



Trade & Investment

Office of the Director General

DGTO14/30

Mr Sam Haddad
Director General
Department of Planning & Infrastructure
GPO Box 39
SYDNEY NSW 2001

Dear Mr  Haddad

Drayton South Coal Project – PAC Review and Gateway Panel advice

On 22 January 2014 Chris Wilson, Executive Director – Development Assessment Systems and Approvals wrote to Kylie Hargreaves, Deputy Director General – Resources and Energy, seeking advice from NSW Trade & Investment in response to the findings of the Planning Assessment Commission (PAC) and Gateway Panel on the proposed Drayton South Coal Project (Application 11-0062).

Thank you for the opportunity to provide further advice on this significant development proposal. As requested, this advice comprises a coordinated response integrating advice from across NSW Trade & Investment.

The Drayton South proposal is identified as a transitional project potentially affecting Critical Industry Clusters, consequently our advice addresses the relevant obligations under the *Environmental Planning and Assessment Act 1979* (EP&A Act), the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 (the Mining SEPP) and the Government's Strategic Rural Land Use Policy (SRLUP).

To assist your Department to make its assessment of the overall merits of the project, I enclose specific advice on the significance of the coal resources within the Drayton South lease, and estimates of the potential economic impacts that would result if the recommendations of the PAC and Gateway Panel advice are adopted. The economic information included in the enclosure to this letter is based on the best available current information, including typical industry averages.

I note that my Department has significant concerns about the lack of quantitative metrics used in the PAC assessment regarding impacts on CICs, which makes it virtually impossible for a comparison to be done in order to ascertain what the best use of the asset is for the people of NSW. There are also concerns about the use of vague language such as 'significant impacts' and 'reasonably feasible mitigation strategy' and the lack of transparency of the assumptions used to reach conclusions.

I also note that the Government established a threshold question for certain developments that are to be considered by the Gateway Panel established under the Mining SEPP; namely: *whether the proposal would lead to significant impacts on the Critical Industry Cluster (as a whole rather than impacts on specific enterprises) through:*

- (a) *surface area disturbance,*
- (b) *subsidence,*
- (c) *reduced access to agricultural resources,*
- (d) *reduced access to support services and infrastructure,*
- (e) *reduced access to transport routes, or*
- (f) *loss of scenic and landscape values.*

Of the six impacts, only a) and f) were found by PAC to be relevant to this project. With regard to surface area disturbance, the PAC report notes that 'horse studs are particularly sensitive to noise and blasting impacts, but there is scarce evidence on this aspect and contradictory views exist'. The loss of visible amenity and the potential impact on the Equine CIC needs to be weighed against the significant economic loss to NSW should the project not proceed in its current form.

I note that Anglo American's Environmental Assessment of this project indicates that the project in its current form is estimated to provide NSW with:

- the retention of approximately 530 direct jobs;
- \$485 million of capital investment;
- \$278 million per annum of operating costs (excluding depreciation and royalties) over the 27 year estimated mine life, resulting in a total of around \$7.5 billion of possible net operating expenditure; and
- \$588 million in annual direct and indirect regional output or business turnover.

In addition, my Department has estimated that royalties to the State would be in the order of \$40 million per annum or \$720 million over the life of the project. A 30 per cent reduction in available reserves would result in a total loss of around \$220 million of royalty over the life of the mine.

Based on the available data and maps of the site, the Department estimates that approximately 30 per cent of the resources previously identified in the Environmental Assessment documents would be sterilised if the recommendations of the PAC and Gateway Panel are adopted in order to further reduce the risk of adverse mining impacts on the Equine and Viticulture Critical Industries Clusters and existing land holders. The current proposal includes the use of existing infrastructure at the Drayton mine. Based on typical current infrastructure and fleet costs incurred for other mining projects, it is estimated that a new mine operator that does not have access to this infrastructure would need to incur additional expenditure of approximately \$230 million for infrastructure development and mining fleet acquisition.

