and Cabinet. I presume that was your submission. Do you wish to propose any amendments to that submission? I understand that you also have a presentation, and we would welcome that as a way of starting up a dialogue on the project at Oakajee.

Ms Nolan: No, we have no specific changes to our submission, but we would certainly welcome the opportunity to walk you through a series of overheads, if you do not mind.

The CHAIRMAN: I will hand over to you then.

Ms Nolan: Sure; that will be fine. I will start with a couple of comments, and then I will hand over to Gail. Gail has some handouts, so that everyone can see them. She and I will be a tag team through that, and, of course, questions.

In terms of this project, I will make a couple of opening comments. It is a very unique project in opening up a brand-new iron ore province in the Mid West. It is a province that has enormous resource potential, and over many years we have come to understand more about that prospectivity. Now, in terms of timing, it also coincides with the enormous demand for iron ore in China. That is truly a strong market opportunity.

Another comment I would make about the project that almost goes without saying is the degree of complexity in making this project work. It has been described as a chicken-and-egg problem, but I would probably describe it as many chickens and one egg, because there are many, many miners in this environment who would aspire to export product—that is how you make a product commercially viable—and the egg being the transport links that make those projects come together.

Which of these comes first is very much a challenge for us to work through. There are multiple owners with different timing requirements as well, when they would like to take their ore to market and where their market is. To avoid the tyranny of small decisions, we would like to see this as a whole, and it is about truly joining up the dots and making coordination happen.

The last point I will make is the need in this project for cooperation and goodwill between all parties to make it happen. That is because it has so many players and so many stakeholders: infrastructure providers, the miners, the government, the people in the community and all the government agencies need to work together to make this happen. One of the things I think is very positive is the strong commitment to and engagement in this project that we have seen from all. The Department of State Development is the lead agency for putting this project into practice. They are some preliminary comments, but I will hand over to Gail, who will probably tell us a bit more about context, the objectives and how we are going about what we are doing at DSD.

Ms McGowan: Thank you. We have the Power Point presentation but we had not intended to put it up on the screen, unless you particularly wanted us to. If you prefer us to, we can; but other than that I will walk you through the hard copies.

The CHAIRMAN: Whichever way you prefer.

Ms McGowan: This is probably easier to do. I would like to cover an overview of the project, some time lines, the broad project objectives, the role of the state in the development; talk a little about the governance framework we have around the project; give a general snapshot of the Mid West mining industry, particularly iron ore miners; comment on infrastructure; and then take you through a little of the work we are doing on value for money and due diligence and then the current status of the project, and the next step. It is a pretty comprehensive set of information and I will not walk you through every last bit of it, but will talk in general terms.

The project, as Anne said, is multifaceted. It is a large-scale infrastructure and resource development project, so we are not talking just about a port, an industrial estate or a single mine or a railway. We have two railway lines and up to at least 12 miners that we are aware of—four of which are a predominant focus—and then the port and industrial estate development.

Port development is focused on it being a multi-user port. The rail is an open access rail network or networks, and there are infrastructure corridors and, as I say, numerous greenfield iron ore mines leading into a world-class industrial estate, and then using both private and commonwealth financing. Obviously this is a map of the area. When I talk about the four predominant mines, I am talking about the Jack Hills site and Weld Range in the northern area, and Karara, and Extension Hill, which is not on the map, alongside there, as the four.

[10.10 am]

Turning to the next page of the PowerPoint presentation, which shows the existing ports in Western Australia, clearly, we have a container port at Fremantle and then we predominantly have iron ore ports in the north west, going up to Broome. Geraldton itself is the only port that has the potential to export bulk product in that Mid West area. One of the significant issues we have with the Geraldton port is the constraint of using an older town-based port for heavy-use bulk product. If we look at the constraints of the port, any product has to come through the centre of the residential area to get to the port. That is one of the existing problems that we are trying to address in the development. Continued use of a town-based port will exacerbate the impact on amenity for the residents, both general amenity issues and also increasing community concerns about occupational health and safety issues.

I want to talk a little about the history of the development of Oakajee. In 1972, nearly four decades ago, it was first identified by the government as a cost-effective alternative to deepening the Geraldton port. There has obviously been a long gestation period. In 1976 Oakajee was incorporated into the Geraldton regional plan as a heavy industrial estate. Whilst we have had a

number of proposed projects, most notably the Kingstream Steel Ltd project, which has considered locating at Oakajee, the lack of infrastructure around the area has deterred development. Back in 1996 environmental studies supported the site for heavy industry. In 1998 environmental approval was provided for the estate and associated port area. From 1997 to 2002 there was a lot of planning and investigation work into the technical feasibility of establishing a deepwater port on the ocean coastline. That port planning was again undertaken in the context of Kingstream and also the Mid West iron ore industry in that area. Plans were put on hold following the collapse of Kingstream at that point. In 1997 the government commenced purchasing land that now comprises the Oakajee industrial estate, including the buffer. That has over 1 000 hectares of land for the industrial precinct and extensive land that I will refer to later as the industrial estate buffer area. All bar two of the lots have been purchased over that period and predominantly leased back to the farmers in the area. From 2001 to 2003 the Geraldton port looked at some expansion plans and implemented its port expansion project. That was to take the port to a depth of about 12 metres from eight metres. Even at the expansion stage, it still proves inefficient because it can only accommodate fully-laden handymax size bulk carriers, which are the smaller of the carriers, and partially-loaded panamax size bulk carriers for grain and iron ore, so it is not up to the industry standard of today's times.

In 2006 the then cabinet formally approved Oakajee as the location for a port, with the idea of it being under the jurisdiction of the port authority. In October 2007 the first part of the infrastructure development proposal concept was implemented. In December 2007 the actual formal request for proposal process was undertaken. In July 2008 Oakajee Port and Rail was announced as the successful respondent to that request for proposal. Interestingly, both respondents to that process put forward a proposal for an integrated port and rail solution. Each of them looked at it in the entire context.

With the change of government in October 2008, the Premier announced that the government would fund the common user port infrastructure component. Later I will talk a little more about what constitutes the common-user infrastructure. In March last year the government signed the Oakajee state development agreement with Oakajee Port and Rail. That endorsed OPR as the infrastructure provider for the development and operation of the port and gave it exclusive rights to construct the northern railway line. It did not give it any exclusivity over the southern railway line.

[10.20 am]

In May 2009, with the federal budget process, the commonwealth announced conditional funding for the port common-user infrastructure under its Building Australia Fund, and there were some conditions around that. The current projections are for construction to commence in mid-2011, with a notional construction time of 30 months, leading to first shipments in 2014 from the commissioning of the port.

In general terms, there is a lot of information but, in summary, as I said, the overall objective of the project is to create the integrated port, rail and industrial estate solution to support the development of the resource sector. Currently, there are about 105 mines of different types operating in the Mid West and, obviously, we are looking at those amenity issues, particularly in Geraldton. The specific outcomes we are looking to achieve include an emphasis on a multi-user deepwater port that is capable of initially accommodating at least one bulk carrier for iron ore, and berthing capacity for at least one smaller vessel for non-iron ore, but that is conditional on when that is proven to be economically feasible; and, ultimately, an enclosed port with berthing capacity for a range of different vessels, including berths dedicated to the export of bulk materials and potentially berths capable of importing and exporting containers.

The CHAIRMAN: Do you mind if we ask questions as you go?

Ms McGowan: No, not at all.

The CHAIRMAN: I do not want to get you off target. With respect to the configuration for the major breakwater for the port, from what you are saying, will that actually be built to capacity for multiple ports, or is it an add-on system and you are just going to do this minimum number and then you will have to extend your major breakwaters to put in berths 2, 3 and 4?

Ms McGowan: Some of the basis of design is currently being worked through, but I think the add-on solution is —

Ms Nolan: The breakwater is about two kilometres long. The initial berth will be one berth, but the infrastructure for the second berth will be effectively built at the time of the initial build. The loading facilities will also be of a size that is capable of filling that second berth. That step up from berth 1 to berth 2 will not require a lot of capital cost. However, as you go on and add further berths, ultimately, as Gail has mentioned, it will be an enclosed port. Initially, the port has one long breakwater. Ultimately, a further northern breakwater will be built. There is a capital cost over time to actually expand that port, but it is being built with the turning circle and the dredging so that it is capable of larger capacity than the initial one berth.

Ms R. SAFFIOTI: How many berths is it?

Ms Nolan: Ultimately, it could go to eight berths.

Ms R. SAFFIOTI: Under the first breakwater?

Ms Nolan: No, not under the first breakwater. It will depend on further port planning and modelling of wave design and things like that as to whether it will actually require a further breakwater. It also depends on the sorts of products you are exporting in terms of the extent to which they require still water as against water that can be slightly choppy.

Mr J.M. FRANCIS: Do you know off the top of your head what the initial dredge depth will be?

Ms Nolan: Off the top of my head, I do not know the answer to that.

Mr J.M. FRANCIS: Capemax or something like that, or whatever they need for the biggest ships?

