

KARARA POWER PTY LTD ABN 78 137 632 001

LICENCE EXEMPTION APPLICATION
WITH RESPECT TO
ELECTRICITY TRANSMISSION LICENCE ETL6 VERSION 6 – JULY 2018

ELECTRICITY INDUSTRY ACT 2004

Energy Policy WA

1 Introduction

Karara Mining Limited ABN 68 070 871 831 (**KML**) owns and operates the largest iron ore mining operation (and the first magnetite mine) in the Mid-West region of Western Australia (**Karara Mine**).

Karara Mine (located approximately 70km east of Morawa and 100km south of Yalgoo) has an expected economic life exceeding 30 years¹. Magnetite ore is concentrated by an on-site processing plant to produce a premium high-grade magnetite concentrate which is transported by train to the Karara Export Terminal in Geraldton for export to China and other international markets.

2.2 History

Karara Mine and associated infrastructure was constructed in the period 2007-2012. As the mine is a large electrical load on the South-West Interconnected System (**SWIS**), it necessitated construction of a dedicated transmission line as well as augmentation of the main electricity network operated by WP. Power is transmitted from the Eneabba Substation by a 330kV transmission line to the Karara Mine 180km away.

The transmission line was designed to exceed the Karara Mine life of 30 years.

The transmission line consists of two sections

1. Eneabba to 3SP

The northern 132kV transmission line circuit, the conductors and supporting hardware, including towers and insulators is the only part of the transmission line that may have relevant public interest considerations.

2.4 Commercial Context

A Wheeling Agreement (2012) between WP, KML and KPL sets out the commercial terms relating to the transfer (wheeling) of electricity on the northern 132kV line and preserves WP's rights under certain conditions.

Internal review and comparison of licence obligations against the terms and conditions of the Wheeling Agreement demonstrates that apart from the annual review and audit obligations, there is no material difference between these two instruments with respect to KML's and KPL's principal obligations for operation, maintenance and safety of the transmission system.

Key terms of the Wheeling Agreement include the following:

The Wheeling Agreement () requires KML and KPL to operate and maintain the transmission line in accordance with Good Electricity Industry Practice, the technical rules and all applicable laws and authorizations.

The Wheeling Agreement prohibits decommissioning, demolition or removal of the transmission line or disconnection of the transmission line from the WP network.

WP has fixed price access to use of the transmission line.

This means the actual costs of operating and maintaining the transmission line are for KML's and KPL's account and are not 'passed through' by KML or KPL either to WP or the final customer.

The Wheeling Agreement includes mechanisms for WP to ensure that transmission line assets are correctly managed by KPL.

WP has 'step-in' rights to enter into possession of, and operate and maintain the northern section of the transmission line

In the case that KML permanently ceases operations at Karara Mine the Wheeling Agreement provides for compulsory acquisition of the transmission line by WP

This right of acquisition, coupled with the step-in right above, ensures that WP has access to the transmission line in any circumstances.

2.5 Licence Context

The principal obligations of the licensee under the existing transmission licence (ETL6) do not promote any relevant public interest, but in substance reproduce existing contractual obligations already performed by KML and KPL in accordance with the Wheeling Agreement

For this reason ETL6 imposes an administrative cost and burden on KML and KPL with no corresponding public benefit.

This should not be construed as a criticism of the existing licence arrangements, but is an outcome of the unique circumstances of this particular transmission line.

For example (references in brackets are to clauses of ETL6):

Accounting Records (4.3.1) – As there is no cost pass-through to other parties, keeping accounting records pertaining specifically to the transmission line, as opposed to the accounting records maintained for the overall business, does not serve the public interest. Karara maintains accounting records to Australian standards, however it is more practical to account for the transmission line costs at business unit level.

Asset Management System (5.1) - As licensee KPL must provide for an asset management system in respect of the transmission line. The Wheeling Agreement also requires KPL to develop and update an asset management plan covering the transmission line.

Individual Performance Standards (5.2) - For the southern line which supplies the Karara Mine, KML is acutely aware of the performance of the line, as it is critical to the performance of the Karara Mine. For the northern line, as WP performs all the

KPL must comply with all laws, regulations, licences and approvals (including Federal and State environmental laws) relating to exercise of its rights under the Easement Deed including those relating to prevention of fire and noxious weeds control;

KPL must not destroy, remove or clear any trees scrub or other vegetation without required regulatory approval;

KPL must:

- Exercise its rights under each Easement Deed so as to prevent pollution and environmental damage;

- Ensure no pollutant or waste material is discharged or contaminates the environment in exercising its rights under each Easement Deed;

- Clean up any pollutant or waste material resulting from exercise of rights or breach of obligations under each Easement Deed which is discharged or does contaminate the environment or have potential to do so;

- Remove all waste and debris in connection with

4.1.4 Environmental compliance policies and procedures

KML has established a robust management system to ensure compliance with its statutory and contractual environmental obligations including those with respect to the Transmission System

KML operates in accordance with a corporate Environmental Policy and Environmental Management Plan which applies to all assets including the transmission line and associated infrastructure. These outline the overall framework of activities across the business necessary to ensure compliance with conditions of approval and other statutory and regulatory requirements (including systematic assessment, monitoring and control of operations and activities to avoid or minimize the risk of adverse environmental impacts to these assets).

A specific Environmental Management Plan for the transmission line sets out particular environmental management plans and processes developed and implemented to ensure compliance with conditions of approval and other statutory and regulatory requirements which apply to operation and maintenance of the transmission line. The purpose of this Environmental Management Plan is to eliminate or minimize the risk of adverse environmental impacts from those activities.

KML audits compliance with all conditions of statutory and regulatory environmental obligations on an annual basis. Karara submits audit reports (which identify non-compliances and include breach rectification plans and schedules) to relevant authorities and publishes these reports on the internet.

KML must continue to execute and implement these environmental obligation management systems irrespective of ETL6 and will do so following grant of the Exemption Application.

4.1.5 Submission

Based on the extensive range of environmental obligations which currently already apply to KML, and existing internal compliance policies and procedures (as summarised above) KML submits:

4.4 Interests of customers

KPL

4.7.1 Submission

KML does not see this application as counter to the policy objectives of the government.

4.8 Public Safety

Public safety aspects of transmission lines are addressed during the design phase of the line, as well as ongoing maintenance over the life of the asset.

Risks such as inadvertent contact with the lines are covered by design and ensuring adequate clearance distances between the line and potential encroachment points.

Anti-climb protection is installed on all the towers to prevent unauthorised access to the conductors.

Broken or dropped conductors are