# LOCK THE GATE **ALLIANCE**
AUSTRALIANS WORKING TOGETHER TO PROTECT OUR LAND, WATER, AND FUTURE

PO Box 290
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18 January 2019

Gordon Kirkby, Panel Chair, Bylong Coal Project
Independent Planning Commission
c/o David Way, Senior Planning Officer

CC: Prof Mary O'Kane Chair, Independent Planning Commission
Sam McLean, Director, Independent Planning Commission

Dear Mr Kirkby,

We write regarding the Bylong Coal Project and the IPC's requests for further information about groundwater and economics which have recently been made publicly available.

We very much appreciate the Commission seeking review of the groundwater impacts of the project, and responding to the review by Doug Anderson provided by the Bylong Valley Protection Alliance.

Regarding the economic assessment, we are disappointed that the Commission's request for expert review of the economic assessment of the project was made through the Department of Planning, rather than being commissioned independently. We are also disappointed that the request did not specifically address the issues raised by Pegasus Economics in its review of the project's assessment.

Alistair Davey on behalf of Pegasus presented at the public meeting in November 2018 and Pegasus' review was also submitted to the Commission electronically. Contrary to the conclusion reached by CIE in its latest advice, Pegasus concluded that, "*The most up-to-date price forecasts for thermal coal, and the available information on the quality of the marketed coal, suggest the Bylong Coal Project is more likely to generate negative rather than positive net economic benefits as the cost of production could exceed the value of the marketed coal."* The reasoning behind this conclusion is summarised below.

Only one brief mention of coal quality is made in the 20 December CIE report, but the question of coal quality is central to the value of the coal to be mined at Bylong, as the Pegasus review makes clear. Pegasus notes that, '*the thermal coal expected to be marketed by the Project is of lower quality in terms of its specific energy content than the Newcastle benchmark for thermal coal and much more closely aligned with the Newcastle 5,500 kcal/kg NAR specification.'*

Pegasus reviewed the economic assessment of the Bylong Coal project and the quality of the coal proposed to be mined as detailed in the proponent's *Mine Justification Report*. Perhaps CIE has not kept up-to-date with the latest developments in coal markets, which have changed profoundly in the last six months. As Pegasus identified:

> While the Newcastle 6,300 kcal/kg GAR specification has usually traded at around a 21.5 per cent premium to the Newcastle 5,500 kcal/kg NAR (low ash) specification, it began trending

> upwards and diverging away in April 2018. By August 2018 this premium had blown out to over 82 per cent. The yawning gap that has opened up between the spot traded prices between the two benchmark Newcastle coal specifications and the Newcastle 5,500 kcal/kg NAR specification has become known as the 'great uncoupling.'"

The implications for this "great uncoupling" for the economics of the Bylong Coal Project has apparently not been considered by CIE, but it will have a material effect on the economics of the project. Specifically, Pegasus notes that in September 2018 the monthly price averages for Platts Forward Benchmark Assessments for 5,500kcal/kg NAR specification was below US$70per tonne, whilst it was up above US$110 per tonne for 6,300 kcal/kg GAR specification.

Notably, these types of disparities appear likely to put the predicted coal prices for Bylong products beyond the sensitivity bounds relied on by CIE in accepting A$90-$100 per tonne. Table 3 in the Pegasus report indicates that World Bank thermal coal price forecasts for 2030 put low ash Newcastle 5,500 kcal/kg NAR at A$53.04 per tonne, which puts it outside the +/- 30% sensitivity test applied by the proponent.

We note that more recent analysis by commentators such as Argus Consulting have confirmed the large and unprecedented discount at which low energy high ash thermal coal is currently being priced relative to low ash high energy Newcastle benchmarks. Based on the Project *Mine Plan Justification Report* (2015, p. 36) and using the World Bank and KPMG published forecasts of coal prices after adjusting for the quality of the thermal coal produced, Pegasus found that present value of the project falls to about $2.4 billion and $3 billion respectively, which is well under the reported $3.2 billion production costs in the economic impact assessment.

This analysis starkly contradicts the conclusions drawn by CIE in its report and the information presented by Pegasus was evidently not considered by CIE in its final advice. By failing to include the information presented in the Pegasus review, the final CIE advice prepared for the Department of Planning and dated 20 December includes erroneous information and has reached incorrect conclusions.

We respectfully suggest that the IPC has not received the type of advice that it needs on this matter in order to make a properly informed decision in relation to economic issues and the costs and benefits of the project. In fact, we argue that the advice that was provided in response to the request for more information from the DPE is erroneous.

Therefore, we would like to request that:

1) The IPC commissions a review which specifically considers the advice provided by Pegasus Economics and addresses the question of the 'great uncoupling' and the consequences for the Bylong project.
2) That the review also addresses the critical point raised by Pegasus Economics that optimistic price forecasts like those used for Bylong are likely to lead to the mothballing or early closure of the project and provides an upfront cost assessment of such an eventuality.
3) The IPC commissions the work directly rather than relying on the Department of Planning and Environment.

Sincerely

Georgina Woods