

Assistant Director Access
Economic Regulation Authority
PO Box 8469,
PERTH BC WA 6849

9th June 2011

Dear Sir,

RE: Review of the Requirements for Railway Owners to Submit Floor and Ceiling Cost Proposals

This submission is made of behalf of members of the Geraldton Iron Ore Alliance (GIOA), which is a voluntary organisation of Mid West iron ore mining companies, which are at various stages of exploration and development of mines in the region.

Member companies include:

- Asia Iron Australia Ltd
- Crosslands Resources Ltd
- Gindalbie Metals Ltd
- Sinosteel Midwest Corporation Ltd
- Golden West Resources Ltd

The emerging Mid West Iron Ore industry is very concerned that the Authority is considering removing the requirement for WestNet Rail to provide floor and ceiling cost proposals, due in October 2011 (and at subsequent 3 yearly periods) on the basis of potential savings in administrative costs to WestNet and the Authority.

The WA Rail access Regime is a negotiate and arbitrate model and provision of published floor and ceiling prices is an integral component of that model. The regular floor and ceiling reviews are an appropriate requirement placed upon the Railway Owner who has accepted these obligations as part of the monopoly position their granted ownership places them in, and in the Alliance members' view this is an absolute and minimum requirement for transparency and fairness in this situation.

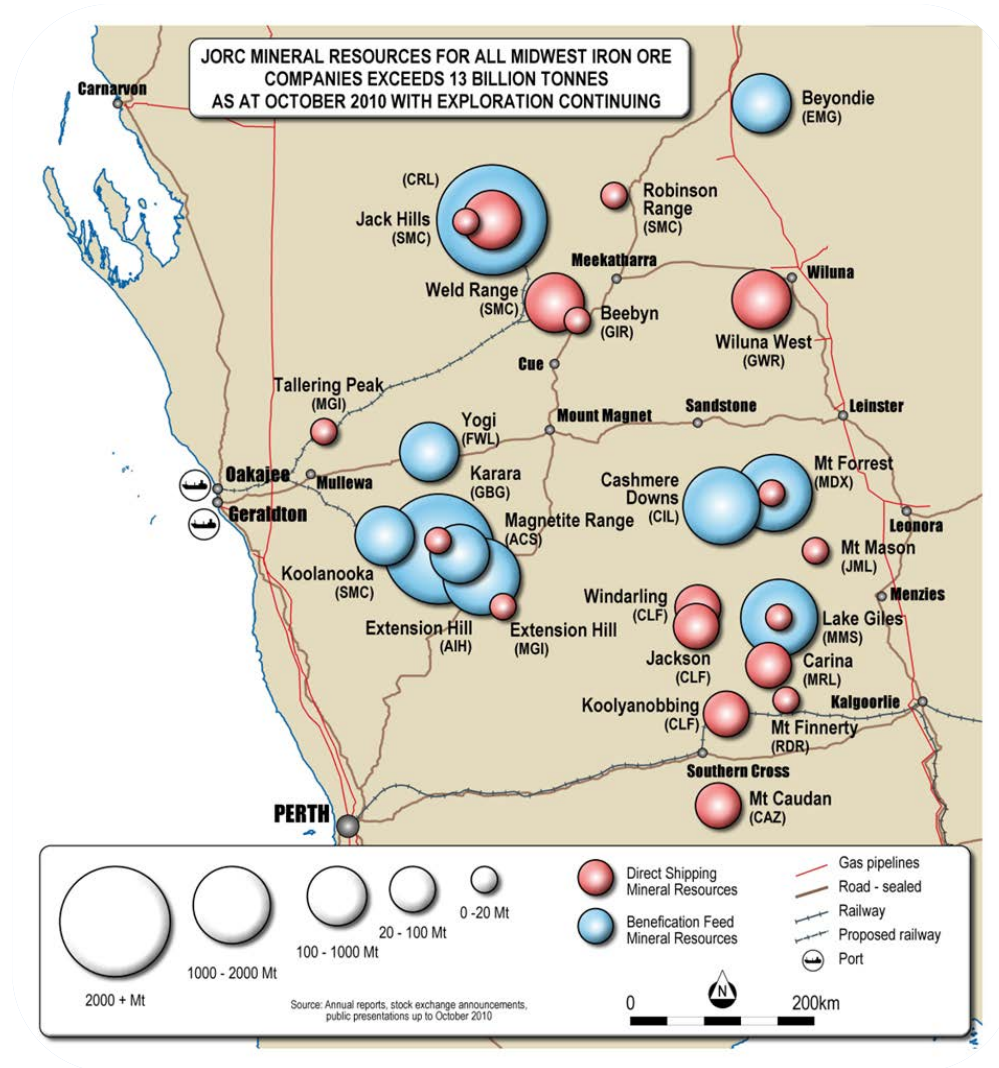
The Mid West iron ore industry shall have a very significant rail freight transport task which is at the core of the developing projects' capital and operational cost structures. The ERA approved floor and ceiling costs are not only critical to negotiations between Access Seekers and Railway Owners, they are an essential reference for all stages of project development from pre-feasibility, bankable feasibility to financial close.

