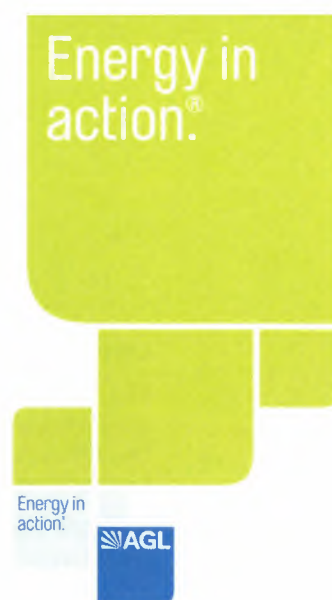




Mr Mike Young
Director Resource Assessments
Department of Planning and Environment
320 Pitt Street, Sydney NSW 2000
2 March 2017

Dear Mr Young,

Re: Dalton Power Project - Request to extend Lapse Date

The Dalton Power Project is a proposed peaking gas turbine power station with the capacity to generate up to 1000 megawatts (**DPP**).

The Planning Assessment Commission granted AGL Energy Ltd (**AGL**) project approval for the construction and operation of the DPP under Part 3A of the *Environmental Assessment & Planning Act 1979* on 19 July 2012 (MP10_0035). The DPP was designated as critical infrastructure. The current lapse date for the DPP Project Approval is 19 July 2017.

AGL seeks to modify the Project Approval (**MOD 1**) to extend the lapse date for a further **two years** to enable:

- (a) AGL to review the DPP in line with current technology and energy market circumstances;
- (b) consultation with the local community, landholders and other stakeholders on potential modifications to the DPP to take into account new technologies and market conditions; and
- (c) if required, AGL to lodge a more substantive project approval modification (MOD 2).

The project description, legal framework and justification for MOD 1 (lapse date extension) are detailed below.

Project Description

The DPP is a proposed \$1.5 billion gas turbine power plant on an approximately 573 hectare site located off Walshs Road, approximately four kilometres north of the town of Dalton.

The DPP was proposed to be constructed in two stages, with stage 1 not exceeding a nominal generating capacity of 750 megawatts (**MW**). The total nominal generating capacity after completion of stage two was not to exceed 1000 MW.

In October 2012, AGL announced the suspension of construction of the DPP due to difficult market conditions – including lower demand for electricity.

At that time, AGL publicly acknowledged that the Project Approval remained valid for five years, and that market conditions or demand could change.

Legal framework

The DPP is a “transitional Part 3A project” under the *Environmental Planning & Assessment Amendment Act 2011*, and therefore the modification is sought under s75W of Part 3A of the EP&A Act (preserved under Schedule 6A to the EP&A Act) to extend the lapse date for a further two years.

The DPP has also been approved by the Commonwealth Department of Environment under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth).

Justification for extending the lapse date

• Importance of the Project – change in market conditions

Since AGL suspended development of the DPP, energy market conditions have changed.

The original justification for the DPP remains the same – i.e. – that it will contribute to ensuring adequate, reliable and consistent supply of electricity during times of peak demand in NSW, and help to keep downward pressure on price.

However the supply of traditional base load (thermal) generation in NSW is declining, while the supply of renewable, intermittent sources is increasing.

The Australian Energy Market Operator’s (**AEMO**) Electricity Statement of Opportunities (**2016 ESOO**), predicts that total generation capacity will become less reliable as intermittent generation (e.g. wind and photovoltaic generation) increases and thermal generation (e.g. coal and gas-fired generation) withdraws. This creates a critical need to address the availability of energy at specific times of demand.

The 2016 ESOO forecasts that in the absence of new generation, network or non-network development, the closure and announced withdrawal of coal-fired power stations (such as the closure of Munmorah and Wallerawang Power Stations, and AGL’s announced withdrawal of 2000 MW of generation from Liddell in March 2022), may lead to decreased reliability of supply.

The DPP can assist in addressing this issue by, among other things, providing up to 1000MW of rapid start up generation capacity at times of reduced supply or generation capability of other power plants and sources.

Furthermore, the potential for a regional blackout (similar to the recent blackouts in South Australia) increase as NSW becomes more reliant on wind and rooftop PV generation. This risk is heightened at times when high demand coincides with low wind and rooftop PV generation and unplanned generation outages.

While the DPP alone cannot improve reliability of the NEM, it does have the potential to improve network reliability in these market conditions, forming an integral part of the NEM’s supply.

• Improved efficiency, flexibility and greater community consultation

Extending the lapse date will allow adequate time for AGL to review and update the DPP in line with current technology and energy market circumstances. Since the original EA was prepared, energy technology has evolved, resulting in greater efficiencies. For example, the current Project Approval requires ‘F Class’ turbines to be used. This fails to take into account new and more efficient technologies, such as ‘fast start’ aero derivative gas turbines. In addition battery storage is emerging as a complementary technology able to supply energy for the period while gas turbines are increasing output.

AGL seeks that MOD 1 (lapse extension) be approved to allow AGL adequate time to evaluate the most efficient and cost effective solutions for the project, in addition to current market conditions, in order to lodge a more substantive modification (MOD 2) including updated expert reports.

