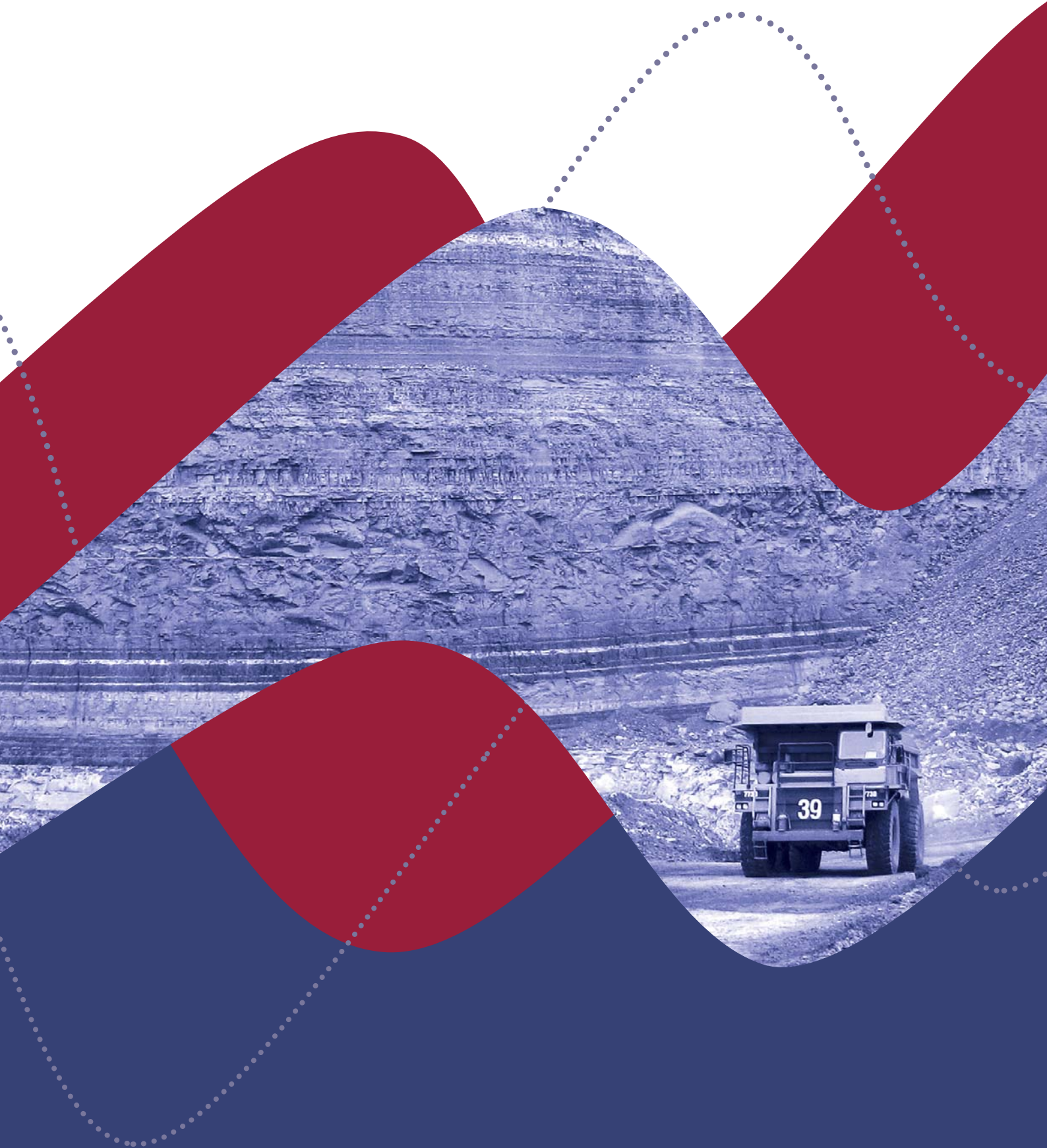


APPENDIX D

Stakeholder Engagement





COALPAC

CONSOLIDATION PROJECT

NEWSLETTER NO.1 OCTOBER 2010

INTRODUCTION

Cullen Valley Mine and Invincible Colliery are owned and operated by Coalpac Pty Ltd (Coalpac) under two separate planning approvals. Coalpac has managed the operations of Invincible Colliery since 1989 and Cullen Valley Mine since late 2008.

Cullen Valley Mine and Invincible Colliery are located adjacent to the Castlereagh Highway, approximately 25 km north-west of Lithgow, NSW. As shown on Figure 1, both operations are located on lands surrounding the township of Cullen Bullen.

Coalpac has approval to produce up to 2.2 Million tonnes per annum (Mtpa) of product coal by open cut and highwall mining methods from both sites. This coal is predominantly supplied to local power stations for electricity generation.

This Newsletter has been developed to provide an introduction for Coalpac's neighbours and other interested stakeholders on the proposed consolidation of Cullen Valley Mine and Invincible Colliery operations and the future development of operations at both sites as shown on Figure 1.

