23rd May 2017

Ross Carter – Commission Chair
Lynelle Briggs AO – Commission Member
David Johnson – Commission Member

NSW Planning Assessment Commission (PAC)

Email: pac@pac.nsw.gov.au

Dear Commissioners,

D465/17 – Springvale Water Treatment Project (SWTP), Western Coal Services Project (WCSP) MOD 1, and Springvale Mine Extension Project MOD 2

In addition to my Presentation last Wednesday at the PAC public hearing, I wish to draw your attention to the recently completed Australian Senate inquiry into the "Retirement of coal fired power stations". On Wednesday, 22 February 2017, this inquiry held a public hearing in Sydney, which I attended as an observer, where witness Tim Buckley, as Director of Energy Finance Studies for the Institute for Energy Economics and Financial Analysis (IEEFA), was called and examined. In Tim Buckley's opening statement, in the *Official Committee Hansard* transcript (http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Coal_fired_power_stations/Public_Hearings), page 39, he said (highlighted text my emphasis):

> As I mentioned, I work for IEEFA, a public-interest research organisation. We come at it from a financial analyst perspective, and I look at the global energy market transformation. Today I would like to bring across how that transformation is occurring in the global context and, if I could, I will reference India and China to illustrate the rate of change in two of the largest economies in the world, and to highlight the point that it is an inevitable change. The two largest economies, population groups, in the world are moving far faster than anyone in Australia understands. So I will bring in that global perspective. Secondly, I would like to talk about financial institutions because, globally, financial institutions are rapidly waking up to the issue and are changing their position dramatically to accommodate the inevitability of this change.

On the subject of where the global seaborne thermal coal market is heading, Tim Buckley stated this (on transcript page 42, highlighted text my emphasis):

> The seaborne market is, I would guesstimate, 95 per cent 12-month contracts or spot, so 12 months or less. There are no long-term contracts of any magnitude in the seaborne market. To bring it to a close, thermal pricing for exports is determined by Chinese government policy. China has a very clear policy to move away from coal. Coal production in China dropped 9.4 per cent last year alone, and seaborne coal is a marginal high-cost source of supply, so it gets whipped around depending on China's policy. To me, the more important aspect is what is happening to the volume of seaborne thermal coal demand. In China, it dropped by 10 per cent in 2014, dropped by 30 per cent in 2015, rebounded 26 per cent when they massively curtailed their domestic production and will continue dropping, I think, to probably zero by the end of this decade.
>
> The second largest thermal coal import market in the world is India. Two years ago, Indian energy minister Goyal articulated a very clear plan to cease thermal coal imports by and large by 2020. I do not think it is any surprise that imports in December dropped 25 per cent year on year, and January 2017—the stats came out just yesterday—was down another 22 per cent. His plan to cease thermal coal imports by the end of this decade is entirely economically driven, and his economic rationale is supported by the solar contract I just mentioned. Solar in India is now cheaper than existing domestic coal-fired power generation. It is half the price of new imported coal-fired power generation. So the seaborne thermal coal market is in total structural decline. Australia needs to transition that industry as fast as we transition our domestic power generation.

I urge you to read Tim Buckley's testimony in full as I think it provides valuable insights into how rapidly the global energy transformation is occurring.

My understanding of Tim Buckley's testimony is that it appears likely that **both China and India will not require any thermal coal imports by around 2020**. As China and India currently collectively purchase over 40% of global seaborne coal, and with permanent shifts in both those markets seeing thermal imports reduced towards zero, this has dire ramifications for the world's two largest thermal coal exporters: Australia and Indonesia. If Tim Buckley's assessment is correct, in a matter of a few years it is likely there will be many existing thermal coal mines here in Australia that will become idle because they cannot secure purchasers of their coal, and/or the coal price will likely be too low for many coal mines to remain economically viable.

I think that Centennial Coal would (should?) be aware of these global coal market trends, referred above, and the likely effects on the organisation's future operational performance and profit outlook. Indeed, 2 years ago, Indian energy minister Goyal articulated a clear plan to cease thermal coal imports by around 2020, so I would be surprised if Centennial Coal was unaware of this and had not factored in strategies to mitigate/accommodate likely declining global demand for thermal coal.

I was at the public hearing for the first 30 registered speakers, and I recall none expressed opposition in principle to the SWTP and WCSP MOD 1, including me.

The NSW Department of Planning & Environment's *STATE SIGNIFICANT DEVELOPMENT ASSESSMENT Springvale Water Treatment Project (SSD 7592) Assessment Report* document, dated April 2017, states in Table 1 that the SWTP capital investment value is $100 million, and in Section 5.3 Socio-Economic that:

> The construction of the Springvale Water Treatment Project would take up to 18 months to complete and would provide up to 50 full-time employment opportunities in the Lithgow region.

You may recall at the public hearing that I questioned why the SWTP and the WCSP MOD 1 had taken more than 19 months to get to approval stage.

Centennial Coal's nearby Clarence mine has a 25 megalitre/day capacity water treatment plant, which suggests to me the company has had some experience of installing and operating this type of equipment, and I believe it would not be unreasonable to expect the proponent should have put together a SWTP proposal for approval sooner than they have done. The fact that the SWTP and WCSP MOD 1 have not achieved approval sooner and commenced construction suggests to me that Centennial Coal is possibly using delay tactics to avoid committing a considerable sum of capital expenditure (i.e. $100 million) in a likely continuing deterioration of the thermal coal market.