AGL acknowledges that an extension to the lapse date will result in some ongoing uncertainty for the local community, particularly in view of AGL's previous suspension of the DPP.

However the additional time will enable AGL to recommence engagement with the local community (i.e. by establishing a community consultation committee), Upper Lachlan Shire Council and other stakeholders on the DPP, and the potential more substantive modification to the Project Approval.

AGL considers that extending the lapse date to review the project and enable recommencement of community and stakeholder engagement will provide maximum transparency for the local community in relation to the future of the DPP.

In the 7-8 years since the initial development activities at Dalton; AGL's approach to community consultation has improved in effectiveness and sophistication. This improvement has been built on experience across Australia in wind, solar and CSG projects. Today, AGL has a dedicated and well-resourced stakeholder team which are a key part of our development activities. This team not only assists in consulting with the communities in which we operate but also in auditing and ensuring that our projects meet our board endorsed sustainability standards. At the heart of these standards is the routine use of Community Consultative Committees during development and construction to ensure effective communication. During a MOD2 process; setting up a CCC would be our first action in preparing an application to update the DPP approval.

AGL's approach to engaging with the community is outlined in our Community Engagement Policy. We seek to:

- Be a trusted and respected member of the communities in which we operate
- Engage beyond baseline regulatory requirements.

Our Community Engagement Policy is consistent with the best practice standards articulated by the International Association for Public Participation (IAP2) and Accountability. Our policy applies to all AGL employees, contractors, projects, services and joint ventures under AGL's control.

Community engagement to support a modification will focus on providing clear, effective information on the project to identified stakeholders and to engage in open dialogue through transparency, listening, recording and responding to issues where appropriate. We will review and update our stakeholder identification and analysis to ensure that it addresses any changes in social context since the project was approved.

Initial engagement activities will focus on understanding key issues of concern and rebuilding relationships in the community. These activities will include meetings and briefings with State and Federal Members of Parliament (MPs), Council, and members of the community who have previously shown an interest in the project.

As part of our Community Engagement Policy, AGL adopts a continuous improvement process. Engagement to support this modification will be reviewed and feedback will inform our approach to engaging on any potential further modification. Engagement will be scaled appropriately and include the provision of clear and factual information and opportunities to provide feedback on the proposal. Accordingly, engagement activities to support a further modification may include:

- Community updates/ fact sheets
- Website updates

- Meetings and briefings
- Presentations and information sharing sessions
- Open house and community drop-in sessions
- Community workshops
- The establishment of a Community Consultative Committee (CCC)
- Community investment
- The provision of community benefits to offset construction impacts.

- **Increased private sector investment consistent with government policy**

The DPP is consistent with government policy favouring private sector investment in electricity generation, which is projected to increase competition in the energy market and restrain costs for the whole economy.

Higher electricity prices are a risk to economic growth and create hardship for parts of the community. Extending the lapse date will ensure that the DPP remains a potentially viable project, which creates an opportunity to further Government policy by facilitating investment in flexible capacity which can place downward pressure on electricity prices and increase competitiveness.

- **Socio-economic benefits**

Extending the lapse date would not change the positive socio-economic benefits of the DPP, rather would better enable the positive employment and other socio-economic benefits of the DPP to be realised.

The DPP would require approximately 250 employees for each stage of construction, and approximately 5-10 employees once operational. Moreover, AGL will seek to source as many construction workers and facility operators from the local region as possible. This will generate positive social impacts for the Dalton population, and the wider population within the Upper Lachlan Local Government Area and neighbouring LGAs.

The Project will also generate significant economic benefits. It is estimated that if stage one were to result in 780 MW of generating capacity, it would create \$291.3m in value add GDP and household income effects. Furthermore, AGL will adopt numerous stringent mitigation measures relating to the control of noise levels, air and water quality, traffic and transportation, visual amenity and other environmental matters, as required under the Project Approval.

For example, AGL proposed an offset area of approximately 183.25 ha reflecting the values of the native biodiversity of the development footprint.

- **No change to scope as a result of extending the lapse date**

There is no change to the scope of the DPP as a result of MOD 1. A delay to the DPP does result in ongoing uncertainty for the local community, however the environmental impacts of a further delay would be minimal. The extended lapse date would enable a full review of the DPP, and if required, a more substantive modification which would include specialist studies of any modifications to the project scope.

- **Changes to the surrounding environment**

While an extension of the lapse date will result in negligible environmental impacts, as part of any more substantive modification (MOD 2), AGL would assess any changes to the local environment in addition to any changes to the DPP.

Conclusion

AGL seeks to extend the lapse date of the Project Approval by two years, to enable AGL to undertake a detailed review of the DPP taking into account changed market conditions and new technology, recommence community and stakeholder engagement, and lodge a further, more detailed modification application, if required.

Under the current market conditions, the DPP has the potential to form an important component of the NEM's flexible capacity, by satisfying peak demand and supplementing intermittent generation as coal-fired power plants continue to be withdrawn, therefore providing more secure and affordable supply to NSW homes and businesses.

It is expected that an extension of the lapse date will not result in changes to the benefits or impacts of the DPP.

AGL is committed to re-establishing effective consultation with the local community (including a CCC) and other stakeholders.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nigel Bean'.

Nigel Bean

General Manager – Power Development