



30 November 2020

Mike Young
Executive Director
Energy, Resources and Compliance
Department of Planning, Industry and Environment

Illawarra Coal
South32
Innovation Campus
Enterprise 1 Bldg. Level 3 Squires Way
NORTH WOLLONGONG NSW 2500
PO Box 514
UNANDERRA NSW 2526
T +61 2 4286 3000
south32.net

via email: Mike.Young@planning.nsw.gov.au

Dear Mike,

RE: DENDROBIUM MINE – REVISED SURFACE WATER OFFSETS OFFER

In response to recent discussions with the Department of Planning, Industry and the Environment (DPIE), and further to the letter dated 7 October 2020, we understand that DPIE has identified an error in the calculation undertaken by Marsden Jacobs for the up-front payment to offset post-mining surface water losses, in that only the IPART retail non-drought price was used in the calculation, rather than the weighted average of drought price 1 year in 10 and non-drought price 9 years in 10.

As a result of correcting this error (i.e. applying the weighted average price), we understand that the revised up-front offset payment for post-mining losses would increase to approximately \$17.3 million (i.e. an increase from \$16.7 million).

South32 accepts this correction. On this basis, Enclosure 1 provides further detail of South32's revised offer.

South32's offsets offer for the *Dendrobium Mine – Plan for the Future: Coal for Steelmaking* remains consistent with the methodology used by Marsden Jacobs to calculate offsets for both during mine life and post-mining losses, as described in the 7 October 2020 letter and Enclosure 1.

Consistent with the original offer, it is considered Government could use the payments provided by the surface water offsets to invest in water infrastructure that has intergenerational benefits and achieves a net gain to metropolitan water supplies.

If you have any queries, please don't hesitate to contact Gary Brassington on [REDACTED].

Yours sincerely
SOUTH32 LIMITED

A handwritten signature in black ink, appearing to read "Wayne Bull", is written over the printed name.

Wayne Bull
Vice President Operations
Illawarra Metallurgical Coal – South32

ENCLOSURE 1
SOUTH32 SURFACE WATER OFFSETS OFFER

Methodology

- **During mine life – annual payments:**

- Annual payments would be made based on the actual surface water loss due to the Project for each water year (calculated at the end of each water year).
- Annual payments priced at the actual IPART retail price for that water year, which IPART would vary over time to reflect inflation and drought/non-drought year prices (prices are currently \$2,350/ML [base] and \$3,180/ML [drought]).

As an estimation, the during mine life offset value is calculated as approximately \$89.5 million in real terms (\$25.1 million in net present value terms), based on predicted surface water losses.

- **Post-mining – up-front payment:**

- Up-front payment made upon approval of the first Extraction Plan for the Project (i.e. payment linked to when surface water losses associated with secondary extraction for the Project would be authorised to commence).
- Value of payment based on the present value of modelled post-mining losses and IPART prices (assuming drought price 1 year in 10 and non-drought price 9 years in 10 as per Marsden Jacob's methodology).

Table 1: South32 Surface Water Offsets Offer

Project Year	Surface Water Offsets ¹		
	During Mining (Indicative Annual Payment) ²		Post-mining (Actual Up-front Payment) ^{3,4}
	Real	Net Present Value	
2021	-	-	\$17,300,000
2022	-	-	-
2023	\$104,191	\$80,686	-
2024	\$210,510	\$152,928	-
2025	\$291,678	\$198,775	-
2026	\$800,346	\$511,655	-
2027	\$610,500	\$366,124	-
2028	\$1,272,429	\$715,845	-
2029	\$1,015,083	\$535,710	-
2030	\$1,963,855	\$972,255	-
2031	\$2,955,733	\$1,372,710	-
2032	\$3,304,991	\$1,439,881	-
2033	\$2,125,390	\$868,636	-
2034	\$3,866,863	\$1,482,521	-
2035	\$2,662,295	\$957,505	-
2036	\$2,905,563	\$980,297	-
2037	\$3,155,032	\$998,560	-
2038	\$5,704,166	\$1,693,578	-
2039	\$3,620,398	\$1,008,352	-

Project Year	Surface Water Offsets ¹		
	During Mining (Indicative Annual Payment) ²		Post-mining (Actual Up-front Payment) ^{3,4}
	Real	Net Present Value	
2040	\$6,214,952	\$1,623,815	-
2041	\$3,894,751	\$954,599	-
2042	\$6,628,513	\$1,524,054	-
2043	\$4,112,912	\$887,108	-
2044	\$7,218,271	\$1,460,505	-
2045	\$4,768,216	\$905,042	-
2046	\$8,481,368	\$1,510,154	-
2047	\$5,929,649	\$990,438	-
2048	\$5,661,323	\$887,072	-
Total	\$89,478,978	\$25,078,804	\$17,300,000

¹ Surface water offsets are in addition to provision of annual payments to compensate WaterNSW for lost revenue and South32 holding appropriate groundwater and surface water licences (refer letter dated 2 June 2020).

² The annual payments for surface water losses during the mine life have been calculated based on the predicted surface water losses for the Project in the EIS. South32's offer is based on annual payments during mining which would be calculated annually based on actual surface water loss at the end of each water year (i.e. reflect real surface water losses) and varying IPART prices.

³ The up-front payment for post-mining losses (in net present value terms) is based on predicted post-mining surface water losses.

⁴ Up-front payment to be made upon approval of the first Extraction Plan for the Project.