

## **PROPOSAL**

# **ELECTRANET REVENUE PROPOSAL** **IRON ROAD LIMITED SUBMISSION TO AUSTRALIAN ENERGY** **REGULATOR**

**E-F-61-PRL-0003**

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## 1 Purpose

The principal transmission network services provider (TNSP) for South Australia, ElectraNet, has submitted its *ElectraNet Transmission Network Revenue Proposal 1 July 2013 – 30 June 2018* to the Australian Energy Regulator (AER) as required by the National Electricity Rules. However, the AER has found three significant features to be unsatisfactory, described in its draft decision. The decision, if accepted, will significantly impact Iron Road Limited's project schedule for the Central Eyre Iron Project (CEIP).

The three concerns of the AER are summarized below.

- i. ElectraNet's strategy of buying land and easements early is not an efficient and prudent approach to securing its requirements. ElectraNet proposed \$66 million (\$2012–13) for land and easement CAPEX compared to actual land and easement CAPEX of \$2.7 million during 2008–2011.
- ii. ElectraNet has proposed a large portfolio of contingent projects worth \$2.5 billion (\$2012–13). ElectraNet stated it used contingent projects to meet its objective of keeping customer price impacts in line with movements in the consumer price index (CPI). However, the AER considers that using contingent projects to keep costs in line with CPI potentially removes the incentives for TNSPs to manage their network within the CAPEX allowance. ElectraNet's approach does not seem to be consistent with the regulatory framework as it treats contingent projects like pass throughs and resembles 'cost of service regulation'. The AER has not accepted the proposed contingent projects including several that are triggered by a demand forecast increase which is less than ElectraNet's high demand forecast. Accepting such projects is not appropriate because provision should be made for these projects in the ex ante allowance.
- iii. ElectraNet has proposed augmentation and connection CAPEX based on a peak demand forecast that is too high. Growth in peak demand, also referred to as maximum demand, is an important factor driving network augmentation and connection point capital expenditure. The reliability standards that ElectraNet must meet at each connection point, together with expected growth in peak demand influences the load driven capital expenditure projects and their timing. The Australian Energy Market Operator (AEMO) is currently assessing its regional maximum demand forecast for South Australia against ElectraNet's aggregate connection point forecast. The AER will consider AEMO's findings in making its final transmission determination. The AER, in the meantime, has used its own peak demand forecast to develop the appropriate level of augmentation and connection capital expenditure for this draft decision.

Having considered ElectraNet's revenue proposal, the AER is not satisfied that the proposal is consistent with the NEL and the National Electricity Law (NEL).

The AER has invited submissions from interested parties to the draft decision and ElectraNet's revised revenue proposal. This report is Iron Road Limited's submission in support of ElectraNet's revised revenue proposal.

## 2 Iron Road Corporate Profile

Iron Road Limited is listed on the ASX and is supported by its majority shareholder, the Sentient Executive Group, an independent private equity investment firm specializing in the global resources industry. Iron Road Limited has a multi-disciplinary board and management team that are experienced in finance, minerals industry, project development, steel making and infrastructure.

Iron Road Limited was established to capitalise on the growing global demand for iron ore. Iron Road Limited has a strong project portfolio including the Central Eyre Iron Project (CEIP) in South Australia. A prefeasibility study for CEIP was completed in 2011 and demonstrated the viability of a mining and beneficiation operation initially producing 12.4 Mtpa of premium iron concentrate for export. Subsequently, the CEIP mineral resource has increased significantly and a definitive feasibility study is assessing production of 20Mtpa of high quality iron concentrates with a mine life in excess of 30 years.

To date Iron Road Limited has invested approximately \$100M in the CEIP.

Iron Road Limited manages the CEIP from its corporate office located in Adelaide at Iron Road House on Currie Street.

### **3 Central Eyre Iron Project (CEIP)**

Iron Road Limited is planning to develop the CEIP which is located at Warramboo on the Eyre Peninsula in South Australia. The CEIP will be the largest mining operation in South Australia, producing 20Mtpa of magnetite iron concentrate. The CEIP has a significant resource base which currently stands at 2.6 billion tonnes<sup>1</sup> in the Warramboo project area. Iron Road Limited has not started to define the resource in the Kopi Project Area or the Hambidge Project Area and these areas are not part of the DFS currently underway. The CEIP resource will underpin a very long life operation and support a project life in excess of 30 years.

The CEIP concentrate is being marketed as a high quality blending feedstock to the international sinter market, which feeds the majority of steel making blast furnaces. The project is obtaining significant interest from potential investors and customers due to quality of the concentrate being produced in the metallurgical and sintering test work.

The CEIP is currently in the definitive feasibility study (DFS) phase of the project defining and optimizing the details of the facilities and the operation of those facilities including the electric power requirements of the project.

