



Specialists in minerals, energy and agricultural economics
35 Endeavour Street, Red Hill, ACT Australia 2603

Stephen O'Donoghue
Team Leader, Resource Assessments
Department of Planning & Environment
320 Pitt Street,
Sydney, NSW 2000

Dear Stephen

Re: **Final Report on matters pertaining to the Economic Assessment (cost benefit analysis) and Economic Assessment (macroeconomic analysis) of the Santos NSW (Eastern) Narrabri Gas Project**

I have now completed my review of the economic impact assessment of the Santos NSW (Eastern) Narrabri Gas Project. As part of this process I have reviewed versions of the economic impact assessment report dated August 2016, 24 April 2018 and 11 September 2018. In addition, I have had the opportunity to review submissions made by key special interest groups and particularly those made by IEEFA and the Australia Institute on behalf of the North West Alliance.

In my original review I pointed out that the GHD cost benefit analysis designed to estimate the net benefits of the Narrabri Gas Project to the Australian community as a whole did not satisfy the guidelines ('Guidelines for the economic assessment of mining and coal seam gas proposals', December 2015, published by the NSW Government) because it did not directly provide an estimate of the benefits of the project to the NSW community. Santos provided an estimate of the net benefits of the project to NSW in its report of 24 April 2018. In response to my review of the April 2018 estimates, Santos undertook supplemental analysis dated 11 September 2018. I believe that the new assessment together with the supplemental report now meets the reporting guidelines.

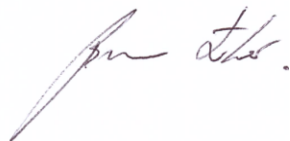
In my opinion, it is highly likely, if the project were to be approved, that the net benefits to the NSW community flowing from the development would be positive. I believe that the ACIL ALLEN report on the local effects of the project containing a general equilibrium analysis has been carefully done and gives plausible estimates of the likely impacts of the project (given the assumptions made).

The key objections to the project raised by the special interest groups referred to above broadly fall into two categories – questions about the long run demand for LNG and a question about the economic viability of the project in light of impairment charges adopted by Santos in relation to the project. Neither of these issues is relevant to the assessment of the project under the Guidelines for the economic assessment of mining and coal seam gas proposals', December 2015. The Guidelines specify that the key decision criterion is whether or not the project is likely

to be of net benefit to the NSW community. Key contributors to such benefits to NSW are the royalty payments to the NSW government and the net jobs generated by the project while ever the project is operating. The state of the global LNG market is not pertinent to those contributors if the project is operational and in any event the IEEFA assessment that the long run global gas market is in chronic over-supply appears totally at odds with the most recent information released by the ACCC assessment on gas netback prices on the east coast of Australia (see <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2020/lng-netback-price-series>) which shows an increasing trend in prices since 2016.

The fact that the project proponent has taken an impairment on the project in its accounts is also irrelevant to the assessment of the project from the perspective of the community of NSW. As a publicly listed company in Australia, Santos is required to adhere to accounting rules and stock exchange standards. The value of a project recorded in the historical accounts of a company has no necessary bearing on the future value of the project to NSW (or to the company itself) should such a project be approved.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Brian S Fisher'.

Brian S Fisher PhD DScAgr AO PSM FASSA
Managing Director

5 October, 2018