Ms Nolan: It is for the capesize vessels. Do you have the dredging number?

Ms McGowan: No, I do not have the dredging number.

Ms Nolan: The critical issue there is the ability for capesize vessels to get in because that is what is required for the markets in China and the economies of scale on actual freight costs for a very heavy product.

Mr C.J. TALLENTIRE: You are talking about building a port with an eight-berth capacity, but we are looking at export volumes of only 70 million tonnes a year at the most.

Ms McGowan: The preliminary information that Oakajee Port and Rail had come in from the mining companies suggests volumes in excess of 100 million tonnes per annum, but we have not quantified a lot of that at the moment.

Ms Nolan: I think that is a very interesting question: how do you get to the first stage to make the project viable in terms of the 35 million-odd tonnes that you are looking at? But the prospectivity and the shape of the growth over time are very much there. There is a lot of blue sky for some miners, but the resource potential well exceeds the 100 million tonnes potentially per annum. The question is: is that commercially viable?

The CHAIRMAN: Your base case is around 35 million tonnes a year.

Ms Nolan: Yes.

Ms R. SAFFIOTI: Is that the break-even point?

Ms Nolan: I do not know that. Currently, OPR is undertaking its bank feasibility study and we will come back to that in more detail. Effectively, that is stage 1 of that project.

Mr C.J. TALLENTIRE: Which gets back to my point: why do you need eight berths to export 35 million tonnes a year?

Ms Nolan: You do not; you are building only one, but you are building the fixed costs, like dredging and turning circles that you would not want to keep coming back and rebuilding and just incrementally increasing, because that is very expensive to do. So you set that up so that you have got your long-term vision in mind. This is a long-term vision; this could take 50 years.

Mr C.J. TALLENTIRE: You say “50 years”, but most of the mines that you are talking about have a life expectancy of around 15 years.

Ms Nolan: That is not consistent with some of the information we have received.

Mr C.J. TALLENTIRE: I have just flicked ahead to page 13 and I cannot see anything there that gets to 50 years.

Ms McGowan: Basically, the mines will potentially come on at different points in time. We have put in here the five mines that are at fairly advanced stages of development. There are about 105 different types of mines—they are not all iron ore mines—operating in the Mid West at the moment with a range of product. There are a number of mines that are at very early or almost conceptual stages of development that could exist over quite some period of time. Again, it is the longer term of what might be mined and when those mines might come on stream. There are a couple of them, for instance, that we are liaising with now that are only just getting their early JORC readings—I cannot for the life of me think of what JORC —

Ms Nolan: It is something about the joint resource committee.

Ms McGowan: — and getting the initial information to make a judgement on whether to go forward and try to seek to mine in that area.

Mr C.J. TALLENTIRE: Do you believe, though, that there would be mines bigger than these that you have listed here?

Ms Nolan: These mines could get bigger. In terms of the prospectivity, there are degrees of probability associated when you look at the resource potential of any mine. These mines are looking at what they can be certain of, but they usually require lower degrees of probability. They come up with some very large quantities in terms of their actual potential to mine, so, yes.

The CHAIRMAN: Can I encapsulate this in this way, and please correct me: your base case on which your business case will come is 35 million tonnes a year with one bulk wharf, but with the potential in the future for blue sky up to eight berths with some of your initial infrastructure open to that capacity.

Ms Nolan: Yes.

Ms R. SAFFIOTI: To clarify that, is that \$678 million costing for the breakwater? That will not be able to cope with eight berths, will it?

Ms Nolan: No, it will not.

Ms R. SAFFIOTI: How many berths will it be able to cope with?

Ms Nolan: At least two and potentially a smaller panamax berth, as against the two cape berths, but initially the two capesize berths.

Ms R. SAFFIOTI: Basically, it covers the first breakwater plus the two berths. That is the initial costing.

Ms McGowan: I have a slide about the navigational aids, the turning circles, the basins et cetera that are deemed part of the common-user infrastructure.

The CHAIRMAN: I will let you return to your presentation.

Ms McGowan: Obviously, then there will be an expanded rail network potentially out to the deposits of the Murchison and the northern Goldfields that will potentially effectively integrate with rail infrastructure in accordance with the state's rail regime. That could potentially be the north-south railway line out through the Goldfields and, in the blue-sky scenario, the eastern states link across there in terms of the planning. As I have said, the other part is the competitive strategic industrial estate to facilitate industrial development and sustainable industry, and service corridors linking the port and the industrial estate, including the Oakajee-Narngulu services corridor, which is the one from Oakajee back down towards Geraldton.

[10.30 am]

I come now to the role of the state. As Anne said, the Department of State Development is the lead agency in the Oakajee port, rail and industrial estate project. So we are doing the facilitation work on all of those aspects, and, importantly, providing a linkage between the miners and other stakeholders in the region. For example, we have a six-weekly, or thereabouts, meeting, where we bring all the mining companies together to look not only from our perspective as to where they are tracking with their particular projects, but where there are opportunities that they can create for various alliances and synergies. Two of the companies have announced some joint construction camp work and things like that, so we are looking at where we can facilitate that work. We are also looking more broadly at the Mid West economic development objectives. The actual involvement of the state is captured in the overall planning. Again, we have looked at the infrastructure requirements and aspirations of the various players and what they are proposing to put in themselves and where the state can play a facilitation role. In terms of corporate governance, which is the next slide —

The CHAIRMAN: Before you move on, with respect to the dot points on page 9, which covers the key projects, which we have encapsulated as \$678 million for the common-user infrastructure, is the Oakajee industrial estate covered by that, or is that another subproject?

Ms McGowan: That is a separate project.

Ms Nolan: We see the project as one project, but the state's investment is in the common-user infrastructure.

The CHAIRMAN: So the supporting infrastructure is not included in that?

Ms McGowan: No. The \$678 million is purely the common-user infrastructure at the port.

In terms of project governance, because we are involving a number of government agencies and the private sector, and obviously also the commonwealth, we have quite a comprehensive governance framework for the project. That is outlined in the next slide. There will be reporting to a ministerial committee, with a broad senior public sector level steering committee, and then implementation groups and particular working groups that are primarily led by the agencies that are best placed and have the expertise. So obviously the port infrastructure group is led by the Department of Transport, the rail group is led primarily by the Public Transport Authority, the services corridor group is led by the Department of Planning, and the industrial estate group is led by LandCorp. But we bring them all together as part of the implementation group and, as necessary, bring staff into our agency.

Ms Nolan: I just want to make one other comment. Embedded in that green box is also the commercial evaluation due diligence team, which is focused specifically on the common-user infrastructure aspects; that is, where the state and the commonwealth have put in their money.

Ms McGowan: This really just spells out the project management side of it in terms of the coordination aspect. One of the critical path issues that we are working on at the moment is the bankable feasibility study liaison and review process, where we are looking at the approvals necessary and where the state has a direct role as opposed to a less direct involvement. We are also looking at value for money and due diligence and project verification so that where, for instance, Oakajee port and rail will be charged with constructing the rail or constructing the port, because

there is that public investment we would carry out due diligence on that planning as well. We also liaise with the commonwealth with respect to its funding contribution.

I move now to a bit of a snapshot shop of the Mid West mining industry. Just to focus on the iron ore mines at the moment, we have marked some of the primary ones. In the centre of that page you will see a dotted circle with the words "Boolardy Station". That is the Square Kilometre Array project, which sits in the middle of that area, if you are wondering what that circle is. The primary focus is the northern mines—the Crosslands Resources Jack Hills project, and the Sinosteel Midwest Weld Range project. Slightly behind that is the Golden West Resources project. Crosslands is the primary one there, but of course in order for Sinosteel Midwest's infrastructure investment to be viable, they are dependent on the Crosslands Jack Hills project. In the southern mine area, there is the Sinosteel Midwest project at Koolanooka, and the Karara Mining project at Karara, and also Extension Hill, which is Asia Iron. Our predominant focus has been on Karara Mining, Extension Hill, Crosslands and Sinosteel at Weld Range.

Just to give some statistics for the initial time lines for each of these players, when the project was probably conceived, certainly Karara was not as advanced, and now that is actually moving quite quickly and looking to achieve financial close in the first quarter of this year. There is a fairly significant resource there and looking potentially for first exports by 2011. Extension Hill, which is Asia Iron, is looking at 2012 at this stage for exporting through a slurry pipe out through Geraldton. Crosslands is looking at a financial close in 2011, as is Weld Range, which is about 12 months behind that, and Golden West Resources is another year or so behind that. They are the more immediate ones, but there are a significant number of other mines, as you will see from the next slide.

The CHAIRMAN: Before you move on, is this an appropriate time to talk about the deadlines for Oakajee and the maximum capacity of Geraldton?

Ms Nolan: I think so.

The CHAIRMAN: According to this, you are going to put out almost 20 million tonnes next year from the Geraldton port.

