

STANDING COMMITTEE ON LEGISLATION

PILBARA PORT ASSETS (DISPOSAL) BILL 2015

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 18 MAY 2016**

Members

Hon Robyn McSweeney (Chair)
Hon Ken Baston
Hon Dave Grills
Hon Robin Chapple (substituted member)
Hon Ken Travers (substituted member)

Hearing commenced at 9.10 am**Mr ROGER JOHNSTON****Chief Executive Officer, Pilbara Ports Authority, sworn and examined:****Mr NICHOLAS SARANDOPOULOS****General Manager, Finance and ICT, Pilbara Ports Authority, sworn and examined:**

The CHAIR: On behalf of the committee, I would like to welcome you to the meeting. Before we begin, I must ask you to take either the oath or affirmation.

[Witnesses took the oath.]

The CHAIR: You will have both signed a document entitled, “Information for Witnesses”. Have you both read and understood that document?

The Witnesses: Yes.

The CHAIR: These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you refer to during the course of this hearing for the record, and please be aware of the microphones and try to talk into them. Ensure that you do not cover them with papers or make noise near them and please try to speak in turn. I remind you that your transcript will become a matter for the public record. If, for some reason, you wish to make a confidential statement during today’s proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that publication or disclosure of the uncorrected transcript of evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

Would you like to make an opening statement to the committee?

Mr Johnston: We put in a submission on the basis that we wanted to try and capture, I suppose, the history of the facility from multiple different aspects—the way we had engaged and developed the actual throughput capacity of the facility, the maintenance and maintenance practices, issues around the environment and how we have gone about taking care of those, the financial performance and throughput and so on. Our intention was just to try and present that as a reference point of the facts as we understand them around the facility.

The CHAIR: So do you want to add anything else to your submission? Would you like us to fire questions at you?

Mr Johnston: We are happy to take questions.

The CHAIR: Thank you. Is the \$225 million in the PPA’s cash account earmarked for any future investment or purpose? That comes from the transcript that the committee had last week. We asked about the \$225 million in cash that is sitting on the PPA’s balance sheet.

Mr Johnston: The current cash holdings?

Mr Sarandopoulos: Yes. In relation to current cash holdings, we do have PIR projects that we will be investing in. So the \$225 million represents the total cash holding and that is earmarked for PIR projects specifically. In addition to that, we have funds set aside for Wheatstone development works. Once again, that is set aside specifically. At the end of April we returned just on \$3 million

for royalties for regions funds, so those funds have been returned. The residual, which is about \$146 million, is expected at 30 June and will remain with PPA.

Hon ROBIN CHAPPLE: What was that final figure again?

Mr Sarandopoulos: I believe it is around the \$140 million mark.

Hon KEN TRAVERS: That is after you have made allocation for Wheatstone and the PIR projects?

Mr Sarandopoulos: That is correct.

Hon KEN TRAVERS: Are the PIR projects purely related to the cash that has been collected through the equipment?

Mr Sarandopoulos: That is correct. Those PIR funds are quarantined. They are separately accounted for. They are audited independently and they are effectively a swept allocation of funds as per collection.

Hon KEN TRAVERS: So is the \$146 million currently allocated for any purpose?

Mr Johnston: We do not have a specific project allocation for that money.

Hon ROBIN CHAPPLE: So is the outer harbour development, which was being proposed, not happening now?

Mr Johnston: It is in our long-term development plan, the provision for others to build in the outer harbour. In our long-term development plan we have the development of Lumsden; for argument's sake, that would cost in the order of \$400 million. So in the longer term, we do have long-term plans but none of the cash that we have allocated has actually been put towards that or approved for those projects to go ahead.

Hon KEN TRAVERS: I am intrigued. Obviously, this all goes to the amount and the cost of the Utah Point facility but, according to your annual report last year, the interest you received on your cash assets was about \$8.3 million on the \$225 million, but the interest you paid on your borrowings of \$199 million was about \$12 million, so quite a significant difference. Why would you not use your cash to pay down your debt and save yourself about \$4 million a year that could be passed onto users in light of requirements to make a reasonable profit but try to facilitate trade?

Mr Sarandopoulos: In relation to those loans, within our outstanding loan balance we do have another loan related to Dampier, which is a bulk liquids berth. The rate of interest on that loan is significantly higher than the rate that we would get on deposits or on interest-bearing available funds. That interest and that loan cannot be repaid and extinguished. We have done an analysis of paying that loan out and it is not advantageous for us to do so because of the payout penalties on that balance.

Hon KEN TRAVERS: Which loan is that for?

Mr Sarandopoulos: A bulk liquids berth loan.

Hon KEN TRAVERS: What is the value of that?

Mr Sarandopoulos: I do not have that number in front of me but it is in excess of \$40 to \$50 million. It is a significant loan balance.

Hon KEN TRAVERS: I think in your annual report, without quickly going to it, the payout cost of your loans was about \$234 million or something of that order. Is that about right?

Mr Sarandopoulos: Yes.

Hon KEN TRAVERS: So that additional \$10 million would be the cost of paying out that \$50 million loan, but what about the other loans through WA Treasury Corporation? Why would

you not pay those out using your cash, and a significant component of that would be the debt on Utah Point, would it not?

Mr Sarandopoulos: Yes, so that particular loan is earmarked to be paid out before 2020; it has a 10-year payment term. At the moment, the payments are \$20 million per annum. The interest rate on those loans is actually quite low and continues to come down because it is a variable loan balance. With the interest rates reducing in the present environment, that loan is a relatively cheap loan in that aspect.

[9.20 am]

Hon KEN TRAVERS: So where does the \$4 million difference between interest paid and interest earned come from? What is driving that 50 per cent difference in the interest earned and interest paid, considering you have more cash than borrowings?

Mr Sarandopoulos: We have retained the flexibility by not paying the loans. We are not required to pay the loans so we are sticking with the payment schedules on the loan balance for the existing loan.

Hon KEN TRAVERS: But if you used cash that had been generated through Utah Point to pay down the rate, would you not, first, reduce your risk on that facility, and, second, potentially allow for a reduction in the user fees? As you can imagine, even if it stays under government control, one of the big issues is the fees that you charge for the Utah Point facility. More importantly, if it is sold, which is the issue that we are looking at with the bill today, the government is clearly using the fee that is charged by the port authority as the starting point for setting fees going forward. So, getting the finances right and ensuring that the cost structure of that facility is right will very much be important in terms of determining what fees are charged going forward for the users. You can understand why we are interested in this area and why it strikes me that we are artificially keeping the price of Utah Point high so that the price for the sale of it can then be kept high.

Mr Sarandopoulos: I think the financing decision on the actual facility is separate to a pricing decision in terms of the actual asset itself and the loan balance. There is an \$80 million balloon payment that is required in the last year of that loan, so even if we go through \$20 million a year through to 2020, we still have a residual payment of \$80 million to make.

Hon KEN TRAVERS: Is that not effectively the interest of the loan? You are paying off the capital of each year and then you are paying off all the interest in the last year.

Mr Sarandopoulos: No, the way it has been structured is that there was a fixed and floating-type component for this loan. It is now in a more variable floating-type arrangement from an interest rate perspective. So, the capital payments early on in the facility were low and that was structured in a way to enable the facility to actually come online. There were other financing arrangements early on in the piece for this facility —

Hon KEN TRAVERS: That was the money that was provided by the future users?

Mr Sarandopoulos: Correct. So to maintain some flexibility, the loans were structured in such a way to more backend the loan repayments.

Hon KEN TRAVERS: Once it is, hopefully, up and running, but your pricing does not reflect that, though.

Mr Sarandopoulos: Pricing is altogether separate. It is not reflected on the financing structure of the asset.

