GINDALBIE
METALS LTD
ABN 24 060 857 614

Level 9, London House
216 St Georges Terrace
PERTH WA 6000

PO Box 7200
CLOISTERS SQUARE WA 6850

Tel: (+61) 8 9480 8700
Fax: (+61) 8 9480 8799

www.gindalbie.com.au

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Mr Robert Pullella
Executive Director Competition, Markets and Electricity
Economic Regulation Authority
PO Box BC
PERTH WA 6849

Matters Relating to Western Power's Revised Proposed Access Arrangement for the South West Interconnected Network

By notice of 17 January 2007 the Economic Regulatory Authority called for submissions as to whether Western Power's ("**WP**") revised proposed access arrangements meets requirements of the Electricity Networks Access Code 2004 as to three matters:

1. *A proposed provision that will allow WP to unilaterally reduce a network user's contracted capacity at a connection point;*

2. *The treatment of capital contributions under the proposed access arrangement; and*

3. *The ability of WP to require payment of capital contributions in the nature of headworks charges.*

Gindalbie Metals Ltd ("**GBG**") wishes to make submissions on each of these three matters.

BACKGROUND

GBG and Anshan Iron and Steel Group Corporation ("**Ansteel**") (one of China's largest steel producers) are in joint venture ("**Karara Joint Venture**") to develop the Karara Iron Ore Project.

The project is located 220 kilometres inland from Geraldton as shown **Appendix 1: Midwest Projects**. Appendix 1 also shows other resource projects planned for the Midwest region. These will also generate substantial power demands in that region. So far as we are aware infrastructure planning for the Midwest region has not yet addressed these future needs.

Further details of the project are contained in **Appendix 2 : Project Background and Benefits.**

The Commonwealth Government has granted the project Major Project Facilitation Status.

The Karara Project is dependent on adequate power infrastructure within the Midwest region. Details of the transmission infrastructure issues are contained in **Appendix 3 : Midwest Transmission Network Requirements**.

The Karara Project has an initial constant base load of one hundred (100) megawatts (MW). The delivery of that base load requires:

a) connection to the South West Interconnected Network (SWIN) at Eneabba; and

b) upgrading the existing system generally along the present line to Golden Grove.

(collectively "**Golden Grove Works**").

The capital requirements for the Golden Grove Works are anticipated to be in the order of one hundred million dollars ($100,000,000).

The three issues on which ERA seeks comment have direct relevance to the provision of private capital investment to assist in delivery of the Golden Grove Works. GBG submits as follows:-

1 REDUCTION IN A NETWORK USERS CONTRACTED CAPACITY AT A CONNECTION POINT

- The Karara Joint Venture has a direct interest in the Golden Grove Works. GBG is already cooperating with Western Power in scoping and formulating delivery requirements for the Golden Grove Works.

  It is anticipated that some level of private capital investment will be required to procure the Golden Grove Works in a timeframe consistent with the delivery of the Karara Project.

  Such an investment of private capital requires adequately secured rights in a normal commercial framework. GBG submits that where State funding is otherwise not available the regime relating to network capacity should have sufficient flexibility to allow protection of capacity rights and the introduction of private capital investment on usual commercial terms.

- That flexibility should extend to allowing private capital investment on typical finance terms or as investment in network capacity because it allows the procurement of network capacity which would otherwise not exist.

  The obvious problem with a unilateral right to forfeit capacity funded by private investment is that no funding institution will participate in such a regime.

- The proposed unilateral right acts as a disincentive for private investment to provide future capacity as part of a network upgrade. Even where there is anticipated to be future demand, no private investor would build extra capacity to meet that demand in such a context. The right proposed militates against efficient and orderly investment in new network capacity.

  In the present case for example whilst it is more rational to construct the Golden Grove Works at 330kV so as to allow access by other imminent projects in the Midwest region there would be no incentive for private

investment to do so. The alternative is to construct the Golden Grove Works at minimum voltage. This would result in no reserve capacity available to other Midwest projects.

- Upgrading established lines is expensive and is difficult in terms of widening easements and achieving approvals. Given the present limited coverage with the SWIN, a model that encourages parties to invest in excess capacity is sensible for the development of future resource projects. It is commercially unrealistic that parties would invest capital in excess capacity without any chance of being compensated by future users. Conversely it penalises the party willing to take the initial risk.

- It has been suggested that an investor in excess capacity might choose to retain that capacity as a barrier to entry by others. This proposition is flawed for the following reasons:

  1. The introduction of private sector investment aims to create capacity that would not otherwise exist. The rule proposed will ensure that there is no excess capacity, as it simply will not be built.

  2. Third party access to excess capacity can readily be achieved by sufficient guarantees in the delivery contracts coupled with independent regulatory oversight.

