

Hume Coal Project - submission to NSW Independent Planning Commission

The Hume Coal Project is not economically viable and should be rejected. Despite recommending against approval, the Department of Planning, Industry and Environment overstates the economic case for the project

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INTRODUCTION

The Australia Institute welcomes the opportunity to make a submission to the NSW Independent Planning Commission (IPC) regarding the Hume Coal Project. This follows our presentation to the IPC's electronic public hearing on Tuesday 13 July 2021.

Our presentation and this submission focus on the Project Assessment Report by the Department of Planning, Industry and Environment (DPIE), specifically the claim in the report that the project would result in a net economic benefit to the NSW community. This claim is not justified and DPIE appear to misunderstand the concept of net benefit.

This submission does not go into detail on the flaws of the various economic assessment documents commissioned by Hume Coal, prepared by BAEconomics, or the wider impacts of the Hume Coal Project on the economy of the Southern

Highlands. These issues have been covered in detail in our four previous reports and submissions.¹

DPIE ASSESSMENT REPORT BENEFIT CLAIM

The DPIE Assessment Report Executive Summary states:

There is now adequate agreement between the economics experts on the net economic benefits of the project, with the Department's expert estimating that the project would have a net benefit of \$194 million in net present value (NPV) terms.

The Department accepts that the project as proposed would have a net economic benefit to NSW and a range of benefits to the Southern Highlands region, and that sensitivity analysis indicates that the NPV of the project (as designed) would remain positive even when considering a range of potential economic variables. (pviii)

These summary paragraphs are only slightly expanded in the later section on economics in the Assessment Report. This is a misleading interpretation of the economic assessment, the Department's commissioned review and the concept of net present value.

NET PRESENT VALUE

The net present value (NPV) of a project in cost benefit analysis is the value of the future stream of benefits that the project would generate, less the future costs that it would incur. These streams are discounted into a single present value figure.

NPV figures in cost benefit analysis include environmental and social costs, also known as externalities. The BAEconomics cost benefit analysis purports to include environmental costs in its NPV figure of \$192 million. (Note that the figure of \$194 million appears to be a typo, this figure does not appear in the BAEconomics report.)

¹ See Campbell and McKeon (2016) *Economic assessment of the Hume Coal project*, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=EXH-811%2120190402T020111.098%20GMT>; Campbell and McKeon (2017) *For Hume the Bell Tolls: Local economic impacts of the Hume Coal project*, <https://australiainstitute.org.au/report/for-hume-the-bell-tolls/>; Campbell and Shields (2017) *Hume Coal Project: Submission on Environmental Impact Statement*, <https://australiainstitute.org.au/report/hume-coal-project-submission-on-environmental-impact-statement/>; Campbell (2015) *Coal in the Southern Highlands economy*, <https://australiainstitute.org.au/report/coal-in-the-southern-highlands-economy/>

BAEconomics' assessment includes greenhouse gas costs and agricultural impacts worth \$1 million, while assuming that all other environmental costs (such as groundwater) are perfectly offset by management and mitigation costs, stating:

The great majority of potential external effects that have been identified would be internalised, that is, mitigated or otherwise paid for by Hume Coal. Given that this is the case, the only two external effects that would represent a 'cost' to New South Wales would be the NSW share of GHG emissions and potential agricultural impacts, amounting to around \$1 million in NPV terms in total. (p2)

Yet the DPIE assessment report states:

However, the Department does not believe that these [financial benefits] and other benefits outweigh the project's actual and potential environmental and social impacts. (pix)

This is contradictory. DPIE cannot simultaneously accept BAEconomics' NPV estimate of \$192 million, which purports to include environmental and social costs, while stating that benefits such as taxes and royalties are likely to be outweighed by water impacts and related costs.

What the Assessment Report appears to mean is that DPIE accepts BAEconomics' estimate of future royalty and tax payments (\$193 million present value) but does not accept BAEconomics' assumption that external effects have been internalised, mitigated or otherwise paid for by Hume Coal.

