

## 3<sup>rd</sup> Coaltrans Australia Conference

Sofitel Hotel, Brisbane

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Keynote address by John Pegler

President, Queensland Resources Council

Chief Executive Officer, Ensham Resources

### Global carbon: Queensland's challenge and opportunity

SLIDE 1



Good morning ladies and gentlemen, and for those of you visiting Brisbane for this conference, welcome to sunny, bone dry Queensland.

Given the title of my address, it should come as no surprise that I will have a few things to say on the subject of climate this morning.

However, before beginning my remarks, I would like to acknowledge the original inhabitants of the land on which we stand today.

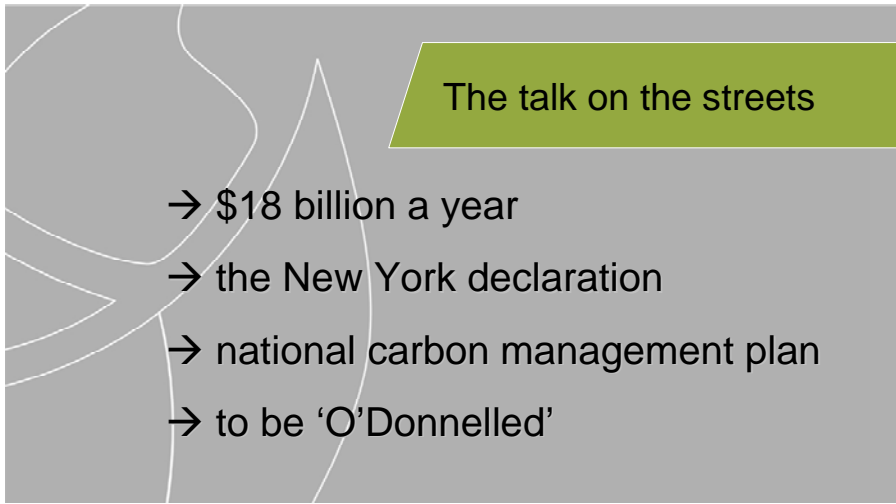
It's also appropriate that I should acknowledge the efforts of everyone involved in putting the 3<sup>rd</sup> Coaltrans Australia event together....holding it in Brisbane ....and inviting me in my capacity as president of the Queensland Resources Council to formally launch proceedings.

As Michael Roche explained in his introduction, the Queensland Resources Council is the peak representative body for the minerals and energy sector in this state.

I have had the honour of serving as QRC president since 2004. Since then, we have seen the membership grow to 64 full members, and diversify to embrace oil and gas production and electricity generation.

The QRC speaks on behalf of the companies producing over 99 per cent of Queensland's coal.

Over the next couple of days, you are going to become more familiar with some new terminologies that have joined the Queensland coal industry lexicon over the past 12 months.



These include:

- '18 billion dollars a year'
- 'The New York declaration'
- 'national carbon management plan' and
- 'To be O'Donnelled'

First of all, I don't want you to read anything untoward into the last phrase.

Let's start there .....

Stephen O'Donnell's Goonyella Coal Chain Capacity Review was conducted in a spirit that confirms the high stakes involved in

getting the Queensland coal supply chain to a position of achieving the maximum throughput of coal.

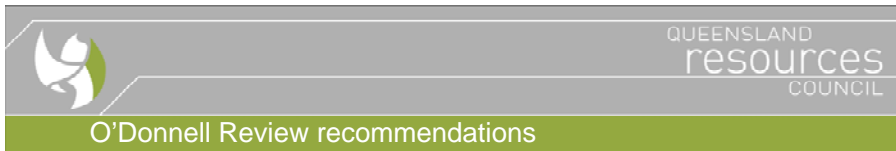
The QRC's motive in commissioning the review was the simple belief that all users deserve a realistic expectation of .... what system capacity is achievable, ....when this capacity will be available and .... how the system can best be operated to realise this capacity.

The high level of multilateral cooperation that the former Pacific National Chief Executive received during his inquiries was commendable for a number of reasons.

Chief among these was our stated view that despite a recent history of industry dissatisfaction over system performance, there was nothing to be gained from finger-pointing and blame-shifting.

