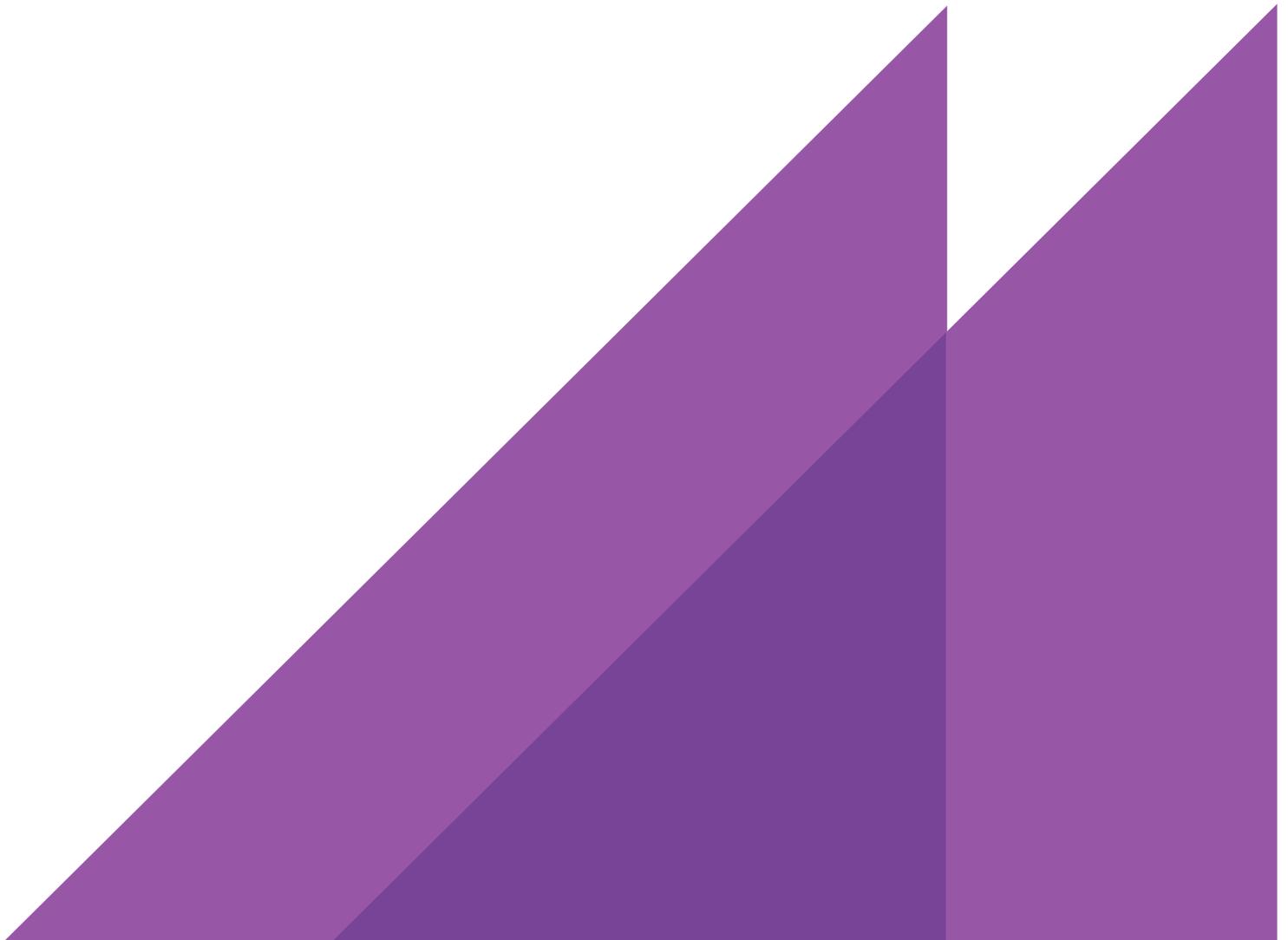


REPORT TO
TELLUS HOLDINGS LTD
11 DECEMBER 2019

ECONOMIC IMPACT



OF THE REVISED
CHANDLER FACILITY
FINAL REPORT





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INTRODUCTION

1

Tellus Holdings Ltd (Tellus) is proposing to develop the Chandler Facility (the Facility) located approximately 120 km south of Alice Springs in the Northern Territory. As part of the development process, Tellus submitted an Environmental Impact Statement to the Northern Territory Environmental Protection Authority (NT EPA) in 2016. This included an assessment of the economic impact of the Chandler Facility to the Northern Territory.