In the language of cost benefit analysis, DPIE estimates that the NPV of the project is less than zero, due to the value of external costs likely being greater than the quantified financial benefits. This was the conclusion of The Australia Institute's detailed 2016 *Economic assessment of the Hume Coal project*.

POSITION OF BIS OXFORD

DPIE misrepresents the position adopted by its commissioned reviewers, BIS Oxford Economics. BIS Oxford did not estimate that the Hume Project would have a NPV of \$194 million (although the figure of \$194 million appears to be their typo). Instead, BIS Oxford accept as reasonable the \$192 million NPV estimate, as opposed to a discredited higher figure suggested by BAEconomics. Importantly, BIS Oxford's recommendation that DPIE work from the \$192 million figure comes with major caveats, including groundwater externalities:

However, as indicated, there are residual issues regarding matters such as the costing and transparency of the externalities, which should be clarified by the proponent and/or BAEconomics. (p3)

We also suggest that the Department take note of the additional risk factors which have emerged since completion of the 2020 EIA (such as COVID-19 pandemic and its effects on trade and demand and growing geopolitical and trade tensions). (p3-4)

The question of the mine's production volumes is ultimately linked to project viability. If the mine is unable to produce the volumes projected then royalties and project benefits will be lower than forecast. The project will use a pine feather mining method...which is untested in Australia. Past debates about the HCP have raised concerns about the safety, viability and resource recovery rates of the pine-feather method in respect of the project. (p10)

It is not clear if any contingencies have been allowed for in the base project costings – and these might be relevant if mining operations prove more complex than originally anticipated. If there are (still) concerns about project operating cost blowouts this may be an issue worth investigating in more detail. (p11)

Although approximately half of the HCP's output is coking coal, another potential production-related risk in the long run is the growing environmental concern about thermal coal and/or the mining of coal under any circumstances. (p11)

More fundamentally it is not clear that there is any allowance for project contingencies. "Optimism bias" (i.e. underestimating costs in particular) may be a generic issue with major projects. The Treasury Guidelines (p.49) indicate that a contingency allowance should be built into the project budget. (Sensitivity tests are then generally applied to this cost base inclusive of contingencies.)

These are just some of the doubts and caveats expressed by BIS Oxford in their review. For DPIE to present BIS Oxford's report as an unambiguous endorsement of the BAEconomics \$192 million NPV estimate is misleading. They also contradict the DPIE claim that sensitivity testing has comprehensively shown that project NPV could not turn negative in anything but extreme circumstances.

CONCLUSION

As The Australia Institute has long maintained, the Hume Coal project is not economically viable and should be rejected. Its costs are almost certain to outweigh its benefits to the NSW community. The project appears to be being pursued simply for the proponent to avoid writing off the value of the project in its accounts for as long as possible.

Economic non-viability is also the conclusion that DPIE arrives at with its recommendation against approval. Despite this recommendation, the DPIE overstates the economic case for the project.

It is possible that the DPIE simply made an error in wording the Assessment Report findings on economics in this way. The Australia Institute has long noted that DPIE lacks capacity to adequately review commissioned economic assessment and urges the Department to build up this capacity.

Another possibility is that the Department is trying to walk both sides of the street in recommending against approval of the project, but without publicly rejecting the findings of BAEconomics. This is because BAEconomics are the preferred consultants of DPIE to provide advice and reviews in controversial circumstances, such as the Narrabri Gas Project and the Dendrobium Coal Mine.

BAEconomics is led by Brian Fisher, one of Australia's most controversial economists. He is controversial due to his close links to the resource industry and right-wing politics.² Contradicting BAEconomics would see DPIE have to re-examine advice received from BAEconomics and risk confrontation with its industry and political supporters.

² For longer discussion of BAEconomics and Dr Fisher see Ogge et al (2020) *Fast and loose: Analysis of Santos's eleventh-hour Narrabri Gas Project documents*, <https://australiainstitute.org.au/report/fast-and-loose/>