

PUBLIC ACCOUNTS COMMITTEE

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

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
WEDNESDAY, 16 JUNE 2010**

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 10.20 am**McGOWAN, MS GAIL****Deputy Director General, State Initiatives, Department of State Development,
examined:****BROWN, MS GEMMA****Senior Project Manager, Department of State Development,
examined:**

The CHAIRMAN: On behalf of the Public Accounts Committee, I would like to thank you for coming forward to present evidence to the committee. Your appearance before us today is appreciated. The purpose of this hearing is to assist the committee in gathering evidence for its inquiry into project planning and funding applications for major Western Australian infrastructure projects. You have been provided with a copy of the committee's specific terms of reference. I have already introduced you to the members of the Public Accounts Committee.

The Public Accounts Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of Parliament. This is a public hearing and Hansard will be making a transcript of the proceedings for the public record. If you refer to any documents during your evidence, it would assist Hansard if you could provide the full title for the record. Before we proceed with the questions that we have for you today, I need to ask you a series of questions. Have you completed the "Details of Witness" form?

The Witnesses: Yes.

The CHAIRMAN: Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read the information for witnesses briefing sheet provided with the "Details of Witness" form today?

The Witnesses: Yes.

The CHAIRMAN: Do you have any questions in relation to being witnesses at today's hearing?

The Witnesses: No.

The CHAIRMAN: Thank you for the letter that you already sent us. Together with the information that you provide today, your submission will form part of the evidence to this inquiry and may be made public. Are there any amendments to that letter?

Ms McGowan: No.

The CHAIRMAN: Do you have any questions or a formal presentation that you would like to start off with today?

Ms McGowan: We do have a brief presentation that goes over some of the background that was covered in the letter.

The CHAIRMAN: That would be great. I hand over to you, Ms McGowan, to open the proceedings.

Ms McGowan: As we indicated in the letter that was sent in response to your invitation to appear, we are at a very preliminary stage of planning for this particular project. It is very early days. That is primarily because our focus to date has been on delivering a raft of other major projects. The information I have for you today is very, very early. With that in mind, by way of background to the project, the state government made an election commitment to construct a gas pipeline from Bunbury to Albany at a distance of about 320 kilometres, with a proposed route via Bridgetown and Manjimup, primarily using existing road reserves. At this stage we still have to undertake stakeholder negotiations, do market assessment and obviously concentrate on design and the approvals required. That is expected to take some time. The estimated cost of the pipeline, as estimated in the election commitment, was around \$225 million for a joint venture or privately constructed pipeline. The work that we alluded to in our letter to the committee indicated that the preparatory work that we need to undertake will include exploring potential market demand from a number of fronts—residential, commercial, industrial and potentially foundation customers. That work is yet to be done. Clearly, there are a number of policy considerations and substantive work is yet to be completed as well, which relates to the town gas reticulation questions, issues around appliance replacement, if necessary, and the regulation regime from an economic perspective, and obviously the cost implication, both construction costs and what that might mean in terms of the supply of gas to those regions.

The early focus of our work will be very much about the pipeline route. While the commitment indicated a proposed route, that is yet to be tested. The actual route of the pipeline will need further consideration, primarily looking at the route that has already been outlined in a number of studies. Funding for the corridor establishment has been budgeted but that is only for corridor establishment and that is over the target time frame of \$10 million in 2011–12 and \$10 million in 2012–13. That money is in the budget of the Department of Regional Development and Lands as that agency will be primarily responsible for land acquisition and route planning. The Department of State Development will be the lead agency, particularly with the procurement strategy. Our role will be very much liaising with the other agencies to determine which options and what outcome will be best. The other agencies involved will be the Department of Regional Development and Lands, as I indicated, for the land acquisition and route planning; the Office of Energy, primarily around a lot of the policy issues; the Great Southern Development Commission and the South West Development Commission in terms of some of the market demand issues and looking at potential users; and clearly the energy safety division of the Department of Commerce will be involved. Effectively, as I said, it is very, very early days. Over the coming months we will be putting more intensive effort into some of that planning work.

The CHAIRMAN: Thank you for leading us into the topic with that presentation. I will say something to advise you of how this potentially fits into the work of the committee. You are aware of the terms of reference, which looks to the robustness of project planning and assessment processes. We have looked at a number of projects. Some of those projects are fully completed, so we are looking retrospectively. The advantage I see in this project is that it is in the very, very early stages. Therefore, we have the full range of projects from those just starting through to those completed. I therefore appreciate that a lot of the details around this project are yet to be defined. It would be helpful if you could give us some idea of the time lines of various aspects of the project. You mentioned the budget for establishing the actual route. Because there are years attached to that—that is, 2011–12 and 2012–13, when would you have a date for finalisation of the route, or is that time not critical compared with other aspects of the project?