I also question the apparent delay by the proponent in lodging an application proposal for Springvale Mine Extension Project MOD 2 as late as December 2016. I think the scope and scale of the SWTP, and hence the time schedule to complete these works should have been known by the proponent much earlier, and therefore the proponent should have also come to the realisation sooner that the SWTP would not be completed until substantially after June 2017, and reported it sooner. By delaying the notification of Springvale MOD 2 I believe it has made it more difficult to

find alternative solutions for a smooth transition to other coal supply solutions for Mount Piper Power Station. **The PAC Commissioners should satisfy themselves as to when the proponent first became aware that the SWTP and WCSP MOD 1 would not be operational before 30 June 2017 and why the application for MOD 2 was lodged as late as December 2016.**

I think if Springvale Mine Extension Project MOD 2 is approved then that allows Centennial Coal an opportunity to delay the construction of the SWTP further (maybe due to not securing adequate finances promptly?) and then possibly seeking another consent Modification, possibly next year, to defer again water quality improvement requirements, beyond 30 June 2019. **The PAC Commissioners should satisfy themselves beyond doubt** that the completion date for the proposed Springvale SWTP and WCSP MOD 1, if approved, can be reliably achieved well before June 2019, and the proponent can demonstrate it has serious intent to commit to build and complete the proposed works in a timely manner. The proponent should also demonstrate it has the necessary and adequate finances already committed and in place to support these projects to the satisfaction of the PAC Commissioners.

By denying the approval of Springvale Mine Extension Project MOD 2, I think it shows that the intent of the original SSD 5594 to improve mine water discharges into the environment and reduce pollution flowing into Sydney's drinking water supply is a key environmental requirement that needs to be upheld and defended, not diminished and devalued, and it shows a clear direction to Centennial Coal that operations at its Springvale mine need to be resolved and comply with its environmental performance obligations in an expeditious manner.

At Wednesday's PAC public hearing I recall many speakers stating that Springvale mine is the only source of coal for Mount Piper Power Station. At present it clearly is, but that doesn't mean that there aren't any other available coal supply solutions that could change that situation, and I highlighted some of these at last Wednesday's public hearing (please see my Presentation Slide #6). I draw your attention to the *Lithgow Mercury* online article headlined "**Closure of Angus Place Colliery means devastating job losses for Lithgow**", dated 28 Oct 2014 (http://www.lithgowmercury.com.au/story/2656092/closure-of-angus-place-means-devastating-job-losses/), where it stated:

> The company plans at this stage to reopen Angus Place in 2023 when Springvale reserves are exhausted, or earlier if market conditions improve.

I doubt whether market conditions will improve over the next 6 years, given the highlighted evidence above. Clearly, Centennial Coal has intended reopening Angus Place mine "*in 2023 when Springvale reserves are exhausted*". So if Springvale cannot produce coal because the proposed Springvale Mine Extension Project MOD 2 is denied and Springvale mine cannot comply with its water discharge performance requirements by 30 June 2017, then reopening Angus Place mine would be the next best coal supply alternative for Mount Piper Power Station. If not, why not?

I draw your attention to my Presentation Slides and Script, and my Submission to the PAC last month concerning D459/17 Springvale Mine Extension Project MOD 1. On Slide #4, I referred to the September 2006 SKM document *Western Rail Coal Unloader Preliminary Environmental Assessment* that indicates that **Mount Piper Power Station's coal demand is approximately 3.7 Mtonnes/yr.**

Angus Place Mine's maximum permissible extraction rate under its current consent is 4.0 Mtonnes/yr, so unless the SKM document figure is highly inaccurate, then **Angus Place mine has the capacity to fully meet Mount Piper Power Station's coal supply demand entirely.** A dedicated private road linking Angus Place mine with Mount Piper Power Station can enable coal to be transported by dump trucks without accessing public roads. Mine workers could be transferred from Springvale mine to Angus Place mine with little if any job loss (that's what I believe is planned to happen in 2023-2024 anyway) until the SWTP and associated works are completed and operational. Any additional demand for coal required by other customers (other than Mt Piper) could be met by ramping-up production at Airly mine that currently has approximately 1.0 Mtonnes/yr spare, unutilised production capacity.

Airly mine utilises 'bord and pillar' extraction. If Springvale Mine Extension Project MOD 2 is approved, and with a likely deteriorating thermal coal market highlighted above, I think it's highly likely Airly mine will be 'mothballed' later this year, and mine workers would likely be transferred from Airly to Springvale. If this occurs there are likely to be few if any additional new mine jobs, or new State royalties, contrary to statements by the proponent that could be the case in the Springvale Mine Extension Project MOD 1 documentation. Production at Springvale mine could then ramp-up to cover any lost production at Airly mine and fully exhaust Springvale mine's reserves probably months before August 2024.

Note that NSW's 2000 MW rated generating capacity Liddell Power Station closes (as has already been announced) in 2022. Also note that the 1320 MW Vales Point B Power Station would be 44 years old at that time, with the possibility of ceasing electricity generation too in the 2020s. With no definite alternative 'dispatchable' large capacity electricity generation currently on the horizon to replace them, then Mount Piper Power Station is likely to be a highly critical component of NSW's reliable electricity generating capacity, and a key part of this State's energy security in the 2020s.

If Springvale Mine Extension Project MOD 2 is approved, similar to the situation that developed in 2015 surrounding the approval process for the Springvale Mine Extension Project (SSD 5594), is the stage being set for an even more serious game of energy supply brinkmanship with the people of NSW (and Australia) when Angus Place Mine is due to apply to extend its development consent beyond August 2024, and will there again be more job uncertainty for the Lithgow local community? By denying Springvale Mine Extension MOD 2, the uncertainty of energy supply for and from Mount Piper Power Station in the 2020s should be avoided. I believe it's better to resolve this issue before the 2020s than allow a more dire set of circumstances concerning NSW's energy security to develop in the first half of the 2020s.

Please choose wisely.

Yours Sincerely,

[redacted]

Geoff Miell
[redacted]
LITHGOW NSW 2790
Mobile: [redacted]