Fortescue in talks over power deal

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Fortescue has held talks with the BP-led Asian Renewable Energy Hub over potential power deals for the mining giant's Pilbara iron ore operations, according to ***Fortescue*** Energy boss Mark Hutchinson, although no deal has been done.

Such an agreement would mark a departure from ***Fortescue***'s previous strategy of building its own wind and solar farms around its iron ore assets, with the company having already embarked on a major transmission line project to link its Pilbara operations. ***Fortescue*** has promised to end its use of fossil fuels by the end of the decade and become a "real zero" emitter of carbon. But to do that the company has said it needs 2 to 3 gigawatt of renewable energy generation, along with battery firming.

So far ***Fortescue*** has only committed to a 100 megawatt solar farm at its Iron Bridge magnetite operation and a 60MW solar farm at its Chichester iron ore mine. But last year, as part of an investor tour of its operations, ***Fortescue*** flagged plans to build a gigawatt of both solar and wind generation around its mines, as well as up to 4GWh of battery storage.

Speaking to analysts on Thursday, however, Mr Hutchinson said the company had held discussions with the proponents of AREH, as well as other potential renewable energy providers in the region.

AREH is 48 per cent owned by fossil fuel giant BP, and includes Macquarie, CWP Global and Intercontinental Energy as joint venture partners. The consortium plans to build a giant 26GW of combined solar and wind power on a 6500 sq km site north east of the Port Hedland iron ore export hub.

"We are talking to many parties including the BP and Intercontinental Energy team and will continue to do so," Mr Hutchinson said. "This is one ecosystem which we want to make sure gets developed in Australia. And we want to make sure we also have the most efficient energy for our own use. So we'll continue to have discussions with a number of different parties." Last year Rio Tinto also switched its Pilbara renewable energy strategy to include third party energy providers, partly citing tight supply chains and intense competition for solar and wind energy generation equipment.

Mr Hutchinson's comments came after ***Fortescue*** declared another bumper dividend on the back of last year's surge in the iron ore price, delivering holders a $1.08 a share interim dividend after declaring a $US3.3bn net profit for the half.

The dividend represents a payout of 65 per cent of the company's first-half profit, and comes after ***Fortescue*** booked earnings before interest, tax, depreciation and amortisation (EBITDA) of $US5.9bn, up 36 per cent on the first half of the previous financial year. ***Fortescue***'s energy division booked a $US320m EBITDA loss for the half, up from a $US302m loss in the first half of the previous financial year.

The energy division now includes UK technology business WAE, which booked revenue of about $US26m for the year.

Fortescue's policy is to pay out 50 to 80 per cent of its net profit in dividends, and the mid-range payment - the same as its total payout ratio across last financial year - comes as the company looks to ramp up spending on its Pilbara iron ore mines and its green energy projects. The iron ore giant spent $US1.52bn on capital projects in the first half of the financial year, with about $US1bn of that on sustaining capital for its existing Pilbara miners.

Another $US165m was spent on ***Fortescue*** Energy projects across the globe, and another $US104m on decarbonising the company's iron ore operations.

Fortescue says it expects to spend $US3.3bn to $US3.7bn in capital for the full financial year, with about $US500m of that to go towards green energy projects and $US300m to $US500m on decarbonisation.

Fortescue's first-half result comes after the company received an average $US108 a dry tonne for its iron ore shipments in the half, up from $US87 a tonne in the prior corresponding period, with the group booking $US9.5bn in revenue, up 21 per cent.

Cash production costs lifted 2 per cent to $US17.77 a wet tonne for the period as ***Fortescue*** kept inflationary pressures in the Pilbara largely under control.

Citi analyst Paul McTaggart said the results had beaten analyst consensus estimates of a $US5.6bn EBITDA and a $1.04 dividend. ***Fortescue*** shares closed up 58c to $27.83 on Thursday.

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