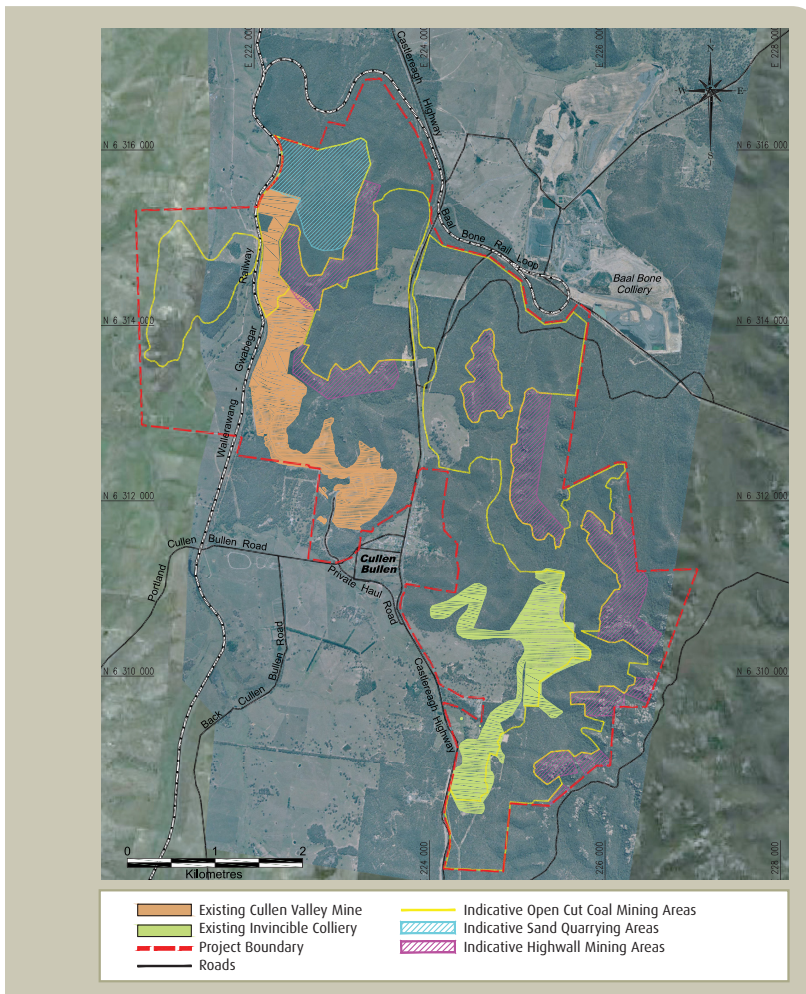


Figure 1: Coalpac Consolidation Project



COALPAC CONSOLIDATION PROJECT

Background

Open cut and highwall coal mining operations at Cullen Valley Mine and Invincible Colliery are currently managed in accordance with two separate planning approvals:

- Development Consent DA 200-5-2003, granted in August 2004 for Cullen Valley Mine; and
- Project Approval PA 07_0127, granted in December 2008 for Invincible Colliery.

Coalpac is proposing to consolidate the above approvals under a single contemporary planning approval (the Project). This consolidation would provide Coalpac with the ability to operate with greater efficiency and flexibility and would also enable the development of integrated environmental management and impact mitigation measures across both sites.

Project Description

Project Approval is sought under Part 3A of the *Environmental Planning & Assessment Act 1979* to allow mining operations within its current mining tenements to continue for a further period of 21 years.

The Project shall include:

- Consolidation and extension to the existing Cullen Valley Mine and Invincible Colliery operations to produce up to 3.5 Mtpa product coal with up to 120 direct employees, including:
 - The continuation of mining operations at Cullen Valley Mine and Invincible Colliery and;
 - An extension northward into the 'East Tyldesley' area via open cut and highwall mining methods to access an additional coal resource of approximately 83 Million tonnes Run of Mine coal;
- Continuation of coal supply to the local Mount Piper Power Station and (emergency supply to) Wallerawang Power Station, with the flexibility for additional supply to domestic destinations and Port Kembla for export;
- Upgrades to existing site entry, administration, transport and other infrastructure;
- Construction of bridge infrastructure over the Castlereagh Highway and Wallerawang-Gwabegar Railway line to link the proposed mining areas;
- The extraction of the Marangaroo Sandstone horizon from immediately below the Lithgow Coal Seam in the areas shown in **Figure 1**. This material is to be crushed on site prior to sale into the Sydney industrial sand market;
- Integration of the environmental management procedures of both sites into a single system; and
- Integration of the management of mine rehabilitation and conceptual final landform outcomes for both sites.



Environmental Assessment

Hansen Bailey Environmental Consultants has been commissioned by Coalpac to compile an Environmental Assessment (EA) document to support the application for a new Planning Approval for the Project.

The EA will include (at least): a detailed description of the Project; a description of the regulatory framework and stakeholder consultation process and detailed environmental studies for aspects including ecology, Aboriginal and non-Aboriginal heritage, acoustics (noise and blasting), air quality, visual and lighting, traffic and transport, groundwater, geochemistry, surface water, soils and land capability, rehabilitation, subsidence, economics and cumulative impacts.

The Process

An indicative timeline of the progression of the Project is shown in **Figure 2** that outlines the key stages in the regulatory and stakeholder consultation process to occur in the near future. The compilation of the EA has commenced, with stakeholder consultation meetings anticipated to occur from October.

A series of meetings with key regulatory bodies is also anticipated to be held in October and November, where assessments for inclusion in the EA will be discussed.

Stakeholder Engagement

A comprehensive stakeholder engagement program will be undertaken by Coalpac for the Project, which will include offers of face to face discussions with near neighbours, regulators and any other interested parties.

