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ATTENTION: Mr. John Feil

National Competition Council

Level 9 / 128 Exhibition Street
Melbourne VIC 3000

BY EMAIL: john.feil@ncc.gov.au

Dear Mr. Feil

Response to Report by Independent Expert Consultants

Independent Expert Consultants (G13 & Associates with assistance from APR) were asked by the NCC to consider a number of questions related to the capacity of the Mt Newman railway and the costs associated with expanding that capacity. The conclusions of the Report prepared in response were that:

- The capacity of the Mt Newman railway is currently insufficient to accommodate any third party access but that it can readily be expanded to do so.
- Incremental expansion of the Mt Newman railway is possible and would be considerably less costly than constructing a stand-alone railway.
- The cost of a stand-alone single track from Mindy Mindy to Port Hedland (with two passing loops) would cost over \$1bn to construct. In contrast the Mt Newman line between Mindy Mindy and Port Hedland could be duplicated (if the existing loops were incorporated into the double track) for a little over \$600m.
- The capacity of such a track with bidirectional signals and the retention of the “cross overs” (from the existing loops) would be about 400Mtpa.
- If Fortescue or any other third party accessing the Mt Newman railway line were to adopt the same *modus operandi* as BHP its impact would be the same as if BHP were exploiting the properties. In other words if BHP can expand the railway to accommodate its own expansions it can just as easily accommodate any other third party.

Although there are a number of minor errors in the Report (such as the assumption that Mindy Mindy is 78 kilometres from the proposed Mindy Mindy siding – the distance is in fact around 17 kilometres), none of them would detract in any way from the main conclusion which is that BHP could relatively easily accommodate third parties on the Mt Newman railway line in the same way as it can easily increase capacity to meet its own expansion requirements.

Fortescue has consistently maintained that the capacity of a double track stretching between Mindy Mindy and Port Hedland would be in excess of 400Mtpa and the Report fully confirms that view. 'Attachment A' of the Report describes a situation where BHP is producing 400Mtpa and third parties are transporting an additional 10Mtpa down the same double track and yet the maximum capacity utilisation anywhere on the line is estimated at 82% between Yandi Junction and Bing. Given that G13 assumes that unrecoverable capacity caused by variability is 10% of design capacity it naturally follows that capacity utilisation can reach as much as 90%. If 410Mtpa results in 82% capacity utilisation, simple maths dictates that 90% capacity utilisation is equivalent to 450Mtpa. Fortescue respectfully suggests that this exceeds BHP's expansion plans by a higher margin that is likely to be brought forward by third parties seeking access and therefore that for the foreseeable future BHP will be capable of accommodating third parties seeking access at very little cost once the Mt Newman railway line has been double tracked. Prior to that time expansions to increase capacity will be a far cheaper option than building an alternate stand alone railway.

On the issue of capacity constraints within the port of Port Hedland, Fortescue has already demonstrated (letter of 17 January 2006) the flaws in the arguments put forward by BHP to support the assertion that the capacity of the channel would limit iron ore exports to between 200 and 220Mtpa; Fortescue remains of the view that the channel at the port of Port Hedland is capable of enabling iron ore exports to reach a level of around 260Mtpa and that further expansion of capacity is possible when required by undertaking further dredging.

There is nothing in the Report that validates any of the objections raised by BHP. It is now 3 months since the Draft Recommendation was released and nothing new has been revealed that would suggest anything other than that the Draft Recommendation should be adopted as the final Recommendation and therefore that the Mt Newman Railway should be Declared for a period of

20 years. Fortescue urges the NCC to make this recommendation to the Designated Minister as soon as possible.

Yours sincerely

JULIAN TAPP
FORTESCUE METALS GROUP LIMITED