Stephen O'Donnell's riding instructions were explicit in identifying performance shortcomings and making recommendations to improve efficiency 'from mine to port'.

This approach was embraced by the Queensland Government, which came on board as a co-sponsor, and most importantly, fully accepted Stephen O'Donnell's findings and his recommendations for change.



Creation of a central coordination role to oversee, and if necessary, coordinate all activities that span the supply chain

Immediate start by QR National on a program to purchase additional train sets to allow it to meet projected volumes

Business improvement program across the supply chain, starting immediately with Queensland Rail

[www.qrc.org.au](http://www.qrc.org.au)

These were:

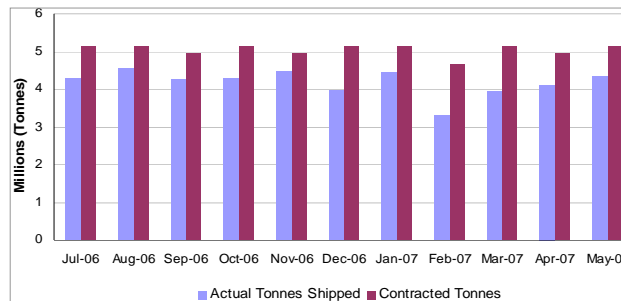
- The creation of a central coordination role to oversee, and if necessary, coordinate all activities that span the whole of the supply chain
- An immediate start by QR National on a program to purchase additional train sets to allow it to meet projected volumes and
- A business improvement program to be commenced across the supply chain, starting immediately with Queensland Rail.

The full copy of the O'Donnell Review Report, supporting documentation and other public statements from the QRC and the State Government are publicly available on the QRC website.

The bottom line is that capacity constraints on the Goonyella

system cost the Queensland economy around 1 billion dollars in the 12 months to May 2007.

**SLIDE 4**



'Close cooperation & transparency of information are vital ingredients to resolution'

That means lost sales for coal companies, lost revenues for service providers and lost royalties for the people of Queensland.

As Stephen O'Donnell noted:

'Close cooperation and transparency of information are vital ingredients to resolution of issues associated with underperformance of the coal supply chain.'

'However, there is no person or entity with the authority to pull stakeholders together to obtain an outcome.'

'Despite the goodwill of all parties to move forward, relationships can become dysfunctional as pressure mounts to do something while individual parties address issues from their own perspective.'


I am pleased to say that Stephen O'Donnell has accepted a short-term assignment to establish the central coordination role that he recommended.


We look forward with confidence to him enjoying the same level of cooperation in that capacity that he enjoyed in compiling his report and recommendations.

Looking to the future, what industry wants is awareness among service providers that they are not just asset managers and need to stay focused on meeting their customers' expectations.

And it is the end-user customers whose expectations matter most. They rightly expects service and transparency that includes not only meeting contractual commitments, but also developing better levels of service over time.

## **SLIDE 5**





QUEENSLAND  
resources  
COUNCIL

Transparency for simplification

**Need to end  
vertical  
integration of  
QR's  
(monopoly)  
below rail and  
(contestable)  
above rail  
services**

At the QRC, we are big fans of transparency.

It's a goal encouraged by a regime where coal companies pay a government-owned corporation to carry their products to port, and then pay the same government owners royalties on that freight component.

A tax on a cost is a hard pill to swallow, but a spoonful of sugar could make all the difference.

QRC has been promoting to the government and the QR Board the need to end vertical integration of QR's (monopoly) below rail and (contestable) above rail services.

We believe there is a strong case for restructuring of QR so it can focus on providing a superior service to its resource customers.

That is, a business focused on maximising shipments at the lowest long term cost.

From a customer perspective, one of the advantages of this separation is that regulation of the below track returns to government would become much simpler.

Another benefit would be a clearer distinction between the static capacity of a given rail network and the variable capacity, depending on the mode of operation, of an above rail regime.

Separation would enable a clear identification of additional throughput gained from improvements in operating procedures and other above-rail efficiency gains.

