



**MINERALS
COUNCIL**
OF
AUST
RALIA

24 June 1999

Mr John Cosgrove
Presiding Commissioner
Inquiry into the Impact of Competition Policy
Reforms on Rural and Regional Australia
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Cosgrove

RE: *INQUIRY INTO THE IMPACT OF COMPETITION POLICY REFORMS ON
RURAL AND REGIONAL AUSTRALIA*

I refer to the Commission's Draft Report on this Inquiry, released on 18 May 1999. You may recall that when the Minerals Council met with you, Commissioner Sloan and members of the Inquiry staff team late in 1998 to discuss the Inquiry, we were asked to suggest an example of the benefit to rural and regional Australia of microeconomic, especially National Competition Policy-related, reform.

We suggested that the Goldfields gas pipeline in Western Australia might be a suitable example and provided some information to Inquiry staff. We note this example is mentioned in the Draft Report (in Box 5.1 on page 124), but only in passing, with a reference to the Chamber of Commerce and Industry - Western Australia's submission that mentioned this example also.

The Council suggests more could be made of this example by way of a case study in the Final Report. This case study could include, for example, the following Box (or similar) which could be developed further by the Commission.

Mining Industry House
216 Northbourne Aven
Braddon ACT 2612

PO Box 363
Dickson ACT 2602

Telephone 02 6279 36
Facsimile 02 6279 36

Western Australian gas deregulation - a case study of microeconomic reform

Although export markets for liquefied natural gas will always dominate, the recent deregulation of the Western Australian energy market has transformed the outlook for Western Australian gas producers and large energy users. Western Australia now has a more internationally competitive supply of energy.

The benefits flowing from this deregulation of the Western Australian energy market commenced in early 1995. This came in the form of final approval for the 1,380 kilometre, \$400 million, Goldfields gas pipeline. Three minerals companies - BHP Minerals Limited, WMC Resources Limited and Normandy Mining Limited - formed a joint venture to build and initially operate the pipeline.

The pipeline runs from Yarraloola Station, between Onslow and Dampier, in the Pilbara along a route through the Ashburton Valley, southeast of Paraburdoo before turning in a southerly direction near the township of Newman. From there, it continues to Kalgoorlie via Wiluna, Mount Keith, Leinster and Leonora. Construction of the pipeline was split into three parts: a 310 kilometre sector from Yarraloola to a point southwest of Newman; a 670 kilometre sector from Newman to Mt Keith; and the Mt Keith 1 Kalgoorlie sector.

As well as the pipeline contracts, major new power station projects and a natural gas development project off the North West coast began in advance of the imminent arrival of gas in the goldfields.

- Normandy Mining Limited has spent some \$50 million on a 75 megawatt (MW) power station at Mt Ferum near Kalgoorlie. This supplies several mines, especially the Superpit at Kalgoorlie.
- WMC Resources Limited spent around \$120 million on three 40MW gas turbines for its nickel mines to service nickel operations at Mt Keith, Leinster, Kalgoorlie and Kambalda and another \$250 million developing the East Spar gasfield.
- BHP Minerals Limited has spent some \$100 million on its 105MW Mt Newman turbines to replace the diesel generators there. Phase 1 of the Pilbara Energy project was completed with the official opening in June 1995 of BHP's 105 MW gas fired power station at Port Hedland. The power station supplies power to BHP's iron ore shiploading facilities at Port Hedland and Finucan Island as well as its Yarrie mine.

The overall objective of the Goldfields gas pipeline project is to achieve a dramatic reduction in energy prices to encourage mineral processing. The proximity of the Pilbara to major Asian markets (which provides a transport cost advantage relative to Australia's competitors) and the availability of cheap energy - together with new technology - should provide new opportunities for East Asia's electric arc furnace steelmaking industry once the Asian economies recover from the current economic crisis.

In addition to BHP building its Hot Briquetted Iron plant at Port Headland, a number of other iron ore processing proposals have been under consideration. At the inland nickel and goldfields areas, energy prices have been cut by half, offering further prospects for mineral extraction and processing. The construction of the gas pipeline, providing access to energy at internationally competitive prices, is likely to be a catalyst for a much greater level of resource and processing development along its corridor. Without deregulation of the energy sector in Western Australia, these developments, which are spread over a wide area of remote Western Australia, could not have occurred.

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Further information

Some contacts for Inquiry staff to discuss a possible expansion / update of the above Box with are: Mr Peter Kioses, Department of Resources Development, Western Australia (phone (08) 9327 549 1; and Mr Richard Harris, Department of Resources Development, Western Australia (phone (08) 9327 5457).

One other project that could benefit from the coincidence of the Dampier-Kalgoorlie gas pipeline, the proposed sulphuric acid production by WMC Resources Limited at Kalgoorlie and large areas of industrial land at the Mungari Estate, is a sulphate route titanium dioxide pigment plant. A contact for this issue would be Mr Ross Marshall, Department of Resources Development, Western Australia (phone (08) 9327 5517).

I wish you the best of luck with the rest of this important Inquiry. Please do not hesitate to contact me on 6279 3600 if I can be of further assistance.

Yours sincerely

R C WELLS
EXECUTIVE DIRECTOR