

Economic Regulation Authority
PO Box 8469,
Perth BC WA 6849

5TH December 2011

Dear Sir

Re: Mid West Energy Project (South Section)

The Geraldton Iron Ore Alliance (GIOA) has a membership of seven iron ore mining companies which are at various stages of exploration and development of mines in the Mid West. These companies are:

- Asia Iron Australia Proprietary Limited
- Cashmere Iron Limited
- Crosslands Resourced Limited
- Gindalbie Metals Limited
- Padbury Mining Limited
- Sinosteel Midwest Corporation
- Top Iron Proprietary Limited

The GIOA is providing this submission in support of development of the proposed 330kV Mid-West Augmentation proposal. The GIOA considers that the expedient progress of this project is essential to enable planned economic and social development of the region to occur, without serious power supply shortages in the very near future.

The Economic Regulatory Authority (ERA) confirmed that Western Power's planned upgrade to 330kV transmission line was the best means of developing the Neerabup to Eneabba section of the South West Integrated Network in its decision of 3rd February 2011.

In its Draft Determination under the New Facilities Investment Test (NFIT) of 14th November the ERA also confirmed Western Power's proposal met their requirement of efficiently minimising costs, but did not give its pre-approval for the full proposed expenditure to be rolled into the regulated capital base, suggesting that costs be borne by new mining projects or Western Power. Western Power has advised that it is not commercially viable for it to proceed on this basis.

The Draft ERA determination does not give adequate consideration to the direct and flow on benefits coming from the mining projects to existing and future Mid West businesses (existing customers) instead indicating they may be disadvantaged, nor is there appropriate consideration of the reliability and supply issues that burden regional industry and communities.

The GIOA has made previous submissions to the ERA and more recently to Western Power as part of their public consultation processes, particularly in respect to social and economic benefits which flow from the development of members current and planned

projects in the region. Independent consultants Economic Consulting Services (Oct 2010) estimated the potential benefits the Mid West iron ore industry will bring include:

- An average of 3,500 jobs a year during 15 years construction
- 4,500 direct jobs a year, averaged over the next 20 year period of operation
- A total of 26,000-plus direct and indirect jobs in WA, 15,300 of these in the Mid West
- An addition of \$5.0 billion a year Direct operational expenditure and with economic flow on effects \$7.4 billion per year to be expended in the Mid West to 2030.
- \$17 billion of investments by 2015
- Major infrastructure investment in Rail, Port, Electricity, Water and Gas

A further study undertaken by Worley Parsons (December 2010) estimated that the industry would develop offsite infrastructure at a cost of approximately \$7 billion dollars which primarily consisted of common-user infrastructure benefiting a range of regional industries and projects. Just one example of such an investment by the industry is the \$450 million upgrade of common-user rail from Morawa to Geraldton port currently under construction.

At this time the first major Mid West iron ore project being Gindalbie Metals' Karara project is under construction, and this serves as a basis from which some assessment can be made of whether early estimates of economic outcomes for the regional, State and national economies may be realised. To date \$1665M, of the total estimated \$2.5 Billion construction cost has been expended, as follows:

- Mid West \$148M (9%) across 276 regional and local businesses
- Rest of WA \$1065M (64%) with 783 companies
- Rest of Australia \$309M (18%) over 233 national companies
- Other \$143M (9%) with overseas companies

The above being direct expenditure on capital works from which significant flow-on expenditure has resulted. Due to the nature of the contracts, works and services required it is expected that a much larger proportion of expenditure shall be achieved with regional and State-based businesses in the operational stage of the project.

Contrary to the position taken in the Draft Determination existing business and industry (Western Power's existing customers) is not disadvantaged by infrastructure development that is partly (or even wholly) servicing the emerging Mid West iron ore industry, clearly they together with other WA based enterprises are major direct beneficiaries of this development.

Indeed one of the most significant factors that shall determine whether local business can take up the opportunities the expanding Mid West economy offers shall be access to power supplies to expand or develop businesses and support facilities. Power supply generally and the 330kV transmission line upgrade from Neerabup in particular, has been the number one priority for the region consistently expressed by the City of

Greater Geraldton, regional local governments and development agencies, as well as regional industries since its deferral around four years ago.

It is not clear to the GIOA why safety, reliability and limitations in access to supply are not addressed in the Western Power submission nor dealt with in the ERA Draft Determination. The reality of the situation is that even modest industrial projects or expansion in Geraldton, Narngulu, and other parts of the region cannot secure guaranteed supply arrangements, instead are being offered “interruptible” supply. There are also significant outage issues in rural areas of the region and the industrial areas within Geraldton and Narngulu, which are impacting existing businesses and rural communities. While planned iron ore projects require regionally significant base load supplies and the several renewable and conventional power supply projects proposed in the region require the 330kV transmission network to connect into, they are all part of the growth across the Mid West being generated through numerous small to medium scale projects.