The aim of the stakeholder engagement program is to ensure that all stakeholders are provided an opportunity to understand the Project in detail, raise any issues of concern in relation to it to ensure that all environmental and social aspects are identified for inclusion in the EA.

Further Project newsletters will be distributed during the EA process at regular intervals.

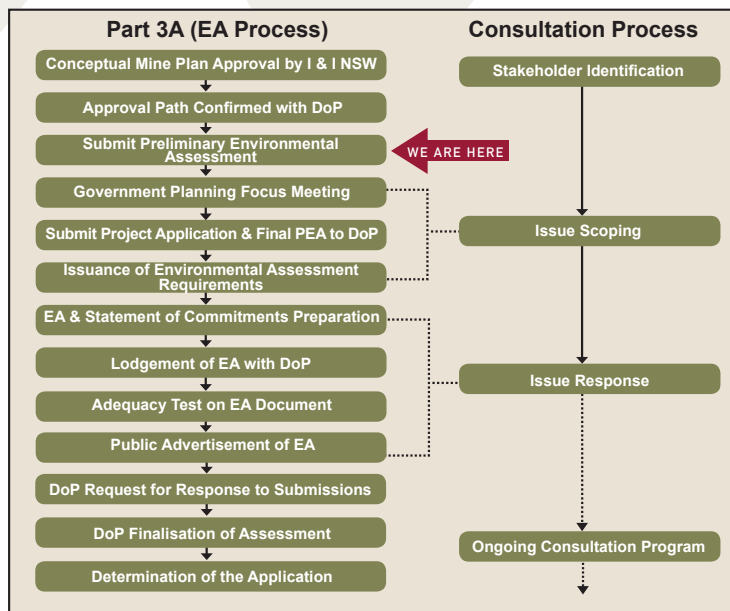


Figure 2: Planning Approvals and Consultation Process

Further Information

Should you wish to have a personal briefing on the Project or if you wish to discuss any aspect of this Newsletter, please do not hesitate to contact:

Terry Flynn
General Manager
Coalpac

Castlereagh Highway, Cullen Bullen NSW 2790
Phone: (02) 6359 0600
Email: tfflynn@cetresources.com



Coalpac Pty Ltd

Dorian Walsh
Environmental Scientist
Hansen Bailey

PO Box 473, Singleton NSW 2330
Phone: (02) 6575 2000
Email: dwalsh@hansenbailey.com.au

Hansen Bailey
ENVIRONMENTAL CONSULTANTS



COALPAC CONSOLIDATION PROJECT

NEWSLETTER NO.2 MAY 2011

INTRODUCTION

Cullen Valley Mine and Invincible Colliery are located adjacent to the Castlereagh Highway, approximately 25 km north-west of Lithgow, NSW. As shown on **Figure 1**, both operations are located on lands adjacent to the township of Cullen Bullen.

Coal mining within the lands occupied by Cullen Valley Mine and Invincible Colliery has occurred since 1888 and 1901, respectively. Coalpac Pty Ltd (Coalpac) has managed the operations of Invincible Colliery since 1989 and Cullen Valley Mine since late 2008. Coalpac has approval to produce up to 2.2 Million tonnes per annum (Mtpa) of product coal by open cut and highwall mining methods for supply to predominantly local power stations for electricity generation for the State of NSW.

This newsletter has been developed to provide an update to Newsletter 1 distributed in November 2010 for Coalpac's neighbours and other interested parties. It provides details on the consultation undertaken and findings to date, highlights changes that have been made to the Project in response to stakeholder issues raised, and provides an update on the Environmental Assessment process.

COALPAC CONSOLIDATION PROJECT

What is the Project?

Coalpac is seeking approval from the Minister for Planning under the *Environmental Planning & Assessment Act 1979* (EP&A Act) to consolidate the operations and management of the Cullen Valley Mine and Invincible Colliery and continue coal mining under a single, contemporary planning approval (the Project).

The Project would allow coal mining operations largely within Coalpac's current mining tenements to continue for a further period of 21 years to predominantly supply Mt Piper Power Station at up to 70% of coal requirements for electricity generation.

The Project is shown on **Figure 1** and includes:

- Consolidation and extension of the existing Cullen Valley Mine and Invincible Colliery to produce up to a total of 3.5 Mtpa product coal;
- Continuation of coal supply to the local Mt Piper Power Station via a new dedicated coal conveyor over the Castlereagh Highway and (emergency supply to) Wallerawang Power Station (via road), with continued flexibility for supply to additional domestic destinations and Port Kembla for export;
- Upgrades to existing administration, transport and other infrastructure;
- Construction and use of a bridge over the Castlereagh Highway to link operations east and west;
- Construction and operation of a bridge and haul road across the Wallerawang - Gwabegar Railway line to permit access to the Hillcroft mining area;
- The extraction of the Marangaroo Sandstone horizon immediately below the Lithgow Coal Seam in an area of Cullen Valley Mine for the Sydney and other sand markets;
- Construction of a rail siding to permit transport of coal and sand products via rail;
- Integration of water management infrastructure; and
- Integration of the management of mine rehabilitation and final landform outcomes for Cullen Valley Mine and Invincible Colliery.

