



Pre-Budget Submission 2018-19

Submission to The Hon Rob Lucas MLC,
Treasurer

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Table of Contents

1. Introduction	3
2. State Economic Development	4
2.1 PACE Minerals Discovery Drilling Funding	4
2.2 PACE Gas Funding	5
3. Infrastructure	5
3.1 Duplication of the Joy Baluch Bridge	5
3.2 Regional Minerals Port	6
3.3 Electricity Transmission Infrastructure	7
4. Energy	7
4.1 Energy Storage Funding	8
5. Legislation and Regulation	8
5.1 Completion of EPBC Bilateral Agreements	8
5.2 Completion of the Mining Acts Review	9

1. Introduction

The South Australian Chamber of Mines and Energy (SACOME) is the peak industry body representing companies with interests in the South Australian minerals, energy, extractive, oil and gas sectors and associated service providers.

SACOME's member companies are a cornerstone of the South Australian economy, with their combined activity generating the following key economic outcomes:

- \$6.4 billion in Gross State Product.
- \$5.3 billion in production value.
- 33% of exports from South Australia worth \$3.7 billion, making it the highest value export sector in the State.
- Employment of 11,040 South Australians.
- \$445 million in Capital Expenditure investment in new mines and petroleum projects.
- \$213 million in royalties for future state growth.
- \$207 million in exploration for new investment.

(All data sourced from SARIG 2018)

SACOME and its members share the common objectives of economic development, jobs creation and State growth with the South Australian Government.

SACOME submits a range of Budget initiatives aimed at driving resources exploration and development; increasing the efficiency of the resources sector through investment in critical infrastructure; and improving regulatory arrangements to reduce time and cost pressures for operators.

SACOME and its members remain committed to working collaboratively with the South Australian Government to achieve economic prosperity for the State and its residents.

We welcome the opportunity to submit the initiatives set out in this document.

2. State Economic Development

SACOME members make a major contribution to the South Australian economy through royalties, export revenues, employment and the supply of mineral commodities, oil and gas to domestic and global supply chains.

SACOME calls for funding commitments in the 2018-19 State Budget that encourage growth and investment in the resources sector; facilitate project development; and assist mineral and petroleum resources to be brought to market.

2.1 PACE Minerals Discovery Drilling Funding

Commitment Sought:

SACOME calls for PACE Minerals Discovery Drilling funding of \$4 million per annum, with grant funding for 75% of total project costs capped at a maximum of \$300,000, plus a requisite amount for administration of the program by the Department of Energy and Mining.

- SACOME reiterates its 2018 Election call for the reinstatement of PACE Minerals funding to incentivise ongoing mineral exploration in South Australia.
- The PACE program has been a cornerstone of South Australia's ability to attract investment in mineral exploration. It is a proven economic multiplier, having generated an increase in state mining revenue of \$2.4 billion from a public expenditure of approximately \$50 million since its inception in 2004 – a 20:1 return on public geoscience expenditure.
- PACE funding enabled the discovery of the Carrapateena copper-gold body in the Gawler Craton, one of the largest copper reserves in Australia and the world. This discovery has ultimately resulted in a \$916m investment by Oz Minerals in South Australia, demonstrating the critical importance of mineral exploration in providing a pipeline of future mineral resources projects.
- PACE Minerals funding has steadily been declining since its introduction in 2004, with occasional increases for targeted strategies (PACE Copper in 2015/16). At present there is no funding for PACE Minerals Discovery Drilling in the Budget forward estimates.
- Given the substantial return on investment provided by PACE; South Australia's unique geological challenges created by thick layers of cover to be drilled through before reaching prospective rock; and the increased competition for mining investment from other jurisdictions who have established schemes based on PACE, SACOME calls for the reinstatement of PACE funding to encourage mineral exploration investment at a time where the commodity cycle is about to enter an upswing.

2.2 PACE Gas Funding

Commitment Sought:

SACOME calls for \$25 million in funding to be made available for a third PACE Gas Round, to further incentivise development of South Australian gas projects.

- SACOME calls for funding of a third PACE Gas Round to further promote resource development and ease supply and cost issues for South Australian consumers.
- Gas generation comprises more than half of all electricity generation in South Australia (50.5%), with this generation reliant upon a secure, economic supply of gas to ensure affordable production of electricity.
- In line with previous rounds, SACOME calls for electricity generators, and industry customers to be given a first right to agree to commercial terms to contract gas resulting from grant-supported projects.
- The ACCC's June 2018 Retail Electricity Pricing Inquiry Final Report noted that gas prices have doubled or tripled in recent years, with every \$1/GJ rise in gas prices equating to an increase in the wholesale price of electricity by up to \$11/MWh. Further, the ACCC states in the Report that "encouraging increased supply of competitively priced gas is crucial to moderating electricity prices".
- Despite some improvement in the East Coast Gas Market since early 2017, price and supply remain critical issues for all South Australian consumers. Further funding of the PACE Gas initiative will assist in alleviating these issues by accelerating the rate at which known resources can be brought to market.

