



Government of **Western Australia**
Department of **State Development**

Your Ref: A240739
Our Ref: S1042/200901



Hon John Kobelke MLA
Chairman
Public Accounts Committee
Parliament House
PERTH WA 6000

Dear Mr Kobelke

ADDITIONAL INFORMATION REGARDING THE RAVENSTHORPE NICKEL OPERATION

I refer to your letter dated 11 August 2010, addressed to the Department of State Development concerning the above. The Department provides the following response to the Committee's questions.

1. *What indication, if any, did BHP Billiton give to the government of the likely outcome of its own investment decision should the government not provide the requested infrastructure?*

The Memorandum of Understanding (MOU) between the State Government, BHP Billiton and the Federal Government was signed in October 2004, six months after BHP Billiton made its Financial Investment Decision (FID) in March 2004. BHP Billiton made its decision without any guarantee of a Federal contribution toward the multi-user infrastructure package.

State Cabinet provided in-principle support to provide assistance in late 2000 and in October 2001 the State Government allocated \$18.4 million to the \$55 million multi-user infrastructure (MUI) package subject to:

- \$400,000 being spent on studies and programs prior to project go-ahead being announced;
- the project going ahead with a locally based workforce; and
- the balance of the funding (\$36.6 million) be provided by the company and the Australian Government.

The early conditional support by the State set the agenda for government agencies and other stakeholders to plan ahead with confidence.

The decision by the State Government to allocate the funding to the MUI package was made prior to the company completing its initial feasibility study. BHP Billiton's final commitment to the project in March 2004 was made prior to Government making a final commitment to the MUI package.

The schedule of decisions for the Ravensthorpe Nickel Operation (RNO) indicates that BHP Billiton's decision to commit to the project was not contingent upon Government commitment to infrastructure funding. The Department does not have any documentary evidence from BHP Billiton stating that it would not proceed with the RNO if support from Government was not forthcoming.

2. *What analysis, if any, was done to ascertain the measure of the project's viability and life span dependent on movements in nickel prices?*

The Government planned its contributions to the MUI on the basis that the project was economically viable. BHP Billiton conducted its Front End Engineering and Design Stage studies between April 2000 and August 2001 and signalled the project's viability by committing to full scale pilot testing in August 2001.

With FID reached in March 2003, BHP Billiton confirmed its confidence in the economic viability of the project over the long term.

The FID was taken at a time when the price of nickel was substantially lower than the lowest price reached during the Global Financial Crisis (GFC). For considerable periods during the 10 years prior to the RNO FID, the price of nickel was less than half of the lowest price reached during the GFC.

I trust that this response satisfactorily answers your questions.

Yours sincerely



Anne Nolan
DIRECTOR GENERAL

13 August 2010