Hon KEN TRAVERS: So what is it reflective of?

Mr Sarandopoulos: It was reflected on a pricing model that was struck back in 2012. We do not look at the existing loan balance today or tomorrow and make a pricing decision based on a loan

balance because how the loan is structured for paying back the WATC is a separate pricing arrangement.

Hon KEN TRAVERS: Are there penalties for paying out the loan with WATC early?

Mr Sarandopoulos: Yes there are in terms of the interest rate differential. With the existing rates, from memory, there is about a \$6.5 million penalty—I could be a little wrong on that number. It is a significant dollar value of us paying back, and that is really a net present value of the difference between the rates in the future versus the rates today.

Hon KEN TRAVERS: I assume that the Treasury Corporation has borrowed that money over the life of the loan and it is structured there so that you have to pay out what its cost structure is, otherwise it will be paying the interest and transfer it to other debt that the government is incurring on a daily basis.

Mr Sarandopoulos: Correct. So it is no different to paying out a residential mortgage early; you are up for that differential. It is not so much penalty but just a payout of that.

Hon KEN TRAVERS: If you have a fixed rate. If the asset is sold, would you not have to pay that out anyway? Will you pay that penalty when the asset is sold?

Mr Sarandopoulos: From my understanding, the intention of Treasury is to pay the loan out, and I think that that has been put on public record by the Treasurer.

Hon KEN TRAVERS: Otherwise it will be left with you without an asset to fund it; you would have to fund it through your other assets. On that basis, I assume that with the proceeds of the sale that that penalty will be incurred at that point.

Mr Sarandopoulos: Once again, that penalty will be dependent on the interest rates at the time and a calculation made at that point in time.

The CHAIR: What is your valuation of the Utah Point facilities now and how did you come to that figure?

Mr Sarandopoulos: The cost of the asset is presented in a paper—\$314.5 million.

Hon KEN TRAVERS: That is the cost of the asset, but is that what you currently value it at?

Hon ROBIN CHAPPLE: You said asset value of \$305 million.

Hon KEN TRAVERS: That was the cost of building the asset, but what do you currently hold the value of that asset as?

Mr Sarandopoulos: We have the written-down value in our books at over—say 30 June 2015, it was \$233 million.

The CHAIR: So that is what you value it at now?

Mr Sarandopoulos: That is the written-down value of the assets; it is not a valuation per se in the sense of a market value or an independent assessment of value, but a written-down value—just to be clear on that.

Hon KEN TRAVERS: Is that figure of \$233 million simply the original \$305 million less the depreciation for the four years since it opened?

Mr Sarandopoulos: Correct.

Hon KEN TRAVERS: What value do you use when you are calculating your return on assets?

Mr Sarandopoulos: The written-down value.

Hon KEN TRAVERS: So the \$233 million?

Mr Sarandopoulos: Correct.

Hon KEN TRAVERS: When you calculate the return on assets, you are including the \$70 million that was gifted to you by BHP and the \$50 million-odd that was provided by the users of the port as a contribution towards the construction of it.

Mr Sarandopoulos: Yes.

Hon KEN TRAVERS: Is that normal business practice?

Mr Sarandopoulos: Yes, it is absolutely normal business practice. When you look at the asset and balance sheet of organisations, it is the written-down value of the assets. Once again, the funding arrangement does not come into consideration when working out return on assets from a perspective of financial statement disclosure. All of our financial statements are subject to audit. Those numbers that we have put in our financial reports are subject to audit by KPMG on behalf of OAG, so the accounting standards are followed. That is standard practice following accounting standards.

Hon KEN TRAVERS: What depreciation model do you use?

Mr Sarandopoulos: Straight line.

Hon KEN TRAVERS: Again, is that normal for an asset of this nature?

Mr Sarandopoulos: Yes, it is.

Hon KEN TRAVERS: But are there potentially other depreciation models you could use? Certainly in the early years it is a new asset, so you would not normally expect it to have significant depreciation.

Mr Sarandopoulos: Yes; if I could just answer that. There are many different methods of calculating or amortising assets—diminishing value; straight line; an engineering-type methodology. Standard straight line is very common.

Hon KEN TRAVERS: Does that not effectively front-load your depreciation?

Mr Sarandopoulos: No, it does not. It amortises it at the same rate across all the years.

Hon KEN TRAVERS: But, in effect, it front-loads it so you get high depreciation when you actually do not have significant amounts of depreciation occurring on the asset, but you are then getting the cash as an organisation as a result of that depreciation. You are drawing cash out and then, as you were saying earlier, you have a balloon payment, so you have structured your loan so that you pay your loans back at the end, but you are getting high levels of depreciation early relative to some of the other models that you could have applied for depreciation.

[9.30 am]

Mr Sarandopoulos: The depreciation for all intents and purposes is equally distributed across the accounting period stage of the financial years. That is subject to variation where you acquire assets or you make obsolete some aspects of equipment et cetera, so there are variations. But by and large that is a flat equal amount of depreciation over the period of the asset. When you say front-load, it is not a front-loading; it is an equal distribution across all periods.

Hon KEN TRAVERS: I understand that.

Mr Sarandopoulos: From an operational perspective, with this particular asset the actual operational throughput was not equal in year one as it is today, so there is variation and throughput. In that respect, if you compare it based on revenue to depreciation, it is disproportionate, but to state that the depreciation is front-loaded is incorrect; it is equally distributed.

Hon KEN TRAVERS: No; I understand that you are taking the same amount of depreciation out every year, and so at the moment you have depreciated it by \$70 million-odd in the first four years, but the actual value of the asset at the moment would be about the same. I assume a chunk of that \$146 million would be the cash that you have kept when you do your accounts, because you have kept it as cash. Unlike a lot of government agencies that just hold it against book value, you have

actually maintained that cash rather than using that to pay down your debt at a point when the actual value of the asset has not—if you were to do a valuation using some of those other methods, the valuation may have remained fairly constant through that life because there has not been significant deterioration of the asset at this point because it is relatively new. What are your rates depreciating it over—is it 25 years or are there different components of the Utah Point facility?

Mr Sarandopoulos: No, there are different components, but by and large the bulk of it is over 25 years.

The CHAIR: When did the government make it clear to Pilbara Ports that it wanted to sell Utah? How long ago was that?

Mr Johnston: In my recollection, it was first mentioned under Minister Buswell. At the time, the chairman said to the minister that if that was going to be the position, we needed time to fix the facility, sort out the environmental aspects—the engineering aspects that we have sorted out. I suppose it must have come back around 12 or 18 months ago; I cannot remember exactly.

The CHAIR: It was quite a lead time. It says here that in the hearings there was a \$70 million gift from BHP. Was that in the development of Utah Point port?

Mr Johnston: Yes, there was a \$70 million contribution, but BHP also had a 6 million tonne throughput allocation as part of their requirements for that for a period of time.

The CHAIR: In the hearings, a lot of the junior miners are becoming very anxious that Utah Point port, if it is sold, perhaps may not be kept for junior miners and yet in the legislation there is going to be all sorts of barriers to make sure that, to the best of my knowledge, it will be kept for junior miners, except when the junior miners cannot get the tonnage needed, and then it will go out to other players. Have you had much to do with the legislation or have you left it to —

Mr Johnston: No. That whole legislation piece has been developed through Treasury at arm's length. They run all of that process.

Hon ROBIN CHAPPLE: I was interested in the six million tonne throughput you talked about as part of that BHP \$70 million. Can you explain that in more detail?

Mr Johnston: It was an allocation; it no longer applies.

Hon ROBIN CHAPPLE: But it was an allocation to BHP for that six million to go through Utah Point?

Mr Johnston: Correct.