- In our submission the investment rules should be structured so as to encourage:

  1. private investment where the State has no current budget for the delivery of needed infrastructure: and

  2. that investment to include excess capacity to meet future demand

2 TREATMENT OF CAPITAL CONTRIBUTIONS

- It is well recognised that Western Australia's rapid expansion across a range of sectors is straining the capacity of government to deliver the necessary infrastructure. There is a clear need for private investment in infrastructure. Private investment in infrastructure will only occur within parameters that offer secure rights and return.

- In the case of the SWIN the treatment of capital contributions is so structured as to be a severe disincentive to private investment. A regime which forfeits capacity in return for capital investment and which offers no secure equity or return will not attract private investment.

- Further there are a number of models which allow the introduction of private capital for the provision of State Infrastructure which achieve:

  a) State ownership of the underlying asset; and

  b) Operation and maintenance by the relevant State Authority.

  The existence of such models means that there is no need for the drastic inhibitions on private investment which the proposed treatment of capital contributions imposes.

3 PAYMENT OF CAPITAL CONTRIBUTIONS IN THE NATURE OF HEADWORK CHARGES

- The proposed model appears to be founded on experiences associated with the provision of power for real estate development. The practice is for developers to pay the cost of headworks charges and WP assumes ownership and responsibility for the infrastructure. The cost is in effect incorporated in the cost of the development and passed on to the end purchaser.

- That model is not appropriate for large scale transmission upgrades and transmission extensions. The resource sector in Western Australia faces power issues that are not at all comparable to property development premised on short project lives and rapid recoupment of capital charges. By contrast resource sector projects are generally isolated and operationally cost sensitive over long periods of time. They require enormous amounts of infrastructure capital to service single projects with lengthy lead times and ramp up periods. There is no room in such a scenario for Sacrifice Capital.

- The model needs to recognise that Western Australia's industrial/mining resources projects require commercially sensible mechanisms that assist in meeting projects investment requirements. This includes recognition that a capital investment in project infrastructure needs secure concomitant capacity rights.

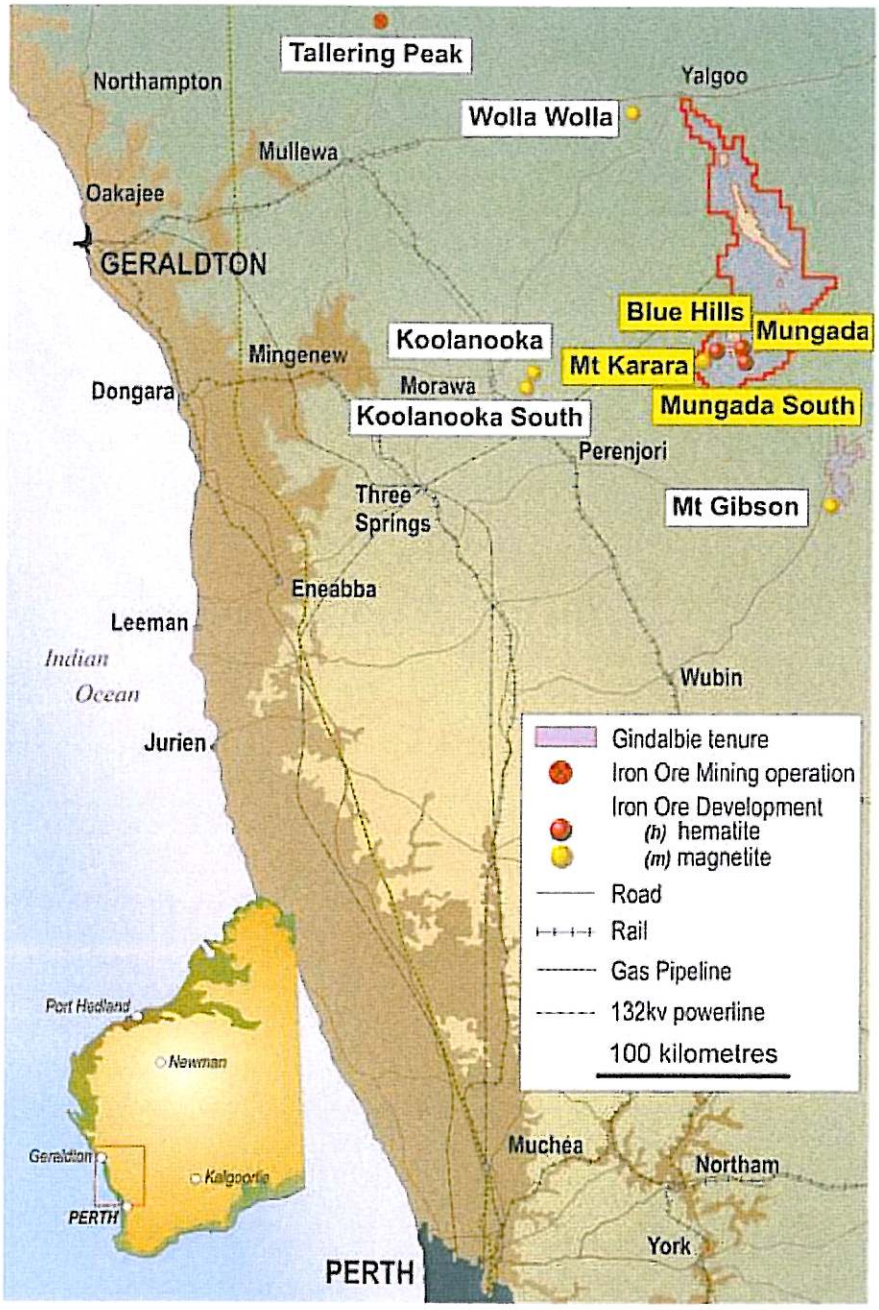
- Government is coming under increased pressure to provide infrastructure. A logical economic decision approach for competing infrastructure requirements needs to be considered. Government needs to provide a framework that enables a commercial outcome to be achieved by providing secure rights compensable with the level of investment to those willing to risk private capital in infrastructure.