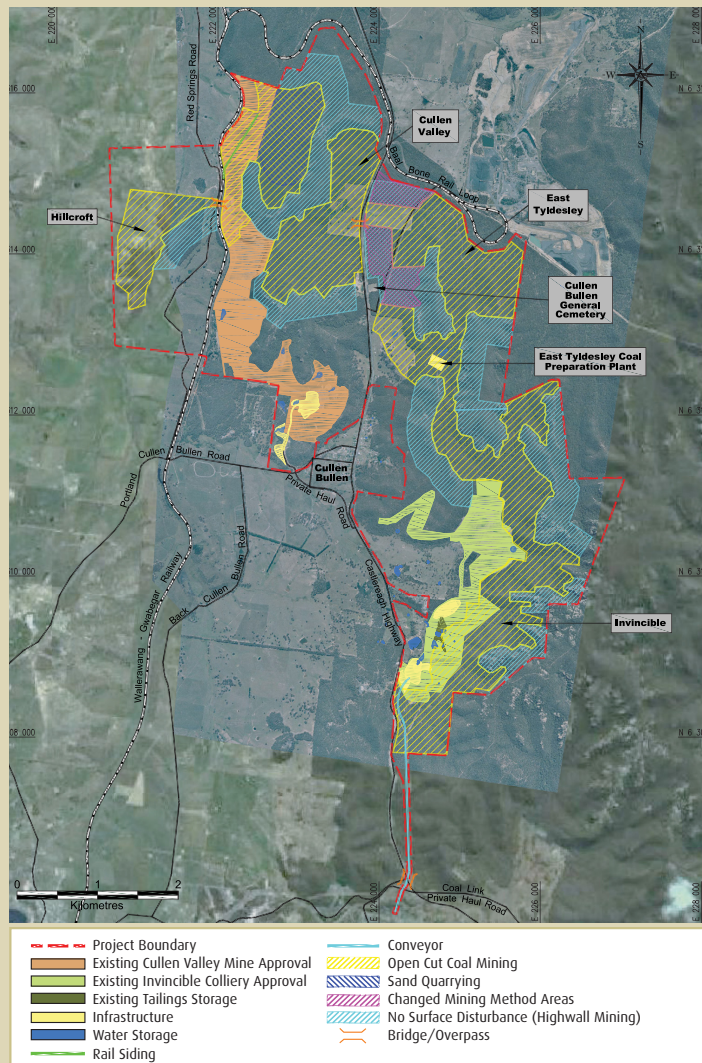


Figure 1: Coalpac Consolidation Project

How are we engaging with the community?

In late 2010 and early 2011, Coalpac held discussions with a number of regulatory and community stakeholders to understand issues of concern in relation to the Project. This process has assisted in scoping the issues being considered in the Environmental Assessment studies and in the development of impact management and mitigation measures.

An update of the Project timeline is included in **Figure 2**, which summarises the key stages in the regulatory and stakeholder consultation process.

To date, the stakeholder engagement process has been undertaken by:

- Meetings with local community groups, non-government organisations neighbouring industry representatives and 45 local landholders;
- A public Project Information Centre held at Cullen Bullen Community Hall for two days in December 2010; and
- Meetings with key Government regulators.

How have we changed the Project in response to stakeholder issues?

As a result of stakeholder engagement and the preliminary findings of the environmental impact studies for the Project, several key modifications to the Project mine plan have been made with the aim of minimising impacts to the local community and the environment. These modifications include:

- Reducing the areas initially planned for open cut mining to minimise impacts to flora and fauna and noise and air quality to nearby residences;

- Retreat open cut mining limits to maintain a minimum 120 m buffer around the Cullen Bullen General Cemetery, instead conducting highwall mining in this area (which will not result in any noticeable surface disturbance). This change to the mining method will minimise noise and visual impacts on the Cullen Bullen General Cemetery as well as neighbours. It will also reduce impacts on flora and fauna;
- Constructing a rail siding and associated loading infrastructure within the existing footprint of Cullen Valley Mine rather than cause additional disturbance by constructing an entire rail loop;
- Lowering the siting of the infrastructure layout of the East Tyldesley Coal Preparation Plant facility to a more shielded location, to further reduce the potential for noise and visual impacts to nearby residences;
- Progressively developing earthen bunds which machinery can work behind, providing reductions in noise and visual impacts at nearby residences. Key sensitive locations will be vegetated quickly with hydromulch.

Additional environmental management and mitigation measures that will be put in place by Coalpac for the Project include:

- Construction of an overland conveyor linking the Project to Mount Piper Power Station to minimise truck haulage on local roads. Coal will only be hauled along the Cullen Bullen Private haul road after the conveyor and bridge across the Castlereagh Highway are constructed in an emergency.
- Moving to a noise attenuated equipment fleet, cladding to the existing Invincible Coal Preparation Plant and additional bunding around Cullen Valley Mine infrastructure areas;
- Limiting equipment numbers and operational hours in key areas within the Project Boundary to limit noise and air quality impacts to residences;
- Limiting operations in some areas during times where weather conditions are unfavourable to limit noise and air quality impacts to residences;
- Upgrading and extension of the current environmental monitoring network to assess the impact of the consolidated Project and to allow for the proactive management of mining operations.

Should the Minister for Planning approve the Project, it would ensure the supply of up to 70% of Mt Piper Power Station's coal needs to continue electricity generation for NSW.

The Project will also facilitate up to 120 direct jobs plus additional contractors, provide significant economic flow-on effects to the local and regional economy, along with providing significant royalties to the state of NSW.

