Minister for Transport; Planning; Lands

Our ref: 72-12426

Hon M McCormack MP
Minister for Infrastructure and Transport
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Minister McCormack

COMMONWEALTH FUNDING FOR KARRATHA - TOM PRICE ROAD STAGES 3 & 4

The Pilbara Region in the North of Western Australia (WA) is a significant contributor to the national economy, with a Gross Regional Product estimated at $34 billion, which is almost 44 per cent of regional WA's Gross Regional Product. Regional exports generated by the Pilbara Region are estimated at $49 billion, of which $41 billion is attributed to mining exports.

Planning for a fully sealed route between Karratha and Tom Price (approximately 270 kilometres) commenced in 1997 and recommended a four-stage development. Stages 1 and 2, totalling 115 kilometres have been completed and were opened in December 2003 and July 2008 respectively. A total of 155 kilometres remains to be constructed and sealed along the preferred route. There are four remaining stages to be constructed, noted as 3A, 3B, 4A and 4B (see Attached Map).

Completion of the Karratha – Tom Price Road Stages 3 and 4 has been identified as a high priority for the WA State Government with the State having provided a $50 million allocation in the 2017/18 budget. The total investment required to complete Stages 3 and 4 is in the order of $320 million.

The road is an important enabler for the achievement of State Government goals, relating to a strong focus on the regions, and facilitating economic and regional development. Completion of the Karratha-Tom Price Road Stage 3 will improve access to mining, tourism and pastoral land. With the completion of Stage 4, local access would be improved, as well as access for nearby Aboriginal communities.

Balla Balla Infrastructure (BBI) is proposing to develop port facilities, rail and an above ground conveyer network which will connect small iron ore mines in the region. Flinders Group will operate an initial mine, approximately 90 kilometres south of the end of the existing sealed section of the Karratha – Tom Price Road.

BBI and Flinders, together with the City of Karratha and the Shire of Ashburton, require road access to be established to the mine site to enable a predominantly Drive In Drive Out (DIDO) operation based out of the Karratha town site, utilising existing local contractors. The Pilbara Development Commission has estimated the economic benefit to be in the order of $1.6 billion for full DIDO operations.

Level 9, Dumas House, 2 Havelock Street, West Perth, Western Australia, 6005
Telephone: +61 8 6552 5500 Facsimile: +61 8 6552 5501 Email: minister.saffioti@dpc.wa.gov.au
Companies in the Pilbara, including BBI, Flinders Group and Rio Tinto Iron Ore, would be able to build on their economic and social contribution to the region, as per the Pilbara Collaboration Charter (signed in November 2017). These mining companies in particular would greatly benefit from a fully sealed route in order to provide safe road access to their mining operations. Funding contributions from the Pilbara mining sector and Local Government will be progressed but are at a very early stage.

In addition, the improved connectivity for local communities to the major town-sites of Karratha, Roebourne, Tom Price and Paraburdoo, would provide better access to hospitals and medical services, local businesses, shopping and service centres (i.e. Centrelink, Australia Post, etc.).

Construction and development of a fully sealed route would significantly increase regional employment opportunities and address the State’s requirements for Aboriginal participation, with provisions and targets incorporated into all contracting arrangements. Full construction of Stages 3 and 4 are estimated to generate in the order of 150 jobs for the region.

Local Aboriginal communities, including Weymul, Mingullatharndo, Ngurawaana, Wakathuni and Innawonga will have the opportunity to undertake training and development under the guidance of Main Roads, in order to provide a sustainable workforce for this, and future, Pilbara projects.

Tourism in the Pilbara has been identified as an underdeveloped sector. Sealing of this route will greatly improve access into the region with a subsequent increase in tourist numbers. This will add to the economic base, particularly for Aboriginal communities.

Stages 3 and 4, of total length 155 kilometres, will be required to be constructed to complete the route from Karratha to Tom Price. When complete, the road will provide a fit-for-purpose, viable alternative for vehicles during the wet season, when other major arterial roads are closed for safety. The current alternative is a low-standard, single lane, unsealed road through the Rio Tinto Gorge which is an additional 56 kilometres in length, adding 2.5 hours to the travel time.

Your support for investment in road infrastructure to underpin economic growth across northern Western Australia is appreciated. As such, I am seeking your agreement-in-principle for the Australian Government to commit up to $256 million (80 per cent contribution) to complete Stages 3 and 4 of the Karratha – Tom Price Road project. Should the negotiations with local Industry and Local Government prove successful the level of Commonwealth support would reduce accordingly. An “Investment Proposal Summary” which provides a further overview of this proposal is also attached.

Yours sincerely

HON RITA SAFFIOTI MLA
MINISTER FOR TRANSPORT

2 AUG 2018

Encl.
INVESTMENT PROPOSAL SUMMARY

Karratha Tom Price Road
Stage 3 and 4

Region: Pilbara
Proposal: Sealing remaining unsealed sections of Karratha-Tom Price Road Stages 3 and 4

<table>
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<th>Problem / Opportunity</th>
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<tr>
<td>Economic and Regional Development, Jobs, Tourism and Access for Local Communities</td>
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Problem Identification

Karratha-Tom Price (KTP) Road Stages 3 and 4 are the remaining unsealed sections of the route between Karratha and Tom Price. As an unsealed road link the level of service is low with substandard horizontal and vertical geometry and with little or no improvements through watercourses which endure road closures due to wet weather events. The unsealed sections require higher (than seal) maintenance costs and impose increased journey times due to the substandard surface conditions. The low level of service affects road user safety and has a direct impact on the access to mining, tourism, pastoral land and Aboriginal communities.