The Mid West is fortunate in having a very diverse regional economy with multiple small to medium sized projects in various stages of planning, feasibility and development. There appears however to be significant difficulties in government agencies responding to necessary upgrading of infrastructure and delivery of services under its control in response to growth that is not either “natural growth” extrapolated from historic data or that which comes from mega scale projects.

There are two agencies that are well placed to understand and comment on the growth in demand, new projects and power transmission and supply issues of the region; being Western Power and Synergy. It is the GIOA’s view that greater weight and confidence should be placed by ERA on the submissions of these agencies, and we particularly note Synergy’s assessment as expressed in its submission to the Authority that *“Synergy has satisfied itself that the total of incremental revenue and net benefit, being \$477 million which exceeds the project cost, will be delivered by the MWEP. Synergy’s view is that the \$477 million could be “on the low side”.*”

Western Power have recently advised that the risk borne by their customers using more than 50,000 kWh/yr in their worst case estimation is a potential cost increase in the order on 1%. The GIOA considers this negligible when considered against recent and future cost increases imposed by the authority in its normal course of business and through potential further government taxes and policies (e.g. Federal carbon tax impact), and in particular due to the significant economic benefit enjoyed by this sector in general due to current and planned projects enabled by the power transmission system update (including iron ore projects).

The Draft Determination if not amended to support the expedient progress of the Mid West Energy project is likely to escalate what is already a significant erosion in confidence across the Mid West business and general community in the future development of this region. The GIOA is also concerned that this may also undermine confidence of international investors and strategic partners considering participation in the regions emerging iron ore industry.

There are significant iron ore projects in the region which are substantially progressed and have significant power supply requirements, providing long-term base loads which shall require and “anchor” the planned augmentation infrastructure investment.

Two significant magnetite proposals, Asia Iron’s Extension Hill project (Extension Hill Pty Ltd) in the Mt Gibson Ranges and Gindalbie Metals’ Karara project are currently progressing on the basis of connection into the 330kV line to achieve the full potential of their projects.

The Gindalbie Metals’ Karara magnetite project aims for its first stage magnetite production to be operational by the end 2012 (with a 100MW base load). Gindalbie has in place a long term power supply agreement with Verve Energy for approx. 1 million MWh's per annum for a 15 year term. This power is to be sourced from Verve and shall be delivered at Eneabba via a SWIN connection.

Similarly, the Extension Hill project has its environmental approvals in place and design works significantly progressed with production intended to commence in 2013/14. The project requires 150MW at its initial stage with significant ramping up to service its further stages of development for a planned production of 40Mtpa by 2019, requiring in the order of 600MW.

The two major magnetite projects previously mentioned are required to connect into the 330kV line at Eneabba and Three Springs and shall at considerable cost construct 330kV transmission lines to their projects, in the order of \$200m for Gindalbie and \$150m for Extension Hill.

In addition, Crosslands Resources is currently evaluating power supply options for its Jack Hills Expansion Project (JHEP). The power demand for the expansion is currently projected to be 220MW for a two module magnetite processing facility but a subsequent third module is being considered which would increase the power demand. Reliable and economic supply of electricity is critical to Crosslands.

The feasibility study for the JHEP includes the development of a competitive, long-term power supply from generators in the South West Interconnected System (SWIS). The SWIS power supply includes two essential infrastructure components; (i) a high voltage direct current connection from Three Springs to Jack Hills, developed by Crosslands, and (ii) an access contract with Western Power at Three Springs with capacity for the JHEP and expandable to meet future demand growth.

The progress of these projects of regional and State significance requires the 330kV upgrade to be progressed without delay, however they are just part of a rapidly developing new industry which has the capacity to generate well in excess of 70 million tonnes of iron ore per year from the region by 2015/16.

The total estimated power needs of the planned GIOA members’ magnetite projects in the region are estimated to exceed 2000MW by 2020.

The GIOA also has significant concerns in respect to the efficiency and reliability of the current 132kV transmission system through to Geraldton. We are firmly of the belief that the extension of the 330kV upgrade through to the city of Geraldton and its ultimate extension to the planned Oakajee industrial estate is required to be progressed as soon as practical. Failure to progress the augmentation in a timely manner is most likely to see major projects delayed, further limitations placed on power supply to industry, overall economic development of the region curtailed, a substantial increase in interruptions to supply and increased risks of fire and/or other safety issues.

To minimise the risk of cost escalation Western Power has called tenders for construction of the project in advance of a favourable decision from the ERA, a move which provides the opportunity to attain a competitive price from contractors already present in the region undertaking power line transmission construction works for the Karara mine. The GIOA commends them for this work which should at a minimum save mobilisation costs, however these saving are likely to be lost if it faces delays as a consequence of an unfavourable ERA decision on the project.

Clearly the case to expedite Western Power's proposed 330kV augmentation project in the Mid West is compelling and any potential further delay by is of extreme concern to the Mid West Iron ore industry.

Yours sincerely

R W Jefferies

Chief Executive Officer