

Springvale Colliery Extension Proposal – Submission to Planning Assessment Commission

Submission
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Introduction

The Australia Institute welcomes the opportunity to make a submission to the Planning Assessment Commission on the Springvale Colliery Extension Proposal. Our submission relates to the various economic assessments and reviews of economic assessments in relation to this project.

While many documents have been produced about the economics of the project, our view remains unchanged since our first submission – the economic assessment of the Springvale project does not comply with standard economic practice or relevant economic assessment guidelines.¹ More, importantly, it fails to provide information about key financial costs and benefits of the project.

This is important as several mines in the Lithgow area have closed due to being uneconomic and/or due to planning concerns. Decision makers should be closely examining the potential of the Springvale mine to deliver on its estimates of economic benefits and the risks that it too may close or be delayed or downsized. The economic assessment and related documents submitted by the proponents, consultants and planning do not provide useful information for assessing these risks and prospects.

Controversy has surrounded the economic assessment of the Springvale project, resulting in many documents that decision makers should be aware of. Documents referred to in this submission include:

- Original Economic Impact Assessment of the proposal by consultants AIGIS Group, included as Appendix O to the Environmental Impact Statement (EIS), March 2014
- Submission on EIS by The Australia Institute (TAI submission), May 2014
- Response to Submissions by AIGIS Group, (RTS)
- *Peer review of economic assessment of Angus Place, Springvale and Airly Mine Extension Projects*, written by Centre for International Economics, commissioned by Department of Planning and Environment (CIE initial review), January 2015 (incorrectly labelled January 2014 on the document).
- Revised Economic Impact Assessment by AIGIS Group (Revised EIA), March 2015
- Springvale Colliery Mine Extension Project Review of Economic Impact Assessment, by CIE, commissioned by Department of Planning and Environment (CIE second review), April 2015.
- Department of Planning and Environment Environmental Assessment Report (Department's report), April 2015.
- Division of Resources and Energy advice to Department of Planning and Environment regarding Springvale project (DRE advice), March 2015.
- NSW Treasury and Planning *Guideline for the use of Cost Benefit Analysis in mining and coal seam gas proposals* (Treasury Guidelines), November 2012.

All these documents are on the Major Projects website on the Springvale project page, aside from the Treasury Guidelines, which can be found here:

<http://www.planning.nsw.gov.au/LinkClick.aspx?fileticket=1IW95ZTjemY%3D&tabid=205&mid=1081&language=en-AU>

¹ Available here: <http://tai.org.au/content/springvale-colliery-extension-proposal>

Brief history of Springvale economic assessment

The EIS economic assessment went on display in early 2014. It was written by AIGIS Group, a small Newcastle-based consultancy that does not have extensive experience in economic assessment in general or of mining projects in particular. The Australia Institute contacted AIGIS Group to discuss concerns with their assessment and made a submission critical of:

- Failure to discuss key inputs – coal price, revenue, operating and capital costs.
- Inclusion of wages as a benefit, contrary to standard practice and government guidelines.²
- Lack of transparency around key calculations, eg royalties
- Environmental valuation used in inappropriate studies.

The RTS acknowledged that AIGIS Group’s approach was at least “unorthodox”:

AG and Centennial Coal (Centennial) are aware that, viewed from the strictures of current and previous economic practice surrounding consent-related economic assessments, and particularly those relating to Cost Benefit Analysis (CBA), the method employed in the submitted economic assessment is likely to be considered unorthodox. (p3)

The CIE initial review agreed that the EIS economic assessment was problematic:

Overall, the CBAs for the Projects have been undertaken in a manner that is inconsistent with well-established principles and the NSW Government’s November 2012 Guideline for the use of CBA in mining and coal seam gas proposals. The analysis presented also lacks transparency and it is, therefore, difficult to verify the calculations undertaken. (p2)

In March 2015, AIGIS Group produced the revised EIA. While some changes were made, the assessment still falls far short of guidelines and general economic practice. For example, there is no discussion of what coal price was used, nor of capital and operating cost assumptions.