Mine planning carries a significant cost and is typically an iterative process, as mining activities undertaken in the early years typically have flow-on consequences for later years. In the case of the Drayton South project, NSW Trade & Investment is not able to determine whether, under the recommendations of the PAC, a new economically viable mine plan could be developed, although the sterilisation of 30 per cent of the resource substantially

reduces the project value to the company and the State, potentially making the project uneconomic. In addition, Drayton South has indicated that to meet export specifications it would need to blend coal product from all four proposed pits, therefore restricting mining to two pits only would further deteriorate the economic viability of the project and consequently the benefit to NSW.

The adoption of best practice management standards, as proposed in the exhibited Environment Assessment for Drayton South and the commitments expressed by Anglo American, are essential to minimise land use conflicts. Additional options to minimise conflicts in regard to visual intrusion, dust, noise, vibration and marketing perceptions typically rely on effective separation of incompatible land uses, as per the recommendations of the Gateway Panel and the PAC.

It is further noted that according to the PAC report approval of the current proposal would have 'significant impacts' on the existing Critical Industry Clusters (CICs) in the region and the Government's stated commitment to the Strategic Rural Land Use Policy. The extensive consultation and analysis of the Equine CIC undertaken by the PAC supports the conclusion that the Coolmore and Woodlands horse studs are essential to the Equine CIC. If a suitable accommodation cannot be made to allow coexistence of the mining industry and these two critical studs within the Hunter Valley and those studs seek a longer term future by relocating, then it is likely to be away from the Hunter Valley. This would significantly impact on the equine industry in the Hunter and its supporting industries

If you would like to discuss any of these issues further please do not hesitate to contact me.

Yours sincerely



Mark I Paterson AO
Director General

7/2/14

Encl.

SPECIFIC ADVICE FROM NSW TRADE & INVESTMENT

The State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 was amended in November 2013 to ensure that the economic benefits of a proposal are an important consideration when deciding on major mining projects in NSW.

NSW Trade & Investment (NSW T&I) is of the view that the Drayton South Coal Project is a significant resource with significant economic benefits flowing both to the regional area and NSW as a whole.

Size, quality and availability of the resource

According to the detailed assessments undertaken by the proponent, Anglo American Metallurgical Pty Ltd (Anglo American) for the 2012 Environmental Assessment (EA) for the Drayton South Coal Project, exploration results indicate that the mining lease contains an *in situ* coal resource of 556 Million tonnes, of which 119 Mt is planned to be recovered by open cut and high wall mining methods.

Compared to other operating mines in the Hunter Valley, the Drayton South project can be considered a mid-sized mine. There are currently 20 mines in the Hunter Valley, on average producing approximately 5.3 million tonnes per year (Mtpa) of Run of Mine Coal (ROM), as proposed for Drayton South. As currently planned the Drayton South proposal would become the ninth largest producer of saleable coal in the Hunter Valley, and the seventh largest coal mine employer.

The coal seams proposed to be mined at the Drayton South Project are highly variable (ranging from very high-quality to relative low-quality coal). In order to deliver relatively homogenous coal products for export, whilst also maximising economic resource extraction and reducing potential land use conflicts an integrated, a complex mine plan involving four open pits producing four main products has been proposed.

NSW has a dwindling supply of potential new mines for future development in the region, and the Drayton South resource is one of a limited number of remaining identified resources opportunities within the Hunter Valley that can be developed.

Analysis by the NSW T&I Coal and Petroleum Geoscience unit of the Planning Assessment Commission (PAC) and Gateway Panel recommendations to restrict mining to the lease area behind the natural ridgeline suggests that, at a minimum, 30% of the available resource will be sterilised.

The effective removal of two of the four pits also brings into question whether changes to the net present value of the deposit and the flow through effects on mine scheduling, equipment usage and the ability to still produce the required products would render this proposal uneconomic.

