

UTAH POINT — CHARGES

1022. Hon NIGEL HALLETT to the Attorney General representing the Treasurer:

- (1) Can the Attorney General explain how the current charges at Utah Point, not including the temporary discount, are calculated, including the capital cost base used?
- (2) Is that the actual capital cost of Utah Point funded by the government–Pilbara Ports Authority; and, if it is a higher or lesser amount, can the Treasurer please explain the reason behind using such a different amount?
- (3) What rate of return does government consider reasonable at Utah Point?
- (4) What depreciation model has been used to formulate the charges?
- (5) What was the rate of return on investment in the 2015–16 financial year?
- (6) What capital cost base was that rate of return calculated upon?
- (7) Does government require a rate of return on the circa \$70 million non-refundable capital contribution made by BHP Billiton to the construction of Utah Point?
- (8) If the rate of return being made at Utah Point, even with the \$2.50 temporary discount in place and when calculated on a capital cost base in excess of what the government–PPA actually invested in Utah Point, is in excess of the government’s targeted rate of return, why does government resist repeated calls by the industry to permanently reduce the charges to the level required to see the targeted rate of return?

Hon MICHAEL MISCHIN replied:

On behalf of the Treasurer, I thank the honourable member for some notice of the question.

- (1) The cost base of the asset is based on the construction cost of approximately \$315 million.
- (2) As noted in the PPA submission to the Standing Committee on Legislation dated 26 April 2016, the funding for the construction of Utah Point totalled \$315 million.
- (3) The rate of return will be dependent on a number of drivers, including forecast export volumes and counter-party risk of users. Although a rate of return of 12 per cent has been suggested by the Department of Transport and the Western Australian Treasury Corporation as a guideline for whole-of-port assessments in Western Australia, this does not provide meaningful guidance with respect to the operation of a single berth. As identified by the two independent pricing reviews provided to the legislation committee, the contractual terms applying to Utah Point’s main customers transfer significant volume risk to the PPA. The Department of Treasury, in its submission to the committee dated 10 May 2016, noted the independent pricing review report from HoustonKemp Economists, which noted that assuming the 12 per cent rate of return is a reasonable return applying to port assets at Port Hedland generally, it is likely that the rate of return attributable to the Utah Point assets on a standalone basis is considerably higher and is more likely to reflect the cost of capital that would typically be faced by junior miners, which is likely to be considerably higher than 12 per cent. Furthermore, Utah Point is just one of the many berths at Port Hedland and is likely to have a materially different risk profile from that applying to other assets at Port Hedland. In particular, the risk of the assets at Utah Point is likely to be much higher than that for the wider port facilities due to the nature of its customers, the fact that those customers operate with a very fine tolerance to downward fluctuations in the iron ore price and, consequently, Utah Point’s significant exposure to iron ore export volume risk.
- (4) It is understood that any depreciation models used would be supported based on PPA financial information.
- (5) The return on investment for the 2015–16 financial year is not currently available. However, the figures for prior years for Utah Point are as follows: 0.6 per cent for 2010–11; 9.1 per cent for 2011–12; 6.3 per cent for 2012–13; 26.3 per cent for 2013–14; and 28.8 per cent for 2014–15. On average over these five years, the return on assets was approximately 14 per cent. Two independent economic consultancy reports by Incenta Economic Consulting in 2015 and HoustonKemp in 2016 have concluded that the returns earned by the PPA for Utah Point are reasonable in light of the risk profile associated with the asset.
- (6) These figures were derived from the original construction cost as a starting base and are depreciated balances with allowance for additions and disposals.

- (7) As has been repeatedly pointed out and as acknowledged in the committee's report, funding is independent of establishing total asset cost. The \$70 million contribution from BHPB is a source of funding and needs to be clearly differentiated from the asset base used to calculate a rate of return.
- (8) This is addressed in the response to (3).