

Not relevant



6 Cabinet Notes for Discussion

Not relevant



607 MINISTER FOR INFRASTRUCTURE'S ITEM (Patrick Conlon) - **NOTED**

Not relevant



CABINET NOTE

TO: PREMIER FOR CABINET TO NOTE

RE: OLYMPIC DAM INDENTURE

1. PROPOSAL

- 1.1. For Cabinet to note that I propose to endorse the first phase of negotiating positions with BHP Billiton (BHPB) recommended by the Government's Olympic Dam Task Force and presented in Attachment 1.
- 1.2. For Cabinet to note that the Olympic Dam Task Force will seek to achieve agreement with BHPB on the recommended Government positions for incorporation into proposed amendments to the *Roxby Downs (Indenture Ratification) Act 1982*, which will be the subject of a further Cabinet submission.
- 1.3. For Cabinet to note the "Status Report to Cabinet, August 2008" prepared by the Olympic Dam Task Force (Attachment 2).
- 1.4. For Cabinet to note that the proposed positions to be taken in negotiations with BHPB on the various matters discussed in this Cabinet Note do not in any way pre-empt the decision of the Minister for Mineral Resources Development on BHPB's development applications in respect of the Olympic Dam expansion project, nor fetter in any way the Minister's discretion when exercising this decision-making power.

2. BACKGROUND

- 2.1. The Olympic Dam mine and the township of Roxby Downs are located approximately 570 kilometres north of Adelaide in South Australia's Far North. Mining commenced at Olympic Dam in 1988 and it has been expanded in stages with the current operations making it Australia's largest underground mine. It was initially developed and operated under a joint venture arrangement controlled by Western Mining Corporation (WMC). BHP Billiton (BHPB) now owns and operates the Olympic Dam mine after acquiring WMC in August 2005.
- 2.2. Outputs from the mine and the on-site ore processing plant in 2007-08 were a total ore mined of 10 million tonnes, producing 169,900 tonnes of refined copper, 4,144 tonnes of uranium oxide, 80,517 ounces of gold and 780,000 ounces of silver.

2.3. BHPB's Expansion Proposal

- 2.3.1. BHPB is proposing a major expansion of the Olympic Dam mine, the processing plant and a range of associated infrastructure projects, with a possible mine life of 100 years. The proposed mining method will change from underground operations to open pit mining with the pit size estimated to be up to 6.5 kilometres long, 3.5 kilometres wide and 1.2 kilometres deep.
- 2.3.2. BHPB's exploration drilling program in 2007 indicated that the size of the mineral resource has doubled to a total of almost 8 billion tonnes, making it the world's largest uranium deposit (larger than the total of the next 20 known deposits and about 40% of known world uranium resources). It is also one of the world's largest resources in terms of both copper and gold. The full production outputs for the proposed expanded project are up to 730,000 tonnes of copper and 19,000 tonnes of uranium per annum.
- 2.3.3. The expansion project configuration has changed several times as BHPB's investigations have proceeded. The project remains in the pre-feasibility study stage and is subject to various approvals from the BHPB Board before final project go-ahead is confirmed.
- 2.3.4. The current proposal involves expansion over five stages between 2010 and 2021 (to full production).
- Stage 1 is to optimise the operation of the existing underground mine and processing plant, increasing output capacity by 20% and creating around 100 ongoing jobs. Work will proceed under the existing EIS approval granted in 1997. Stage 1 will increase total ore mined to 12 million tonnes per annum and is expected to be completed in 2013.
- Stage 2 is to develop the open pit, expand some mineral processing and provide for direct export of unleached copper concentrate. Removal of overburden from the open-pit area will commence in 2010 at a rate of 1 million tonnes per day, continuing for five years. Total ore mined will increase to 20 million tonnes per annum, producing 600,000 tonnes of unleached copper concentrate for export and is expected to be completed in 2016.
- Stage 3 increases the ore processing capacity with a new hydrometallurgy plant to be completed at the same time as Stage 2.
- Stage 4 commencing in 2014 expands the open-pit to provide for an extra 20 million tonnes per annum of ore mined and expansion of the processing plant. Completion is expected in 2019.
- Stage 5 takes the project to full capacity, over the period 2016 to 2021, with a further 20 million tonnes per annum of ore mined.