Hon ROBIN CHAPPLE: And how was that going to be facilitated?

Mr Johnston: Sorry, it no longer applies.

Hon ROBIN CHAPPLE: No, when it did apply, how was it going to be facilitated?

Mr Johnston: That is theoretical, I suppose. They would have had tenements. They would have expected to be mined and trucked to Utah just the same as the other miners currently do.

Hon ROBIN CHAPPLE: Although it no longer applies, was it ever utilised?

Mr Johnston: No.

Hon ROBIN CHAPPLE: It was there as a stopgap in an emergency?

Mr Johnston: I do not know what BHP's thinking was. I did not negotiate the original deals at the time.

Hon ROBIN CHAPPLE: So the port authority negotiated the deals. Do you have any information around that that you could provide to us on notice?

Mr Johnston: Yes, we are happy to take that on notice. So you specifically want —

Hon ROBIN CHAPPLE: I am intrigued with this six million tonne throughput. It is an interesting component of the early part of that \$70 million gift. I would be intrigued to find out what that entailed.

The CHAIR: If you want that on notice, you need to be a bit more direct. You want the conditions of the \$70 million to get the six million tonnage throughput?

Hon ROBIN CHAPPLE: Yes, where the six million came from and why it was inexorably part of the \$70 million gift.

The CHAIR: Is that outside of the —

Hon ROBIN CHAPPLE: The \$70 million was a significant enabling fund for Utah Point, but I am intrigued that —

The CHAIR: You can put that on notice; that is fine.

Hon KEN TRAVERS: There was a six million tonne allocation to BHP but it never exercised that right, and that was time limited, was it?

Mr Johnston: It was.

Hon KEN TRAVERS: So the time they can do it has now expired, or is it still available to them?

Mr Johnston: No, it is not available to them.

Hon KEN TRAVERS: And there are no residual rights to use the facility as a result of that agreement?

Mr Johnston: No.

The CHAIR: Are take-or-pay contracts currently in place at Utah Point?

Mr Johnston: The more current arrangements, which we are finalising with MRL, have what I guess you might call soft take-or-pay arrangements. So MRL at the backend of last year sought to increase its allocation through Utah. In the course of the negotiation it acceded to half of that amount being on a basis of a take-or-pay. There is a force majeure around that take-or-pay that says that if it becomes uneconomic for them to ship it, then the force majeure applies and no take-or-pay applies. In other words, there is obviously a formula that if iron ore pricing was just so low they would not stop to lose money, then the force majeure applies. Atlas has something similar to that around stockyard 2. Those are the more recent developments.

Hon KEN TRAVERS: You said you were currently finalising. Are there new pricing arrangements and contracts being put in place?

Mr Johnston: We are attempting to do so, yes.

Hon KEN TRAVERS: And that will be prior to the sign?

Mr Johnston: Yes.

Hon KEN TRAVERS: The advice we have received to date has been that the starting point for pricing for the purchaser in terms of the pricing regime will be that the existing contracts will be honoured. The likelihood is that there will be new prices in place.

[9.40 am]

Mr Johnston: It is an extension of the current pricing regime, with some minor adjustments. For example, the trade-off with MRL is that given they now have provisioned a proportionate take-or-pay, things like spot pricing have fallen away or been neutralised. There was a trade-off there.

Hon KEN TRAVERS: Were you ever utilising the spot pricing arrangements anyway?

Mr Johnston: Yes; over the last number of years it has applied from time to time.

Hon KEN TRAVERS: On a regular basis? My understanding is that pretty much all of the throughput has been at the same fixed price. How often would the spot price have been applied?

Mr Johnston: I would have to go and look that up. If you do not mind, I will take that on notice.

Hon KEN TRAVERS: In terms of those sorts of issues around pricing and access—I think you talked about it a bit earlier—I just want to clarify: what role have you had in helping to draft the legislation and the regulations? Just generally in the first instance, but also more specifically around pricing and access regimes that should apply as the port authority for the legislation.

Mr Johnston: I would say none. Nick, you have been fronting that.

Mr Sarandopoulos: Yes, we certainly have been engaged. As I understand it, there are external advisers, secondary advisers, that have been assigned to that. Certainly the PPA has had some input. In terms of the current arrangements, we have provided all the necessary documentation through to ASU.

Hon KEN TRAVERS: ASU is the lead financial adviser?

Mr Sarandopoulos: No, that is the sales unit. We have provided information to the lead financial adviser as well. Whatever information has been required to understand the present situation, all that information has been provided.

Hon KEN TRAVERS: Has that been the role you have had—just simply to provide the information requested? Has there been no further discussion about the structure, using your knowledge and expertise on the port to have input into how the future pricing and access regime or sale should proceed, with those advisers?

Mr Johnston: It is just provision of information.

Mr Sarandopoulos: To the extent on that particular module, within other modules we have had more engagement, depending on which aspect of the sale process and the information has been required. For instance, on the accounting side, we have provided a lot more engagement, so provision of financial information and so forth. Access and pricing is more of an economics external adviser input to the LFAs, the lead financial advisers.

Mr Johnston: But we have not provided any positioning around actual pricing or pricing regimes, apart from just provision of information, specifically as to what the current status is.

Hon KEN TRAVERS: But the actual facility will still be an asset of the port authority post the privatisation, just leased to a private operator, will it not?

Mr Johnston: That is as we understand the structure to be, yes.

Hon KEN TRAVERS: So does the port authority not then have an interest in ensuring that any lease concurs with your obligations under the Port Authorities Act?

Mr Johnston: I do not think we have been given documentation to show how those leases would be structured and so on, but I would imagine that they are standard leases.

Hon KEN TRAVERS: But would not both leases be required to conform with the Port Authorities Act? I am not aware of anything in the bill before us that exempts the requirements of the Port Authorities Act, so you will still have an obligation to ensure the leases—will it not be the port authority that ultimately sells the assets, or do you expect that it will be by direction that you will sell the asset? You will sell it under the direction of the government, the formal direction of the minister?

Mr Johnston: I understand that we will be given a direction saying, “You need to sign these documents here.”

Hon KEN TRAVERS: So it will be the Treasurer's obligation to ensure that all the legal requirements for the port authority are met under the Port Authorities Act, not the port authority itself?

Mr Johnston: My understanding is that the direction would come through from the Treasury, yes.

The CHAIR: Yes, you still do have to comply with clause 18(4). If the minister responsible for the bill is to direct PPA under clause 18(1) of the bill to grant a lease of the Utah Point bulk handling facility, then unless that ministerial direction specifies otherwise, PPA would still be required to seek the approval of the Minister for Transport to grant the lease, so it is the Minister for Transport.

Hon KEN TRAVERS: In terms of the accounting module, you were saying you had a greater input to that. What does that mean?

Mr Sarandopoulos: So, for instance, all the information that is required as part of the information memorandum process—the provision of that information, the review of that information, the construct of all of that, the review of the drafting of the vendor due diligence documentation and so forth. It is quite an iterative-type process.

The CHAIR: What is the source for the 12 per cent return on assets target? The rate of return is around 20 per cent, according to your statement of corporate intent, but everyone who comes before us talks about the 12 per cent return on assets target.

Mr Johnston: That goes back to 2012 when, I believe, that was the rate of return provided through to our then CFO as to the way we should calculate our pricing back then.

Hon KEN BASTON: I just want to follow up on that return on the assets. If this sale goes ahead, does it leave a large chunk in the port authority overall as part of your income?

Mr Johnston: Sorry, can you just repeat the question?

Hon KEN BASTON: If that port is sold, Utah Point is sold—bearing in mind that we have figures here from 12 per cent expected return to getting a return of, say, 20 per cent—have you done the figures to work out how that will affect the port authority's overall income by not having that in government hands and having it privatised?