Ms McGowan: One of the issues there is they will reach financial close and go to first export there. This is on their estimates at the moment. Some of them have not got their approvals and things. This is where Anne talked about the chicken and the egg. Lots of chickens is how realistic some of those areas are. I might let Anne talk about the cap at Geraldton in terms of how we are moving forward with that process.

Ms Nolan: Sure. The cap at Geraldton in terms of the 12 million tonnes per annum was part of the SDA—the state development agreement. I forget the acronyms after a while. That was basically to ensure that there was not an ongoing expectation that iron ore would be exported out of Geraldton for some time so that the urban amenity would be impacted upon. It also obviously had the impact of hastening and facilitating the Oakajee development. That cap will come into place in 2014, or when Oakajee is available. In the initial phases, it will depend on the dates of arrival of these projects. Asia Iron's Gindalbie hematite is effectively in production now. There is probably about seven or eight million tonnes already going through the Geraldton port. So the question is what is next in the queue to actually go through. There are currently conversations between Karara Mining and Extension Hill in terms of a port services agreement with the Geraldton Port Authority. The Extension Hill project is a slurry pipeline. That is not a rail option but is effectively a pipeline that they have built. A mixture of water and ore goes to the port, a dewatering process occurs, and then it is shipped out.

The CHAIRMAN: Are they currently planning to do that export through Geraldton?

Ms Nolan: They are planning to do their first export through Geraldton, and that would be up to 10 million tonnes per annum. Karara is looking to commence its shipment in the first half of 2011 at

a rate of eight million tonnes per annum, scaling up to Oakajee in later years. I think you can see that probably all those projects are optimistic in their assumptions about what they can achieve. We are working through port services agreements for Geraldton port as to how that can be managed in the interim period so that there is not excessive investment in that port that would become uneconomic into the future.

The CHAIRMAN: If the optimistic views of the various companies were to come to reality, and the iron ore price continues to grow, as everyone is talking about at the moment, what is the maximum capacity that you could put out through Geraldton port?

[10.40 am]

Ms Nolan: It will be a question of how much investment is largely put into the port, and obviously you do not want to put too much investment into a port that does not have long-term iron ore exporting future. In terms of what the actual limits are —

Ms McGowan: It is getting close; 20 million tonnes would be at the very upper end.

Ms Nolan: Yes, 18 to 20 million tonnes is the upper end.

Ms McGowan: The other thing that is worth noting is that even with the stage 1 production of, say, a Karara, they may not be at 8 million tonnes at immediate start-up.

Ms Nolan: We have had some trucking of ore to Geraldton, which we anticipate is going to cease, according to the company, so there is also some change in the composition of the first eight-odd million tonnes. It is a management act to ensure that we get the best use of capital but also facilitate the trade of those companies.

Mr C.J. TALLENTIRE: Can I just get one thing clear? Are you saying that the companies are being optimistic about the volumes they will be exporting through Geraldton?

Ms Nolan: It is a value judgement that I think I probably incorrectly made, and mining companies by their very nature are always trying to push the envelope on timing. That is their nature because that is how they actually get revenue. The ability for them to achieve that sometimes differs from their expectations.

Mr C.J. TALLENTIRE: And optimistic about production levels as well as time?

Ms Nolan: I would not suggest production levels—I think more as a timing issue of getting the other parts of that chicken-and-egg equation together in terms of getting the infrastructure to support those projects.

Mr C.J. TALLENTIRE: You are saying that they are being cautious.

Ms Nolan: I do not believe there is any lack of optimism regarding prospectivity of the resource itself. I think the resource itself is proven.

Mr C.J. TALLENTIRE: Okay, it is proven, but are you saying that we have to assume that they are in a way understating the actual export requirement into the future?

Ms Nolan: No, what we are saying —

Mr C.J. TALLENTIRE: Yes, you are saying on page 13 that these are just preliminary figures and that it is likely to grow much larger.

Ms Nolan: These are the finest figures that the companies are putting out. This is publicly available information from the miners. If you were to speak to those miners, they would not say that their aspirations cease at this point; in fact, page 14 shows a range of stage 2 production, such as Extension Hill stage 2, the further development of the Gindalbie mine and the Mt Gibson mine. All those mines coming on board take that to a higher level. What we are saying is: what are the firmest numbers we have got, because you want your foundation proponent to be very strong, and these are the most developed cases in terms of their overall planning and development.

Mr C.J. TALLENTIRE: Would you agree that it is fairly rubbery, what the export potential actually is from the region?

Ms Nolan: Of what?

Mr C.J. TALLENTIRE: Of iron ore, just to use the iron ore example.

Ms Nolan: Over time?

Mr C.J. TALLENTIRE: Yes.

Ms Nolan: I think that is a great unknown in terms of how high can it be. It will depend on many factors—the price of that iron ore, the market and the timing of when that occurs. But in terms of “is the resource there”, the resource is very strong.

The CHAIRMAN: On that graph you have columns and you also have a blue line. I am not clear which is which with the two different scales.

Ms McGowan: The blue line is the cumulative tonnage in terms of the production rate going forward through from about —

Ms Nolan: On the right-hand side.

Ms McGowan: Sorry, yes, the tonnage on the right-hand side. But looking at a production rate out through the port of about up to 110 million tonnes per annum.

Ms R. SAFFIOTI: Can I just ask about the cap again? The cap will come into place in 2014.

Ms Nolan: When Oakajee port —

Ms R. SAFFIOTI: When Oakajee is ready.

Ms Nolan: Yes.

Ms R. SAFFIOTI: So probably not 2014 anyway.

Ms Nolan: The plan is 2014.

Ms R. SAFFIOTI: It comes into place in 2014. So are your agreements with the companies that they will be using Geraldton port more extensively during this period up to 2014 and, once Oakajee is up, they must shift out of Oakajee?

Ms Nolan: I will make two comments. The agreements are not with us; they are with the Geraldton Port Authority, through the port services agreement. Companies such as Karara Mining would be expected, and it will be a condition of its port services agreement, to transfer to Oakajee once Oakajee is up and running. Extension Hill phase 1, which is the slurry pipeline one; because you had built the pipeline, you would anticipate that if they continue to put their ore in the slurry, that they would continue to export that 10-odd million tonnes through Geraldton.

Ms R. SAFFIOTI: So Extension Hill can use up to 10 million tonnes per annum.

Ms Nolan: Through Geraldton.

Ms R. SAFFIOTI: Through Geraldton. So basically that limits any other existing users.

Ms Nolan: I think up to 10 million tonnes, and then with the other projects there are couple of million tonnes there, and there are some small tonnages that go out on a trucking basis and could continue to happen.

Ms R. SAFFIOTI: They are agreements struck between the companies and Geraldton port.

Ms Nolan: Yes, but they are not yet struck; they are only at MOU level at the moment.

Ms R. SAFFIOTI: Is that a directive given by government to Geraldton port, and Geraldton port basically reducing its ongoing revenue?

Ms Nolan: Oakajee will be part of Geraldton Port Authority's overall financial revenue base. Geraldton port is taking a holistic view; it does not just take a Geraldton Port Authority, what-exists-now view.

Mr A. KRSTICEVIC: With stage 1, how much tonnage will go out Oakajee with two berths?

Ms Nolan: Initially, with one berth, 35 million tonnes. It does not necessarily go linearly, unfortunately.

The CHAIRMAN: Can I just clarify that. So the initial base case is one bulk-loading berth plus an additional berth, is it?

Ms Nolan: The initial case would be one 35 million tonnes per annum berth at Oakajee.

The CHAIRMAN: That is bulk loading. I thought earlier you said there would be a more general-purpose berth. That is not in the base case?

Ms Nolan: No. Can I just clarify it? There is the common-user infrastructure to support it, but you do need the actual berth and the handling that goes with that berth, and that is not included. There are two parts to it.

Mr A. KRSTICEVIC: You said that bankability was being done around that 35 million tonnes.

Ms Nolan: Yes.

Mr A. KRSTICEVIC: Again, based on this graph on these current producers, based on what they know to be on the ground as of today, obviously that is not going to be enough to meet their demand, at least leading up to 2019 and possibly beyond.

Ms McGowan: The tonnages that the companies are reporting as wanting to ship through would suggest that 35 million tonnes is below the capacity that they might need, but that is what they are reporting.

Ms Nolan: I think as Gail mentioned earlier, OPR put out an expression of interest to the mining companies in terms of what they were interested in shipping through that process, and OPR's recent press release indicates that it had a significant response that potentially was in excess of its ability to cope through stage 1.

Mr A. KRSTICEVIC: So how quickly could you get the second berth up and running?

Ms Nolan: The second berth, as we mentioned before, can be got up and running relatively quickly. The focus by OPR is on that first berth.

Mr A. KRSTICEVIC: Based on that demand, are you looking at a simultaneous agreement on the second berth if the graph keeps going the way it is and other people come on board with export facilities?

Ms Nolan: Remember, the state's role is in regard to the common-user infrastructure. The private infrastructure that goes to support a second berth would be a commercial decision on the part of the commercial companies out there—OPR and the miners.