2.4. Infrastructure

The expansion will require significant increases in supporting infrastructure including:

- electricity supply increasing from a current 135 to 680 MW, with on-site co-generation and additional power from the national electricity grid.
- increasing water usage from a current 32 to 230 megalitres per day (ML/d) by continued use of supply from the Great Artesian Basin and a new desalination Plant and pipeline from the Upper Spencer Gulf (USG) area.
- a sea landing facility in the USG, upgraded Stuart Highway, rail and port facilities for import of heavy equipment and for export of products, and a new 737 jet capacity airport at Olympic Dam.
- increase of the Roxby Downs township population from 4,500 to approximately 10,000, associated community facilities and increased/new construction camp capacity to 8,000 persons.
- major increases to government facilities, services and housing at Roxby Downs.

2.5. Legislation and Approvals

2.5.1. The initial development and ongoing operation of the mine and infrastructure has been subject to an Indenture agreement between the State of South Australia and the original project owners. The Indenture was ratified by Parliament as the *Roxby Downs (Indenture Ratification) Act 1982 (The Act)*. The *Act* takes precedence over other State legislation to provide the project owners with the benefit of long-term security of access to the mineral resource, water supplies and other essential inputs on defined terms and conditions. It also establishes the rights and responsibilities of each party.

2.5.2. The expansion project will require approval from both the Australian and South Australian Governments for an Environmental Impact Statement, planned to be available for public release in April 2009.

2.5.3. It will also require a large number of South Australian permits and licences for project components such as expansion of the Special Mining Lease, township and infrastructure land tenure, new water wells, native vegetation clearance and many others. Northern Territory and Australian Government approvals will also be required for transport and export of the concentrate.

2.5.4. The existing Indenture will need to be amended to provide for many of these items which were not envisaged under the original agreement. In return for these benefits to BHPB the State is seeking a range of trade-offs, including revised royalties and elimination of State funding of the Roxby Downs township facilities related to the expansion.

2.6. Indenture Negotiations

- 2.6.1. The Government's Olympic Dam Task Force (ODTF) has responsibility for facilitating the development of the project by coordinating with BHPB and across agencies, on a project management basis, for the policy, approval and project responses that arise from BHPB's proposals.
- 2.6.2. Indenture negotiations with BHPB are managed by ODTF on behalf of Government through a Negotiation Team comprised of the Chief Executive, ODTF; the Executive Director, Minerals and Energy Resources, Department of Primary Industries and Resources; the Director, Commercial Advice, Department of the Premier and Cabinet and the Commercial Counsel, Crown Solicitor's Office, with external legal representation provided by DMAW Lawyers.


2.7. BHPB Request for Agreement-in-Principle



- 2.7.1. BHPB has written to Government with a request for agreement-in-principle on a number of high level issues prior to its Board consideration of ongoing funding for the project to move into the Feasibility Stage in 2009. This Cabinet Note presents the issues put forward by BHPB. It also outlines the proposed Government position on these and a number of other issues that are key to ensuring the expansion project achieves the outcomes required by Government for the benefit of South Australia.
- 2.7.2. The initial in-principle agreements sought by BHPB relate to:
 - (a) Export of unleached copper concentrate
 - (b) Extension of the area of the Special Mining Lease
 - (c) Mining royalty payments
 - (d) Financial responsibility for town infrastructure
 - (e) State involvement in the Upper Spencer Gulf desalination plant
 - (f) Third party access to infrastructure
 - (g) Regulatory regime
 - (h) Government services
 - (i) Transport of oversize loads on public roads
 - (j) Governance of Roxby Downs township.
- 2.7.3. BHPB has also requested a timeline of September 2009 for finalisation of approved amendments to the Roxby Downs (Indenture Ratification) Act legislation, including Parliamentary ratification. This timeline is prior to the planned EIS approval in early 2010 and it would be problematic for Government in terms of pre-empting the EIS decision.