3. Infrastructure

SACOME calls for funding of infrastructure projects that will alleviate bottlenecks and increase the economic output of both the resources sector and the State.

Road, rail and port infrastructure is critical to enabling the efficient transport of goods along supply chains and maximising export opportunities for South Australia. Similarly, electricity transmission infrastructure is necessary for unlocking major resources projects in the Far North and on the Eyre Peninsula.

3.1 Duplication of the Joy Baluch Bridge

Commitment Sought:

SACOME calls on the South Australian Government to:

- ***Commit funding of \$40m for duplication of the Joy Baluch Bridge in the 2018-19 Budget per it's election promise;***
 - ***Secure and bring forward the \$160 million for duplication of the Joy Baluch Bridge announced by the Commonwealth Government in its 2018-19 Budget;***
 - ***Immediately commence project scoping and design work.***
- The duplication of the Joy Baluch Bridge is a priority for SACOME and creates economic efficiencies for the resources, agricultural and freight sectors.
 - Port Augusta forms the interstate crossroads for the nation's east-west and central north-south National Land Transport Network and National Rail Network corridors. More than 15 million tonnes of freight are estimated to move along these corridors every year, with this expected to increase due to mining and other activities in the region.
 - Port Augusta is also at the hub of South Australia's mineral-rich far north and western regions and OZ Mineral's development of Carapateena mine will place further pressure on transport infrastructure both in the development and production phases because of increased movement of people and commodities. Furthermore, development of the Aurora Solar Thermal Power Plant in the region is expected to require some 6,000 TEU (Twenty-foot equivalent unit containers) of materials for construction.
 - There is a pressing need to implement a comprehensive infrastructure solution, to address existing infrastructure bottlenecks; improve national productivity and efficiency across multiple industry sectors; and remedy community safety and access issues for residents of Port Augusta.

3.2 Deepwater Minerals Port

Commitment sought:

SACOME calls for the South Australian Government to expedite development of a South Australian Deepwater Minerals Port through:

- ***Expediting a ports options analysis as a matter of priority;***
- ***Establishing a government/industry Deepwater Minerals Port Working Group to evaluate options and provide recommendations; and***
- ***Expediting near-term decision making on key considerations such as location and government funding and/or underwriting of the project.***

- The lack of a deep-water minerals port in South Australia is an enduring export bottleneck for the resources sector and the State economy. Resolving export issues for the resources sector requires a comprehensive deep-water solution, particularly for iron ore producers who are reliant on high export volumes to create economies of scale and drive project viability.
- Key operational considerations for a deep-water port are that it must be: open access; have connections to necessary land-side infrastructure to facilitate movement of goods along the export supply chain; and be suitable for bulk loading of mineral products from multiple sources in a region.

3.3 Electricity Transmission Infrastructure

Commitment sought:

SACOME calls on the South Australian Government to allocate funding for the upgrade of electricity transmission infrastructure to enable development of resources projects on the Eyre Peninsula, Yorke Peninsula and in the Far North of the State.

- The Far North and the Eyre Peninsula has significant mineral resources and exploration potential. Transmission is an essential need for these resources provinces and investment into this infrastructure will enable the development of existing and future projects.
- Upgrades to transmission infrastructure across the Far North and the Eyre Peninsula also provides benefit to the agricultural sector and local communities through improved reliability of supply.

4. Energy

South Australia faces a unique challenge in bringing greater reliability of supply to the South Australian market, and in addressing the price shocks that occur when renewable generation is not sufficient to meet demand. Access to affordable, secure and reliable sources of energy is vital for the resources sector, with high energy prices a key threat to operational viability.

South Australia has the highest penetration of renewable generation in Australia and as such experiences increased volatility and higher wholesale and retail electricity prices.

The retirement of baseload generation in South Australia has prompted a reduction of synchronous generation traditionally responsible for frequency control and ancillary services critical to the stability and reliability of the network.

Integrating measures to improve the reliability of renewable generation is fundamental to ensuring reliability of supply, with electricity storage playing an important role in this regard.