Mr A. KRSTICEVIC: We do not have any ability to influence that, so the commercial reality is that if they would rather restrict the capacity to maximise the opportunity for return, then they can do that.

Ms Nolan: This is when you come to the question of the nature of the agreement between the state and OPR and the regulation that goes around a regulated asset in terms of investment triggers, and it is too early to say. We have not had those conversations, but with most monopoly infrastructure like that we tend to have investment triggers, and requirements and tests that need to be got through so that you do not have the capital strike.

The CHAIRMAN: He referred to the state development agreement signed about 12 months ago. Is it possible for this committee to have a copy of it? It is my understanding that there was a committee of the other house that was given it under conditions.

Ms McGowan: It was made available when the other house requested the Premier that it be made available on a confidential basis. I would assume that a similar request could be made for this group.

The CHAIRMAN: Can we formalise that, then?

Ms McGowan: It is not our decision to make.

The CHAIRMAN: Can we request that, that it be provided to the committee as supplementary information on the same basis that it was to the Council committee?

Ms Nolan: Yes.

[10.50 am]

Ms McGowan: Moving now to the work going on with the infrastructure, in terms of the basis of design work, I think we have probably covered the initial capacity for the two capesize berths and potential panamax berth. The size of vessels go from handimax to super-handimax to panamax to cape, with the capesize being the largest. The ultimate port design will allow for a second breakwater, so we have covered that. We are looking at more than 700 kilometres of rail—about 500 kilometres to the north and a couple of hundred kilometres to the south. I have mentioned the mines, which we are focused on. That will be a 32-tonne-axle-load standard gauge in terms of making sure we, again, are aiming for that integrated network in the future and looking at the strategic needs of the state. I will not go through all the details here of the private-user port infrastructure. Under that state development agreement, what will be the private-user port infrastructure is quite clearly defined, such as the dumpers, stackers, ship-loaders, conveyors, stockpilers and capacity. The common-user infrastructure on page 18 —

The CHAIRMAN: With common-user infrastructure, are there issues such as each company needing its own stacking areas and reclaimers, or are deals being done for various miners to share that?

Ms Nolan: One would anticipate that OPR itself will be a provider of some of those services, but there will be the potential in the future. One anticipates that other private users also will establish some of their aspects. One of the key things is the rail aspect regarding an open-access regime to that rail so it can be used by multiple companies.

The CHAIRMAN: But in the initial project are you looking at only one stacking area, one reclaimer and one loader?

Ms Nolan: Financially, it would stack up, so to speak, for only 35 million tonnes with one stacker and loader, yes.

The CHAIRMAN: Therefore, will other companies have to deal through OPR to access that?

Ms Nolan: They are already in conversation with OPR in that regard.

The CHAIRMAN: Taking your exact words, you said that there is no current agreement between the various miners for that aspect of the project. Your words suggest to me that they are working on it but there is no agreement.

Ms Nolan: Yes.

Ms McGowan: The common-user port infrastructure, which is very much where the state and commonwealth investment is focused, is the channel, the breakwater, the turning basin, navigational aids, the provisions for tug and pilot boat pens and the port administration office, and then the land-

based facilities—the access roads and the utilities servicing those. It is quite clearly defined as what one would normally conceive as common-user infrastructure for a port.

The CHAIRMAN: Can you clarify that, please, Ms McGowan? On that last dot point with respect to access roads and utilities are you talking only about through that 1 000 hectares; you are not talking about Narngulu?

Ms McGowan: No.

Ms Nolan: No, this is purely what you would say are the land side aspects of the common-user port facilities. It is focused on the port.

Mr C.J. TALLENTIRE: Did you have an estimate of how many kilometres of roads and other utilities will be built; is that detail further on?

Ms Nolan: No. The next page contains a conceptual diagram—an ideal world—of what it could ultimately look like. Those who have been there will know that it has a long way to go. There is the southern breakwater, and the reclamation that goes in there. The turning circle is inside, so effectively you are not getting that. All that area is excluded from the \$678 million. In terms of roads we are talking about only little bits in here; we are not talking roads out to the Mid West or anything like that.

The CHAIRMAN: Is it within 100 metres or so of the actual water line?

Ms Nolan: I am not sure what the figure is, but it is within close proximity within the port authority boundaries.

Mr C.J. TALLENTIRE: The road that is shaded an orangey colour on the map that runs north east —

Ms Nolan: That is part of the strategic industrial estate.

Mr C.J. TALLENTIRE: Will the taxpayer be paying for that road?

Ms Nolan: I will have to take that question on notice if it is that road.

The CHAIRMAN: It is probably obvious in the drawing, but in terms of the common-user infrastructure at the port, is it the southern breakwater that heads out just north of west? What other part of the port is within that initial project? The schematic is basically setting up the port at a later stage where there is more than one berth et cetera.

Ms Nolan: It is hard to show because some the state's common-user infrastructure is underwater because it is effectively the channel and the turning circle, which we cannot see. The navigation aids are not available there. Tug and pilot pens are, I think, tucked into this corner here. I am not sure where on the diagram is the port-based administration office.

The CHAIRMAN: They are trivial. The issue is: has the design reached the stage where you have designated where the first berth would go?

Ms Nolan: Yes.

The CHAIRMAN: Whereabouts in that schematic?

Ms Nolan: Where the ship is sitting in there.

The CHAIRMAN: Against the breakwater?

Ms Nolan: The breakwater is the first part of that, and then there is effectively the load-out facility from there, which is a trestle that the conveyor belt goes along and delivers the ore to the boat.

The CHAIRMAN: Is all that currently on the shoreline—that is, on the eastern part of that port area; is it all latter stages?

Ms Nolan: Yes.

Ms McGowan: Bear in mind that this is still a conceptual diagram and not the actual port plans.

Ms Nolan: One of our project groups is looking at the actual port plans now.

The CHAIRMAN: On an operational matter—one of our members knows far more about this than I do—if there is only the southern breakwater, what are the anticipated limitations on berthing times? For example, when there is a nor-wester storm coming et cetera, I presume there will be limitations.

Ms Nolan: I am sorry, I cannot answer that question; you would have to ask them in Geraldton.

Ms McGowan: We would be relying on the Geraldton Port Authority to set those sorts of parameters, and I do not know what they are.

The CHAIRMAN: Surely it comes into your business case. If there are limitations on how much throughput there will be, depending on weather conditions until you complete the northern breakwater, there must be some figures on how that will affect operations.

Ms Nolan: There are two parts to that. One in terms of the bankable feasibility that is being undertaken by OPR. The second part is the work we do as part of due diligence in assessing that information. A lot of modelling has gone on and that is available to the state. We have not gone through the total review of all that information from my department's perspective. But that expertise will come from the Geraldton Port Authority and feed through our processes where we take the whole-of-government perspective into account. I cannot answer the question.

The CHAIRMAN: Would I be correct in assuming that will have to form part of the analysis that you are concluding this month?

Ms Nolan: Yes; it is part of the technical analysis. When we go through some of the work we are doing on due diligence, the port design—technical aspects—looks at the engineering, the whole design review, the costing schedules, the timetabling, the breakwater design, the dredging and a wharf and pier review. All those sorts of issues are part of the processes that we will undergo.

Ms McGowan: On the rail network, I need to acknowledge this is an Oakajee Port and Rail schematic on page 20. Again the exact rail route is still being finalised. But looking on the map here, the initial bit of purple by the coast, moving into the green and finishing in the blue, is the northern rail network that Oakajee Port and Rail has the exclusive right to construct. The southern rail is the non-exclusive. But that is broadly where we are looking at putting in the rail corridors.

[11.00 am]

The CHAIRMAN: I realise this is a chicken-and-egg question, but some years ago there were different points of view from different miners on the actual alignment of the track. Is that still an outstanding matter, or has there been resolution between the miners about the route that will be taken?

Ms McGowan: The main issue is around what is known as the Wokatherra Gap. I understand that there is now a unity of views on the best route through that; I cannot tell the committee exactly where that is. I think it is slightly further to the south, but there are environmental issues as well as technical issues being worked through. The latest advice I have is that people are broadly in line with where it is going to go.

Mr C.J. TALLENTIRE: How far advanced are you with negotiating with private landholders where the rail line traverses property?

Ms McGowan: That is a role for Oakajee Port and Rail at this stage, and it is my understanding that it has had very good support from landowners for access to properties. When it gets to the stage of moving beyond just access to do some testing, that is something that will have to be considered.

Mr C.J. TALLENTIRE: If private consortiums are doing these sorts of negotiations with private landholders, what powers will they have if they meet a landholder who refuses to allow the rail line to cross the property?

Ms McGowan: That is something that we will need to work through if it happens.

Mr C.J. TALLENTIRE: A private consortium cannot force its way across private land, can it?

Ms McGowan: The rail line will be constructed as a public work, even though Oakajee Port and Rail has the right to construct. There are actually provisions to enable that.

Ms Nolan: There will be a special railways act.