Ms McGowan: The finalisation of the route or that early plan will depend on stakeholder consultations. We anticipate at this stage that early in 2011 we would have done the initial scoping of the corridor but the planning will take a little longer than that. As far as getting to a stage where

we are ready for construction, we would be looking at three or four years out because of the time that it would take to acquire the land and get the relevant approvals.

The CHAIRMAN: Is it not likely to start before 2014 or 2015?

Ms McGowan: At this stage we would not anticipate that. In response to your question about project planning, one of the things we have endeavoured to do at State Development is bring a greater robustness to project planning. We have invested quite heavily in bringing the organisation much more into line with contemporary thinking in terms of planning. For instance, we are currently training most of our staff in PRINCE2 methodology et cetera. Part of our approach to this is to scope out our project plan and do a lot of that work rather than leaping in and working backwards.

The CHAIRMAN: To what extent can you look at what has to have precedence over other parts of the project so it all fits together?

Ms McGowan: Because we are doing the very early stages, we set out to establish the commercial and other principles that we will be operating for the project and policy objectives. We will then scope out the various elements of the project, including those bits related to the sequencing of the stakeholder consultation and establishing market demand. I am not saying that these are in particular order; these are just the jobs that have to be done at this stage. We will also look at the time taken to acquire or identify the relevant approvals required to acquire land as necessary and then set about with the environmental and other approvals that are required. Using existing road reserves is obviously part of that scoping exercise.

[10.30 am]

The CHAIRMAN: Do you have a date by which you expect to have established the principles and outcomes?

Ms McGowan: We do not at this stage because we have not done that work at this point.

The CHAIRMAN: What about the dates for initiating and completing the scoping study?

Ms McGowan: From a departmental perspective, we are aiming to have those elements of the project scoped out by the end of this year or very early 2011.

The CHAIRMAN: Is there a budget for that or is the department meeting that cost?

Ms McGowan: The department will meet that cost.

The CHAIRMAN: Will that be done in-house or will you have to engage consultants to do that?

Ms McGowan: It will primarily be done in-house but we may engage technical expertise where required. Clearly, that will be a matter of determining within the interagency group what skills we have within the existing agency structures within government and where we might need external expertise, but we would anticipate meeting those costs out of our existing budget.

The CHAIRMAN: I come back to something we just spoke about and that you responded to. I am a little surprised at how the possible outcomes at the current level are determined.

Ms McGowan: Sorry?

The CHAIRMAN: You do not even have principles and outcomes at a high generalised level as to what you would get from a gas pipeline to Albany.

Ms McGowan: That is very much in line with the election commitment of providing householders and businesses in the region with access to gas. The idea of having an integrated gas network, obviously at the strategic level, has been identified by government. At this point we have not carried out a formal identification and a formal project plan for that work.

The CHAIRMAN: Just going back to those broad principles, clearly, providing energy to consumers, whether they be residential or business, is important but we are not going to be gifting

energy to people. I would have thought there would at least be some preliminary assessment of the net cost of gas at a residential or commercial level, without nominating a major project, as to whether you need a major project to really make the whole thing stack up.

Ms McGowan: The preliminary work that we will do over the coming months is pretty much geared around establishing the cost-benefit analysis as part of that project. That clearly is very much part of determining to what degree the project is viable, whether a joint venture or a privately funded pipeline will be the appropriate way to go, whether any degree of subsidisation is required and what return on investment et cetera will be required in the long term. That is very much what we intend to do over the coming months.

The CHAIRMAN: Just making sure I am clear on that, you hope to do this scoping study in the first half of 2011. Is that correct?

Ms McGowan: That is right.

The CHAIRMAN: That will have a cost benefit analysis, even if it is only a rough one.

Ms McGowan: Absolutely.

Ms R. SAFFIOTI: With respect to the study, will a minimum demand level be developed; for example, the minimum market demand needed to make a project viable?

Ms McGowan: We have not done the work on that at this stage, as we would ordinarily do in any benefit analysis. We would expect to undertake some of that work and put minimum thresholds. Ultimately, the basis for proceeding will be a policy decision for government.

Ms R. SAFFIOTI: That would impact on whether there is a subsidy. If the current market projections show there is not demand, whether to subsidise is a policy question.

Ms McGowan: That would be a policy matter for the government to determine.

Ms R. SAFFIOTI: Will consideration be given in the analysis to the existing Dampier to Bunbury pipeline and its capacity issues? I notice it has gone through another expansion. I have been dealing with those people with easements in the Swan Valley so I know a lot about the pipeline expansion. Will your analysis also look at the impact of creating demand in the south and the impact on the existing pipeline and possible expansions?

