

Submission on Wongawilli Mod 2 “Economic Assessment”¹

Introduction

I am a resident of the Illawarra with an honours degree in Economics. I argue below that the Economic Assessment (Ec. Ass.) is flawed and does not justify approval of the Mod 2 extension.

Incomplete Economic Assessment

The Economic Assessment admits that a Cost Benefit Analysis (CBA) needs to be done for the future North West Domain project in order to decide this initial Mod 2 component of that project.

The Economic Assessment executive summary, quoting from the NSW Treasury guidelines (2007, p.33) requires that in the event of a project consisting of several parts

“.. it is **the evaluation of the larger project which is critical** and **it is essential that this be provided**, not just an evaluation of the individual component parts”..... the CBA examines the MOD2 in isolation but also makes reference to the potentially wider costs and benefits of the larger project.”(Ec. Ass. p 3)²

It is notable that the Economic Assessment itself does *not* state a conclusion that it is in the public interest to proceed based on the Mod 2 CBA. The Economic Assessment states that “net production benefits to NSW [are] **-\$1.6M** to \$2.9M” (Ec. Ass. P 3). In other words, there may be a negative public interest in Mod 2.

The Economic Assessment then misleads the reader by estimating the value of royalties from the future North West Domain project range between \$57M and \$191M, without any attempt to quantify the social costs of this larger project. (Ec. Ass. P 3). In other words a critical and essential evaluation has not been performed by this CBA contravening the NSW Treasury Guidelines.

Externality impacts not costed in CBA

The Economic Assessment makes an assumption that externality costs do not need to be costed:

“If the potential externality impacts in Table 2.1 are mitigated to the extent where community wellbeing is insignificantly affected, then **no external economic costs arise**.” (Ec. Ass. p 7) and

“**Environmental, cultural and social impacts have initially been left unquantified** and interpreted using the threshold value method” (Ec. Ass. p 8)

The following externalities are possible and should be included in the costings:

- Partial collapses of historical first workings have been documented. “*cracking will be induced due to subsidence effects caused by the mining void*” (EMM Report Vol 2 P 119³)
 - Gallaghers Creek and Bellbird Creek arms of Avon reservoir (NWMD Report Vol 2 P 135)
 - the Moss Vale – Unanderra Railway, and below a 330 kV powerline (NWMD Report Vol 2 P 135)
- Loss of water through mine inflows 107 ML over five years (NWMD Report Vol 2 P 125)
- Polluted water being discharged into Robins Creek reaching Lake Illawarra (NWMD Report Vol 1 P 98)

¹ <https://www.planningportal.nsw.gov.au/major-projects/project/31026>

² EcAss P <x> refers to page <x> within Appendix P shown on the bottom of the printed pages

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<https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=MP090161-MOD-2%2120201229T004314.422%20GMT>

Risk of Insolvency

Given WCL's precarious financial position "*dire financial position*" as described in February 2020 in the Illawarra Mercury with "significant losses, significant borrowings from a major shareholder on which large interest payments are payable"⁴.

The Risk and Sensitivity Analysis (Ec. Ass. 2.8 p 20) should consider the significant risk of insolvency impacting for example on capacity to pay local employees and contractors. This also applies to the LEA.

Greenhouse gas emissions cost under-estimated

The CO₂-e shadow prices should be explicitly stated (Ec. Ass. P 13-14) but appears to be an under-estimate based on the EU ETS CO₂-e prices as per NSW Treasury *Technical notes supporting the guidelines for the economic assessment of mining proposals*.⁵

Taking this value, as in the following calculation the correct cost is much higher than asserted in this Economic Assessment:

- Reuters analysts project that EU ETS CO₂-e prices "are expected to average 39.24 euros a tonne in 2021 and 46.24 euros in 2022"⁶ Assume price is average of these at 42 euros. Assume exchange rate of A\$1.50 per euro. Therefore price of one tonne CO₂-e is A\$64
- Scope 1 and 2 emissions are 383,326 tonne of CO₂-e per year = \$24.5M (Ec. Ass. P 13)
- NPV calculation over five years = \$100.6M using 7% discount rate.⁷

Reducing GHG emissions by NSW population proportion is illogical and ignores Treasury CBA guidelines:

1. It is illogical because climate change impacts on the planet and every extra GHG emission takes us beyond a safe climate future. The Intergovernmental Panel on Climate Change Special Report⁸ describes the global impact of GHG emissions increasing the risk of bushfire and other extreme weather events, resulting in a range of negative health impacts for NSW.
2. It ignores the Treasury CBA guidelines which requires that cross border costs and benefits should be reported⁹.

Therefore the Economic Assessment should cost Scope 1 and 2 GHG emissions for five years at \$100.6M, not \$0.02M (Ec. Ass. P 14).

Conclusion

This Mod 2 proposal is a de facto start to the much larger North West Domain project and a full CBA should be conducted on the whole North West Domain project with Mod 2 included as part of an overall evaluation. It should also cost the impacts of greenhouse gas emissions with recommended rate and range of impacts as per NSW Treasury Guidelines

This Modification should therefore be rejected.

⁴ <https://www.illawarramercury.com.au/story/6642016/wollongong-coal-is-in-a-dire-financial-position/>
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⁵ <https://www.planning.nsw.gov.au/-/media/Files/DPE/Other/technical-notes-supporting-the-guidelines-for-the-economic-assessment-of-mining-and-coal-seam-gas-proposals-2018-04-27.pdf?la=en> P 48

⁶ <https://www.reuters.com/article/us-eu-carbon-poll-idUSKBN29N0ZJ>

⁷ Using Excel NPV function

⁸ <https://www.ipcc.ch/sr15/>

⁹ [NSW Treasury Guide to CBA](#) P 20