Ms McGowan: Once the rail corridor is defined, that legislation will be introduced into Parliament. For the information of the committee—obviously it has the schematic of what it might look like in years to come—the industrial estate at the moment is an area of paddock. This is where the land has been acquired over the past couple of decades, and the entire estate is more than 6 000 hectares. The actual strategic industrial area is little more than 1 000 hectares, and the industrial precinct is another 196 hectares, so there is clearly a significant amount of buffered land that has been strategically acquired by the state over about 20 years.

I now move on to the broad cost estimates at slide 22. I thought it was useful to put the indications of where the investment figures are coming from in terms of a total investment of about \$10.78 billion. That includes a lot of the resource project investment and is obviously an estimation of the cost of those projects—the iron ore mines, the transport infrastructure excluding the common-user infrastructure, the private user investment, the common-user investment and other total investments. Obviously it is a fairly significant project for the region.

The CHAIRMAN: Can we just ask some questions on this? Are these in outturn dollars, as required by Treasury?

Ms Nolan: These are not Treasury numbers; these are numbers that the companies are telling us about the project. This is not about government investment.

The CHAIRMAN: The \$678 million is.

Ms Nolan: Is the \$678 million in current dollars?

The CHAIRMAN: Or is it outturn dollars?

Ms McGowan: That is when the construction is going to happen, rather than today's dollars.

Ms Nolan: No, today's dollars.

The CHAIRMAN: Or last year's dollars, because it has not changed since last year.

Ms Nolan: Okay; let us focus on the \$678 million for the moment. The \$678 million is the number that was struck last year.

Ms McGowan: The original estimate from the Department of Transport was in 2007.

Ms R. SAFFIOTI: I read in the submission that it was struck around 2009, with construction commencing January 2010. That is how I am reading it. Is that your understanding of it?

Ms Nolan: The number will be subject to further verification and analysis through OPR's bankable feasibility study to firm up those numbers in terms of the process. They are the best available at this stage. The commencement of January 2010 —

Ms R. SAFFIOTI: Is wrong?

Ms McGowan: In December 2008, the Department for Planning and Infrastructure's estimated cost was \$678 million.

The CHAIRMAN: Sorry, I did not get that date.

Ms McGowan: December 2008.

Ms R. SAFFIOTI: That was reflected in the submission to the commonwealth government.

Ms McGowan: It was.

Ms R. SAFFIOTI: The submission says that the cash flows and the costings were based on construction commencing in January 2010. Obviously, if the current time frame is for construction to commence in 2014, there will be an increase in the figure of \$678 million.

Ms Nolan: Just to clarify, construction will commence in 2011, not 2014; it will be finished by 2014.

Ms R. SAFFIOTI: Okay.

Ms Nolan: Those numbers will still be subject to further investigation as to their veracity and in terms of dollars of the day and movement of costs.

Ms R. SAFFIOTI: In your current discussions with the commonwealth for final approval for funding, have any new figures been submitted to the commonwealth in respect of the cost of the common-user infrastructure?

Ms Nolan: It is too early to do that; we are waiting for the bankable feasibility work being undertaken by OPR.

The CHAIRMAN: Are you saying that the figure of \$678 million is the internal working number that you are currently using, or is it all that you are allowed to disclose because it is what has been used publicly?

Ms Nolan: That is the number we are working to, to date.

The CHAIRMAN: You have not updated it in terms of inflation costs?

Ms Nolan: It is not only inflation that would impact on it; there are other aspects. Some things may cost less; some things may cost more. Applying a straight CPI factor to it would probably not be any more reflective of the true cost. We actually need engineering information, and that information will come in through the bankable feasibility study.

The CHAIRMAN: I seriously find it difficult to understand that for a project as big and important as this, you are not updating your cost projections, internally at least, when we know that the figure of \$678 million is from 18 months ago. You have done a lot more work since then, and Treasury has given a directive that all major projects using state money use outturn dollars.

Ms Nolan: At the end of March this year we will have better information to update that number, and that is when we will be doing our update. That is the best available information I have.

Ms R. SAFFIOTI: Again, to clarify, that number is based on construction having commenced in January of this year and is in current dollars, not outturn dollars?

Ms Nolan: In terms of the dollars of the day, no.

Ms R. SAFFIOTI: Okay; so we can expect an increase in that number?

Ms Nolan: We would expect that number to be updated at the bankable feasibility study stage.

Ms R. SAFFIOTI: The commonwealth is providing \$339 million. Is that capped at \$339 million or will it vary with the costs of projects?

Ms Nolan: We have yet to come to a full conclusion on that with the commonwealth.

Ms R. SAFFIOTI: So it is part of the current discussions with the commonwealth?

Ms Nolan: We are waiting until we have an updated figure at the end of March, when we have the bankable feasibility study from OPR. That will enable us to be in a better position to understand whether the cost is more or less.

The CHAIRMAN: Staying on the same matter, we are dealing with the numbers on the \$678 million. The submission that was provided to us said that the commonwealth was providing its funding as an equity injection. Can you give us some understanding of what is meant by an equity injection in this particular case?

Ms Nolan: Sure; I will just refresh my memory banks.

The CHAIRMAN: Will it end up with a percentage ownership, or does it expect a return on its investment?

Ms Nolan: Yes, to the last question, but I will provide the committee with a fuller answer; I just need to refresh my memory.

[11.10 am]

Ms Nolan: They made a couple of specific requirements. I just want to make sure that I have it right. The commonwealth suggested that its funding requirement for the equity injection would be conditional. An aspect of that is that an equity injection is to be made into a project so that it is actually a project. Ideally, that would be a special-purpose vehicle, such as contained projects such as the Oakajee port—common-user infrastructure—and there was a reasonable expectation of recovery. Effectively, the commonwealth would have an ownership stake. That is what the equity aspect is about.

The CHAIRMAN: I want an understanding of how the federal government hopes to achieve that. Will it have a percentage ownership of the Geraldton port or is another vehicle to be set up, such as a corporate structure, to do that?

Ms Nolan: It is early days in that conversation and we have not come to a complete landing. You could envisage that the Geraldton Port Authority could have a subsidiary entity, which it is able to do under the Port Authorities Act, and the shareholders of that subsidiary could be the commonwealth and the state. That would reflect their ownership shares in that vehicle and therefore the commonwealth and the state would have a role in the direction of that company through board membership, for example. That is a potential model. I am not saying that that is where we are at, but that gives you a feel of how that could occur. Appropriate charging and pricing structures would be established for the common-user infrastructure at Oakajee and there would be separate accounting and reporting on that investment.

The CHAIRMAN: Has the commonwealth gone so far as to suggest that it wants a return on its equity?

Ms Nolan: Ultimately, it expects the investment to be commercial.

The CHAIRMAN: Does that mean commercial in the sense of not just covering costs but giving a return on the equity?

Ms Nolan: The federal government has not actually said that. It used the words “ultimately commercial”.

Ms R. SAFFIOTI: That would be the logic for having an equity injection rather than just a grant, would it not, to get a greater return on the investment?

Ms Nolan: There would be two aspects. One would be having control and influence over how the dollars are used, which is understandable, and the other would be potentially tracking and understanding what the rate of return on that investment was and whether they took that to a commercial rate.

Ms R. SAFFIOTI: Is this a model that the federal government is following for other projects around Australia? Are you aware of other projects that the federal government has undertaken to try to have an equity component rather than just providing a grant?

Ms Nolan: I understand that is a general trend of the federal government's requirement. An urban project in Queensland is ahead of us in terms of timing and where they are developing their thoughts regarding equity injections.

The CHAIRMAN: By way of supplementary information, could you provide us with the name of that project?

Ms Nolan: Sure. I am sorry that I cannot recollect it.

Ms McGowan: The state has adopted a broad value-for-money framework in terms of the commercial due diligence team, which was reflected in the government's chart that we spoke of earlier. We have a value-for-money framework that sets out a number of areas. That will be part of the technical, legal and financial due diligence process that we look at. In addition, we will continue to identify the overall project risks and mitigation strategies. Again, that will take into account the capacity of the project to meet the state's and the commonwealth's objectives and make sure that the various agencies are fully informed about how they can play their part in it by not only assessing the risk, but also allocating the risk to the state as part of the ongoing agreements that we are reaching with OPR at the moment. That forms part of the due diligence and the bankable feasibility as we move forward.

The CHAIRMAN: Can I ask some questions to clarify this? Is this focused primarily on the common-user infrastructure, or is this value for money across the whole project included in the private investment?

Ms McGowan: It is primarily focused on the common-user infrastructure, but we are using the same due diligence principles and value-for-money frameworks for the project more broadly. One of the difficulties that we have is that we look at it as an integrated project, of which the port and the common-user infrastructure are one fairly small element. We will apply the same due diligence and value-for-money frameworks to the public works components and rail construction.

The CHAIRMAN: But that is for the purpose of making sure that it is economically viable and you do not end up with a port for an iron ore miner that goes bankrupt, I assume. You are not doing the numbers to see how much profit they will make?

