

COALPAC CONSOLIDATION PROJECT (10_0176)

FINAL ADDENDUM REPORT – 26 SEPTEMBER 2013

On 20 August 2013, the Department received a joint letter from NSW Treasury and NSW Trade & Investment indicating their strong support for the Coalpac Consolidation Project, and highlighting the adverse implications of not proceeding with the project for both the NSW electricity industry and broader economy.

While the Department has already generally considered the matters raised in this letter in its assessment, it has given further consideration to these matters below.

CONSIDERATION

Coal Supply

NSW Treasury and NSW Trade & Investment are concerned that the PAC Review has given inadequate weight to Mount Piper and Wallerawang Power Stations' heavy reliance on the coal supplied by local mines, and the lack of alternative economic sources of coal for these power stations.

However, the Department believes there a number of mines in the region that could supply the necessary coal to the power stations in the short, medium and long term.

The key existing mines (other than Cullen Valley and Invincible) in the vicinity of the power stations that could supply coal in the short to medium term are Angus Place, Springvale and Pine Dale. Angus Place and Springvale are both owned and operated by Centennial Coal, and Pine Dale is owned and operated by Energy Australia.

The Department notes that both Centennial and Energy Australia are seeking approval to the Springvale, Angus Place and Pine Dale Coal mines, and that Centennial is seeking approval to develop the Neubecks Creek coal project, a small, new open cut mine approximately 2 km to the north of the Mount Piper power station.

In total, there is at least 160 Mt of recoverable coal in the immediate vicinity of the power stations, which represents more than 25 years of supply to the power stations if they operate at their current maximum installed capacity.

There are also a number of existing mines (owned and operated by Centennial) in the general Lithgow area that could supply coal to the power stations, including Clarence, Airly and Charbon. There are also a number of other coal proposals in the region, including the Running Stream Coal Project (Glencore) and the Inglenook Coal Project (Centennial) that could supply coal to the power stations in the medium to long term should they progress.

In the longer term, coal supply could also potentially be augmented from the large open cut and underground mines to the north of Mudgee (Ulan, Moolarben, and Wilpinjong), although this would require significant investment in upgrading the Gulgong railway line.

In summary, while the Department acknowledges that the Coalpac Consolidation Project would provide an important supply of coal to Mount Piper Power Station, it is satisfied that the coal on the site is not essential for NSW's electricity supply, and that suitable alternatives are available to meet the demand for coal at the Mount Piper and Wallerawang Power Stations in the short, medium and long term.

It also believes these coal resources could be developed with far fewer environmental impacts than the Coalpac Consolidation Project.

Hence, from the Department's perspective, the key residual issue is not coal supply, but rather the absence of competition for the supply of this coal, and the implications this has for the price of electricity in NSW.

Electricity Price

Coal pricing is the main variable cost for the Mount Piper and Wallerawang Power Stations.

In the absence of competition from Coalpac, the advice from NSW Treasury indicates that Energy Australia may need to pay around \$1.00/GJ more for coal (which is equivalent to an increase from around \$50/tonne to \$70/tonne of coal).

Independent modelling commissioned by Energy Australia has been considered by the Department in its assessment. This modelling indicates that if Energy Australia is forced to pay higher prices for its coal supply, the retail price for electricity in NSW is likely to increase by 4 to 12%.

The Department does not dispute the overarching conclusion of these findings - electricity prices could rise if Energy Australia has to pay more for its coal.

However, it notes that forecasting of such price increases is an imprecise science that is dependent on making assumptions about a complex range of interconnected variables; and that the market is likely to respond to any increases in the cost of coal supply. Consequently, it is possible that price increases would be at the lower end of this spectrum, and that these price increases may not be sustained over the medium to long term as the market adjusts to any changes in coal prices.

While the Department supports increased competition in the coal supply and electricity generation markets, it is concerned that the relatively low contract price established between Coalpac and Energy Australia is being used as a reason to justify significant environmental impacts on the site.

If this argument is accepted, then it has the potential to set a precedent for the future merit assessment of mining projects, as mining companies could potentially overcome environmental concerns simply by agreeing to sell their coal cheaply for domestic electricity generation.

Furthermore, by using the price of the coal as the key consideration, it would reward Coalpac for entering into a contract in 2005 to supply coal for which there was no planning approval in place.

Consequently, the Department believes that the market should be allowed to determine the supply and demand for coal, and these commercial arrangements should not be the primary consideration in the merit assessment of the project.

Environmental Impacts

Given the comments above, the Department considers that the key question is whether the environmental impacts of the project are significant enough to justify refusal.

In this regard, the Department believes the Coalpac site has significant conservation value.