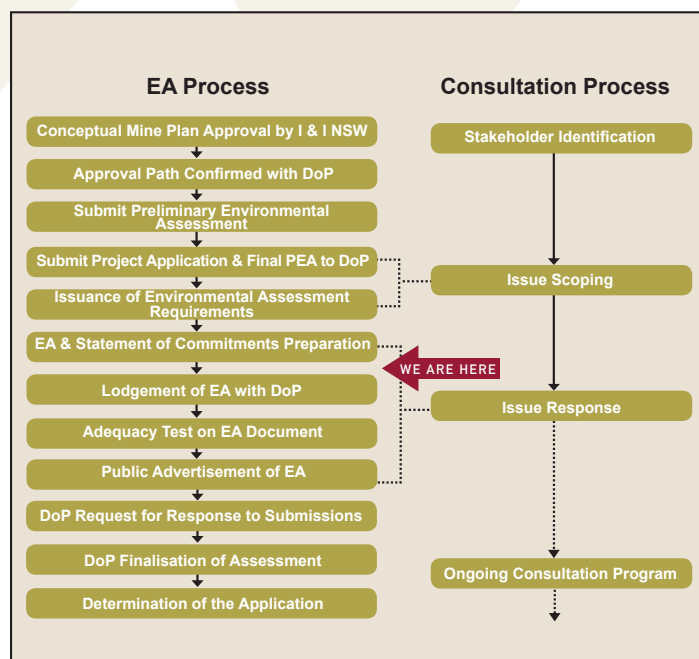


Figure 2: Planning Approvals and Consultation Process

Would you like further information?

Consultation for the Project will continue during and following the submission of the Environmental Assessment.

Newsletter 3 will be distributed once the Environmental Assessment has been completed to notify the community that it is available for public exhibition and comment.

Should you wish to discuss any aspect of this Newsletter, please do not hesitate to contact:



Coalpac Pty Ltd

Tony Hanrahan

Project Consultation Co-ordinator

Phone: 0419 239 217

Email: thanrahan@nmcaustralia.com.au



December 2011

Community Newsletter

Welcome to the first edition of the Coalpac Community Newsletter. Over the coming months we will be sending out regular updates providing you with news on the Coalpac Consolidation Project, our ongoing community engagement program, and how we are responding to any issues raised as well as other community-based events and activities.



Community Consultation

Coalpac has been actively engaged with the local community over the last couple of years with the planning application for our Project to extend mining operations largely within our existing mining leases to sell 3.5 million tonnes of coal per annum. We recently ran a series of focus groups in Cullen Bullen, Portland and Lithgow to improve our understanding of community concerns. **Thank you to everyone who took part.**

We ran these focus groups because we wanted to hear directly from you. We want to know what you would like to know about the Project, how you feel it may affect you, how important it is to you and whether you've been adequately consulted.

We now understand we need to do more to explain who we are, what we do and how this project is likely to affect the local community. We have already made several changes to the Project plan to address community concerns raised. We hope we will be able to display the revised plans early next year. You will then be able to make comments about the Project to the Department of Planning and Infrastructure.

We know that mining impacts communities and the environment but we absolutely believe that through proper consultation we can manage these impacts and

ensure we continue to support the local area through jobs and investment.

As part of our commitment to this process Grant Medlock has taken up the role as our Community Relations Officer. He is available on (02) 6350 6305 or by email at GMedlock@cetresources.com. **We encourage you to contact him if you have any questions in relation to the Project.**

Staff Profile - Grant Medlock



I am the HSEC Compliance Manager for Coalpac and have taken up the role of Community Relations Officer. I was born in Lithgow and have been working for Coalpac since August 2011. In my career I have worked out of the Mt Piper power station for 19 years, and across 9 major Operations projects throughout NSW /QLD and the Northern Territory as the Health, Safety, Environment and Quality Manager for Conneq (now Lend Lease Infrastructure). I served an Electrical apprenticeship at Wallerawang Power Station in the late 70's-early 80's, and have been involved in local community events and sports all of my life.

From all of us at Coalpac, we wish you a Merry Christmas and a Happy New Year.



COALPAC Community Newsletter

Current Operations

Under our existing licenses we already have approval from the NSW State Government to sell up to 2.2 million tonnes of coal per annum produced using open cut and highwall mining methods at the Cullen Valley Mine and Invincible Colliery. Our principal customer is, and will remain, the local power stations. However, at current rates of production, and within existing approvals, the approved coal supply at these sites will be exhausted in less than a year, and the mines will have no choice but to close.

Local Employment

We currently employ 90 staff plus contractors in the greater Lithgow area. If approved, the project will facilitate up to 120 direct jobs plus additional contractors. We are a proud employer in the local community and given the long term nature of our commitment to the area will be developing apprenticeship and trainee positions to nurture and develop local skills in support of the Project. We will continue with our policy of filling positions locally wherever possible.

Why the Project is so important for NSW

The coal we mine at these sites supplies about 40 per cent of the needs of Mount Piper Power Station and the Project would increase this to up to 70 per cent under a long term contract.

The local power stations generate about 8 per cent of the National Electricity Market, so ensuring continued coal supply is essential to NSW's long term energy security and keeping consumer electricity prices down.

Over its 21 year life, the Project will secure ongoing supply to the power stations and local employment opportunities and continued investment in the region.

The Project is expected to deliver \$439 million in royalties to the NSW Government. In addition, as a company that utilises natural resources, we believe we have an obligation to give back to the community in which we operate. We are proposing the development of a Community Fund, centred on Cullen Bullen, which would be supported by contributions from Coalpac for the life of the Project.

We look forward to bringing you more news about this in the future.