4.1 Energy Storage Funding

Commitment sought:

SACOME calls the State Government to allocate \$50 million in the 2018/19 State Budget to establish the Grid Scale Storage Fund (GSSF) to facilitate the development of new storage technologies capable of addressing the intermittency of South Australia's electricity system.

- South Australia has the highest penetration of renewable wind and solar generation in the country, with 50% of our electricity generation capacity coming from renewables.
- Electricity storage technology compatible with our generation mix will reduce the price and volatility of electricity supply, increase system security, and boost industry confidence, with the GSSF being a welcome initiative that will assist in stabilising provision of renewable energy.
- In implementing the GSSF, SACOME suggests that the Government consider how GSSF funding can be best paired with existing and prospective generation to yield the best outcomes for this investment.

5. Legislation & Regulation

The resources sector is subject to extensive regulatory oversight across all stages of activity and is one of the most heavily regulated sectors in Australia.

South Australia benefits from a reputation as a low-risk investment destination with a consultative and responsive regulator. Efficient, balanced regulatory frameworks offer a competitive advantage and create an attractive environment within the context of global competition for resources sector investment.

SACOME calls upon the South Australian Government to implement regulatory reform that will reduce time and cost pressures for the resources sector and better promote resources sector investment in South Australia.

5.1 Completion of EPBC Act Bilateral Agreements

Commitment sought:

SACOME calls on the State Government to prioritise and provide requisite funding for completion of the EPBC Act Bilateral agreement process, finalising alignment of State and Commonwealth environmental approval processes.

- The *Environment Protection and Biodiversity Conservation Amendment (Bilateral Agreement Implementation) Bill 2014* ('the Bill') was intended to give legislative effect to draft bilateral agreements between the Commonwealth and the South Australian Government for streamlining approvals under the EPBC Act and creating a single, State-based approval mechanism. This process is yet to be completed and approval processes remain split between State and Commonwealth regulators.
- In a 2014 red-tape review of the EPBC Act, the Commonwealth Government calculated that a 'one-stop-shop' for environmental assessment and approvals would produce a benefit of \$426 million in regulatory and business costs.
- SACOME calls for the South Australian Government to priorities funding for the completion of the EPBC Act Bilateral Agreements given the notable efficiency gains and cost saving for resources operators stemming from establishment of a single, integrated approval process.

5.2 Completion of the Mining Acts Review

Commitment sought:

SACOME continues to support completion of the Mining Acts Review process. In doing so, SACOME calls for a comparative evaluation of approvals component of the Act having regard to processes in other States and Territories.

- The Leading Practice Mining Acts Review is a necessary step in creating a regulatory framework that reflects modern operational practices. This work was significantly advanced prior to the 2018 State Election and SACOME calls for completion of this important legislative process.
- In its submission to the Mining Acts Review process in 2017, SACOME recommended that DSD consider redesigning the mining approvals process in South Australia to include a scoping document at the beginning of the process to assist DSD in developing Terms of Reference to guide the Mining Lease Application (MLA) process.
- Most States and Territories have incorporated rigorous planning and Terms of Reference processes at the beginning of their mine approval process. SACOME submits that the South Australian Government should examine the New South Wales, Queensland, Victoria and Northern Territory project scoping and Terms of Reference processes to assist in the design of a similar process in SA.

- The current ML application process requires project assessment to be completed before the project is fully defined, during which time a set of guidelines are implemented by the Department restricting a proponent's ability to adjust conditions as it progresses to the Program for Environment Protection & Rehabilitation (PEPR) stage.
- This results in unnecessary complexity due to the MLA being submitted too early and with insufficient detail. Further, the process restricts amendment of the MLA as circumstances change during project development.
- To improve this, SACOME proposes the introduction of a Terms of Reference (TOR) process, whereby proponents submit a project description and preliminary environmental, economic and social assessment prior to the ML application process.
- It is suggested that this document relies upon the outcomes of a project scoping study and triggers preparation of the Terms of Reference for the Environmental, Economic and Social Impact Assessment that would form the basis of the MLA by the lead approval agency.
- The lead approval agency then prepares the Terms of Reference which guide the MLA, including reference to all legislation, regulations, Government (including Federal and Local Council) policies, plans and standards that will relate to the specific project. This would ensure that the proponent has full knowledge of requirements for approval at project commencement.
- This allows the project design process to be informed by an advanced knowledge of regulatory requirements at an earlier stage. Under the current system, proponents do not discover the regulatory standards they must meet until after the project has been designed, the MLA is complete, has been assessed and lease conditions granted.
- Determining project viability is the logical first step in the application process. SACOME submits that incorporating a Terms of Reference mechanism is a logical step in improving the regulatory framework for the resources sector.