It forms part of the Ben Bullen State Forest, which is a large area of remnant vegetation that is directly connected to the Gardens of Stone National Park. It has significant biodiversity and geological features that are similar to those that have been protected in the nearby National Park Estate and World Heritage Area, and it has been identified as being potentially suitable for inclusion in these larger conservation areas.

The Department notes that there has been considerable focus on the impacts on the pagoda rock formations and associated habitat in the assessment of the project. While the Department believes the pagodas on the site should be protected, it considers that it is more appropriate to consider the conservation significance of the site as a whole. In this regard, the Department believes the conservation values of the site are significantly higher than the values of other sites in NSW where open cut mining is being proposed.

Overall, the Department believes that the project in its current form would essentially destroy the conservation value of the site, and significantly compromise the conservation significance of the surrounding areas.

In particular, the Department notes that the project involves 'contour strip' mining along the base of the area's relatively steep topography that is not typical of conventional or contemporary open cut mine plans in NSW. This would remove the vegetation from the base of the large pagoda rock formations on the site, and create a series of fragmented vegetation remnants or habitat islands that would have limited biodiversity value.

The narrow elongated nature of the mine plan would cause a significantly greater level of impact relative to other mines of a similar scale in NSW. In particular, the perimeter of the open cut mining is more than 40 km in length, which would dramatically increase the edge effects of the project on the conservation values of surrounding areas.

While these impacts could be offset to some extent, the Department is not satisfied that the use of biodiversity offsets is appropriate in this case as it would be difficult, if not impossible, to replicate the conservation values of the site as a whole, or to locate a site that is adjacent to the World Heritage Area, under threat from development, and with the potential for adding significantly to regional conservation outcomes.

Overall, the Department considers these impacts to be unacceptable, and believes that the site is fundamentally unsuitable for such a large scale open cut mining proposal.

Nevertheless, the Department accepts there may be some merit in allowing a smaller proposal to be carried out on the less sensitive parts of the site to enable some of the remaining coal to be extracted, and the existing mining voids to be filled and appropriately rehabilitated.

Economic Considerations

The PAC considered that the economic assessment conducted by Coalpac in its Environmental Assessment grossly overstated the economic benefits of the project. However, NSW Treasury indicates that it considers the cost benefit analysis presented by Coalpac to be generally sound.

The Department agrees with NSW Treasury, and accepts that the project would result in a range of project-specific economic benefits as well as broader economic benefits.

While the Department considers cost benefit analysis to be a useful tool, it does not believe that it should be the determining factor in any merit assessment of particular projects, or override the role of approval authorities to weigh up all factors and decide what is in the public interest.

In this case, the Department agrees with the PAC that the site as a whole has significant conservation values, and that the project would have a significant impact on these conservation values.

Given that there are a range of alternative coal reserves in the region that could be extracted to supply the power stations for the foreseeable future, and the environmental consequences of extracting coal from these alternative reserves would be far less than proceeding with the Coalpac Consolidation Project, the Department believes that these alternatives should be exhausted before the approval of any large scale mining project is contemplated on the Coalpac site.

Further, there may be some merit in allowing a smaller extension to the mine that avoids the most sensitive parts of the site.

Precedent for Future Projects

The Department notes there is a longstanding practice in NSW of amending mine plans to avoid or minimise impacts on sensitive natural or built features, such as cliff lines, swamps, rivers and creeks, the foreshore of lakes, and significant water storages. These decisions are made on a case by case basis, and tailored to fit the specific circumstances.

Further, the Department's assessment in this case is based on the project's impacts on the conservation significance of the site as a whole, not solely its impacts on the pagoda rock formations. In the Department's view, the site has unique characteristics that make it largely unsuitable for large scale open cut mining proposals.

The Department therefore does not believe that a decision to refuse the Coalpac Consolidation Project would have any significant implications for other coal projects in the region, largely because they are either underground proposals or would not be carried out on such sensitive sites.

A decision on this project should not in any way be seen as setting a precedent.

CONCLUSION

The Department has carried out a detailed assessment of the merits of the project. Based on this assessment, the Department considers that when the project is taken as a whole, the environmental impacts of the project outweigh the benefits of the project. Consequently, the Department considers that the Coalpac Consolidation Project is not in the public interest, and should not be approved in its current form.

Nonetheless, the Department accepts there may be merit in allowing a smaller extension that avoids the most sensitive parts of the site. This would enable some of the remaining coal resources to be extracted, the existing mining voids to be filled and appropriately rehabilitated, and a suitable final landform created that blends in with the surrounding landscape.

The Department believes any such proposal should be the subject of a new application under the EP&A Act.

RECOMMENDATION

It is RECOMMENDED that the Director-General:

- considers the findings and recommendations of this memorandum; and
- agrees that the Department's assessment report be forwarded to the PAC for determination.



26.9.13

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