The CIE second review found that:

Compared to the original assessment, the revised CBA more closely aligns with well-established principles of undertaking CBAs and the NSW Government’s November 2012 Guideline for the use of CBA in mining and coal seam gas proposals. (p5)

The CIE second review has been misinterpreted in the Department’s report:

The Department obtained a final review of the revised EIA by CIE who reported that the CBA closely aligns with well-established principles of undertaking CBAs and the [Treasury Guidelines].

We agree with the CIE that the revised assessment is “more closely” aligned with standard economic practice, but it is still far from adequate. We do not agree with the Department’s

² This issue is discussed in our submission and in (Department of Finance and Administration, 2006) p40.

reinterpretation that AIGIS Group have “closely” aligned their report with guidelines or standard practice. The revised assessment does not provide decision makers with an accurate view of the likely costs and benefits of the project overall or to NSW.

Is the Springvale project economically viable?

The Treasury Guidelines require analysts to give decision makers some indication of the financial and economic strength of projects by estimating:

All major costs and benefits to whoever they accrue and then adjust to estimate the proportion of these attributable to residents of the State. (p5)

By doing this, the analysis makes a broad estimate of whether the project is profitable. This has been standard practice in NSW for many years. The estimates provided give an indication of projects’ financial strength, but are far too broad to be considered investment advice or commercial in confidence.

The financial strength of projects is of interest because if they are not financially robust, they will not deliver benefits to the public of jobs and royalties, at least not at the rates claimed by proponents. Projects may be cancelled, delayed or downsized if returns are not adequate. A key concern is that environmental costs may be incurred by the public, only for a project to cease operating and fail to provide the benefits that were supposed to offset the environmental cost.

While financial decisions are a matter for proponents, the mere existence of a proposal is not proof that a project is viable. There are several key reasons why proponents would pursue marginal projects, particularly in relation to mine extensions:

- Preserving the option to develop in the future,
- Approved extensions increase the sale value of the asset,
- An extension can serve to delay rehabilitation and redundancy payments for long periods of time.

This last point is particularly important. The rehabilitation of mine sites can cost hundreds of millions of dollars. If a mine needs to retrench large numbers of workers, redundancy payments can be a major expense. By gaining approval for a project extension, these expenses can be delayed far into the future, providing companies with considerable financial advantage.

Neither of AIGIS Group’s assessments provide any insight into the financial strength of the Springvale project. AIGIS Group’s assessment of the Angus Place mine also gave no estimates of that project’s finances. They defended this omission in the RTS by saying:

It should also be noted that in relation to the Angus Place Colliery, the mine has operated continuously since 1979. Figure 1 demonstrates volatility in thermal coal prices over a 30-year period. As noted, this volatility has not affected continuation of mining at Angus Place Colliery. Centennial Coal submits that this would amply establish the viability of continued operation of the mine.

Centennial Coal’s extensive community consultation programs have not produced any material questioning the operational viability of Angus Place or other Centennial

Coal mines operating in the area. (Angus Place Response to Submissions, Response to TAI Submission, p5)

Just months later, Angus Place was closed as it was not economic to run.

The Springvale mine is also a relatively small mine, likely to be of high operating costs per tonne, located far from export facilities and with declining demand from local power stations. Decision makers should closely assess if the project has a long-term financial future.

The economic benefits as claimed by the Department and Centennial are dependent on the financial viability of the project. The Department's report claims the mine would create:

- 310 permanent jobs and 50 contractor jobs
- \$160 - \$180 M to the State of NSW in royalty revenue (present value)

These benefits will not happen, or will be substantially reduced, if the project is delayed or cancelled at any stage. The Department does not consider what is the probability of these benefits actually being realised and treats them as guaranteed. In fact they are highly uncertain and this should be considered against the potential costs of the project on the local and wider environment.

