



The **Australia Institute**

Research that matters.

Springvale mine extension project

Submission to Planning Assessment Commission

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ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE – 'RESEARCH THAT MATTERS'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

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INTRODUCTION

The Australia Institute has made several submissions and presentations on the Springvale Colliery Extension proposal, which are available on our website:

<http://www.tai.org.au/content/springvale-colliery-extension-proposal>

<http://www.tai.org.au/content/submission-springvale-planning-assessment-commission>

Key points from these submissions are:

- Economic assessment of the project fails to comply with NSW government guidelines and widely-accepted professional standards.
- No indication is provided as to the financial viability of the mine, making all claimed economic benefits at risk of serious overstatement.
- The Department of Planning and Environment recommendations of approval are based on flawed assessment.

These points remain largely unaddressed in the most recent documents by the Planning Assessment Commission and the Department. With current regulatory changes returning mining assessment to balance economic with environmental and social factors, the economics of the project should be examined with renewed scrutiny.

PROJECT VIABILITY

With coal prices substantially lower than when the project was first proposed, there is no certainty around the financial viability of the Springvale mine. If the mine is not strongly profitable, it will not provide the claimed level of economic benefits, particularly royalties and employment. There will be a strong incentive for the proponents to cut costs on environmental management and to lobby for ever looser management conditions and government assistance.

Centennial Coal and its economic consultants AIGIS Group have a poor record in predicting the viability of their mines. In the economic assessment of the nearby Angus Place mine AIGIS wrote:

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 question of what coal price the project requires to break even and how sensitive benefits to the NSW community are to the coal price is not addressed in any report on the Springvale project:

- AIGIS Group, Angus Place Colliery Extension Project Economic Impact Assessment, March 2014
- AIGIS Group Angus Place Colliery Extension Project Response To Submission By The Australia Institute, September 2014
- CIE, Peer review of economic assessment Angus Place, Springvale and Airly Mine Extension Projects, January 2015
- CIE, Springvale Colliery Mine Extension Project Review of Economic Impact Assessment, April 2015
- Division of Resources and Energy, Springvale Extension Project: Assessment of the Significance of the Resource, March 2015
- PAC, Springvale Mine Extension Project: Review Report, June 2015
- DP&E, Addendum Report: State Significant Development Springvale Mine Extension Project (SSD 5594), August 2015

The Springvale mine is 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 and the risks that any claimed benefits do not materialise.

STANDARD OF ECONOMIC ASSESSMENT

As noted by both CIE reviews and the PAC review report, the economic assessment of the project commissioned by Centennial does not meet NSW government standards. Furthermore, the Department has misrepresented the reviews in saying that the assessment was “closely” aligned with guidelines rather than “more closely” than the initial submission that was far from accepted professional standards.

We note that despite the critical reviews of the EIS and revised economic assessment the review PAC met with AIGIS group economist, Mark Sargent in May 2015. We would be happy to engage with the PAC to further discuss the economics of this proposal.

ECONOMIC CLAIMS IN THE ADDENDUM REPORT

Despite the low quality of economic assessment provided by the proponents, the Department's addendum report makes the claim:

The Department remains satisfied that the project would provide major economic and social benefits for the Lithgow region and for NSW as a whole.
(p1)

None of the claimed benefits are as substantial or as certain as the department claims, as discussed below.

Claim 1. Provision of the only local source of coal to the Mt Piper Power Station, which provides 15% of NSW's electricity

Mt Piper Power Station is a private business, owned by Hong Kong-listed company Energy Australia. It buys coal at market prices from Centennial, as has been emphasised in its submissions on the Coalpac expansion project. There is no analysis presented to suggest that it could not obtain coal from the wider NSW coal market, or that this would impose serious costs on the operation. In fact, access to wider NSW coal sources was the point of the Western Rail Coal Unloader project which the power station already has approval for.¹

The Mt Piper power station is a large-scale generator, but it is part of the wider National Electricity Market (NEM). Its operation or otherwise makes minimal difference to NSW electricity prices. Indeed, Energy Australia has stated that the NEM is currently "grossly oversupplied" and it is looking to reduce its generation:

*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.*²

Not only is Mt Piper's electricity generation not required to satisfy demand in the NEM, but its operations delay the adoption of renewable energy in the NEM.

¹ <http://www.energyaustralia.com.au/about-us/what-we-do/projects/mt-piper-and-wallerawang>
http://majorprojects.planning.nsw.gov.au/index.pl?action=view_job&job_id=27

² Energy Australia. (2014). Energy Australia submission to the Renewable Energy Target Review, p3-4.

Claim 2. Continued direct employment of 310 full time equivalent staff during operations and around 50 contractors during construction

This claim may be accurate, provided the project is financially viable. As discussed above, there is no discussion of this in the assessment and the experience of the Angus Place mine suggests there is considerable risk that the project will be delayed, abandoned, or conducted in a different manner to that which is proposed in this application.

Claim 3. Estimated indirect employment of around 1,200 people across NSW

This claim comes from the Division of Resources and Energy submission, *Springvale Extension Project: Assessment of the Significance of the Resource*, March 2015. It is not based on any analysis or data, it is the Division's unsourced estimate. It is contradicted by coal industry economists, such as expert evidence for Yancoal's Ashton project in the Land and Environment Court. Yancoal's economist found that mine, also a relatively small mine, would result in net employment increase of only around 80 people.

Claim 4. Total estimated net economic benefit in excess of \$200 M (NPV)

It is unclear where this calculation comes from as it is substantially different to all estimates from AIGIS Group, CIE or DRE.

Further claims:

\$170 M in operation phase incomes;

\$160 - \$180 M to the State of NSW in royalty revenue; and

\$18 M in Commonwealth, State and local tax revenue

Again, all of these estimates are contingent on the viability of the project, which is far from certain. Furthermore:

- The claim about incomes does not consider the opportunity cost of labour.
- Royalty and tax revenue estimates are based on a coal price of AUD\$97-\$117 per tonne, well above the Commonwealth Treasury's estimate of around AUD\$80 per tonne.³

³ Bullen, J., Kouparitsas, M. & Krolkowski, M., 2014. Long-run forecasts of Australia's terms of trade, Published by The Treasury, Commonwealth of Australia.

CONCLUSION

The Springvale project has not been assessed in line with NSW government guidelines for economic assessment. Its future viability and ability to provide a net benefit to the NSW community is unlikely. Given the substantial environmental risks the project presents we recommend that the project be rejected by the PAC.