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CONFIDENTIAL SUBMISSION

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Dear Mr Ryan

RESPONSE TO ISSUES PAPER – “IMPROVING ACCESS TO, AND OPERATION, THE PILBARA ELECTRICITY NETWORK – THE NORTH WEST INTERCONNECTED SYSTEM”

We refer to the “Issues Paper – Improving access to and operation of the Pilbara electricity network – the North West Interconnected System” issued 14 November 2017 (**Issues Paper**).

1. Background

- 1.1. Fortescue Metals Group Ltd, together with its related entities (**Fortescue**), is a global leader in the iron ore industry, recognised for our unique culture, innovation and industry-leading development of world class infrastructure and mining assets in the Pilbara, Western Australia.
- 1.2. Since Fortescue was founded in 2003, we have discovered and developed major iron ore deposits and constructed some of the most significant mines in the world. We are focussed on our vision of being the safest, lowest cost, most profitable iron ore producer.
- 1.3. Now producing 170 million tonnes of iron ore per annum, Fortescue has grown to be one of the largest global iron ore producers and has been recognised as the lowest cost supplier of seaborne iron ore into China in November 2016 by Metalytics Resource Sector Economics.
- 1.4. Fortescue owns and operates integrated operations spanning three mine sites in the Pilbara, the five berth Herb Elliott Port in Port Hedland and the fastest, heavy haul railway in the world.

2. Fortescue’s electricity profile

- 2.1 Fortescue has installed significant islanded generation capacity to meet the load at its Christmas Creek, Cloudbreak and Solomon mine sites in the Pilbara.
- 2.2 Fortescue’s operations at Port Hedland are dependent on the NWIS. Fortescue’s Port Hedland operations currently consist of the railing, handling, reclaiming, shipping and exporting of approximately 170 million tonnes per annum of iron ore, as well as residential facilities for its workforce. As Fortescue considers further growth strategies, its electricity demand at Port Hedland is likely to change. It is these critical operations and future strategy that are most immediately impacted by the matters considered in the Issues Paper and are therefore of interest to Fortescue.
- 2.3 In respect of its Port Hedland operations, Fortescue has electricity generation and transmission contracts in place with multiple generators at Port Hedland. However, Fortescue only has access to one electricity provider for its residential facilities.

3. Response to Issues Paper

- 3.1 Fortescue supports competition in markets. It is competition that has allowed Fortescue to become a low cost producer, drive innovation and find better and more efficient ways of doing business, providing economic benefit to the State.
- 3.2 Whilst the Issues Paper makes reference to possible regulation of generation assets, Fortescue's view is that any regulatory framework should focus on transmission and distribution assets only. There are multiple generating assets in the Pilbara, the full utilisation of which is hindered by access to transmission and distribution assets. The ability to transmit and distribute electricity from a chosen generation source to its point of use would encourage both upstream and downstream competition. However, transmission and distribution systems are, by their very nature, monopolies, and are not assets that are typically duplicated.
- 3.3 Fortescue submits that transmission and distribution assets constructed, operated, maintained and controlled by public entities (such as Horizon Power) should be open access assets to provide further benefits for the State. However, assets owned and operated by private companies in the region should remain unregulated and subject to commercial arrangements between parties. The owners of these assets could then 'opt-in' to any agreed regime if they so choose.
- 3.4 The establishment of an independent system operator for arrangements on the NWIS to oversee and coordinate outages, maintenance and the overall security of the network via an open access regime would be welcomed.
- 3.5 Such open access regime should include framework terms and conditions for:
- (a) Connection of new generation and transmission and distribution assets;
 - (b) Transmission and distribution of electricity; and
 - (c) Expansion and upgrading of existing assets;
 - (d) Access, connection, expansion and upgrades at market rates.
- 3.6 From Fortescue's perspective, security of the electrical network in the Pilbara is paramount. Therefore the costs of access and connection to the transmission and distribution assets need to be balanced with the encouragement of competition and third party access on one hand, and the requirement for suitable operation and maintenance undertaken by the asset owner on the other. Fortescue therefore also supports the application of consistent, agreed Technical Rules for the connection of new generation assets to the transmission and distribution system.
- 3.7 The performance of these assets are critical to the State, and to the parties that use them. Therefore, at this stage, Fortescue would not support the removal of liability for the failure of the transmission and distribution assets, to the extent that such failure is caused or contributed to by the actions of the system operator or the asset owner, including as a result of poor operations and maintenance practices. Performance incentive schemes, such as those in place on the NEM, may be appropriate to assist system operator and asset owner to manage liabilities.

Yours sincerely



Greg Lilleyman

Director, Operations