Ms Nolan: We will not investigate doing due diligence on the mines themselves. We are looking at the port and the interface between the common-user aspects, the private infrastructure and the rail. Because of that interface between them, you cannot just look at the common-user infrastructure in isolation; we need to look inextricably at the commercial viability of the project as a whole. We do not have the ability to do due diligence on Karara or every other mining project, but we need to make sure that we have sufficient oversight and look at the rail and port operations of OPR. In turn, they will do their own due diligence on the mining companies because that is where they get their revenue from. The miners transport their products on the railway lines and through the port. It is a complex process because we cannot look all the way through the whole project, but we have an eye on the whole project. Our main focus is on the common-user infrastructure and then back to OPR's investment.

The CHAIRMAN: The point of the question is I am trying to get an understanding of point 3—the return on investment. Are we basically talking about a return on the investment of what we are currently calling \$678 million?

Ms Nolan: The state's return on investment in that narrow commercial sense is on that common-user infrastructure as against the economic rate of return—the benefit to the state as a whole from the whole projects—yes.

The CHAIRMAN: Do I take it from that heading that there is a clear expectation there will be a return on the investment in the common-user infrastructure?

Ms Nolan: The question is about the rate of return over time. The government would ideally like to see a commercial rate of return on that project. We do not yet have a full understanding of the revenues and costs so that we can understand what is a feasible rate of return. We are still looking at that.

The CHAIRMAN: Sure. I am trying to get at what is the minimum case required by the third dot point. Are we saying that there is a clear expectation that there will be a rate of return to the state from this project?

Ms Nolan: When you say “rate of return”, do you mean a positive rate of return?

The CHAIRMAN: Yes.

Ms Nolan: The Premier has said that it could be anticipated that there could be a soft start in terms of the pricing, and the pricing structures for the common-user infrastructure are yet to be struck. We actually do not have an answer to that question in terms of what we are looking at as a potential rate of return. The port authority normally has a rate of return of around three or five per cent. We would anticipate that rate in the fullness of time for the Oakajee port. Whether we would immediately go to that step and requirement is something that we still need to test.

The CHAIRMAN: We have a letter from the Premier to the Prime Minister dated October 2008, suggesting that there will need to be a subsidy in the short to medium term.

Ms Nolan: I used the words “soft start”. We still have not gone through all the port modelling and pricing information to understand what the potential outturn would be.

The CHAIRMAN: The question is: can you give any justification as to why the whole project should be subsidised when for years it was being planned to be done totally by the private sector?

Ms Nolan: The government has made a policy decision to invest in the common-user infrastructure, and we are facilitating that investment.

The CHAIRMAN: Is there no information that you can provide publicly, because this is a public hearing, to say why this project should be subsidised?

Ms Nolan: The government has made the decision that the common-user infrastructure requires government funding. That reflects the nature—I go back to my opening comments—of the unique opportunity that is created by opening up the Mid West to development, and the challenges and complexities associated with many, many, potential miners and the requirements for major infrastructure to make that happen.

[11.20 am]

Also, the port’s unique location in terms of proximity to Asia, where the major demand is for that ore, compared to, say, Brazil and Argentina. We all know that governments have traditionally owned the common-user infrastructure associated with ports. With the exception of a couple of ports in Western Australia, we have got common-user infrastructure owned by the port authority that is relevant to that.

Ms R. SAFFIOTI: Can I ask about the Anketell announcement yesterday, which is a privately funded common-user port—as in that policy decision?

Ms Nolan: The Oakajee port is a multi-user, multi-product deepwater port. We are anticipating that is a bit different from the Anketell example. We will obviously need to deal with that one differently. It is different in terms of they are largely single product, single user; or, in the case of Anketell, three potential major users of that port

Ms R. SAFFIOTI: It will be multi-user; it is common user?

Ms McGowan: But single product.

Ms Nolan: Our expectation is that infrastructure will revert to the state. Of course it was only announced yesterday so we have not developed a full conversation with the proponents of those projects.

Mr A. KRSTICEVIC: You mentioned common user and the state government decision to do that. I suppose that obviously is a decision that was done together with the federal government. They are both obviously funding it, they both want it to be common-user interface and therefore they want basically the Australian people to own that piece of infrastructure. On that return on investment part, there is the royalties down the track as well in terms of state revenue from that perspective. There are obviously employment opportunities and infrastructure development will take place as a result of this Oakajee development. There are two aspects to return on investment—one is the actual running costs and the revenue from the port itself. The second part of it is obviously the billions of dollars potentially in state revenue that will come from all the other opportunities that will come from that. Are you looking at the return on investment in that bigger picture or is it just single focused in terms of the basic dollars and cents of the port irrespective of all the other economic benefits to the state?

Ms Nolan: In terms of the value-for-money framework, that is largely focused on the common-user infrastructure. But we are also obviously looking at the broader return to the state and the development opportunities that it creates in terms of employment, royalties and payroll tax—all those sorts of issues. As you mentioned, there is an economic broad concept of rate of return and then there is the narrower financial rate of return. That is what the value for money, with respect to the common-user infrastructure, is specifically focused on initially.

Mr A. KRSTICEVIC: Are you looking to add that into the equation as well?

Ms Nolan: In terms of information we provided to you—I am just trying to remember the wording of it—yes; we are looking at those aspects.

Mr A. KRSTICEVIC: Return on investment and all that other money would not be coming into the state if it was not for this particular investment. At the end of the day, even if you do have a soft start in terms of the infrastructure itself, I suppose there is a huge return from the other perspective.

Ms R. SAFFIOTI: Can I just clarify: that analysis is presumed on the basis that there would be no port. The analysis really is the government injection of funding. The analysis of whether there will be payroll tax or royalties is on the basis: is there a port? If there was not a port, we would not get royalties. But really the analysis has to be: what is the justification or what is the rate of return on the government investment into that port? I think that is the point of difference.

Mr A. KRSTICEVIC: And the justification between the federal and state governments agreeing to that outcome.

Ms R. SAFFIOTI: Yes.

Mr A. KRSTICEVIC: And on what basis they agreed to that outcome.

Ms R. SAFFIOTI: The decision was made in October 2008. All this analysis has been undertaken now.

Mr A. KRSTICEVIC: I am assuming the federal government will not be throwing away money for the sake of it. No doubt they are making an intelligent investment with the state.

Ms R. SAFFIOTI: I would not put my money on it!

The CHAIRMAN: On that issue of the return on investment, is that something that is dictated by the business case that Infrastructure Australia requires?

Ms Nolan: The business case that Infrastructure Australia is talking about is actually that broader consideration of the overall project. They are looking at the economic evaluation rather than a narrow financial one. We are also looking at that financial aspect. They are looking at both —

The CHAIRMAN: So that is the business case for Infrastructure Australia, but it is also said that the terms and conditions of the arrangement are currently developed between the state and the commonwealth with respect to their equity injection. My question is: in your negotiations as to how that equity injection will be incorporated into the project, is rate of return one of the requirements that the commonwealth has; that is, a rate of investment analysis?

Ms Nolan: The work we are doing with Infrastructure Australia on a business case is to look at the overall project.

The CHAIRMAN: I understand that. But my question —

Ms Nolan: Then if we focus down on the narrow investment in the common-user infrastructure, which is where we are talking about the vehicle through which the state and the commonwealth will invest in that project, then the question comes to: are we looking for a commercial rate of return? Ultimately the commonwealth and, presumably, the state will look to get a rate of return on that investment.

The CHAIRMAN: That was not my question.

Ms Nolan: Sorry.

The CHAIRMAN: In those negotiations with the commonwealth, which are mentioned on page 10 of the submission to us, the terms and conditions are being discussed with the commonwealth. My question is: in that discussion on terms and conditions, has the commonwealth clearly indicated that they want a rate of investment analysis?

Ms Nolan: The conversation with the commonwealth with respect to its equity investment has focused on, first of all, mechanics, as in how we would have the vehicle to actually have that. The second part is yes; they are seeking a commercial rate of return on that investment.

Ms R. SAFFIOTI: While we are still talking about numbers broadly, can I ask about the funding profile that you expect to be made? I think currently the state budget shows \$339 million in 2012–13, if my memory is correct.

Ms Nolan: My memory is similar, yes.

Ms R. SAFFIOTI: So the fourth year of the forward estimates. Obviously that is not right. Are you changing the funding profile to reflect that you believe construction is going to commence next year? Currently it shows that the commonwealth funding will be upfront and the state contribution will be in the second last year of construction?

Ms Nolan: In terms of a revised capital cost which we will come to following information received from Oakajee Port and Rail on their BFS, that will then enable us to also work through in terms of the timetable and enable us to cash flow what that could potentially look like, in terms of a start in 2011 and completion by 2014. Over that period it will be a question of how we then structure our payment schedule to OPR in terms of them building our common-user infrastructure as to what that cash flow will look like in terms of the outyears for budget purposes. In terms of the commonwealth, the commonwealth did not make it initially as an upfront number, but we have yet to have any detailed conversations as to how they would change their cash flows. We just have not had that conversation yet.