Further, a new common-user rail freight network is planned for the Mid West region in conjunction with the development of the Oakajee deep-water port, and the relaxation of these accountability requirements would in the opinion of GIOA members, be a poorly timed and inappropriate precedent for arrangements to be established with the future rail owner of the new rail network.

A report undertaken by independent consultants Economic Consulting Services (October 2010) estimates the potential benefits the Mid West iron ore industry to be:

- 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 regional Rail, Port, Electricity, Water and Gas infrastructure

While exploration is still at a relatively early stage in the Mid West, current JORC resources exceed an estimated 13 Billion tonnes, geographically spread across the region, as illustrated in the following Map.



Much of the freight task to meet this significant emerging industry shall be undertaken on the WestNet Rail network.

In respect to the Questions set out in the ERA Issues Paper, the GIOA makes the following comments:

Question 1

Do regular floor and ceiling cost reviews potentially require duplication of effort on the part of the Railway Owner if an access proposal is received for a set of route sections for which floor and ceiling costs have not been determined?

Irregardless of whether a section of line has a floor and ceiling price determination under the arbitrate and negotiate regime model, if an access application is received under the code, both the railway owner and the authority would have to address the specific application. Alternatively if negotiations are conducted outside the code the floor and ceiling prices of similar lines are a negotiation guide for the access seeker, as is the case with the grain lines.

Question 2

Would regular reviews of floor and ceiling costs assist the Railway Owner in the event of a proposal being made, by ensuring that route section costs are instantly available?

There is no question that this would be the case, it would facilitate negotiations with the access seekers, assist in providing accurate route section costs and enable Railway Owners to meet the access response times required under the Code and the Costing Principles.

Question 3

Is there an advantage to the Access Seeker in having determined floor and ceiling costs available on the Authority's website, as opposed to discovering those via the proposal process?

Route section floor and ceiling costs are vital to developing and expansion projects based on bulk commodity exports, such as is the case for the emerging Mid West Iron

Ore Industry. They are critical to assess development options, staging and financial feasibility for major projects planned in the region. Such feasibility studies require estimation of capital charges and likely access charges for any consequential expansion of the rail network.

It is of critical importance to proponent's planning and capacity calculation purposes that the Railway Owner's floor and ceiling costs are provided, including clear and detailed information regarding their calculation.

ERA determined floor and ceiling costs for rail access are critical for modelling mining and above rail feasibility scenarios both within and potentially between networks without the onerous need on both parties to seek such information under an access application.

Question 4

Would the availability of "pre-determined" floor and ceiling costs on the Authority's website minimise the likelihood that a potential access seeker will seek to have the Authority instigate a floor and ceiling cost determination for a combination of route sections (under Clause 9) but rather approach the Railway Owner directly with a proposal, thereby initiating a determination under Clause 10?

The availability of ERA endorsed "pre-determined" floor and ceiling costs enable a potential access seeker to have confidence in their dealings with the Railway Owners and that their proposals for rail access are formed on a reasonable basis.

The published floor and ceiling prices together with the regulated component costs and the Costing Principles under the Code are a fair basis for determining the cost of expansion applications where the Railway Owner and Access Seeker may disagree on to the extent and cost of the expansion. Alternatively if it was agreed that expansion is not required then the Authority approved floor and ceiling price is an important factor both in negotiations and in the Authority's principles and reference information in making a determination.

Question 5

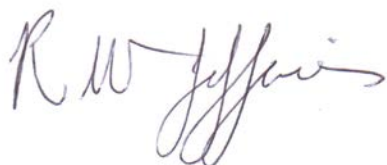
In the absence of pre-determined route section costs, do the provisions of Clauses 9 and 10 of Schedule 4 of the Code allow sufficient time for an adequate review of proposed floor and ceiling costs to be undertaken

There is a significant risk that in the absence of “Floor and Ceiling” costs for predetermined routes that Railway Owners will either:

- ▶ be unable to meet the timelines required by the Code, or
- ▶ the quality of the Railway Owners response to the Access Seeker’s proposal will be significantly compromised.

The GIOA appreciates the opportunity to comment on the very important issue of the regular review of rail access floor and ceiling costs and trusts that the ERA will support our request to maintain the existing arrangements; to ensure the maintenance of fairness and transparency, and to ensure that crucial and relevant information is available to an emerging regional industry and potential providers of bulk freight services in the Mid West Region.

Yours sincerely



R W Jefferies

Chief Executive Officer