Clarity about the origins of capacity gains, particularly for an expanding network, would in turn simplify the process of deciding who has access to this capacity and how much they should pay for the access.

We are not focused on structural separation of QR for its own sake. We are focused on outcomes – millions of tonnes of outcomes.

**SLIDE 6**



Coal industry value of production	\$18 billion
Coal royalties to Qld	>\$1 billion
Coal rail and port commitments	\$3.9 billion
Additional over next 2 years	\$2.0 billion
Minesite investments to 2010	\$3.4 billion

Ladies and gentlemen.

I'm now going to clarify for you, the other terms that I referred to earlier as having just entered the coal industry lexicon.

The first is *18 billion dollars*.

That's how much the coal industry was worth to Queensland last financial year. Or if you want to drill down a bit, that's 570 dollars a second!

As we now know, the figure could have been as high as 19 billion with a supply chain able to cope with foreshadowed industry expansion.

Some other figures are worth trotting out, particularly in the context of defining the level of new investment that the coal industry is committing to the state of Queensland.

Over the past five years, coal companies have directly underwritten more than 3.9 billion dollars investment in the state's rail and port capacity.

Over the next three years, the coal industry has guaranteed another 2 billion dollars for additional expansions.

Despite declarations in the media, this is not what the government spends on rail and port development – this is what industry commits to funding, come hell or high water.

As we also keep having to tell politicians, there is no trade-off for around 1.5 billion dollars a year in royalties.

Royalties are pure profit. They are not re-invested in infrastructure to support the mining industry. They are the return to the people of Queensland for the use of their resource endowment.

Industry's commitment to future transport infrastructure is in response to production increases expected from almost 3.4 billion dollars worth of new minesite investment between now and 2010.

Totalling it up, that's over 9 billion dollars in direct capital investment in Queensland, and industry is wearing the investment risk.

## SLIDE 7



- \$1 billion on the table for clean coal technology
- Industry/govt = \$900m in Queensland
- Science fact not fiction
- Ultra super critical coal-fired available
- Oxyfuel retrofit potential
- National carbon management plan



I want to turn now to another industry investment, this time the sustainable development of Australia and the world's most abundant energy fuel.

It's about concerted effort at the technological level to convert coal from its perceived role as an emissions villain to an environmentally benign solution to global energy security.

Much is happening in the countries of our customers – and in the countries of Australia's competitors – with the common aim of

preserving global access to low cost energy while also achieving low emission goals.

Even though Australia produces only about 1.5% of global emissions of CO<sub>2</sub>, the Australian people and their Governments are not minded to stand idle. Australia is a very large global supplier of energy coal and metallurgical coal as well as a supplier of other energy forms. Australians take their social responsibilities very seriously, both at home and abroad, and we insist on being seen to do so locally. Fulfilling these responsibilities is seen by Australians as a vital part of maintaining a sustainable role as an energy supplier to customers worldwide. And meeting these needs is vital to the economic well-being of Australia and its trading partners.

In March 2006, Queensland and New South Wales coal producers announced a voluntary levy on production called the COAL21 Fund.

Its aim was to raise 300 million dollars over five years to invest directly in the demonstration of emerging clean coal technologies.

In May this year, Queensland Premier Beattie's so-called 'New York declaration' that he would raise coal royalties to fund the development of a low emission coal-fired power plant in Queensland, just happened to coincide with an important meeting of the COAL21 Fund partners.

The meeting was arranged to consider an indefinite extension of the voluntary levy and that decision was taken.

Over the next decade, the Australian black coal industry will put around one billion dollars on the table to support the development and deployment of technologies designed to significantly reduce greenhouse gas emissions from coal-fired power stations.

No other industry, anywhere in the world, has committed as much to fight climate change.

No other industry, anywhere in the world, has done so voluntarily.

Funds raised from Queensland coal producers will support clean coal technology projects here in Queensland – a commitment now enshrined in an Act of Parliament.

This is expected to realise in the order of 600 million dollars over the next 10 years, with 300 million dollars earmarked to support the development of a near-zero emission coal-fired power station in Queensland.

There is growing business and government confidence that Australia's greatest contribution to climate change is going to be delivered through technology.

