



CPM Ref: DBP AA
Your Ref:

5th July 2010

Access Damper to Bunbury Natural Gas Pipeline
Economic Regulatory Authority
PO Box 8469
Perth BC WA 6849

Dear Mr Rowe

DBP Proposed Access Arrangement 2010

CITIC Pacific Mining Management (CPMM) is an existing shipper on the Damper to Bunbury Natural Gas Pipeline (DBNGP). CPMM is in the process of constructing a world-class magnetite mine and ore processing plant at Cape Preston in the Pilbara (The Sino Iron project).

The Sino Iron project will require a considerable quantity of electricity to satisfy the processing requirements. It is constructing a combined-cycle gas-fired power station having a nominal capacity of 450MW for that purpose. Overall, it is estimated that CPMM will be the sixth largest gas consumer in the State.

Natural gas from the Apache/Santos Reindeer gas field will be the primary source of fuel with supplementary sources to be used for additional demand, and the DBNGP will be the means by which that gas will be transported to the Cape Preston power station. Accordingly, in 2007/08, CPMM entered into a number of standard shipper contracts with DBP. Whilst each of these contracts is part-haul and hence the tariff is adjusted by a distance factor, the actual monthly dollar outlay is considerable owing to the large quantity of gas capacity reserved.

When we negotiated the haulage agreements with DBP, it was our understanding that the service offered was not based on a T1 reference service since there was no spare capacity available to provide such a service.

Consequently, the standard shipper contract we entered is a non-reference service, which, while based on the T1 tariff, has ostensibly different terms to the T1 reference service. Each of the haulage agreements are part-haul which means the applicable tariff is the P1 Capacity Reservation Tariff and P1 Commodity Tariff which are in practice the respective components of the T1 tariff multiplied by the relevant distance factors.

However, clause 20.5 of the standard shipper contract to which CPMM is a party states that "with effect from 08-00hours on 1 January 2016, the Base T1 Tariff must be adjusted so that the Base T1 Tariff, T1 Capacity Reservation Tariff and T1 Commodity Tariff is at any time the same as the Firm Service Reference Tariff (or equivalent) at that time"

From our interpretation of the proposed revisions to the access arrangement submitted by DBP on 1 April 2010, there will be only one reference service (R1) in place of the three included in the current access arrangement (T1, P1 and B1). And that single reference service will incorporate a significant (40%) increase in price compared to the T1 tariff.

Should this revised access arrangement be accepted by the Economic Regulatory Authority, this fundamental change to CPMM's gas haulage arrangements would have a significant effect on not only the prevailing operating costs of the Sino Iron project, but also would be cause for serious concern in any expansion plans currently being considered.

It is of some concern to us that a long term contract (each of the standard shipper contracts have terms of fifteen years with options to extend), can potentially be changed so significantly at the behest of the service provider. This situation is exacerbated when that service provider is in a monopoly position and the consumer (shipper) is unable to seek an alternative source of supply.

To conclude, we are seeking clarification as to the application of the proposed R1 tariff in respect of existing shippers contracted under the standard shipper contract, and whether the part haul tariff structure which is currently applicable to CPMM's haulage contracts will continue post 2016. We appeal to the ERA in its role as the independent energy market regulator to ensure shippers are not disadvantaged.

Yours sincerely

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CC/Enc/Attached/Appendix