Mr Johnston: Off last year's figures, I think Utah's contribution to revenue was about \$146 million and our total revenues were in the order of \$495 million. That is the revenue, and our profitability is quite complex. For example, last year in our profitability we had a significant amount of money that was gifted assets. We have the PIR taken into account, which you need to extract. We have leases on our industrial land, which is in the order of \$31 million or \$32 million, then you have your profitability of your berths 1, 2 and 3, obviously Utah itself, and then off your actual shipping, so it is made up of quite a large number of different components. I think the profitability of Utah last year—yes, if you just want to give us a few numbers there.

Mr Sarandopoulos: In relation to a PPA ex-Utah, if you are looking at last financial year, the revenue would have been around the \$250 million mark.

Mr Johnston: That is not correct.

Mr Sarandopoulos: Sorry; in terms of the profit number, it would have been in excess of \$100 million still, after splitting Utah, so the return on assets that have been published for the amalgamated entity would certainly reduce.

[9.50 am]

Hon KEN TRAVERS: I am still unclear. The return on assets figure that you use, is that for the overall, the total port, but what is the return on assets for the Utah Point facility itself?

Mr Sarandopoulos: The return on assets for the entire PPA is as per our annual report. If you look at the return on asset for the actual Utah facility in isolation, that return for the last financial year is

just under 30 per cent and I think that the Houston Kemp report and the Incenta report refer to those historic returns. They also calculate the internal rate of return on the facility as well. I note that there is a slight variation between the Incenta and the Houston Kemp, which are independent assessments, but they by and large accord with where we were at as well; they are not too dissimilar in terms of their assessment of the return.

Hon KEN TRAVERS: But surely any return on assets for Utah Point that is over and above 12 per cent should be applied to paying down the debt to reduce the risk for that facility, should it not?

Mr Sarandopoulos: There is no instruction that a return in excess of the weighted average cost to capital of 12 per cent, the actual target, is to go to a financing-type arrangement.

Hon KEN TRAVERS: So what do you consider section 30(2)(aa) of the act means? It says that you can make a profit but only to cover the costs of your assets and a very reasonable profit which has been set by the government at 12 per cent. That is your legislated requirement. Beyond that, you are supposed to be facilitating trade, not making profit. So if you are making an excessive return on assets above 12 per cent, surely the only way you could justify that is if you are using it to de-risk the project to pay down the debt so that you can then reduce your ongoing fees in future. You do not need a direction to do that; that is your legislative obligations.

Mr Sarandopoulos: The risk in this project is not the actual carrying value of the asset, it is actually the asset itself, so in terms of the financing, once again, it is a separate discussion to a pricing discussion. The weighted average cost to capital and the return on the asset is, once again, reflected on risk, so the position that PPA faces today could be a very different proposition because of the fundamental contracts that have existed within the PPA, ex PHPA at the time. So any return that has been earned will eventually have to pay off the loan balance, so there is a funding financing-type element to it, but the actual pay down of any return in excess of 12 per cent at present does not de-risk the fundamental asset itself.

Mr Johnston: By way of example, when Atlas stopped trading in April last year, we faced the prospect of running on negative returns. You cannot simply shut the facility down because you have obligations to other shippers as well.

Hon KEN TRAVERS: But surely the biggest risk is the fact that if it stops any throughput, you still have your debts to pay, but if you clear your debts, the risk is negligible because if you are not putting throughput, you do not have costs. You are not getting revenue, but your expenditure would reduce significantly. There might be some care and maintenance costs involved and there may be, depending on your staff arrangements, some surplus staff that you would need to make provision for, but I would have thought that that is negligible relative to the big risk, which is the carrying cost and the loans that you have and the interest that you have to pay on that if you are not getting throughput. So de-risking it is very much about paying down the debt, I would have thought.

Mr Sarandopoulos: I would say that it would be a risky proposition if we had \$5 million in the bank and we did not have provision to actually pay that balloon payment, so when we talk about the actual cash-at-bank balance, we have been prudent to provision it, effectively, although it is not a provision, but to have those funds there to actually facilitate that in due course.

Hon KEN TRAVERS: I understand you have been prudent as the port authority in making provisions and having cash at bank to maintain potentially both the interest costs and the ongoing holding costs of the asset, but the argument that is put to us by the government in terms of justifying the sale of the asset is that it sits within the books as a risk to the state and particularly focused around the debt issues. My reading of the Treasury submission is that it impacts on our AAA credit rating and because there is a high risk associated with the asset, what you are saying is that that risk is not substantial.

The CHAIR: Well, Treasury is Treasury.

Hon KEN TRAVERS: But that is the fundamental issue, because the port authority is operating in a prudent manner.

Mr Sarandopoulos: I cannot speak on behalf of Treasury.

Hon KEN TRAVERS: No, but I am trying to understand the disconnect between what you are telling us and what they are telling us. Do you see it as a high risk at the moment for you, as a port authority, carrying this asset?

Mr Johnston: In the current environment you would be saying that, you know, commodity pricing is a risk, and it could potentially lead to one or more of the shippers ceasing to ship, if iron ore pricing was to go and revisit the \$38 a tonne that it did some months ago. If you look at the HoustonKemp report, by way of example—it is a fairly thoughtful document—it articulates that the risk–reward equation is balanced the way that the facility is currently operated and priced, and so on. It also outlines that in years to come, we would have paid back that facility, even with the discount, in approximately two years' time, at which stage, of course, your risk–reward equation changes. When that equation changes, clearly it gives you the flexibility to change accordingly, so for us it is about balancing that. We think we have been prudent, but does it change going forward? That is a very real proposition.

Hon KEN TRAVERS: I understand from a port authority that you have been—for want of a better term—making hay while the sun shines. When commodity prices were high, the asset was new and you were charging a rate that recouped above the long-term average rate of return, when there was a clear process for doing it. Going back to, I think it was actually the Incenta report that was done a year earlier, referring to the summary that was provided by Treasury, not the report itself, it talks there about —

If throughput were to meet previous forecasts of around 20 million tonnes a year or further increase, the PPA would recover its investment early in the life of the assets and would earn a substantial excess rate of return. In these circumstances a substantial reduction in charges could be warranted within the next few years.

Mr Sarandopoulos: Yes, and it also highlights on that same summary that should those volumes not transpire, the risk is that the annual rate of return for the asset goes to negatives. It highlights that as a very, very real risk. On the one hand, it is highlighting a possibility, a scenario, but there is also very clearly articulated the second scenario, which is a very real scenario. On balance, in a summary of that report, it does state that the pricing methodology to date reflects the risk–return of the asset.

Hon KEN TRAVERS: But it clearly is saying that if you get the throughput that you have been getting for the last few years, and that continues, and I guess the question mark is—it talks about the next few years, and it was written over a year ago, so I assume it was based on the year before's financial returns, so we have had effectively two years, and I know that one of those has had the \$2.50 reduction in costs. There must be a point in the foreseeable future where you have actually achieved the throughput for costs, and you would be able to reduce the charges, and yet the pricing mechanism that is proposed is that the current pricing regime, with the \$2.50 put back in, continues forever and a day.

[10.00 am]

Mr Sarandopoulos: I think that Roger has articulated that. In two years' time, if the volumes were to be the same volumes—we are not saying contrary to the finding in the Incenta report or the HoustonKemp report—should the volumes continue to be as high as they have been, and if pricing was to not change, at some point in time the payback will have occurred. That is obvious, but what has been outlined is that the scenario is a constantly moving scenario. We are in constant discussion with the users of that facility and things change. The situation that occurred a financial year ago or

two financial years ago is no longer the case today, and it will not be the case tomorrow or next year. I do not think there is any dispute on that point.