Indirect jobs

The Department's report claims that the Springvale extension would result in:

Indirect employment of around 1,200 people across the State of NSW. (p2)

This estimate is not based on any data, calculations or analysis, but is taken from the DRE advice submitted on the project:

Based on other mine projects, the Division believes the indirect employment within the region and in NSW as a whole from the Project could be around 1200 positions. (DRE submission page 4)

It is unclear how DRE have come up with this estimate. There seems to be no basis for it. It is not supported by recent assessment commissioned by coal companies:

- Ashton Mine – 1.5 Mt/year – “NSW as a whole...increase of 164 FTE jobs”³
- Carmichael mine – 40 Mt/year – “Australia as a whole...increase of 1,464 FTE jobs”⁴

While the Carmichael mine is estimated by the company's economist to increase employment by a total of 1,464 jobs, this project is around ten times larger than Springvale. It is unclear why the DRE believes that a relatively small mine would have such a large downstream effect.

Electricity prices

The Department's report claims:

³ (Fahrer, 2013)

⁴ (Fahrer, 2015)

The owner and operator of Mt Piper Power Station, Energy Australia, has indicated that the consequences if coal supply to the power station is constrained are 'significant'. In its submission on the project, Energy Australia states that:

*“Reduced generation output from Mt Piper could result in reduced operations and maintenance expenditure by the station with further knock on adverse impacts to the local economy and employment, Depending on market conditions, **this reduction in generation output could also adversely impact on wholesale energy market pricing outcomes in NSW which could flow through to increased costs for retail customers.**”* (DPE page 7, bold added)

We note that this submission from Energy Australia is not on the Springvale Project website. More importantly, the claim that wholesale electricity supply could be adversely affected by the Springvale mine is contradicted by Energy Australia's own submission to the Federal Government's review of the Renewable Energy Target. In that submission the company claimed that the wholesale market is “oversupplied”:

Since 2010 it has become apparent that the wholesale energy market is grossly oversupplied and that there is insufficient demand to absorb even existing generation capacity adequately.⁵

Furthermore, Energy Australia's parent company state in an interim report:

We have also taken steps to respond to the oversupply situation on the generation side by rationalising our generation portfolio. As we expect the external market to remain difficult in the years ahead, we will continue to optimise our business, strategy and structure in response to changing market conditions.⁶

In other words, Energy Australia think that wholesale prices will be low for many years and their response to them will be to reduce generation to help push prices up, rather than generating more electricity to push prices down. The Department's report fails to consider what Energy Australia are saying to their investors and to the Federal Government, which is in contradiction with what they are submitting to this process.

Environmental costs

As discussed in our original submission, the attempts to quantify the environmental impacts of the Springvale project in the original EIS economic assessment and the revised assessment are clumsy at best. AIGIS Group use studies of dubious relevance to the Springvale context to estimate these values.

One of the studies referenced by AIGIS Group is about economic values of the Wet Tropics World Heritage Area in Queensland, written by Dr Ian Curtis.⁷ Dr Curtis is a friend and professional colleague of Rod Campbell, the main author of this submission. In correspondence with Dr Curtis regarding this use of his work, he wrote that it was of “no relevance at all” to the Springvale project. We will make this correspondence available on request.

⁵ (Energy Australia, 2014) p3-4

⁶ (CLP Holdings, 2014) p3

⁷ (Curtis, 2004)

Conclusion

The Economic Assessment of the Springvale coal project heavily overstates the benefits of the project and at the same time understates the costs. The cost benefit analysis makes basic errors in economic theory and fails to comply with various state and federal guidelines.

By not including any discussion of the major costs and benefits of the project, such as capital costs, operating costs and coal sales revenue, the Economic Assessment provides decision makers with no understanding of the project's economics. It is impossible to assess whether, and under what circumstances, the project will be able to provide the jobs and royalties claimed by the proponents.

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