Ms R. SAFFIOTI: OPR is undertaking the new estimate currently and they are submitting to government by the end of March. Is that going to be again independently verified by another party?

Ms Nolan: Yes. That is where it comes through our due diligence and the value-for-money stuff that Gail was talking about. Then we go over that and look at their technical work, their costing work and all those sorts of issues.

Ms R. SAFFIOTI: Is that going to be done internally? That is my crucial point. Basically, unlike normal projects where you have got to get two or three tenders and you can access value for money,

you are basically relying on one company to provide you with the construction cost of a major project.

Ms Nolan: It is because we have been through the request for tender already, and OPR was selected to build the port. In terms of the value for money, it is very much using outside consultants and experts because the state government does not have that skill base available to it; but under the management of a group of experts from planning, transport, DSD, whoever is required.

Ms McGowan: Moving on from due diligence and verification, in terms of the broader development outcomes, it is really just wrapping up where we are in terms of status, et cetera. Certainly one of the things driving the project is the Chinese demand for magnetite and their expertise at dealing with magnetite.

[11.30 am]

Just by way of information, the magnetite in the Mid West is closer to the surface than any of the magnetite left in the Chinese mines. Generally speaking, it is of a much higher quality, which of course in turn means that there are significantly lower mining costs. In fact I think a lot of the Chinese mines are now underground mines; so that is certainly looking at benefits to the region and the state.

The CHAIRMAN: Can I just raise a technical issue on that? Does the magnetite from the Mid West need some beneficial program or not?

Ms Nolan: Yes, a lot of it does; not all of the ore. Some direct-shipping ore has already been shipped out, but some of it will require further processing.

The CHAIRMAN: So does that mean that the miner is likely to build that at Oakajee or on-site?

Ms Nolan: Miners would traditionally build that on-site.

Ms McGowan: And again obviously the development of the minerals processing precinct in terms of the industrial estate, I think, in the Mid West accounted for about \$2.28 billion of the value of minerals and petroleum by region in 2008–09; and other commodities in the Mid West, not all of which would be obviously in the industrial estate, but just by way of information, are gold and copper concentrate, grain, mineral sands, talc and zinc concentrate. So there is quite a deal of mineral prospectivity in the region and, obviously, the regional and community benefits of the local workforce. I think in our submission we gave you some numbers of construction estimates and the ongoing workforce, and of course then that increases the international competitiveness by attracting investment to the Mid West region.

The CHAIRMAN: The figure in the Premier's letter was about a construction workforce of 2 000 and then 300 in the operational phase; whereas the submission to us upped that 300 to 400. I do not know whether they are updated figures or we are capturing a different set of operations.

Ms McGowan: I will have to check the detail but we have probably got more robust estimates from the companies now, particularly from OPR in terms of that construction workforce, than we had at the time of the Premier's letter.

The CHAIRMAN: That 400 is just in rail and port handling.

Ms McGowan: Yes, not in the mines themselves. In terms of the current project status, just to wrap up on the slide on page 28, the number of issues that we are focusing on in commercial terms, as we have mentioned before, Oakajee Port and Rail is liaising with potential users of the port, and they will be seeking to strike agreements with them as part of their bankable feasibility. The state has provided a term sheet for the state's investment in the common-user infrastructure, and that is part of our negotiation now. And obviously to actually get to that stage, the critical milestone is to get those firm off-take and supply chain agreements which will enable the full feasibility to be worked through. Again OPR is in discussion with a number of financiers for both the rail and the private user infrastructure. The bankable feasibility study is due by 31 March, as we have mentioned, and

we would expect that final investment decision in quarter one of 2011. The state has received the basis-of-design summary document, and that will be reviewed using that technical expertise. We are looking at the finalisation of the costings again for the port common-user and private user infrastructure designs in June of this year.

The CHAIRMAN: Just on that design, is there a lot of geotechnical work to be done or was that largely all done with the design work?

Ms Nolan: Largely all done.

Ms McGowan: Yes.

The CHAIRMAN: And where will the quarrying take place for the breakwater? Can that be done locally or does that have to be brought from some distance?

Ms Nolan: We understand that it is available locally.

Ms McGowan: And in terms of the environmental approval aspect, the Environmental Protection Authority has set a public environmental review assessment level for both the port land site and the rail—that is, the northern rail project components. They are looking to finalise the management plans by June of this year. They would look to have the environmental approvals by April 2011. So that is, again, an area we are facilitating.

Then basically we are continuing the negotiation of both the implementation agreements—that is, the port and rail implementation agreements—and the various schedules to those agreements. A significant amount of work will go into that review of the bankable feasibility study when we receive that—it is due at the end of March—and certainly the significant due diligence work and the finalisation of the actual funding arrangements, recognising that both the state and the commonwealth funding is contingent on the bankable feasibility of the project.

The CHAIRMAN: Thank you for that. That was the presentation and we interrupted you and were able to ask our questions, so that was very useful. There are some further questions if we could then build on that. With respect to some of the surrounding issues which clearly are essential to the project, one is obviously the development of the industrial estate, which you said LandCorp was doing. Can you give us current indicative costs for that development work?

Ms McGowan: I do not have a costing at this stage.

The CHAIRMAN: Can you provide it by supplementary, or do we need to get LandCorp in here to do it for us?

Ms Nolan: We hope we can do it through supplementary.

Ms McGowan: Yes, I would anticipate that.

The CHAIRMAN: Can you give us a rundown on just the scope of that industrial estate? I am particularly talking about stage 1 with the management being met up-front and what the cost will be. Similarly with the access corridor from Narngulu, can you give us figures on what are going to be the costs with the breakdowns—obviously there are roads, water and power—to bring that into the site?

Ms Nolan: Can I just clarify, please? The corridor itself provides that capability. It is a question of when the infrastructure providers will provide it, probably in two parts. One would be the actual corridor acquisition—that is the first part—and then we would articulate any details regarding what actually is going to be put on that corridor and when. Is that what you are asking?

The CHAIRMAN: Yes, but I assume you are advancing the negotiation discussions on that.

Ms Nolan: The Department of Planning is leading that project, yes.

The CHAIRMAN: Yes, so what I am seeking is the scope of works for the first stage required. Obviously there will be potential for expansion, but the first stage capacity, the scoping and the indicative costs of that work.

Ms Nolan: I am sorry, just to clarify, you have to get the access and then what infrastructure you are going to build at stage 1.

The CHAIRMAN: When your first iron ore berth is up and operating, what will have to actually be in the access corridor to provide water, power et cetera to the site?

Ms Nolan: Yes, okay.

The CHAIRMAN: And, thirdly, where is the power supply going to come from and the indicative costs of that; whether it is the main line, the 330kV that they want to build from Eneabba, or is it local? I mean are those discussions advanced; are you involved in that?

Ms Nolan: It hinges on the power availability for the actual port itself.

The CHAIRMAN: The port industrial estate.

Ms Nolan: They are quite separate in terms of timing as well as needs. Initially on the power side of the port there are conversations happening between Western Power and OPR, because the port requirements are not extensive, only probably about 20 megawatts, and Western Power may be able to provide that at a commercial rate to them. Alternatively they will consider putting on-site their own generation facilities. So that is currently being discussed between OPR and Western Power and their own internal analysis.

The CHAIRMAN: So potentially the port could be operational without being connected to a power supply grid; it could be stand-alone.

Ms Nolan: It could be stand-alone. But I think the question is the extent of that connection rather than whether that connection actually occurs, which is the weight of the line because there is power up there to some extent already.

Mr A. KRSTICEVIC: I am trying to understand the working relationship is between the state and federal government on this particular project. The Chairman talked about the expectations of rates of return on both sides. I am just wondering to what extent the federal government—because obviously you are doing a lot of work in this area and are waiting for the respective feasibility studies and so forth—is actively involved in the project, based on the fact that it is a 50 per cent partner in the project in terms of control and understanding the whole project.

[11.40 am]

Ms Nolan: Effectively, there are two parts to the federal government involvement. One is Infrastructure Australia, which is looking at that business plan in that broad economic sense that we spoke of and that is where our conversation with Infrastructure Australia occurs. In terms of our conversation more regarding the common-user infrastructure, the vehicle through which investment occurs, that is mainly with the department of —

Ms McGowan: Infrastructure, transport, regional —

Ms Nolan: A commonwealth government department—DOTAR, I think it is commonly known as. The conversation in terms of the commonwealth's involvement in the project is that we provide regular updates; we brief both the department and Infrastructure Australia on a sort of needs basis but at least quarterly to every two months.

Ms McGowan: The actual department name is the Department of Infrastructure, Transport, Regional Development and Local Government, just for the record.

Mr A. KRSTICEVIC: So based on a briefing, have you got like a payment schedule worked out as well as part of that or is it —

Ms Nolan: It is just too early. We have to go through the bankable feasibility for OPR first, then update that, then look at the question of the time schedules, make sure that it actually dovetails to when the need is going to be there, do all that due diligence, and then the question of the payment schedule will probably be one of the last things that fall out of that analysis.