Hon KEN TRAVERS: No, and I accept that there would be a natural tension between you as the owner of the asset as to when you think the payback period has been completed and the users of the asset. They would want it earlier, and yours would probably be a bit later than when they would say. But, clearly, we are not far away from reaching that point.

Mr Sarandopoulos: Well, as was outlined, we are two financial years away. We expect that point—should it be constant prices and throughput, et cetera, based on various assumptions, that could be as early as 2017–18, but if you look at some of the scenarios and modelling that have come through, based on future projected volumes from AME, that might be a lot further out. As is highlighted in the Incenta report, it only takes one event to occur to effectively knock that out well past 2019–20. You would not even get that payback within 10 years, because once that volume disappears —

Hon KEN TRAVERS: But you have already prudentially managed your accounts to have provisions that cover for some of those eventualities, with the cash that you have retained, the profits and the charges you have applied over the last three years.

Mr Sarandopoulos: Yes, but the cash that is in our bank does not represent solely the profits from Utah Point. It is the entire organisation.

Hon KEN TRAVERS: I am giving you a compliment, that you have actually managed those risks in the way in which you structured the pricing regime.

Mr Sarandopoulos: We have had to manage them. In the event that this scenario occurs, we are still obligated for the loan facilities.

Hon KEN TRAVERS: In terms of talking about going forward, budget paper No 3 that was recently released includes the expected revenue to government from the Pilbara ports going forward, and it shows that in 2015–16, you are going to provide \$152 million, but then going forward, in 2016–17, 2017–18 and 2018–19, that will increase to \$173 million, \$184 million and \$182 million. Is that increase from the \$150 million to the \$170 million and then the \$180 million predominantly related to the \$2.50 going back on for Utah Point, or is there some other driver of that jump in expected revenue to government going forward?

Mr Johnston: I think we have the \$2.50 back on.

Hon KEN TRAVERS: Is that what will drive the jump of between \$20 million and \$30 million in additional revenue to government over the next three years?

Mr Johnston: I think that is correct.

Mr Sarandopoulos: Are you specifically referring to a jump in the next financial year, 2017–18?

Hon KEN TRAVERS: In the budget papers, it shows that in 2015–16, you estimate that from income tax, local government rates and dividends, your contribution to government will be \$152.7 million, but for the 2016–17 year, that is going to increase to \$173 million, so about a \$20 million jump, and then in the two years after that, \$184 million and \$182 million, so, again, another \$10 million jump on top of that. What is the driver of those increases?

Mr Sarandopoulos: For next financial year, at 1 July, we have a discount coming off for PPA.

Hon KEN TRAVERS: And that is the sole reason you will get the additional \$20 million.

Mr Sarandopoulos: That is the single biggest driver.

Hon KEN TRAVERS: And the two years beyond that?

Mr Sarandopoulos: There would be numerous drivers in there. The volume assumptions that we have for Utah do not necessarily change dramatically between those years—outer years.

Hon KEN TRAVERS: So, those figures are based on the charging regime including the \$2.50 and the volumes being around the facility operating at pretty much capacity for those three years.

Mr Sarandopoulos: Correct. I guess it reflects when those numbers were put together—a charging regime at that time. If there have been subsequent discussions, commercial negotiations, they are not reflected in that year.

Hon KEN TRAVERS: Until you finalise them, and then you will reflect them in your strategic plans. In 2019–20 it drops to \$155 million, although I note that a lot of that is income tax expenses. Is that because you have a big tax liability incurred in that 2019–20 year, or is there some other issue why you will see that drop off in 2019–20?

Mr Sarandopoulos: I do not have that information in front of me. Can I take that question on notice?

Hon KEN TRAVERS: Yes—particularly whether it is related to Utah Point in anyway.

Hon ROBIN CHAPPLE: In terms of the port authority's ownership of the road structures that run out there, there are obviously the two Finucane roads. There is the one on the left of the rail line, which runs out to BHP, and there is one on the right-hand side, which runs out to Utah Point and facilitates others down there as well. What is the port authority's view of the ownership structure of that road?

Mr Johnston: We own the road from approximately the FMG facility all the way through to the Utah facility. Where you have a road crossing over the rail line and going on the western side, that I believe is a council road and/or BHP—in fact, it is on BHP's tenure but as it turns off onto Finucane Island to the boat ramps, it becomes a council road.

Hon ROBIN CHAPPLE: From the road where that junction takes place back to the highway, which has the new road called Utah Road, is that all port authority?

Mr Johnston: I believe so.

Hon ROBIN CHAPPLE: Could we clarify that?

Mr Johnston: Yes, I will get the detail.

Hon ROBIN CHAPPLE: If you would not mind. In terms of the liability for maintenance and sustenance of that road, who pays for that?

Mr Johnston: We do.

Hon ROBIN CHAPPLE: You pay for that; you have a cost associated with maintaining that road. I think you have 350 trucks a day.

Mr Johnston: Up to 700 trucks per 24 hours—I think the cost last year was about \$1.5 million. But the cost is variable because, you know, the road can suffer. We could have a cyclone coming through, and in past years we have had to put rocks down the side of the roads and all sorts of things to hold it together. It could be variable.

Hon ROBIN CHAPPLE: If Utah Point is sold and you then as the port authority provide a road to that private facility and the road is breached at South West Creek, as it was in 1988, what is the liability to the port in way of compensation from the private owner of Utah Point?

Mr Johnston: I do not know what the legal position proposed there is. I would have thought that it is force majeure. For example, if you had a cyclone breaching the road, you would be in any case obligated to fix it up.

Hon ROBIN CHAPPLE: In 1988, I think it was out for about a month or two months almost. What might that entail in terms of compensation or whatever?

Mr Johnston: I do not know. I have not written the legislation or negotiated this deal or anything.

Hon KEN TRAVERS: You do not know whether the road will be your responsibility or the purchaser's responsibility?

[10.10 am]

Mr Johnston: No, the port has been very clear that we need to retain the road because it is a common-user corridor.

Hon KEN TRAVERS: Right; you will be responsible for it?

Mr Johnston: Yes.

Hon KEN TRAVERS: How do you currently fund the maintenance for that road? Is that out of the charges that you apply to the Utah Point facility or is it through some other charging mechanism?

Mr Johnston: We just fund it out of our maintenance budget; it is a generic maintenance budget.

Hon KEN TRAVERS: In terms that you do not ascribe any of the costs that you charge the Utah Point users towards the cost of that road?

Mr Johnston: No, we do not directly.

Hon KEN TRAVERS: Does anyone else use it at the moment apart from Utah Point users?

Mr Johnston: Yes, BHP.

Hon KEN TRAVERS: In terms of the heavy vehicle traffic, the high volume of 700 trucks a day, are they predominantly users of Utah Point that use that road?

Mr Johnston: Yes.

Hon KEN TRAVERS: It would be minor, light vehicles that BHP uses to access maintenance and the like.

Mr Johnston: That is correct.

Hon KEN TRAVERS: Would the big wear and tear be from the users of Utah Point?

Mr Johnston: At this point in time, yes.

Hon KEN TRAVERS: If you maintain it but you then do not get a revenue stream from Utah Point, how will you fund the maintenance of that? Will you have to put a separate charge on the trucks that go down it? How will you structure that, or will BHP and other users of the port help fund the cost of a road that facilitates Utah Point?

Mr Johnston: Again, we have not been part and parcel of working that out, but you do have a couple of mechanisms. We can put in a user charge and maintain it off that. You could either charge that directly to the terminal operator or some other method of paying for it and collecting the cash.

Hon ROBIN CHAPPLE: But that has not been worked out yet?

Mr Johnston: I do not have the specific detail; nobody has told or said this is exactly how you are going to do this.

