



Mr Steve Barry
Director
Independent Planning Commission of NSW

By email: steve.barry@ipcn.nsw.gov.au

4 December 2020

Dear Mr Barry

**Dendrobium Extension Project (SSD-8194)
Surface Water Quantity Offsets**

I refer to the Commission's request for additional information on how surface water offsets have been calculated for the Dendrobium Extension Project.

As discussed in the Department's Assessment Report, the Independent Pricing and Regulatory Tribunal (IPART) determines the retail price of water within the Sydney Drinking Water Catchment on an annual basis. This price can be used to represent the long-term cost of supplying water.

The IPART determination includes a base cost of water as well as a drought price which is used to reflect the increasing cost of supplying water in drought conditions. The current base price for water is \$2,300 per megalitre. When dam levels fall below 60%, this price currently rises to a drought price of \$3,180 per megalitre where it remains until dam levels reach 70%.

The Voluntary Planning Agreement offer includes two ways of calculating water offsets, both of which are based on the IPART determination.

During the operation of the mine, South 32 would make annual payments based on the actual surface water losses from the project and the IPART determination for each financial year.

To offset water losses that would occur post-mining, South 32 would make a single up-front payment upon approval of the first Extraction Plan for the project. The value of this payment is based on the present value of annual modelled surface water losses multiplied by a weighted average of the current IPART determination and annual inflation (3% per annum).

The weighted average price assumes that the IPART drought price will apply for 10% of the time to reflect expected long-term water supply conditions. This figure also reflects long-term water planning objectives for the NSW Government as outlined in the *2017 Metropolitan Water Plan*. This plan aims to ensure that water restrictions, which generally begin to apply at 50% dam capacity, occur no more than 1 in every 10 years.

A discount factor of 6.6% is then applied to determine the present value of the up-front payment. This discount factor is derived from IPART's most recent determination on Sydney's retail water prices.

Using this method, South 32 would pay for surface water losses for approximately 271 years after the completion of mining, at which time the present value of the payments would become negligible.

In providing this response, the Department has identified a discrepancy in the calculations that were previously used to determine the up-front payment. South 32 has revised its offer to correctly apply the weighted average IPART price, as described above.

South 32's revised offer, which is attached, results in an upfront payment of \$17.3 million. Appendix 5 of the recommended conditions of consent should be updated to reflect the revised offer, if the project is to be approved.

If you have any enquiries please contact Matthew Riley, Director Resource and Energy Policy, on (02) 9274 6339.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Michael J.", with a stylized flourish at the end.

Mike Young
Executive Director
Energy, Industry & Compliance