



**Trade &
Investment**
Resources & Energy

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Mr David Kitto
Director Mining and Industry Projects
Department of Planning and Environment
GPO Box 39
SYDNEY NSW 2001

Dear Mr Kitto

Thank you for the opportunity for NSW Trade & Investment – Division of Resources & Energy (DRE) to provide advice on the significance of the resource for the Coalpac Modifications project (Modification) to assist in your Department's assessment of the proposal.

DRE's assessment concludes that the significance of the Modification relates to allowing both Cullen Valley and Invincible Mines to reopen and to operate for a further four years and for Coalpac to potentially develop an expanded project to continue production after this time.

There are a number of strategic consequences to the State if the Modification does not proceed. Potentially significant risk exists for future NSW energy security, especially in regard to Mt Piper and Wallerawang power stations. A copy of DRE's assessment is enclosed.

DRE is supportive of the Coalpac Modifications as a responsible utilisation of the State's strategic coal resources.

Thank you for bringing this matter to my attention.

Yours sincerely

K Hargreaves
20.5.2014

Kylie Hargreaves
Deputy Secretary
Resources & Energy



Encl.

NSW Trade & Investment

Comment

Coalpac Modifications - Significance of the Coal Resource

The following information on the Significance of the Coal Resource for the Coalpac Modifications Project is provided as advice from NSW Trade & Investment - Division of Resources & Energy.

Size, quality and availability of the resource

Coalpac Pty Ltd (Coalpac) an Australian owned company owns the Invincible Mine and the Cullen Valley Mine. Coalpac is seeking approval for modifications to these existing mines on land located to the north-west of Lithgow.

According to the Environmental Assessment Report the Modification would allow the extraction of a 9 (Mt) million tonne resource from areas adjacent to the existing operations of Invincible and Cullen Valley Mines. It is proposed to extract up to 2.2 Mt per annum of run-of-mine (ROM) coal over a four year period, as the ROM coal does not require further significant beneficiation it would provide around 9 Mt of product coal. All product coal would be delivered to either Mt Piper or Wallerawang power stations, both of which are located within close proximity to Cullen Valley and Invincible.

The quality of the coal in the Modification area is of an ash content that makes it ideally suited for use in these local power stations. Coal quality at Cullen Valley and Invincible is comparable to other operating mines in the Western coalfield in the Lithgow area. Other mines in this area deliver unwashed coal to the local power stations or wash their ROM coal for railing to Port Kembla for export to east Asian markets.

Cullen Valley and Invincible mines are both medium scale coal mines in comparison to existing coal mines in the Western coalfield around Lithgow, and small compared to other New South Wales mines. Based on 2011/12 production data (the last year of full production for both mines), the combined production from Cullen Valley and Invincible mines was 1.5 Mt of saleable coal (a level similar to the proposed modification of a maximum of 2.2 Mt). There were six underground mines operating in 2011/12 in the Western coalfield around Lithgow of which three had significantly higher production rates than Cullen Valley and Invincible mines, two underground mines had smaller production rates and one was the same. However, of the five operating open cut mines in 2011/12 both Cullen Valley and Invincible were by far the highest producing mines.

Over the life of the Modification, with all production sold domestically, the total value would be worth around \$450 million in current dollars.

Proximity to existing infrastructure

The Cullen Valley mine will use the existing private haul road to transport coal to Mt Piper power station. The existing coal crushing and sizing plant, stockpiling and surface facilities will also be used. The Cullen Valley mine is located 5 km from Mt Piper power station. The Invincible mine will use its existing coal preparation plant, coal crushing and sizing plant, and surface facilities. Product coal from Invincible mine is transport via the Castlereagh Highway to the nearby Mt Piper or Wallerawang power stations.

Relationship of the resource to any existing mine, petroleum production facility or extractive industry

The majority of the existing mines that are within close proximity to both Cullen Valley and Invincible mines also supply coal to Mt Piper and Wallerawang power stations, these nearby mines in general use the same local roads to transport coal. It is likely that the Modification may utilise some of the workforce of nearby mines in future years as the skill sets from these mines are interchangeable. Both of the mines included in the Modification are stand alone operations which utilise their own equipment, coal handling and preparation facilities, operational and administrative buildings.

Dependency of other industries on the resource project

Many local industries in the area relied on the Cullen Valley and Invincible coal mines and hence would be able to expand further if these mines recommenced production, these industries include; mine equipment maintenance firms, mining equipment supply firms, coal preparation plant maintenance and supply firms. These firms are mainly local industries which employ locally and would rely on the Modification for either their continued existence or expansion.

Other Factors

Mineral Resources Branch also notes from the Environmental Assessment the Modification will bring provide for the following economic benefits:

- \$149 million in annual direct and indirect gross regional output;
- \$46 million in annual direct and indirect regional value added;
- \$19 million in annual direct and indirect household income; and
- 245 direct and indirect jobs.

Mineral Resources has estimated that as a result of the total product tonnes from the Modification gaining approval the total additional royalty to the State will be of the order of \$36 million in direct revenue in dollars of the day over the life of the Modification.

NSW energy security – impact on electricity supply and pricing

The major significance of the Modification relates to allowing both Cullen Valley and Invincible mines to reopen and to operate for a further four years and for Coalpac to potentially develop an expanded project to continue production after this time period. There are a number of strategic consequences to the State of the Modification not proceeding. Potentially significant risk exists for future NSW energy security, especially in regards to coal supply to Mt Piper and Wallerawang Power Stations. In April 2014 the Wallerawang power station was put on “care and maintenance” by its owner EnergyAustralia. EnergyAustralia has stated that Wallerawang can return to service should demand increase. Very limited options exist for sourcing replacement coal to supply these generators if this Modification does not proceed. The viability of both generators, but particularly Wallerawang, is dependent on access to local

domestic coal at competitive prices. If electricity demand did increase then Wallerawang may recommence generation if EnergyAustralia has access to competitively priced coal.

Prior to the closure of Invincible and Cullen Valley mines Mt Piper and Wallerawang Power Stations sourced most of their coal supply from either Centennial Coal or from Coalpac. In 2011/12 Coalpac supplied nearly 25% of all coal used in these power stations. The permanent closure of the Coalpac mines, which is likely if this Modification is not approved, would result in Centennial Coal having a virtual monopoly on coal supply to these generators. This would come at a time when some of the Centennial Coal contracts are starting to wind down and would increase the negotiating power of Centennial Coal in future coal pricing contract negotiations and may result in future supply being priced closer to export parity prices.

This would be expected to lead to further electricity price increases and be in conflict with NSW Government policy with respect to lower electricity pricing for consumers.

The estimation of electricity price impacts requires complex modelling and is necessarily imperfect, however coal supply costs, which is the main variable cost for power stations, could potentially increase from the current level of around \$50/tonne to possible \$70/tonne.