Hon KEN TRAVERS: But it is clearly an issue that will need to be resolved, I assume, before the sale.

Mr Johnston: I presume so. I am sure that it will be in due course. Again, at this point in time, we are talking about relatively small amounts of money from our perspective.

Hon KEN TRAVERS: Petty cash for a port authority of your size!

Mr Johnston: It is the biggest port authority, certainly—probably the biggest bulk shipper as a port authority in the world.

The CHAIR: It is absolutely huge.

Hon KEN TRAVERS: I accept it as part of the revenue streams but as you start to boil down to the Utah Point, it becomes part of the overall revenue, particularly with Dampier involved—as you get down to Utah Point, even a couple of million bucks a year in maintenance. I assume at some point there will be a depreciation where a major rebuild will be required that will not be cheap. If you bring it back to a Utah Point issue, it adopts a higher significance than it does as part of your overall structure. But I cannot imagine that your other users are going to be overly excited about the idea, even if it is only small amount, that they will be cross-subsidising a road for other uses of the port.

The CHAIR: It has not happened yet.

Hon KEN TRAVERS: It is about working out how it does happen.

Hon DAVE GRILLS: I have a question on transport and paragraph 4.1.3 “Truck Cleaning” about cleaning trucks with iron ore under the wheels and changing tip trays and what have you. It states at the end that trucks entering the site necessitated an upgrade of the sump and filtration system at a cost of over \$1 million. As we are talking about the number of trucks that use that, is that still a significant issue? With more trucks using it, will that facility be open, because I see that they do it outside the licensed area? Has that ever changed?

Mr Johnston: The truck wash had very small sumps and it had huge accumulation of waste material very, very quickly and we did not have the ability to get bobcats in to clean it out, so we have increased the size of that and it now copes quite comfortably and we are able to keep it operating.

Hon ROBIN CHAPPLE: When it comes to the current Woodie Woodie manganese facility out there, how long will it be before you will require them to relinquish their lease if they stay in care and maintenance?

Mr Johnston: That is a matter that we are negotiating commercially. We have not landed on a final position there, but our view is that you need to allow them to have access to markets. Woodie Woodie was the first bulk export out of Port Hedland back in the 1950s. In fact, it was shut down in 1957 because of low world manganese prices, so it is a cyclical type of thing. You would certainly want to try to make sure that they have the certainty of access to markets, but by the same token our view is that you also cannot have such a large footprint sterilised preventing other users. So what we are trying to do is find a balance on that. In the current contracts’ provision there is an abandonment clause. Off the top of my head I do not know what it is in the current contracts, but it is a period of time. I do not know the exact time.

Hon ROBIN CHAPPLE: It is actually stated thin the proposed bill. If Woodie Woodie could not retain a footprint at Utah Point at some stage in the future, whether it be under your control or private control, and Woodie Woodie came back to the port authority and said that it would like to export, where would you put them if they could not go to Utah?

Mr Johnston: As you are aware, they did originally export from a pad off berth 2. That certainly is not available any longer. That hard stand has been redeveloped and leased out to copper concentrate container exporters. So the only other possibilities in the future would be the likes of a Lumsden Point.

Hon ROBIN CHAPPLE: Which is yet to be —

Mr Johnston: It is yet to be built and yet to be approved et cetera. I do not have any other options.

Hon ROBIN CHAPPLE: You would not put them up on berth 2 or anywhere near berth 2 again?

Mr Johnston: I do not believe so, and I think that the environmental standards and requirements have changed over time. What might have been acceptable some time ago would certainly be a contentious issue now.

Hon ROBIN CHAPPLE: In terms of your knowledge, the negotiations you are possibly pursuing with Woodie Woodie at the moment as the owner of Utah Point, would that decision-making process change if the sale went through, in terms of what is proposed within the bill that we have before us and in terms of your current operation for that period?

Mr Johnston: I could not speculate as to how it could be anticipated. Cons Mins would access a new terminal co-operator. All I can say is that that is the way we are attempting to —

Hon ROBIN CHAPPLE: So you are trying to look after them at the moment?

Mr Johnston: Our job is to facilitate trade. As I have explained, these sorts of things are cyclical. There is a history of that being cyclical, where they will want to come back and knock on the door and you want to try and make sure that they have access. Clearly, there would also be a time possibly where just too long a time has elapsed and you have to give that access to others. So there is a balance there that we would be attempting to negotiate. The changes that we do try to attempt to negotiate are having to be socialised through Treasury and the asset sales task force, so no doubt they would endorse, I guess, a particular position when we finally land on it. That would be an ongoing contract going forward. That would be my anticipation anyway.

Hon ROBIN CHAPPLE: What is the plan to develop Lumsden Point for things like manganese or small proposals, or are you looking at Lumsden Point being another major outlet? I am just wondering whether manganese could go to Lumsden Point if you were looking at actually offloading that to another major junior.

Mr Johnston: No. Lumsden is proposed as general cargo berths. Sorry, if I can just clarify: in my head I was seeing manganese go out in containers because Lumsden is basically to be built along similar lines to berths 1 and 2 that currently the port operates.

Hon ROBIN CHAPPLE: So, if they were not to go out through containers, they would be constrained.

[10.20 am]

Mr Johnston: Yes.

Hon ROBIN CHAPPLE: So we might find them with some mine and nowhere to go?

Mr Johnston: That is a prospect.

Hon ROBIN CHAPPLE: Thank you.

Hon KEN TRAVERS: Lumsden Point is not currently slated to go ahead, is it?

Mr Johnston: No. We are busy working on the business case. We would hope to be able to do something in the coming years at least anyway.

Hon KEN TRAVERS: But there would be significant capital cost to get that up and running in the first instance.

Mr Johnston: For the whole of Lumsden, our early indications are about \$400 million.

Hon KEN TRAVERS: In your submission you gave us the summary of financial information for Utah Point and you have a line item of overheads. I am trying to work out exactly what you include in the overheads component.

Mr Johnston: Can I ask Nick? He has the detail on that.

Hon KEN TRAVERS: Yes.

Mr Sarandopoulos: Our overheads incorporate an allocation of corporate costs, and I will give you an example of those corporate costs: trade and development; legal; executive costs; finance; ICT costs; risk and governance costs; corporate affairs; environment; engineering and infrastructure; engineering et cetera. So there is a whole suite of corporate-related costs.

Hon KEN TRAVERS: What is the total cost of those areas for the port authority at the moment? So what percentage do the amounts of \$12 million, \$14 million, \$12 million and \$10 million year to date represent as a percentage of the total cost for the port authority for those areas you talked about? Could you break it down into what was the former Port Hedland port authority as opposed to Dampier?

Mr Sarandopoulos: Yes. If I can talk about this current financial year to date, the percentage allocation of overheads allocated to Utah, specifically, is 31.6 per cent.

Hon KEN TRAVERS: That is across both Port Hedland and Dampier?

Mr Sarandopoulos: No; that is the allocation of overheads to Utah.

Hon KEN TRAVERS: As a percentage across the total costs for the port authority?

Mr Sarandopoulos: Total PPA overheads, yes.

Hon KEN TRAVERS: That is both what was Port Hedland and Dampier ports.

Mr Sarandopoulos: That is correct.

Hon KEN TRAVERS: Thirty per cent of your overheads —

Mr Sarandopoulos: It is 31.6 per cent.

Hon KEN TRAVERS: It is 31.6.

Mr Sarandopoulos: Correct.

Hon KEN TRAVERS: Can you give me any idea between Port Hedland and Dampier, the two port authorities, what the old Port Hedland port authority is as a percentage of that total? Was it around 50–50? I know you had significantly higher revenue, but I do not know that you necessarily had higher costs to run the port.