Mine planning is a complex process that is time consuming, and carries a significant cost. It is also typically an iterative process, as mining activities undertaken in the early years usually have flow-on consequences for later mining schedules. Hence, NSW T & I is unable to determine whether, under the recommendations of the PAC, a new economically viable mine plan could be developed.

Proximity to existing infrastructure

In its Environmental Assessment (EA), Anglo American Metallurgical Coal Pty Ltd committed to construct a 10km transport corridor to enable continued use of existing Drayton Mine infrastructure including the Coal Handling Preparation Plant (CHPP) and rail loading facilities.

The project will utilise the Hunter Valley rail network and the Newcastle and the Port of Newcastle facilities. Based on typical current take or pay rail and port utilisation contracts and the estimated project volumes as documented in the EA, these contracts would have an estimated total value of \$1.2 billion over the predicted 27 year mine life. This includes current reported typical values of around \$30 million per year for rail contracts and the port contract is around \$25 million for the predicted volume of coal.

Relationship of the resource to any existing mine, petroleum production facility or extractive industry

While this project is a stand-alone project, it is closely linked with the existing Drayton mine. The proponent plans to continue operations at the same production rate, utilise the same employees and infrastructure and sell coal into the same long established market. It will also utilise the existing Drayton Mine equipment fleet, with the addition of a highwall mine and coal haulage fleet.

If approved, the new project would see the retention of 530 mining jobs in the region.

The proponent has reported a current capital expenditure for the Drayton South Project of \$485 million. If the project was not able to use the existing infrastructure, capital expenditure would increase substantially. For instance, based on Departmental knowledge of typical current infrastructure and fleet costs incurred for other mining projects, a new mine operator in all likelihood may need to incur additional expenditure of some \$230 million for infrastructure development and mining fleet acquisition.

This additional capital expenditure would further negatively impact on the net present value of Drayton South, and coupled with the possible reduction in total mining reserves may make the project economically unviable for another (new) operator under present prices and production costs.

Dependency of other industries on the resource project

If the project proceeds, local (regionally-based) industries servicing the existing Drayton mine would have the opportunity to continue to provide services in support of the Drayton South project. This would have flow on benefits for local / regional employment in businesses such as: mine equipment maintenance firms, mining equipment supply firms, coal preparation plant maintenance and supply firms.

Based on typical multiplier factors adopted for other mining projects the Division of Resources and Energy of NSW T & I estimates the indirect regional employment from the Project would continue to be over 1,500 positions regionally.

Estimated Economic Impacts

The 2012 EA for the Drayton South project documents proposals by Anglo American to produce 91 Mt of saleable coal, all of which is proposed to be exported. Based on the current average price for export thermal coal of A\$100/ tonne (rather than the \$118/ tonne mentioned in the 2012 EA), this is estimated as equating to around \$9 billion in total over the proposed mine life of 27 years. (Note: this figure is not discounted for net present value.)

Significant additional resources exist at depth which may be suitable for underground mining methods in the future.

Based on planned production volumes and typically current royalties, the Mineral Resources Branch of NSW T&I estimates that if the current Drayton South project proceeds in its planned format, NSW royalties would be of the order of \$40 million *per annum*, which could equate to approximately \$720 million over the life of the project (27 years). [Note: this is not calculated in terms of Net Present Value and assumes that current royalty rates apply.]

On the same basis, a 30% reduction in available reserves is estimated to result in a total loss of around \$220 million in royalties over the life of the mine. It should be noted that this estimate is not discounted. However, it also conservatively assumes that current royalties apply over the 27 year predicted mine life.

It is estimated that if the Drayton South project does not proceed, \$588 million in annual direct and indirect regional output would be lost to the regional economy.

In summary, as noted in the project's EA, the proponent estimates that the project will additionally provide for

- the retention of approximately 530 direct jobs;
- \$485 million of capital investment;
- \$278 million per annum of operating costs (excluding depreciation and royalties), over the 27 year estimated mine life, resulting in a total of around \$7.5 billion of possible net operating expenditure; and
- \$588 million in annual direct and indirect regional output or business turnover.