3. DISCUSSION

- 3.1. ODTF has been undertaking detailed discussions with BHPB on the initial preferred positions by Government and BHPB in relation to changes that will be required to the Indenture. ODTF coordinates Government agency responses to all the numerous proposals that comprise the expansion project. ODTF, on behalf of the Government, is seeking to maximise the benefits to the State from the proposed expansion and to protect the Government from potential adverse constraints on subsequent developments if circumstances change in future. ODTF has prepared a "Status Report to Cabinet, August 2008" (Attachment 2) with an analysis of the implications of the options for changes to the Indenture to facilitate the project and achieve Government's objectives.
- 3.2. As a result of the analysis and consultation with agencies, a list of 60 proposed negotiating positions on behalf of the State has been put forward by ODTF. A list of the key proposed negotiating positions is in Attachment 1 to this Cabinet Note and the complete report "Status Report to Cabinet, August 2008" is in Attachment 2.
- 3.3. BHPB has provided written submissions to support its positions in relation to its high level issues. The positions in relation to (a) export of uranium and (b) royalty payments are described briefly in sections 3.4 and 3.5 below. The detailed discussion of these two matters and the complete range of negotiation points are presented in Attachment 2.
- 3.4. A project configuration involving export of unleached concentrate containing residual uranium oxide is deemed by BHPB to be critical and the most economically viable proposition. BHPB cites, in support of this proposal, the major increase in scale of the project above that originally envisaged and the consequent change in estimated costs. BHPB is now not proposing to construct new smelter and refinery plants at Olympic Dam. BHPB estimates indicate that 80% of the value-add is achieved at the concentrate production stage and further processing can be more economical overseas.

Clause 9 and 15



- 3.5. In terms of mining royalties payable to the State, BHPB has proposed that the expansion should be deemed a 'new mine'. As such it would receive the concessional royalty rate of 1.5% for the first five years as applicable to all new mines, rather than the standard 3.5% applicable to ongoing operations. It is proposed to reject this position and consider the project as an expansion of existing operations.
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- 3.6 Cabinet approval is not being sought at this stage of the project to ensure that there is no suggestion of any pre-emption of the formal decision process required for the EIS approval. The EIS is planned to be submitted to Government in January 2009.
- 3.7 In the interim, I propose to:
- (a) endorse the key positions, as set out in Attachment 1, on an in-principle basis for the ODTF to negotiate with BHPB;
 - (b) report back to Cabinet on progress of the negotiations; and
 - (c) seek Cabinet approval for all proposed changes to the Indenture with timing as appropriate to meet Government objectives and subject to Crown Law advice

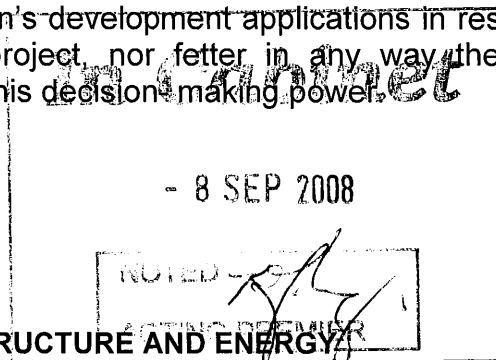
4 RECOMMENDATIONS

- 4.1 For Cabinet to note that I propose to endorse the first phase of negotiating positions with BHP Billiton (BHPB) recommended by the Government's Olympic Dam Task Force and presented in Attachment 1.
- 4.2 For Cabinet to note that the Olympic Dam Task Force will seek to achieve agreement with BHPB on the recommended Government positions for incorporation into proposed amendments to the *Roxby Downs (Indenture Ratification) Act 1982*, which will be the subject of a further Cabinet submission.
- 4.3 For Cabinet to note the "Status Report to Cabinet, August 2008" prepared by the Olympic Dam Task Force (Attachment 2).
- 4.4 For Cabinet to note that the proposed positions to be taken in negotiations with BHP Billiton on the various matters discussed in this Cabinet Note do not in any way pre-empt the decision of the Minister for Mineral Resources Development on BHP Billiton's development applications in respect of the Olympic Dam expansion project, nor fetter in any way the Minister's discretion when exercising this decision-making power.



HON PATRICK CONLON MP
MINISTER FOR TRANSPORT, INFRASTRUCTURE AND ENERGY

5 September 2008



Attachment 1

(4 Pages)

Exempt – Clause 9 – Internal Working Document and Clause 15 – Documents affecting Financial and Property Interests

Attachment 2

(153 Pages)

Exempt – Clause 9 – Internal Working Document and Clause 15 – Documents affecting Financial and Property Interests