Mr Sarandopoulos: I do not have the Dampier number to hand, but what I can provide is that historically in the FY13–14 years, so the year preceding, the allocation was 45.5 per cent.

Hon KEN TRAVERS: Of the Port Hedland costs?

Mr Sarandopoulos: Of the Port Hedland costs. So that was ex-PHPA. As a result of the amalgamation, Utah has received a lower overarching allocation on a percentage basis. The year before that, in FY12–13 the percentage was 37.2 per cent.

Hon KEN TRAVERS: So how do you calculate that share of overheads?

Mr Sarandopoulos: We do have a very detailed allocation model. In terms of drivers, depending upon the line items within our allocation model, we will allocate based on either staff and divisional cost or, in this instance, percentage of Utah revenue to total revenue. It is a mixture based on individual line items as to which one is the most appropriate driver of allocation.

Hon KEN TRAVERS: But some of that is just simply a revenue figure; it is not actually about what the cost is. It is a figure based on total revenue for the port is X, we have got \$146 million from —

Mr Sarandopoulos: Correct.

Hon KEN TRAVERS: Utah say, that is what we will charge Utah.

Mr Sarandopoulos: When you look at the charge, it is an allocation model. An allocation model, in our view, reflects the amount of time and effort that is expended by each of the functions to support the actual operation itself.

Hon KEN TRAVERS: So when you lose Utah Point—when Utah Point is sold if the bill is passed—will you reduce your overheads across the authority by 31 per cent?

Mr Johnston: I do not believe so. If you, for argument's sake, have a general counsel employed, I am not sure I can reduce his time by 31 per cent. Let me go the other way around. We have seen, as a result of the amalgamation, efficiencies and we have been able to capture those efficiencies based on both the additional volume and the additional critical mass. Losing Utah obviously would take us backward a step from the overhead cost, but I do not believe we would be able to significantly reduce to the tune of 30-odd per cent what that cost is.

Hon KEN TRAVERS: So what impact will the loss of that contribution to overheads have on the overall port authority then?

Mr Johnston: Have you done some modelling?

Mr Sarandopoulos: As Roger has articulated, we are not going to be able to avoid that full allocation, if that is the question. It will be partially avoided. The degree that it is partially avoided will depend on how we structure —

Hon KEN TRAVERS: I would assume that unless you increase your charges to other users across the board, your dividend and income tax returns to the state government will reduce as a result of the loss of that contribution to your overheads.

Mr Johnston: Yes.

Mr Sarandopoulos: Yes.

Hon KEN TRAVERS: But we do not know what that figure is yet.

Mr Sarandopoulos: No.

Hon KEN TRAVERS: Is that something that you are doing as part of the modelling with the advisers?

Mr Sarandopoulos: No. That is part of the retention value calculation that the lead financial advisers will be performing.

Hon KEN TRAVERS: But surely as part of preparing for that retention value, they need to be discussing with you the structure of the overheads.

Mr Sarandopoulos: They have received all necessary financial information and are privy to all of that information. They are well aware of our organisational structure. So they have all the information that they would need. If they do not have that, they would request that from us and we would provide it.

Hon KEN TRAVERS: So it is their job to then work out what the impact is on you and how that will flow through. Is there not a danger that they will make assumptions about savings that you could make with the removal of Utah Point that may not be achievable by you as a port authority, if they are not discussing with you in an intricate way about how you would manage the transition to post no contribution overheads?

[10.30 am]

Mr Johnston: If I can just go back to the history of recent years where, for example, we amalgamated, we held all staff in both Dampier and Port Hedland exactly as it was. Every year we undertake a workforce planning exercise and we then go back to seeing what we think the needs are and we adjust accordingly, and I would anticipate that we would need to use that same type of process. Pre-amalgamation, when we did an exercise, I was asked what did we think the reduction in staff numbers would be once you put it all together in the efficiencies, and we did some early analysis of that back in 2013 or thereabouts and we are spot on the numbers that we had calculated then, that we already thought that we would reduce numbers by about 10 per cent. I have not gone ahead and done that particular exercise going forward. No doubt it would be something that we would have to do.

Hon KEN TRAVERS: I do not know if it is possible to get a copy of the modelling and how they arrive at the overheads. If there is a summary of how you arrive at those overhead calculations, could you provide that as supplementary information?

The other one is that the year-to-date interest is significantly lower than in previous years. I am just trying to work it out from the documents in your submission through to March. Last year it was \$8 million; this year it is \$3.8 million. Is that because you do not pay the interest bill until the very end of the year?

Mr Sarandopoulos: Yes, that could be a timing issue.

Hon KEN TRAVERS: It is a timing issue. Ultimately, the figure will be higher at the end of the year.

Mr Sarandopoulos: Yes. It will be higher, although we are not expecting it to be at the same level as last year.

Hon KEN TRAVERS: Because interest rates have come down, but I do not think —

Mr Sarandopoulos: No. The expectation there is that they will exceed \$5 million. So the number is in excess of \$5 million.

Hon KEN TRAVERS: So that is your interest cost that you book, but then I assume that out of your profit you pay your \$20 million loan repayment.

Mr Sarandopoulos: Principal; that is correct. No; that comes out of free cash flow, so the \$20 million gets paid before 30 June this year. This does not reflect a payback of financing-type charges; it is a pure P&L.

Hon KEN TRAVERS: Does that \$20 million come out of your retained earnings or is it before calculating the dividend? So you pay 65 per cent of your profit to the government and you retain 35 per cent. Does the \$20 million repayment of capital come out of your retained earnings component of that or does it come out before you do the divvying up of the 65–35?

Mr Sarandopoulos: No; it comes out after, so it is effectively cash-at-bank funding through for the \$20 million. It is after dividend.

Hon KEN TRAVERS: This financial year, will you have generated sufficient cash to cover that \$20 million or will you need to —

Mr Sarandopoulos: That is a very good question. Despite us expecting 21 million tonnes, if you deduct off the \$20 million, we are just ahead of the game. I can refer to a spreadsheet that I have got.

Hon KEN TRAVERS: I assume you need to have some retained earnings. I guess the Treasurer may say you have got enough cash at bank. But is that something you are able to negotiate with the government about the dividend on?

Mr Sarandopoulos: The dividend is paid in addition to the loan balance. If you took those two into account, they are significant dollar values, absolutely.

Hon KEN TRAVERS: But you will have sufficient cash generated out of the facility to cover the repayment or not?

Mr Sarandopoulos: For this year, yes.

Hon KEN TRAVERS: But only just.

Mr Sarandopoulos: For the dividend attributable to Utah plus the loan, just.

Hon KEN TRAVERS: You are also getting significant revenue into the general port authority through the overheads.

Mr Sarandopoulos: Revenue to?

Hon KEN TRAVERS: Ten million dollars is taken out to cover your overhead costs.

Mr Sarandopoulos: That is correct, yes.

Hon KEN TRAVERS: Do you have any idea what your final overhead cost for this year is expected to be? Year to date was \$10 million and it seemed to be that you were tracking —

Mr Sarandopoulos: It is around the \$15 million mark, but that is based on forecasts for May and June and it is subject to total revenue throughout the May and June months et cetera.

Hon KEN TRAVERS: Do you have a figure of your return on assets if you take Utah Point out of all your equations?

Mr Sarandopoulos: Yes, I certainly do. For the financial year 2014–15, ex-Utah would be 14.8 per cent.

Hon KEN TRAVERS: It is probably a supplementary question, but you said earlier, I think, that most of the Utah assets come under berths and jetties. In terms of the facilities that will be sold, are you able to give us—I am happy for it to be on notice—a breakdown of where that sits within your assets? You have got different categories of assets, so there are berths and jetties and there is infrastructure. Are you able to give us a breakdown of the \$225 million you are carrying it at and where that sits within —

Mr Sarandopoulos: If I could just correct that number: it is 253 million, my apologies.

