The Australia Institute
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Planning Assessment Commission
Level 3, 201 Elizabeth Street,
Sydney NSW 2000

5/12/2016

RE: Wilpinjong Extension Project

Dear commissioners,

The Australia Institute made a submission on the Wilpinjong Extension Project in March 2016. Our submission focussed on the economic assessment by Deloitte Access Economics in appendix M of the environmental impact statement (EIS). Since then the following documents have been produced, most of which have some focus on our submission:

- Response to Submissions by Wilpinjong Coal/Peabody (May 2016)
- Peer Review of Economic Assessment by Centre for International Economics (CIE) (May 2016)
- Response to the Peer Review by Peabody (June 2016)
- Update to the Peer Review by CIE (July 2016)
- Secretary's Environmental Assessment Report by the Department of Planning and Environment. (November 2016)

We note that despite the focus on our submission, we were not given the opportunity to read any of these documents (aside from the response to submissions) until November 2016.

More importantly, none of these documents refute the central points of our submission:

- Peabody is in dire financial straits. There has been no serious assessment of how the company's financial situation could affect the operation of the mine and any claimed benefits. No reference was even made to this situation by Deloitte.
- The economic assessment values the project at $735 million, hundreds of millions more than its parent company is worth. Despite the differences between market capitalisation and the net present value calculation of a cost benefit analysis, this vast difference should raise concerns for decision makers using the economic assessment as a basis for deciding the future of this project.

- A key issue is the claimed operating costs that would be among the lowest in the world. While Peabody criticise our presentation of Wood McKenzie cost curve estimates, they provide no alternative calculations, or further disclosure. We note that the Peabody website referenced by CIE has been adjusted to show a 40% deterioration in strip ratio between when it was archived on June 30 and December 2016.[1] It is likely that costs will be higher than anticipated in the economic assessment, risking the financial and economic viability of the project. Peabody's financial situation means this risk should be closely assessed.
- Coal prices used in the assessment are higher than those predicted than forecasters such as Goldman Sachs. Peabody erroneously refers to The Australia Institute as the source of these forecasts, saying readers should be "highly cautious of quoting The Australia Institute as a credible source regarding long term coal price forecasts." As is clear in our submission, we are not the source of these forecasts, we have simply referenced the work of major private and public sector forecasters.
- Estimates of rehabilitation costs vary substantially. Peabody told a Community Consultation Committee meeting in September 2015 that a rehabilitation bond "in the vicinity of $58 million would be paid". The economic assessment estimates these costs at $23.69 million. In addition it estimates decommissioning costs of $25.74 million and monitoring costs of around $29 million. (Monitoring costs were not provided in undiscounted terms, but visual estimate from Chart 5.12 suggests around $29 million) This is a total of $78 million. The response to submissions refers to a similar figure. There is no clear explanation of these differences. Again, the financial situation of Peabody and the unlikely presentation of the mine's economics raise a real risk of the NSW community bearing a substantial burden of rehabilitation costs, or through a degraded environment.

In addition to these key points, no response has been made to the point that the economic assessment does not correctly assess the value of the coal being sold to AGL. If the contracts with local power stations are preventing the coal from selling for its true value, this means there is substantial economic benefit accruing to the buyers, AGL, who are buying for below market value.

This apparent error does not change the NPV of the project if corrected, as it would increase the value of both the baseline and the expansion proposal in the same way under Deloitte's production assumptions. The problem is that this approach masks the fact that AGL are receiving substantial benefit, apparently at Peabody's and the community's expense. Rather than pursuing the expansion proposal, the public interest may be best served by renegotiating contracts with AGL. CIE make it clear that:

[1] Accessed via Wayback Machine http://archive.org/web/

While the EIS presents a single option (the Project), from the perspective of the NSW community, it is possible that there are alternative options that have not been presented here that may deliver greater net benefits to the community.

Our conclusion remains that this project presents a substantial risk to the NSW community. While the Department of Planning and Environment refer to substantial net benefits "even if very conservative assumptions are used", their assumptions are conservative only in relation to coal prices. Their unstated assumptions are that Peabody is able to operate as a solvent entity, that the mine operates as planned, that operating costs are among the lowest in the world and that rehabilitation efforts perfectly offset the damage done to the NSW environment and are adequately covered by existing bonds. None of these assumptions are explicitly stated and in our opinion none of them are at all conservative.

We are happy to provide further information to the commission if requested.

Regards,

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