Whilst these figures represent industry data typical for other coal mines in NSW, detailed analysis and checking of the accuracy of these EA figures has not been undertaken by NSW T&I.

Critical Industry Clusters Impacts

The Panel and PAC findings are consistent with advice on the Drayton South proposal previously provided by the Department of Primary Industries (DPI) and specifically the advice on agricultural impacts advice provided by the Office of Agricultural Sustainability & Food Security (OAS&FS).

The NSW Government has determined that there are two CICs in the Upper Hunter: Equine & Viticulture. The Government also established assessment criteria for certain developments that are proposed on CIC land for consideration by the Gateway Panel (Panel).

On 28 January 2014 the Government announced the final step in identifying Critical Industry Clusters and confirmed its intention to safeguard these. This reinforced the Government's commitment to the Strategic Rural Land Use Policy and the related Mining SEPP provisions.

As a transitional project Drayton South was referred to the Panel for advice, rather than for a Gateway Certificate. The Panel used the CIC criteria (as described in the Mining SEPP) to assess impacts on the clusters.

DPI confirms the Panel and PAC identified the Coolmore and Woodlands horse studs as core businesses that are pivotal to the sustainability of the Equine CIC due to their scale, financial value, international reputation and representation.

DPI additionally supports the Gateway Panel and PAC's findings and recommendations that:

- the Coolmore and Woodlands (Darley) thoroughbred stud enterprises are pivotal (core businesses) to the sustainability of the Upper Hunter Equine Critical Industry Cluster and should be protected; and
- the potential impacts from the Drayton South mining proposal should be mitigated by providing additional buffers (set back distances) between the mining activities and the Equine and Viticultural CIC and the landscapes that are recognised as critical for their continued operations.

The principle tools available for minimising land use conflicts and reducing potential, air quality, noise and vibration and landscape impacts are:

- the adoption of best management practices, as proposed by the Drayton South project;
- ensuring effective consultation and communication; and
- providing adequate separation distances between incompatible land uses.

This approach is referenced in numerous publications, including:

- 'Living and Working In Rural Areas' (2007) by the Southern Cross University and NSW DPI in partnership with the Northern Rivers Catchment Management Authority (http://www.dpi.nsw.gov.au/data/assets/pdf_file/0010/234001/Living-and-working-in-rural-areas-complete.pdf) and
- Planning Guidelines for Separating Agricultural and Residential Land Uses (1997), Qld Department of Local Government and Planning and Department of Natural Resources (<http://www.dsdlp.qld.gov.au/resources/policy/plng-guide-sep-ag.pdf>)

Economic analysis of Agricultural Impacts

Socio-economic concerns have been previously raised regarding the cumulative impacts of the Drayton South Coal Mine Project on agricultural resources and enterprises (cf OUT13/31632, dated 19 November 2013). These concerns were not specifically addressed by the PAC and Gateway reports and remain unresolved.

The extensive consultation and analysis of the Equine CIC undertaken by the PAC supports the PAC conclusion that the Coolmore and Woodlands horse studs are essential to the Equine CIC. If a suitable accommodation cannot be made to allow coexistence of the mining industry and these two critical studs within the Hunter Valley and those studs seek a longer term future by relocating, then it is likely to be away from the Hunter Valley. This would significantly impact on the equine industry in the Hunter and its supporting industries.

Other Primary Industry Resource Issues

The PAC and Gateway reports focus on specific issues and as previously advised there are no outstanding issues in relation to Fisheries habitat conservation and management or Crown Lands. However, should the project boundaries be revised any affected Crown land must be similarly identified and acquired. This acquisition includes any buffer or offset lands required by the proponent.

The Gateway Panel findings in relation to surface water and groundwater impacts reflect the advice on these matters provided by NSW Office for Water in response to the exhibited EA (OUT13/6077 dated 21 December 2012) and to the proponents Response to Submissions and Preferred Project Review (OUT13/33852 dated 11 November 2013).