Mr A. KRSTICEVIC: In terms of those briefings, are they active? I suppose they are just relying on information you are supplying; they are not actually actively involved in that process of putting that information together.

Ms Nolan: They respond to us and they have their views as to how they want that investment vehicle to operate and the like, and we have had conversations regarding that. That is between the state and the commonwealth and we have had some quite good discussions, but we have not come to any landing; it is only officer-level discussion at the moment.

Ms R. SAFFIOTI: Back to the \$678 million figure—you said initially that it was an internal DPI figure or internal government figure.

Ms Nolan: That is my understanding; drawing on the information that had been provided through the request for tender process.

Ms R. SAFFIOTI: Okay, that is what I wanted to clarify. So OPR has some ownership or involvement in the development of that \$678 million? It was not a DPI figure and now we have gone out to OPR as a stand-alone?

Ms Nolan: The \$678 million was certainly drawn off the information provided with that request for tender process; yes.

Ms R. SAFFIOTI: Okay, so it was informed by that. The feasibility study currently being undertaken, is that going to be based on the new figure or the \$678 million figure?

Ms Nolan: Once we have the bankable feasibility study from OPR we will update our numbers; yes. That will not happen instantly; we will then go through our due diligence and our verification trying to make sure that we are getting good value for money and then we will update the numbers, as I mentioned earlier.

Ms R. SAFFIOTI: Okay.

Mr C.J. TALLENTIRE: Can I request by way of supplementary information a table showing each of the mines, the company's claimed million tonnes per annum export figure, the figure that the department has assessed as being a more realistic figure, and also whether each of those mines has environmental approval and whether it has company approved financing?

Ms Nolan: Can I just clarify: the Western Australian Department of State Development does not make any assessment of the mine resource. Remembering there are degrees of probability, what we will do for you is when you are looking for the sort of real foundation point you are looking at the highest level of probability for that mine resource potential. So what you are saying is: what is the proven and what is the probable? That is what we will provide for you.

Mr C.J. TALLENTIRE: Okay, but it worries me. Are you saying that you take it on face value what these companies tell you?

Ms Nolan: No, remember we mentioned that JORC—the acronym that we cannot remember what it really stands for—is basically a joint committee that looks at the geotech information. It is a specialist committee that gives its stamp to say that it is JORC-compliant, so there is an independent standard setting process. On top of that, the companies will have their other views about their probable mine reserves, as opposed to their proven mine reserves which are JORC-compliant.

Ms McGowan: Could I also add that some of the information, not all companies are publicly listed companies, hence some information has been provided from—in fact, in categorisations, some has been provided by the publicly listed companies, which is in the public arena; additional information

may have been provided by some of those companies, which supplements information in the public arena, on a confidential basis as part of planning the project; and then there is information that has been provided by some private companies out there on the basis that that is confidential, so we may need to caveat some of the way that table is presented.

Mr C.J. TALLENTIRE: We are being asked to invest \$678 million and you are saying that we cannot have all the information that justifies this investment.

Ms Nolan: No.

Ms McGowan: I think what I am actually pointing out is that there is a significant amount of information that is in the public arena already, particularly with the publicly listed companies, but as part of that overall fabric for the Mid West mining development, there is some information that has been provided by private companies to the department on the basis of their interest in the overall project that has been provided on the basis that it remains confidential.

Ms Nolan: But you actually made a good point; you do have to have reliable information to make your decisions and assessments. That is why we have tended to focus on that information in that table on page 15 that we gave to you because that is the best available and proven resource information. That is the assessment we are doing it on and that is why we have used the comment that there is upside from there but we are not providing any assessment of that and trying to build that in, though, from the broad economic analysis that we are trying to undertake, we are looking at what this scope is on that upside. That is where the two sets of numbers—they are not even two sets of numbers; they are based on range of probability of the resource capacity. So there is nothing untoward about it. When you go to a bank they will look at your proven reserves, and that is the thing that is important to us at this stage.

Mr C.J. TALLENTIRE: So that DOTAR committee, you will be able to provide that column —

Ms McGowan: The JORC-compliant —

Mr C.J. TALLENTIRE: — where there has been that assessment and you will be able to shape that into —

Ms Nolan: Proven reserves.

Mr C.J. TALLENTIRE: — proven reserves, environmentally approved reserves —

Ms Nolan: It might not be environmentally approved reserves —

Mr C.J. TALLENTIRE: Why not?

Ms Nolan: Because environmental approval relates to an area of ground; not the actual ore reserve that is in that ground. So what we will be able to do is provide whether the projects have environmental approval. So you may have a piece of ground, the super pit, for argument's sake, which may have environmental approval and you may have once thought it had a capacity of X but over time with improved resources, techniques et cetera, the capacity of that mine has drastically increased.

Mr C.J. TALLENTIRE: But if there is only 10 million tonnes worth of reserve that is going to get environmental approval and there is may be 90 million tonnes that is never going to get it, we should know that; we should not just be hearing that there is 100 million tonnes of reserve.

Ms Nolan: I just want to clarify: environmental approval does not relate to tonnage; it relates to area of land.

Mr C.J. TALLENTIRE: But you are telling me that we have these defined reserves; we can give estimates as to how many tonnes of resource are in those approved footprint areas.

Ms Nolan: Okay, yes.

The CHAIRMAN: Thank you, if you provide that by supplementary information, given there were some issues as to exactly what is covered, can you ensure that there is actually a definition of what is being provided, rather than just numbers?

Ms Nolan: Absolutely; yes. I think I understand the essence of your question.

Mr A. KRSTICEVIC: Just to clarify one point: the state government is putting \$330-odd million into this project but the project is a \$10.5 billion project, I am led to believe. Is that right? Is that the right figure?

Ms Nolan: Our maths suggests up to \$10 billion; the total project in terms of the mines and infrastructure is looking in that order of maybe —

Mr A. KRSTICEVIC: So based on that, close to \$10 billion will be private sector money and a small portion of that, obviously, will be state government money. So I am assuming, based on that, that the private sector would not be investing \$10 billion unless it had a pretty good belief that there was value in the project.

Ms Nolan: Yes, and that is where you get OPR's infrastructure provider doing due diligence on the mining companies; it will look at their JORC-compliant resource and the like before it will enter a contract with them because effectively those contracts will be longish term take or pay contracts. So that is where the relationship between the miners and the infrastructure provider become very intermeshed and that is where we have our chicken-and-egg problem sometimes.

[11.50 am]

Ms R. SAFFIOTI: Using that analysis, the value of some of these other ports must be massive.

The CHAIRMAN: Let us not get sidetracked. I have a final question about your measures of certainty in terms of the benchmark you are setting.

Ms Nolan: Sorry, I missed the first part.

The CHAIRMAN: Your levels of certainty on which you will be basing some key issues. We understand that Treasury is requiring this P90; that is, when they are asking for clearance on funding, they want to know there is a 90 per cent certainty that it will come in at that price or below. That is, they only want, in 10 per cent of cases, to see a blow-out on the nominated cost of the project. Is that something that you will be looking at when you reassess that \$678 million? Will the number you use be a P90 number with that high level of certainty?

Ms Nolan: We would be looking to achieve that, yes.

The CHAIRMAN: Secondly, in terms of the timing, given that we have seen considerable slippage already, what level of certainty do you have around commencing in mid-2011?

Ms Nolan: We will probably be more certain of some of those timing requirements once we get the bankable feasibility, but in terms of where we anticipate the 2014 start, our time line suggests that that is still a feasible start date.

Ms R. SAFFIOTI: Did you mean 2011?

Ms Nolan: Sorry, I meant the 2014 completion date.

Ms R. SAFFIOTI: You did what I did.

Ms Nolan: Oops—2014 completion; thank you for the correction.

Ms R. SAFFIOTI: As in the P90 figure, let us call it, or the new figure, will that be submitted as part of this budget process? Is that your understanding?

Ms Nolan: It may be too early. I do not know the cut-off date for the budget process at the moment, because, as we have said, we are using 31 March. We will have to see what we get from OPR. Then

we have to do our due diligence and our review of that information, so it is probably a bit early for this budget round.

Ms R. SAFFIOTI: A bit late for the budget.

Ms Nolan: Yes, the budget is too early. It depends on your scope of life.

The CHAIRMAN: Can I thank you both very much for your time and the information provided to the committee. I have short formalities I am required to complete at the close of the meeting.

The transcript of this hearing will be forwarded to you for correction of minor errors. Please make these corrections and return the transcript within 10 days of receipt. If the transcript is not returned within this period it will be deemed to be correct. New material cannot be introduced via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include supplementary submissions for the committee's consideration when you return your corrected transcript of evidence. Also, at that time, if you could return the additional information that you have undertaken to give; and, also, we asked for the SDA on the same basis, so if you would return that to us, or let us know if there is some problem with that.

Ms Nolan: Thank you very much for the opportunity to talk to you.

Hearing concluded at 11.52 am