The project includes construction of:

- a) Mine to extract ore for processing;
- b) Tailing storage facility;
- c) Ore treatment facility;
- d) Rail network to connect the mine and the port;
- e) HV and MV power supply infrastructure;
- f) Water supply system including treatment and transfer from Cape Hardy to the mine site;
- g) New port at Cape Hardy capable of handling a range of ships from handy max to cape class; and
- h) Support infrastructure including:
  - i) Camp accommodation;
  - ii) Airport upgrade;
  - iii) Communication systems;
  - iv) Fuel supply, storage and distribution;
  - v) Maintenance facilities; and
  - vi) Administration and site amenities

Significant infrastructure will be constructed to support the development of the CEIP including: multi-user bulk export facility on the eastern Eyre Peninsula, coupled with a standard gauge heavy railway linking the mine to the port which can be integrated into the national rail network. The CEIP will have considerable benefit for the long term economic development of South Australia as this infrastructure will enable other projects to become viable.

Iron Road Limited has engaged major global engineering companies to complete the DFS including:

- Coffey – Mine Study
- ATC Williams – Tailings Storage Facility
- Tenova Mining & Minerals – Ore Processing Facility
- SKM – Stock Yard, Rail System, Port Facilities, Support Infrastructure
- AECOM – Water Supply & Treatment
- SKM – Environmental Approvals

The key dates for the CEIP schedule include:

- |                                       |       |
|---------------------------------------|-------|
| a) DFS Completion:                    | DEC13 |
| b) Development Application Approved:  | DEC14 |
| c) Mining Lease Application Approved: | DEC14 |
| d) Transmission Connection Agreement: | DEC14 |
| e) Power Connection:                  | DEC16 |
| f) Production Commenced:              | JUN18 |

#### 4 CEIP Power Requirements

Based on the pre-feasibility study Iron Road Limited engaged ElectraNet to complete a Connections Options Report which was issued to Iron Road Limited during April 2012. The report identified the nearest available connection point as being the Cultana Sub-Station.

The connection point at Cultana Sub-station is not a viable option for the CEIP as Iron Road Limited does not have access to an easement out of the Cultana Sub-station which would need to pass through the Department of Defence property as it has acquired the land surrounding Cultana Sub-station. The CEIP requires a connection at the Yadnarie Sub-station and the construction of a non-regulated HV transmission line to the mine, booster pump stations and the port.

For CEIP project to proceed Iron Road Limited requires the capacity of the regulated power network to be increased to enable a connection point at the Yadnarie Sub-station in accordance with the Lower Eyre Peninsula Reinforcement RIT-T, Project Assessment Draft Report - Scenario 3.

Progress with the DFS has refined the power requirement of the project to include the following:

- |                            |       |
|----------------------------|-------|
| a) Warramboo Mine Site:    | 321MW |
| b) Booster Pump Station 1: | 2MW   |
| c) Booster Pump Station 2: | 2MW   |
| d) Point Hardy Port Site:  | 21MW  |
| e) Total CEIP Load         | 346MW |

The project power requirements are expected to be confirmed during the 2<sup>nd</sup> quarter 2013.

## 5 Government Relations

Iron Road Limited is working constructively with the federal, state and local governments to ensure the development of the CEIP provides maximum benefit to the community particularly in promoting regional development on the Eyre Peninsula which is susceptible to variable farming conditions, decline in the Australian steel industry, and reduced operations at the Port Augusta power stations.

The CEIP is the largest proposed mining development for South Australia. The project will have significant economic impact on South Australia and particularly the regional development of the Eyre Peninsula. The CEIP will export 20Mtpa of magnetite concentrate valued at 3 to 4 billion dollars per annum, provide significant employment opportunities during construction and operation, and secure the future of industries supporting the facilities.

On Monday 2<sup>nd</sup> April 2012, Iron Road Limited attended a meeting in Canberra at the request of the Commonwealth of Australia to discuss the future requirements for HV power transmission infrastructure for the Eyre Peninsula. The meeting was attended by representatives of Commonwealth departments including:

- Prime Minister & Cabinet
- Infrastructure & Transport
- Resources, Energy & Tourism
- Finance & Deregulation
- Regional Australia, Regional Development & Local Government

The meeting was also attended by relevant groups interested in the development of the HV power transmission infrastructure for the Eyre Peninsula including:

- Mark Cant, CEO – Regional Development Australia, Whyalla and Eyre Peninsula
- Tim O’Loughlin – Consultant Green Grid
- Terry Teoh, Executive Manager Development – PacificHydro (Green Grid)
- Colin McGowan, General Manager Development & Power Marketing – Acciona Energy
- Steve Brown, General Manager Engineering – Centrex Metals
- Alan Millett, Infrastructure Manager – Iron Road Limited

The meeting discussed the option of Iron Road Limited constructing a non-regulated network from the Cultana Substation instead of connecting to the Yandardie West Substation which would have the capacity for the Iron Road Limited connection with the approval and implementation of the Lower Eyre Peninsula Reinforcement RIT-T as this would be in the national interest. If Iron Road Limited proceeded with the non-regulated option the power industry would lose the opportunity to upgrade the Eyre Peninsula transmission network on the back of the Iron Road Limited – CEIP.

Iron Road raised concerns at the meeting around the National Electricity Rules and the requirements for the government to modify the rules to enable the acceleration of the development of critical power infrastructure. The representative from the Department of Finance & Deregulation stated that the power regulator had adequate powers to address special circumstances that existed on Eyre Peninsula to enable a RIT-T to be approved.