Staff Profile - Neal Anthes

I was born and grew up in Lithgow. In January 1975 I began work at Invincible Colliery as an underground electrician. A Coal Preparation Plant was built in 1976 and ran 24 hours per day, seven days a week. Around the 1980s the longwall method of mining was introduced utilizing 264 employees. I worked as a Supervising electrician until 1987 when an industry down turn caused the mine to cease production.

In 1989, a consortium of local investors reopened the mine under the Coalpac banner with 45 employees over a three shift operation including the Coal Preparation Plant. The underground operations ceased around 1998 but mining of coal continued using the open cut method.

My roles at Invincible Colliery have varied from being an electrician, acting Electrical Engineer to my present role as Coal Preparation Plant Manager. Apart from a short time around 2004 I have maintained employment at the mine since 1971. I am proud to be from Lithgow and to work for Coalpac.

Contact details: Grant Medlock, Community Relations Officer
Invincible Colliery, Castlereagh Highway, Cullen Bullen, NSW 2790
Tel: (02) 6350 6305 Email: GMedlock@cetresources.com

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NAMOI FLOUR MILLS PTY. LIMITED - MANILDRA ENERGY AUSTRALIA PTY. LTD. - MANILDRA MILLING CORPORATION - U.S.A.

7 November 2011

Mr Ian Follington
Chief Executive Officer
CET Resources
PO Box 330
INDOOROPILLY QLD 4068

Dear Ian

Coalpac have been supplying the coal for our manufacturing facility at Bomaderry in NSW from the Invincible Colliery since the beginning of 2007.

Prior to 2007 the coal was supplied to us for many years from the Invincible mine by the previous owners. We also purchased coal from the nearby Baal Bone colliery but it is no longer available due to the closure of the mine.

Coal has been purchased from Clarence Colliery near Lithgow at higher prices when available and when road transport was permitted.

The Shoalhaven Starches plant at Bomaderry has chain grate coal fired boilers which require washed and sized coal with properties that are met by the Western District Coal from the Lithgow seam.

Various coals have been trialled over the years from the Hunter, Illawarra and Western coal fields with negative results including clinkering, airway blockages, glassing of the ash due to high volatiles etc.

Previously when Coalpac could not supply coal from the Invincible site it was supplied from Cullen Valley. This coal resulted in major damage to our boilers, loss of production and cost us many millions of dollars.

We have gas fired boilers as well as the coal fired boilers. The two largest boilers are coal fired and produce more than 50% of our steam requirements.

The natural gas supply to the Bomaderry Plant is very expensive because the gas network is owned by ACTEWAGL and we are forced to pay high network charges and cannot obtain competitive gas prices.

Page 2

The Shoalhaven Starches Plant at Bomaderry supplies starch to the papermills and carton manufacturers, glucose to the confectionery manufacturers, brewers syrup to the breweries and ethanol to the fuel companies.

Interruption of supply to our customers has a significantly adverse impact on their business operations throughout Australia.

We have been advised that Coalpac will not have coal for us after 1st July 2012 from the Invincible site. Consequently, we will have to source coal from somewhere else after that time at an additional cost of approximately \$5 million/year until Coalpac is able to resume supply to us.

Yours faithfully



BRIAN A HANLEY
MANAGER
ENERGY & SUSTAINABILITY
SHOALHAVEN STARCHES PTY LTD

12 November 2010



Colin Phillips
Senior Planner
Mining and Industry Projects
NSW Department of Planning
GPO Box 39
SYDNEY NSW 2001

Dear Colin

RE: COALPAC CONSOLIDATION PROJECT (10_0178)

Thank you for your letter dated 28 October 2010 seeking advice on requirements for the Environment Assessment. Delta Electricity supports the Coalpac development as it is integral to power station operations with over 70% of the proposed mine output contracted to Delta Electricity until 2029. Our contract with Coalpac represents about 60% of the coal requirements for the Mt Piper Power Station. Mt Piper accounts for about 13% of the electricity generation requirements for the state.

Delta has no specific requirements that need to be addressed in the Environmental Assessment.

Yours sincerely

A handwritten signature in dark ink, appearing to read "David Hogg".

David Hogg
General Manager Fuel and Environment

CORPORATE OFFICE Level 20 175 Liverpool Street Sydney NSW 2000 PO Box Q863 QVB NSW 1230
Telephone 02 9285 2700 Facsimile 02 9285 2777 www.de.com.au



TRUenergy Pty Ltd
ABN 99 086 014 968
Level 33
385 Bourke St
Melbourne
VIC 3000

Dr Ian Follington
Chief Executive Officer
Coalpac Pty Ltd
PO Box 883
Kenmore, QLD. 4069

By email: IFollington@cetresources.com

23 November 2011

Dear Ian,

Re: Impact of delay in issuance of development approval for Coalpac

TRUenergy is one of the largest private sector gas and electricity companies in Eastern Australia. With over 5600MW of power generation capacity, and over 2.8 million gas and electricity customers, TRUenergy plays a key role in providing secure affordable energy in New South Wales (NSW).

Coalpac has recently advised that it now faces significant delays in its efforts to obtain planning approval to extend the life of its Invincible mine past July 2012, and ultimately to enhance the scale of its mining operations at both the Invincible and Cullen Valley mines.

1. Relationship of TRUenergy to Coalpac

Following the NSW government's electricity privatisation program in late 2010, TRUenergy has assumed responsibility for the supply of energy to the Energy Australia retail business. This business alone comprises around 1 Million customers, the majority of whom are based in NSW.

