



GRIFFIN ENERGY

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Committee Secretary
Senate Select Committee on Fuel and Energy
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

RE: Submission to the committee review of the Resource Super Profits Tax (RSPT).

In response to the written request of Senator Cormann, Chair of the Senate Select Committee on Fuel and Energy (the committee), Griffin Energy ('Griffin') welcomes the opportunity to make a submission to your current line of inquiry.

Griffin notes that of the particular terms of reference quoted in the correspondence, terms e, f, g and h are specific to petroleum, diesel and gas products. Griffin Energy, and its parent entity Griffin Coal, have no direct association with these products. Instead, Griffin Energy is involved in the generation and sale of electricity and Griffin Coal in coal mining. However, Griffin would like to point out to the committee a potential causal relationship between the RSPT and the Western Australian Electricity Market (the WEM), as might be of interest under term of reference (j) *any related matters*; or under another of the committee's terms of reference not identified in this request for submissions: (c) *the operation of the domestic energy markets, and petroleum, diesel and gas markets, including the fostering of maximum competition and provision of consumer information*.

The South West Interconnected System (SWIS), which is covered by the WEM, is an isolated electricity grid. As such, it is structured to maintain reliability and security of supply, including operating a capacity and energy market; and ensuring a diverse portfolio of fuel sources. Coal fired generation represents around 40% of the installed capacity in the SWIS. This share is expected to be eroded over time. However, it is recognised that in the absence of another base load supply source (such as nuclear or geothermal power), some coal generating capacity will be required in the foreseeable future to insure against gas supply disruptions (gas being the major fuel source in the SWIS).

Two local coal mining companies operate in the Collie coalfields in the state's south west, supplying all thermal coal to the generation sector¹. The Collie coalfields are the only operating coalfields in WA and produce sub-bituminous black coal. This is relatively high in moisture and has a low to moderate calorific value. Ideal for localised thermal generation, it is not well suited for export and to date, only a small export economy has been established. The bulk of both coal miners' business activities revolve around the supply of coal to local generation companies (Griffin Energy and Verve Energy). These are long term, stable supply contracts. Due to the recent introduction of a competitive electricity market in WA (established in September 2006), and the opening up of competitive generation supply, coal supply contracts tend to be high volume and low margin. It is this nature of the coal mining business in WA that leads to some concern with regard to the introduction of the RSPT.

While the final details of the RSPT are yet unknown, it is clear that taxing the profits above the long term bond rate of existing (and depreciated) mining operations at up to 40% will lead to lower long term revenues for these operations². Reducing the returns of these marginal businesses may lead to a future reallocation of capital away from these mining operations, when further investment is required to maintain mining output. Reduction in mining output or mine closure would have devastating impacts on the town of Collie and the surrounding district³. Importantly, as outlined above, there are no fuel-substitution alternatives for coal to provide the balanced generation portfolio that maintains security of supply in the SWIS. In other words, it will be unlikely that the State can allow these operations to fail. The only way to do this (in the event of the withdrawal of private capital) is for the State to step in and subsidise the mining operations. Reducing royalty obligations would have little or no impact (given royalties are netted from the overriding 40% RSPT take). This means contracts would need to be renegotiated between coal suppliers and state-owned utilities, which would warrant either an increase in electricity tariffs or a direct taxpayer subsidy. Either way, the impact would distort the electricity market.

Griffin Energy acknowledges that this might be deemed a second order impact of the RSPT (as opposed to the direct impacts on the economics of export related commodity extraction by internationally focused capital providers – which have dominated the headlines), but it may have a large impact on the long term effectiveness of the WA electricity market. As the committee may be aware, Griffin Energy (and its parent Griffin Coal – under voluntary administration), are subject to an ongoing asset sale process. Critically, part of the valuation process will involve attributing value to the expansion projects at Griffin's Bluewaters coal fired power station. Bluewaters units 3 and 4 are intended to be brought online in the middle of the decade to replace the planned retirement of existing, aging coal assets in the SWIS. Approvals for these expansions are imminent, culminating from a three year approval process. There is an obvious relationship between the potential value of the Bluewaters expansion units and the cost of coal. The price of electricity the expansion units will need to extract from the market to deliver a return on capital may not be achievable without state intervention – as alluded to above. Uncertainty around the markets which Griffin operate in will negatively impact valuations. Griffin remains critical of the manner in which the RSPT was introduced and hopes constructive consultations will lead to the timely implementation of a more sensible taxation policy.

¹ Griffin Coal and Premier Coal (part of the Wesfarmers Group)

² This assumes that state royalties are reimbursed from the 40% RSPT.

³ Griffin Energy does not intend to make detailed comment on this issue. Both Griffin Coal and Premier Coal (Wesfarmers); the Chamber of Minerals and Energy or the Bunbury-Wellington Economic Alliance would be best placed to provide comment on likely impacts to regional employment and economic activity.

Should you have any questions regarding our comments, I can be contacted on

Yours sincerely

Shane Cremin
GM – Policy & Strategy