Ms McGowan: I would expect it to because we are looking at the overall integrated network and how it might relate. That would be a component of what we would look at. Some of that work has been done in previous studies and previous work. Over the years there have been various analyses of work to extend the pipeline network. At this stage we would take those into account and where we needed additional information, we would source that.

Ms R. SAFFIOTI: It is a quite interesting and complex argument with respect to the impact of greater demand on the existing pipeline that is not owned by government—it is owned by the private sector—and what triggers them to have to expand and what is their time frame. That would all feed into your own analysis.

Ms McGowan: I would expect it to at this stage but, as I said, we have not fully scoped it out.

Mr C.J. TALLENTIRE: Could you comment on how this project development work fits in with Minister Collier's strategic energy initiative?

Ms McGowan: We will be working closely with the Office of Energy, which is leading the strategic energy initiative, and we are involved in that. Any work that is done as part of this exercise will have to be considered in tandem with that. We are in the process of convening some interagency meetings or a working group of various agencies, and that will allow us to look at how those linkages work.

Mr C.J. TALLENTIRE: Given that that initiative is at a fairly high level, I suppose it is possible that it may determine that other energy reserves, possibly coal, possibly renewables, would be more appropriate for the Albany region. Could this be a case of putting the cart before the horse?

Ms McGowan: It is a matter of us as the Department of State Development assessing the various options and presenting that information to government for government to make a policy decision on what option it chooses to go with.

Mr C.J. TALLENTIRE: If you are engaging in these studies, how will you ensure that you will be in touch with commercial organisations? How will you protect against them becoming so engaged and committed to the project that you will be locked into doing something that the strategic energy initiative may find is not needed?

Ms McGowan: Managing expectations of the various stakeholders has to be factored into any work that any government agency does. Clearly, we deal with significant organisations routinely as part of our business as well as with stakeholder groups. The only way we can do that is to ensure we can be clear on the broad directions of government at the same time as being clear when we are assessing options and gathering information.

Mr C.J. TALLENTIRE: What sort of indications do you have of growth in energy demand in the Albany region? Do you have some good information on that?

Ms McGowan: We are yet to fully engage with the development commissions but they are in fairly constant contact with companies in their respective areas. We will be tapping into that information. Clearly, we are broadly aware of a number of reasonably large projects but we are yet to do that work.

Mr C.J. TALLENTIRE: Do you have any indication of why gas would be the fuel of preference for those projects?

Ms McGowan: At this stage because we have not engaged with them, we have not dealt with that.

The CHAIRMAN: Can I just come back to something you said to Chris Tallentire—that there were interagency committees.

Ms McGowan: There are planning to be. What we would ordinarily do and what we plan to do is to establish a working group of the relevant government agencies. Under the government's lead agency framework, one agency in these sorts of projects takes the lead. In this case, that will be state development. We then play the role of facilitating and coordinating other government agencies. We tend to establish high-level working groups and, if necessary, technical groups sitting under there. We do have a unified government view.

The CHAIRMAN: Is this working towards developing the scoping study?

Ms McGowan: Yes, it is part of the scoping exercise.

[10.40 am]

The CHAIRMAN: I just want to clarify that. The question was conjunctive with the discussion on the strategic energy initiative. Are committees already working on that?

Ms McGowan: An across-government group is already working on the strategic energy initiative, and Department of State Development is involved.

The CHAIRMAN: One issue that we are keen to pursue is how we present our case to improve the percentage of commonwealth government funding that we can get. Can you indicate whether any thought has been given to whether commonwealth funding might be available for this pipeline; and, if so, what road would you have to go down to maximise our chance of getting commonwealth funding to assist?

Ms McGowan: We certainly have not included it at this stage on any of our submissions to Infrastructure Australia, for instance, which is the primary source of funding, or at least of establishing priorities for projects. We are yet to engage in discussions with the commonwealth on that matter. However, in a general sense, in answer to your question, the Department of State Development coordinates proposals across the WA government for the Infrastructure Australia submission process. It has quite clear guidelines that I think we detailed in our previous submissions to this committee. If the government decided to nominate this project as a result of our recommendation, we would follow that, which again is primarily based on doing an analysis of the benefits.

The CHAIRMAN: Knowing the current commonwealth guidelines for funding under Infrastructure Australia, would you be hopeful that this project might stack up and meet those guidelines?

Ms McGowan: It is probably too early to say at this stage. We would always be looking for opportunities to obtain commonwealth funding where it is reasonable to do so.