Yours sincerely
GINDALBIE METALS LTD

GARRET DIXON
Managing Director

APPENDIX 1

Midwest Projects



APPENDIX 2

Project Background and Benefits

Gindalbie Metals Ltd (GBG) and Anshan Iron and Steel Group Corporation (Ansteel) (one of China's largest steel producers) are cooperating to develop the Karara Iron Ore Project. The project is located 220 kilometres inland from Geraldton.

On current proven reserves the mine has a minimum project life of forty years and the planned production will make the Karara Project the largest producer of magnetite concentrate in Australia.

The company has committed significant funding into completing a bankable feasibility due for completion is early 2007 and the project is planned to begin production in the latter part of 2009. The time frame is tied to Ansteel's construction of a new pellet plant at BayuQuan Port in Northern China and is requiring concentrate by mid 2009.

The project will deliver the following benefits to the state:

- During the construction period the project will employ up to fourteen hundred (1,400) personnel.

- Post construction four hundred (400) personnel will be directly employed. The Karara Joint Venture will be one of regions largest employers and will have a policy which includes vocational programs to assist the employment of the regions indigenous people.

- The annual economic benefit to Western Australia of the Karara Project when in full production is of the order of 62 million dollars. In summary:

Annual Economic Benefits

	Hematite	***Magnetite***
Annual Revenue	$150,000,000	$600,000,000
PAYG	$6,700,000	$10,500,000
Payroll Tax	$1,000,000	$1,750,000
State Government Royalties	$6,750,000	$36,000,000
Total Tax Benefits	$14,420,000	$48,250,000

Table 1: Economic Benefits

- A billion dollar investment in the Mid West that will act as a centre piece in opening up the potential of the Mid West Region, particularly through development of its mineral resources.

APPENDIX 3

Midwest Transmission Network Requirements

A long term and cost effective power supply is of paramount importance for the Karara Project.

The project is located in the extremities of the North Country Region (NCR) South West Interconnected Network (SWIN). Currently the NCR SWIN is near peak capacity and WP is proposing a network reinforcement involving the following:

Stage 1: Rebuild the existing Pinjar to Eneabba 132kV line with 330kV double circuit

Stage 2: New 330kV Terminal and D-cct line from Eneabba to a substation Moonyoonooka

The Karara Project will initially have a constant base load of 100MW which makes it the largest in the Midwest region. Coordinating the projects base load will assist in achieving the best load factor and most efficient asset utilization in the Northern Country Region (NCR) South Interconnected Network (SWIN).

The required transmission solution includes:

1. connection to the South West Interconnected Network (SWIN) at Eneabba; and

2. upgrading the existing system generally along the present line to Golden Grove.

For details refer "DIAGRAM 2: NCR SWIS 330kV REINFORCEMENT & GOLDEN GROVE WORKS".

A 330kV line along the Golden Grove route will create a significant amount of capacity in excess of the projects requirements. Recouping the capital by allowing access from other future Midwest projects is seen as the only feasible means to justify the investment.

Alternatively the capital investment can be reduced by minimizing the 330kV spur line from Eneabba and completing the residual distance via 132kV dual lines. This would result in no reserve capacity.

DIAGRAM 2: NCR SWIS 330kV REINFORCEMENT & GOLDEN GROVE WORKS