Additionally, TRUenergy acquired the Delta West "Gentrader" contract through that process, which provides it exclusive rights to trade the electricity output generated

by the Mount Piper and Wallerawang power stations. Delta Electricity remains responsible for the ownership and operation of these power stations.

Under the Gentrader contract, TRUenergy is responsible for supplying fuel to the Mount Piper and Wallerawang power stations. Coalpac is one of the major supplier of coal to the power stations, and consequently an important supplier of energy for the national electricity market.

2. Relevance of Coalpac supply to TRUenergy business

With Coalpac being a major source of coal supply for the Mount Piper and Wallerawang power stations, TRUenergy relies heavily on coal production from Coalpac to meet the fuel requirements of the power stations. To the extent that planning approvals to allow ongoing coal production are not granted, TRUenergy will need to procure additional coal supplies from either local suppliers or further afield.

3. Impacts of supply interruptions from Coalpac

TRUenergy understands that the potential delay in the Coalpac planning approval is likely to cause supply disruptions during 2012. Supply disruptions inevitably mean less coal available to TRUenergy, and less available to the National Electricity Market more generally. Supply disruptions can lead to higher wholesale electricity prices, which can lead to increases in retail prices.

While a short term disruption could possibly be managed effectively through the market, TRUenergy is more concerned about the potential for delays in Coalpac's planned increases in production. Planned production increases are significant and as a purchaser of the coal from these upgrades, TRUenergy is concerned about the consequences of longer term production restrictions. Fundamentally, significant reductions in Coalpac's supply will lead to higher costs for TRUenergy, the wholesale market and in turn retail customers. One of the key reasons for increased supply costs lies in the potential need to move away from local mines if Coalpac's operations are disrupted.

TRUenergy is aware that Delta Electricity has, as part of its long term planning, progressed an application to develop a rail coal unloader south of the Mount Piper Power Station. It is important to note that this asset has yet to be built, and is being prepared as part of a longer term supply mix, once local supplies diminish or become uncompetitive with other coal supply sources.

Construction of this facility, while entirely possible, will bring with it a new set of challenges including the potential for track upgrades, increased frequency of coal trains and a longer supply chain that has more potential for supply disruptions. Given that Invincible and Cullen Valley are existing mines with local supply chains to local power stations, they offer the benefit of having considerably fewer issues for the businesses involved and the local community in continuing operations rather than moving to freight more coal.

On this basis, TRUenergy considers that delays in Coalpac's planning approvals could have significant effects both on wholesale and retail power prices and on local infrastructure supply chains and the communities around them.

4. Preferred course of action

TRUenergy understands that to mitigate the impacts on its customers, Coalpac plans to:

- Apply for an interim extension to its existing planning permit for the Invincible mine to allow continued operations, and resolution of outstanding matters on its broader planning application; and
- Continue to pursue its broader planning application which will allow the ramp up in coal production required for it to meet its contractual commitments to supply the Delta West stations.

TRUenergy supports this course of action, on the basis that it will allow adequate time for legitimate planning concerns to be resolved with respect to the longer term development, while also ensuring ongoing coal supply security for Coalpac's customers.

Ultimately this course will maximise the local economy, and help to ensure the ongoing competitive supply of electricity to Energy Australia customers, and the wider National Electricity Market.

Please feel free to contact me via (03) 8628 1000 should you wish to further discuss this request.

Yours Sincerely,



Mark Collette
Director, Energy Markets
TRUenergy



JB

Mr Ian Follington
Chief Executive Officer
Coalpac Pty Ltd
Invincible Colliery
Castlereagh Highway
CULLEN BULLEN NSW 2790

25 November 2011

Dear Ian

COALPAC CONSOLIDATION PROJECT

Please find attached a statement setting out Delta's position with respect to Coalpac's proposed Consolidation Project. Should you have any questions please do not hesitate to contact John Byrnes, Manager Fuel on (02) 9285 2754 or john.byrnes@de.com.au.

Yours sincerely

A handwritten signature in dark ink, appearing to read "David Hogg", with a stylized flourish at the end.