Since the meeting in Canberra, Iron Road Limited has been actively supporting ElectraNet in their efforts to obtain approval for the Lower Eyre Peninsula Reinforcement RIT-T as this was in the national interest and

would be beneficial to Iron Road Limited if the implementation of the Lower Eyre Peninsula Reinforcement RIT-T resulted in energization of the reinforced network during the 2<sup>nd</sup> half of 2016.

Iron Road Limited is receiving significant support and assistance from the Government of South Australia with the appointment of a case manager from the Department for Manufacturing, Innovation, Trade, Resources and Energy to facilitate Iron Road Limited's interface with all Government of South Australia agencies involved in the approvals processes for the CEIP, and to support engagement with the AER.

Iron Road Limited is supporting Government of South Australia policy initiatives including providing inputs and active advice to:

- a) Resources and Energy Infrastructure Council (RESIC) - Resources and Energy Infrastructure Demand Study
- b) Department for Planning, Transport and Infrastructure – Regional Mining & Infrastructure Plan
- c) Department for Primary Industry and Regions – Upper Spencer Gulf Heavy Industry Hub Feasibility Study

## **6 Lower Eyre Peninsula Reinforcement RIT-T**

For the CEIP project to proceed, Iron Road Limited requires the implementation of the Lower Eyre Peninsula Reinforcement RIT-T, scenario 3 of the Project Assessment Draft Report. Iron Road Limited supports the ElectraNet Transmission Network Revised Revenue Proposal 1 July 2013 – 30 June 2018 and particularly the inclusion of the Lower Eyre Peninsula Reinforcement RIT-T as a contingent project. Iron Road Limited is concerned that the rejection of the Lower Eyre Peninsula Reinforcement RIT-T as a contingent project by the AER would not allow ElectraNet to seek regulatory funding for this investment during the period 2013-2018.

The provision of HV Transmission Services to support the CEIP is the critical path for development of the project. Iron Road Limited is concerned that any delay in commencing early works, particularly the acquiring of easements and land to expand Cultana to Yadnarie easement, will adversely affect the CEIP project schedule. Iron Road Limited is concerned about the complexity and time required to obtain the lands for the easements. The ElectraNet Land Development Planners have highlighted that any new sub-station and line development could potentially face serious opposition and statutory approvals challenges, depending on the final routing, siting and design. Some of the broad regional planning and approvals considerations include:

- a) Native vegetation clearance and heritage agreement areas;
- b) Impact on flora and fauna species communities of national (EPBC) and state conservation significance;
- c) Native title and cultural heritage issues;
- d) Community concerns of visual impact;
- e) Landowner and easement negotiations particularly around Cultana;
- f) Development Approval and other statutory approvals required within the timeline;
- g) Weed and disease transfer;
- h) Soil erosion due to works on watercourses and steep terrain;
- i) Potential damage to landholders property and crops;
- j) Works associated with road crossings with Department of Planning, Transport and Infrastructure and local councils; and
- k) Works associated with other utilities (SA Water, Telstra, etc.).

Iron Road Limited cannot commit to a Transmission Connection Agreement until the CEIP obtains the statutory approvals (Development Application and Mining Lease Application) required for the project to proceed. Iron Road Limited expects to obtain these approvals in December 2014, therefore Iron Road Limited requests that

the AER approve the inclusion of the Lower Eyre Peninsula Reinforcement RIT-T as a contingent project in the ElectraNet Transmission Network Revised Revenue Proposal 1 July 2013 – 30 June 2018 and funding is included in the capital expenditure forecast for this period for the acquisition of the required land and easements to support the Eyre Peninsula reinforcement by the end of 2016.

## **7 Related Documents**

- a) ElectraNet Transmission Network Revenue Proposal 1 July 2013 – 30 June 2018 - Dated 31 May 2012
- b) ElectraNet Transmission Network Revised Revenue Proposal 1 July 2013 – 30 June 2018 – Dated 16 January 2013
- c) ElectraNet Lower Eyre Peninsula Reinforcement RIT-T Project Assessment Draft Report - Dated January 2013
- d) ElectraNet South Australia Annual Planning Report 2012 - Dated June 2012
- e) ElectraNet Connection Options Report Connection of Iron Road Mine, Pumps and Port - Dated March 2012
- f) National Electricity Rules Version 48 - Dated 15 March 2012
- g) AER – Draft Decision ElectraNet Transmission Determination 2013-14 to 2017-18 - Dated November 2012
- h) Resources and Energy Sector Infrastructure Council – 2011 Resources and Energy Infrastructure Demand Study - Dated 28 November 2011
- i) Upper Spencer Gulf Heavy Industry Hub Feasibility Study – Dated June 2012
- j) Iron Road Limited – Quarterly Activities Report for the period ended 31 December 2012

## **8 Notes**

Note<sup>1</sup> Iron Road Limited – Quarterly Activities Report for the period ended 31 December 2012  
Mineral Resource Statement - page 14 and Competent Person's Statement - Page 15.