The CHAIRMAN: In which year was the figure of \$225 million based?

Ms McGowan: I do not know. That figure was nominated in the election commitment and no further analysis has been done on that costing.

The CHAIRMAN: Has there been no updating of what the current dollar costs might be?

Ms McGowan: No.

Ms R. SAFFIOTI: Will that new costing be undertaken as part of the cost benefit analysis?

Ms McGowan: Once we establish the pipeline route, I anticipate the indicative costings will be worked on.

The CHAIRMAN: That will possibly not be until 2013 or 2014.

Ms McGowan: Once we have done some scoping, we expect to have some indicative costs but we have not done that work at this stage.

The CHAIRMAN: Are there any other comments you would like to make or clarifications or additions?

Ms McGowan: No, thank you.

Mr J.M. FRANCIS: I do not know Albany that well, and I am trying to visualise the route. I want to find out more about the potential consumers. What percentage of business will be domestic? There was a note made of replacement of domestic equipment because of the pressures and the types of gas. Roughly how many householders will benefit from this? I would like a bit more detail on the end consumer.

Ms McGowan: They will be the things we establish as we go through the scoping. We literally have not done that work at this stage. The broad objective and the rationale for undertaking the pipeline is to encourage value adding and to promote further industry growth in the region. The domestic market will obviously be driven by some of that industry and commercial demand, and that is what we will need to establish.

Mr C.J. TALLENTIRE: We know that coal generation can provide electricity at the rate of about 3c per kilowatt hour. The ongoing cost of wind energy is around 4c per kilowatt hour. Can you give us some sort of comparative figure that translates in terms of kilojoules so a clear comparison can be made between the cost factor that alternatives will have versus what you are proposing?

Ms McGowan: At this point we will need to scope that out. We have not done the work.

Mr C.J. TALLENTIRE: Surely that is critical to the viability of the project.

Ms McGowan: I expect it to be.

The CHAIRMAN: I thought of another question while that discussion was going on. A few years ago planning was done to enhance the electricity supply into that bottom part of the Great Southern, particularly if the magnetite mine went ahead. Is that on hold or is work being done?

Ms McGowan: There has been ongoing work around various energy needs and energy drivers in the region. We need to capture that information and update it rather than reinvent a lot of that work.

The CHAIRMAN: The point of my question is: has that progressed at all in terms of meeting demand? You would not want decisions made under the guise of another agency to spend a large amount of money to enhance supply of generated electricity into the region, which would potentially undercut expenditure on a gas pipeline, without the whole picture being taken into consideration.

Ms McGowan: My understanding is that there has been some progress in the transmission line to the Southdown magnetite mine. That information would have to be factored into how advanced those plans are and where they are at.

The CHAIRMAN: What are the department's views on the current likelihood of that magnetite mine going ahead?

Ms McGowan: The magnetite mine is proceeding quite well. The latest update I have on that is that it is targeting a 2013 start-up with about 6.6 million tonnes of magnetite concentrate per annum being sent by slurry pipeline from Southdown to Albany for pelletising and then to Malaysia. At this stage we understand that they have been looking at a transmission line for their energy needs in the absence of any other alternatives.

The CHAIRMAN: Given the time line for your scoping study and proving up the pathway for the pipeline, that would be irrelevant to the magnetite mine, which will have a large energy demand.

Ms McGowan: That is something we will have to look at. At this stage the timing looks as though the magnetite mine is proceeding in advance of any gas pipeline.

The CHAIRMAN: The point being that the supply of energy for the magnetite mine and processing could not be met through the gas pipeline because the time line is just beyond it.

Ms McGowan: It appears so but we will have to check that.

Mr C.J. TALLENTIRE: Touching on magnetite mines, can you tell us if that 6.6 million tonne is a JORC guaranteed reserve?

Ms McGowan: I cannot. I do not have that with me. I am assuming if they are looking to start up with that, they have got their JORC compliance. That is an assumption only.

Mr C.J. TALLENTIRE: We had this discussion before and you were not able to say what JORC stands for, and you were not able to tell us the level of JORC and make that distinction. It is a critical point. There are various levels. If you are just on the basic level of JORC compliance, that is not really good enough to be supporting a project.

Ms McGowan: From an industry point of view, if they have progressed to this stage, they have a confirmed resource at that level.

Mr C.J. TALLENTIRE: Can you tell me what JORC stands for?

Ms McGowan: I did not do my homework on that.

The CHAIRMAN: Thank you for your evidence before the committee today. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added 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 a supplementary

submission for the committee's consideration when you return your corrected transcript of evidence. Thank you very much again.

Ms McGowan: Thank you.

Hearing concluded at 10.49 am