DAVID HOGG
GENERAL MANAGER FUEL & ENVIRONMENT

attach

RE: COALPAC CONSOLIDATION PROJECT

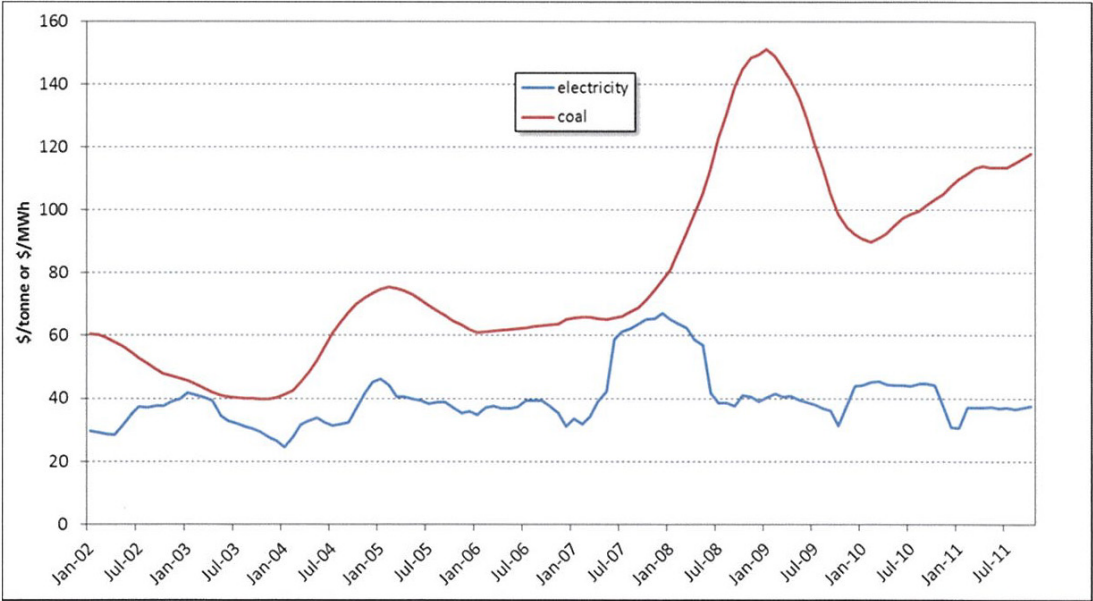
ATTACHMENT 1

Providing reliable and competitively priced electricity to the people of NSW is an essential service. It allows NSW businesses to compete domestically and overseas and supports the quality of life that is enjoyed across the State.

Growth in electrical energy requirements in NSW is forecast to increase over the next decade. Even with a reduction in the energy growth rate due to demand management initiatives and increased production from renewable energy sources in the State, it is expected that a large proportion of the electricity demand will need to be met by the existing power generation facilities.

To service this need at an affordable cost for consumers, access to secure fuel supplies is essential. NSW based generators have traditionally purchased fuel in a competitive market environment. However, in recent years the coal and electricity markets have moved apart significantly. As Figure 1 shows, the average electricity price has remained virtually unchanged over the past 10 years whereas the coal price has doubled.

Figure 1 - 12 month moving average NSW electricity prices and spot Newcastle export thermal coal prices



Source: AEMO, GlobalCoal

This divergence of pricing has made supply to the domestic coal market, that is, the NSW power stations, less attractive to coal producers than the export option. Increasingly, both new mines and the traditional suppliers have targeted the production and sale of export quality coal. Figure 1 also implies that coal priced at an export equivalent level will not provide competitively priced power.

Therefore, there is a need to augment the existing long term domestic supply contracts transacted prior to the market divergence with supply from a new fuel source focused primarily on domestic supply. Lower cost, domestic focussed operations such as

RE: COALPAC CONSOLIDATION PROJECT

Coalpac's represent a means of securing the long term fuel supplies necessary to maintain affordable electricity supplies to NSW homes and businesses.

Relationship with Coalpac

Delta Electricity is the owner of the Wallerawang and Mount Piper Power Stations situated near Wallerawang and Portland townships respectively in the central West of New South Wales. Between them these two power stations supply approximately 8% of the total generation in the National Electricity Market. Between them the two power stations consume approximately 6.0 million tonnes of coal per year.

The Invincible mine has supplied coal to the power stations at intervals over many years while the Cullen Valley mine has provided coal to Mount Piper continuously since 2000. At present, the combined operations provide approximately 25% of the total coal consumed at the two power stations.

Since 1 March 2011, as a result of the NSW Government's electricity reform project, the output of the two power stations has been contracted to TRUenergy Pty Ltd. With this right has also come the responsibility for providing the requisite coal. Nevertheless, Delta remains committed to the long term viability of the stations with one of the most significant factors in this viability being the presence of a competitive, reliable coal supply.

Delta's Western Operations

Delta Electricity sought approval for the Western Rail Coal Unloader to maximise the coal supply base from which it might draw its future supplies. The rationale was to ensure as far as possible that the power stations would have a long term future thereby continuing to support both the state and local economies. However, local supplies remain the preferred alternative. Coal railed in from other districts to meet power station demand may affect local mine employment, produce higher greenhouse emissions given the longer transport distance and require new developments, either in terms of new mines or re-activated railway lines. In contrast, the current proposal from Coalpac for an expansion of its existing operations and for transport to the power station via conveyor would mean continued support for the local economy and a far reduced impact on the environment.

If Coalpac was forced to cease operations there is no obvious replacement supply available from within the Western Coalfield given that the other domestic coal producers are already contracted to the power stations. Not only can no single producer meet all of the power stations' requirements but virtually all local producers are required to meet that demand. Until the Western Rail Coal Unloader and, possibly, rail upgrade works could be completed, that is likely to lead to significantly reduced generation from the western stations.

This would lead to a supply shortfall in the National Electricity Market and possible market insecurity by reducing the available spinning reserve. The shortfall would have to be met by increased production from older, less efficient or more expensive generators in NSW, or by importing electricity from neighbouring states which are often constrained by inadequate interstate high-voltage transmission links. Both actions would cause an rise in the wholesale electricity price with a consequent increase in retail prices.

RE: COALPAC CONSOLIDATION PROJECT

Locally a direct loss of full-time and part-time jobs associated with the provision of power station services could be expected plus the indirect loss of jobs in the region associated with the supply of items such as chemicals, fuel oil, lubricants, generic consumables, vehicles, food and accommodation and office equipment.

Of course, if no alternative coal supply could be found to utilise the Western Rail Coal Unloader then there would need to be a shutdown of some of the Western capacity with the further impact of the loss of a significant proportion of the more than 270 people employed by Delta in the region.