But do we have to wait for decades for this breakthrough?

Happily, the news is that we don't and Queensland can be at the forefront of this new era of power generation.

But there is also an important role for the national government in cooperation with the States.

Here in Queensland, we need extra power and lots of it if we are to cope with population growth and realise the ambitions of concepts including the industrialisation of north Queensland.

We have the technology to build carbon capture-ready power plants right now.

Using the latest commercially available technology, we can build in Queensland a highly efficient, so-called ultra super critical, coal-fired power plant.

In essence, the greater efficiency comes from being able to burn pulverized coal at much higher temperatures than we do now.

Added to that plant could be the latest in systems to remove most of the oxides of sulphur (SO<sub>x</sub>), and substantially reduce nitrogen oxide (NO<sub>x</sub>) emissions.

Eliminating most of the so-called SO<sub>x</sub> and NO<sub>x</sub>, we can then take advantage of the latest in chemical filters to capture most of the CO<sub>2</sub> emissions.

All of these add-ons cost more, but their economic viability will become apparent when Australia moves, as it inevitably must, to embrace a carbon pricing scheme.

There are other options as well.

**SLIDE 8**



Callide A Power Station  
4 x 30 MWe  
Steam 130 t/h at 4.1MPa, 460°C  
Commissioned: 1965 – 69  
Refurbished 1997/98

CO2 storage areas:

1. Northern Denison Trough
2. Southern Denison Trough
3. Fairview CSM Field
4. Roma Shelf
5. Burunga/Wandoan Anticlines (CSM)
6. Wunger Ridge

— Gas & Oil Pipelines

**National carbon management plan:**

Large scale storage

Common user pipes

Future power stations planned using additional location criteria

The coal industry and the Federal Government are each putting 50 million dollars into a ground-breaking project at CS Energy's Callide power plant in central Queensland.

The successful demonstration of the Oxyfuel technique could mean that a future conventional ultra super critical plant could be built in readiness to use such technology at industrial scale.

Most excitingly, this world-leading technology has the potential to be retrofitted to our existing fleet of coal-fired power plants in Australia, protecting a mostly public investment of around 40 billion dollars.

While it is important that future power plants are capable of reaching near zero emissions, if we are going to make serious inroads into the emissions from coal-fired power plants, we need to be doing something with the existing Australian inventory.

Oxyfuel technology may hold the key.

If it is able to promise serious reductions in carbon emissions, then there is an important task ahead for federal and state governments.

Development and deployment of these breakthrough technologies is primarily a national and global priority.

We should not be leaving the task to individual state governments and individual project proponents.

We need a nationally coordinated approach to carbon capture and storage clean coal technologies.

We need a national plan for carbon management to complete the search for commercially viable storage sites capable of many decades of storage of CO<sub>2</sub>.

There also needs to be a plan for a national common user pipelines to transport the CO<sub>2</sub> to major storage sites.

This plan also needs to come up with the best trade-offs between power station locations, transmission infrastructure and this common user carbon transport infrastructure.

This national plan for managing carbon is a vital nation-building exercise and the QRC is pleased to note positive steps being

taken in that direction through the Ministerial Council on Mineral and Petroleum Resources.

You are now familiar with the last new industry term – a national carbon management plan.

Let us hope that the Federal election does not upset this outbreak of harmony between the Commonwealth and the states, as the first carbon capture ready power plants could be a reality by 2012.

**SLIDE 9**



Clean coal technology real and a huge business opportunity  
Coal in electricity generation has a long-term future

Global energy demand growth accelerating  
All available resources required to meet demand

**Australia's priorities:**

Managing emissions for smooth transition to low-carbon future  
Managing to ensure economy stays on the path of least-cost  
Policy instruments to transition seamlessly into national, global schemes

Ladies and gentlemen. Some key messages on this subject.

- Clean coal technology is real and it is going to be a huge business opportunity, especially in the transport and storage of carbon dioxide.

- The use of coal in electricity generation has a long-term future through the roll-out of these clean coal technologies.

Ladies and gentlemen, Australia is very well positioned to play a leadership role in contributing to climate change solutions for the whole planet.