Hon KEN TRAVERS: Right, so that is just simply the 305 less depreciation?

Mr Sarandopoulos: Yes, correct.

Hon KEN TRAVERS: But does the value you carry get carried in one section of your balance sheet?

Mr Sarandopoulos: I would need to confirm that because it will be across classifications.

Hon KEN TRAVERS: Could you give us a breakdown of how much is in each classification allocated to the facilities that you expect to be sold as part of Utah Point?

Mr Sarandopoulos: Yes.

Hon ROBIN CHAPPLE: Obviously, the bill before us deals with assets and it is a disposal bill and you have four assets, as I understand it—well, that is what it said in the second reading speech. Are any of the other assets being considered?

Mr Johnston: We have the DMSF that was approved by cabinet to go up for sale just around the time of amalgamation, and we are seeking to have a slight amendment to that approval so that we can look at disposing of the individual components that made up the old Dampier marine services facility. There are four assets in Dampier and we have people expressing an interest in one or two of them.

Hon ROBIN CHAPPLE: So possibly two other assets I take it?

Mr Johnston: Possibly the bulk liquids berth. There is a heavy lift-off berth, which needs some attention but people have expressed interest. There is also the Dampier cargo wharf. Those are the principal ones.

Hon ROBIN CHAPPLE: So there is nothing further in Port Hedland?

Mr Johnston: No.

Hon ROBIN CHAPPLE: So there have been no further discussions with government about the sale of any other assets in Port Hedland?

Mr Johnston: No.

Hon ROBIN CHAPPLE: So just those two assets in Dampier?

Mr Johnston: Yes, three.

Hon ROBIN CHAPPLE: Three, so that was the bulk liquids —

Mr Johnston: The heavy lift-off—HLO.

Hon ROBIN CHAPPLE: Yes.

Mr Johnston: And the Dampier Cargo Wharf—DCW.

Hon ROBIN CHAPPLE: And how far have those negotiations or discussions gone?

Mr Johnston: Not far. We are seeking to get approval through DOT. The original concept that was approved was to dispose of that on bulk together with some obligations to do further development at Dampier. There does not appear to have been a lot of interest in that, but there is interest in the individual components so we are seeking to get approval rejigged to approve the disposal of individual components.

Hon ROBIN CHAPPLE: And that would all fall under this legislation?

Mr Johnston: No. It is not really contemplated as part of that.

Hon ROBIN CHAPPLE: Because it basically says —

An Act to provide for the disposal of the whole or part of certain businesses carried on by, or all or any of certain assets or liabilities owned or managed by, the Pilbara Ports Authority, ...

Mr Johnston: Yes, so I do not quite know how this fits into that, but, as I say, this was pre that legislation that we have approval to attempt to dispose of those facilities in Dampier. So I do not quite know how it marries back into that.

Hon ROBIN CHAPPLE: It is not limited to Utah Point.

Hon KEN TRAVERS: An amendment was moved in the lower house that tries to constrain it to Utah Point, but it is the definition of what is Utah Point that is for debate.

Hon ROBIN CHAPPLE: Thank you.

The CHAIR: I will take the last questions and then we will wind it up.

[10.40 am]

Hon KEN TRAVERS: Just going back to the issues around the Woodie Woodie mine, do you intend to have those concluded prior to the sale or is that something that you expect to continue after?

Mr Johnston: We are trying to get a landing before the end of June, just as a benchmark. Obviously, subject to all parties being happy, we would try to get something done.

Hon KEN TRAVERS: And that will create spare capacity, I assume, in the facility. Is there a waiting list for people to access that spare capacity so that you reallocate that capacity before the sale or will you be required to leave that capacity for the future owners to allocate?

Mr Johnston: Yes, so there are interested parties looking for capacity. We would believe that it is in the facility's and the port's best interest to carry on securing custom.

Hon KEN TRAVERS: At the moment, unless there is a direction to the contrary from the minister, you would then seek to reallocate that capacity to one of those groups in the wings waiting for capacity?

Mr Johnston: Yes.

Hon KEN TRAVERS: And that would be prior to the sale?

Mr Johnston: Potentially.

Hon KEN TRAVERS: Do any of the advisers have a role? Are they discussing those sorts of issues with you or, for that matter, the pricing regime that you charge or the nature of the contracts that you have already entered into? So when the \$2.50 discount was given, you went to take-or-pay contracts. Are the lead advisers involved in any way in giving you advice about how they want you to structure that with a view to facilitating their sale process?

Mr Johnston: What we do is we put that back through to Treasury and ask for any comments.

Hon KEN TRAVERS: So they are certainly not providing any advice directly. If they are providing it, it would be through the strategic assets section of Treasury. Is Treasury providing any advice as to how it wants you to deal with those matters or to structure the contracts at the moment prior to the sale?

Mr Johnston: Again, it is a bit hazy. We put to them a position that we have been able to do the principles, which are contained in the project start report back in January. They sort of say if you can get take-or-pay-type contracts, that would be an advantage—just by way of example. We try to capture those principles in a commercial negotiation and go back through to them and say, “Look, this is where we seem to have gotten to. Can we have your comments?”

Hon KEN TRAVERS: Going back to, say, the renegotiation of the existing contracts and any contracts going forward, Treasury is driving you towards locking in take-or-pay contracts, or encouraging you—that is probably a better word than “driving”. Its clear encouragement is to go down that path at the moment.

Mr Johnston: Yes, if it is advantageous that is what they would advocate. I suppose you would really need to ask them what their —

Hon KEN TRAVERS: What their motivation is. But in terms of their advice to you, it is to encourage you to go down that path.

Mr Johnston: It has been our own position from way back when, in 2012, we looked at the prospect of limited volumes, no take-or-pay contracts, and the risk. The same thing happened when Atlas stopped trading in April last year. There was no take-or-pay component to that that would materially offset the losses that we faced et cetera. Our position has been that we would want to try to secure, certainly, a baseload of volume going forward anyway.

Hon KEN TRAVERS: My final question is this: Have you seen the supplementary submission that was tabled last week by AMEC? I doubt you would have seen the transcript because it is not available yet, but have you seen their supplementary submission that they provided to the committee?

Mr Johnston: I do not know —

Hon KEN TRAVERS: It was provided by AMEC last week.

Mr Sarandopoulos: Yes, I certainly have seen it.

Hon KEN TRAVERS: It was headed “Pilbara Ports Assets (Disposal) Bill 2015: AMEC addendum to the Western Australian Legislative Council Standing Committee on Legislation”.

Mr Johnston: Yes.

Hon KEN TRAVERS: In that they make a significant challenge to your figures in terms of rate of returns and the like. Just before we finish, do you have any comments in response to what is outlined in that addendum?

Mr Sarandopoulos: I just reiterate that we have had two independent pricing reviews. The information specifically on return on assets in both of those pricing reviews—I can refer to page 6, table 1 in the Incenta report and table 2 on page 21 of the Houston Kemp report—broadly align with our return on asset calculations. As reiterated earlier, we are subject to external audit.

We have an audited set of accounts and all the financial information that we have presented is in accordance with accounting standards. I do not have anything further to add.

The CHAIR: The committee may travel up to Port Hedland to have a look on site.

I thank you for attending today. A transcript of this hearing will be forwarded to you for correction. If you believe that any correction should be made because of typographical or transcription error, please indicate these corrections on the transcript. I thank you both for your time today, we appreciate it.

Mr Johnston: Thank you very much, and we would encourage you to have look at our facilities. We like showcasing them.

Hearing concluded at 10.46 am