Opportunity

Karratha-Tom Price (KTP) Road Stage 3 has emerged as a priority to improve access to mining, tourism and pastoral land. Combined with the completion of Stage 4, KTP will deliver additional improvements for local and Aboriginal community access. The road is an important enabler for the achievement of State Government goals relating to Better Places, Strong Communities and Future Jobs and Skills. Current traffic volumes on the sealed section of road 25km south of Karratha show over 150 vehicles per day with approximately 30% heavy vehicles with an expected increase if the road was sealed through to Tom Price. The potential for Dampier Port to be a direct sea liner service for imports to service mines and communities is currently being investigated. If proven as a viable proposition KTP would become a major transport route from the port for services and goods which would further strengthen the benefits of the project.

Balla Balla Infrastructure (BBI) are proposing to develop port facilities, rail and an above ground conveyer network which will connect mines in the region enabling the export of iron ore. The Flinders Group proposed mine, approximately 90km south of the end of the existing sealed part of KTP Road, will be the first mine to use this infrastructure.

BBI/Flinders propose to use a combination of Fly In Fly Out (FIFO) and Drive In Drive Out (DIDO) to support the mine and are indicating 50% of the operational workforce could be located within the Pilbara if they were confident suitable road access would be established. The City of Karratha are extremely keen to facilitate a DIDO outcome. The Pilbara Development Commission has estimated the economic benefit to be in the order of $1.6 billion for the Pilbara (based on 100% DIDO operation). Main Roads has no contractual arrangements with BBI and would not be party to any such arrangements involving DIDO or other operating characteristics for the proposed mine.

Proposed Scope

Construction of Karratha-Tom Price Road

Main Roads considers that the estimated cost to complete the project scope of Stages 3 and 4 is $320 million. The State Government has committed $50 million towards the project and will require funding assistance from the Australian Government to complete the entire project.

Main Roads considers there are two potential options to utilise the currently available $50 million of State Government funds:

1. Fully seal Stage 3B to a full highway standard up to the Millstream turnoff (approximately 18km) and Stage 3A a lower ‘fit for purpose’ standard in the flatter terrain of the remaining 30km to accommodate the current $50 million budget. The estimated construction cost is $70 million and is therefore $20 million underfunded.

2. Obtain $256 million of additional funding to construct and seal both Stages 3 and 4 (Stage 3 plus the section parallel to the Rio Tinto Iron Ore Rail Access Road) to a ‘fit for purpose’ standard, dependent upon confirmation of the Flinders Resources Balla Infrastructure (BBI) Project and FMG’s proposed Western Mining Hub development proceeding. This option requires funding contributions from the mining proponents and/or Australian Government. Total estimated construction cost is $320 million.
Investment Purpose, Objectives and Benefits

Karratha- Tom Price (KTP) Road Stage 3 will improve access to mining, tourism and pastoral land and will have significant social impact improving access to local and Aboriginal communities.

Completion of Stages 3 and 4 will improve the level of service by reducing the journey by 56km and 2.6 hours of travel time, improve safety through geometric and surface improvements, reduce maintenance costs and closure times due to wet weather events.

Full construction of Stages 3 and 4 is anticipated to generate in the order of 150 jobs. Not less than 5% of the contractor’s total work hours are required to be undertaken by Aboriginal people.

The Pilbara Development Commission (2016) estimated the economic benefit to be in the order of $1.6 billion for the Pilbara.

Current Status, Urgency and Timing

$50 million has been allocated for works on KTP Road as part of the 2017-18 WA Government budget which is insufficient to fully seal Stage 3 to the Rio Tinto railway crossing (48km).

Environmental and Aboriginal Heritage clearances have been obtained and preparation of 15% preliminary designs have been initiated.

It is planned to call tenders for the construction of Stage 3B in early July 2018 with construction scheduled to start by the end of 2018, and be substantially completed by the end of 2018.

Stage 3A will follow and this section is expected to be tendered in late 2018 with construction anticipated to start in 2019.

Main Roads is investigating various staged construction options, progressing project development activities for both Stages 3 and 4 with Australian Government co-contribution to complete the sealing of the KTP Road beyond Stage 3.

Currently, Main Roads has a 15 per cent concept design for Stages 3 and 4. The next steps will be to progress the Traditional Owner approvals, environmental approvals and land tenure process. Main Roads will be working with the two relevant local government authorities to expedite the works to support access to BBI and create local jobs.

Estimated Proposal Cash flow

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<tr>
<th>Capex</th>
<th>2017-2018 ($m)</th>
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<th>2019-2020 ($m)</th>
<th>2020-2021 ($m)</th>
<th>Total Forward Estimates ($m)</th>
<th>Out Years ($m)</th>
<th>Total ($m) (Inc. Out Years)</th>
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<tr>
<td>Total Outturn Cost</td>
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Current budget allocations

Australian Government budget allocation (currently nil): Budget allocation requires adjustment to meet estimated project delivery cash flow.

Total Outturn Cost 120 52 172 84 256*

State Government allocation: Subject to consideration as part of the future State budget processes.

Total Outturn Cost 30 13 50 14* 64*

Note – the State is negotiating with the Pilbara mining sector and Local Government for funding contributions towards this project. Based on the outcomes following these negotiations, the level of Commonwealth support required will be adjusted accordingly (the State is seeking a commitment of up to 80 per cent contribution, or $256 million).