How pressing are they?

Well, the world is currently adding 250,000 new people every day or 1.75 million every week.

By 2030, global energy demand will be 50 per cent higher than it is today, mostly driven by developing economies.

We are going to need every available energy source to meet those expectations – coal, gas, oil, uranium and renewable energy in all its forms.

If we can drive down fossil fuel emissions – and this goal applies equally to gas-fired power generation – we will have the power to deliver environmental and energy security benefits capable of lasting centuries.

Let's not forget that around a third of world's population still does not have access to electricity.

While on the subjects of governments and elections, Australia's policy response to climate change is clearly a major issue,

regardless of how many electors fully understand the current implications for deep cuts in greenhouse gas emissions.

From the QRC's perspective, there are three principal climate change challenges to address:

- Managing emissions to make a smooth transition to a low-carbon future
- Managing the transition costs to ensure that the economy stays on the path of least-cost
- Developing policy instruments which will transition seamlessly into national and eventually, global schemes.

Queensland's ample endowment of low-cost fuels has encouraged the development of the resource sector into an economic powerhouse.

The minerals and energy sector is now valued at more than 25 billion dollars a year and underpinning record levels of employment and investment in Queensland.

One in every eight jobs in this state is linked to the resources sector, so the challenge for governments is to maximise Queensland's long-standing economic and social investment while moving towards a low carbon economy.

The complexities surrounding such a transition are challenging, but not impossible with a Federal Government committed to a clear

plan of action.

**SLIDE 10**



1. All carbon abatement opportunities need to be taken, including offsets
2. Energy efficiency savings to defer new baseload generation capacity
3. Defined offset mechanism essential to managing Queensland's net emissions
4. Accelerated development and deployment of new technologies
5. Emissions performance – not fuel types or source (picking winners)
6. National policy must eliminate local distortions for economy-wide carbon price
7. Diversify energy mix towards low-emission and low-emission ready baseload
8. Blending renewable, fossil fuel-based generation, utilising new technologies

First, all carbon abatement opportunities need to be taken up, including offsets.

Energy efficiency savings are needed across the economy to defer the need to invest in new baseload generation capacity for as long as possible.

A clearly defined offset mechanism, recognising offset opportunities in other jurisdictions – both domestic and international – is essential to managing Queensland's net emissions.

We need to fund the accelerated development and deployment of all new low emission energy generation technologies to create future reduction opportunities in energy generation sooner rather than later.

Australia's focus needs to be on emissions performance and not fuel types or source.

Governments should not be in the business of picking winners, especially when the choice is based on electoral appeal.

A workable national climate and energy policy needs to eliminate the distortions and compliance costs of a multitude of state-based schemes and produce a single, economy-wide carbon price.

We need to invest to diversify the energy mix towards low-emission and low-emission ready baseload generation.

Given the relative scarcity in Queensland of cost-effective renewable options, the foreseeable future is likely to involve a judicious blend of renewables and fossil fuel-based generation, utilising low emission technologies.

**SLIDE 11**

GLOBAL CARBON:  
**Queensland's**  
CHALLENGE AND OPPORTUNITY

John Pegler, President, Queensland Resources Council

Working together for a shared future

Ladies and gentlemen. You've been brought up to speed on the latest buzz words in the coal business.

I have no doubt that we'll conjure up some more before the next Coaltrans conference.

Finally this morning, the outlook for our industries is still bright and offering more for our fellow Australians than at any time in decades.

By 2015, our industries in Queensland are forecast to employ another 15,000 people, most of whom, we will have to educate about the industry's number one priority – workplace safety and health.

Last week was the 13<sup>th</sup> anniversary of the Moura disaster that killed 11 miners in 1994. Also last week at the industry's health and safety conference, we released a graphic reminder of what it's like to live such a tragedy.

Ladies and gentlemen, I'm going to leave you today with a short trailer from the documentary – *Make Safety their Monument*.

We don't want anyone associated with this industry to forget that ahead of all else, our first priority is zero harm.

Thank you for your attention, and all the best for a rewarding conference.

**(Cue DVD as applause dies. Runs 2.37).**