In 2019, Tellus submitted a Clause 14A Variation Notification to the NT EPA for changes to the Chandler Facility. These changes included:

- Removing the Henbury Access Road, Chandler Haul Road and Apirnta Facility.
- Using Maryvale Road as the primary access to/from the Chandler Facility.
- Construction of an off-site inter-modal transit station at the Brewer Industrial Estate 25km south of Alice Springs (assessed separately – not part of the Chandler Facility).

In response to this Variation Notification, the NT EPA required that Tellus provide a comparison of the economic impact of the Chandler Facility as reported in the Environmental Impact Statement to the economic impacts as described in the Variation Notification. For the purposes of this report, the project configurations have been described as the 'original Chandler Facility' and the 'revised Chandler Facility'.

This report describes the economic impacts of the revised Chandler Facility including the methodology for undertaking the assessment.

1.1 Definitions and acronyms

Acronyms and definitions have been used in this report. These are presented in Table 1.1.

TABLE 1.1 GLOSSARY OF KEY TERMS AND LIST OF ACRONYMS

Acronym	Definition
\$	Australian dollars
\$ million	One million Australian dollars
%	Per cent
'000	Thousand
Employment	The number of full-time equivalent job years created as a result of a project or expenditure in the economy, which includes direct and indirect (flow-on) employment. Employment is measured on a full-time equivalent (FTE) basis.
FTE	Full-time equivalent. One FTE is the equivalent of one person working for one year on a full-time basis
Gross product or real economic output	<i>A measure of the size of an economy</i> Gross product is a measure of the output generated by an economy over a period of time (typically a year). It represents the total dollar value of all finalised goods and services produced over a specific time period and is considered as a measure of the size of the economy. At a national level, it is referred to as Gross Domestic Product (GDP); at the state level, Gross State Product (GSP); while at a regional level, Gross Regional Product (GRP).
Job years	Employment creation is measured in job years. A job year is employment of one full-time equivalent (FTE) person for one year. Alternatively, it can be expressed as one 0.5 FTE person for two years. Its measure is therefore potentially less than the number of employed people which will include a count of the number of full-time, part-time, casual and contract workers.
km	Kilometre

Acronym	Definition
Local region	Defined as the Alice Springs Town Council Local Government Area and the Yuendumu – Anmatjere SA2 area as defined by the Australian Bureau of Statistics
NPV	<i>Net present value</i> The value of a future stream of income (or expenses) converted into current terms by an assumed annual discount rate. The underlying premise is that receiving, say, \$100 in 10 years is not 'worth' the same (i.e. is less desirable) than receiving \$100 today.
Real income	<i>A measure of the welfare of residents in an economy or the increase in ability to purchase goods and services and to accumulate wealth</i> Although changes in real economic output are useful measures for estimating how much the output of the economy may change due to the Chandler Facility, changes in real income are also important as they provide an indication of the change in economic welfare of the residents of a region through their ability to purchase goods and services. Real income measures the income available for final consumption and saving after adjusting for inflation. An increase in real income means that there has been a rise in the capacity for consumption as well as a rise in the ability to accumulate wealth in the form of financial and other assets. The change in real income from a development is a measure of the change in welfare of an economy.
Real and nominal dollars	Nominal dollars are dollars that are expressed in the actual dollars that are spent or earned in each year, including inflation effects. Real dollars have been adjusted to exclude any inflationary effects and therefore allow better comparison of economic impacts in different years. Over time, price inflation erodes the purchasing power of a dollar thereby making the comparison of a dollar of income in 2040 with a dollar of income in 2015 invalid. Adjusting nominal dollars into real dollars overcomes this problem.

1.2 Key Assumptions: Original Chandler Facility and Revised Chandler Facility

Tellus provided a financial model for the revised Chandler Facility that described the annual expenditure required to construct and operate the Facility. ACIL Allen compared the revised model to the financial model for the original Chandler Facility. The results of the comparison are presented in this Section.

1.2.1 Major project assumptions

Table 1.2 presents the major project assumptions of the original Chandler Facility configuration as they relate to the project life including the construction and operations periods, and the associated workforces.

The construction period of the original Chandler Facility lasted for 48 months and was assumed to take place over four years from 2017 to 2020, with most of the expenditure occurring in the second year of construction. Revenue from the Facility was assumed to commence in the first year of construction and last for 25 years (2017 to 2041). This resulted in a total project life of 25 years. Note that this excludes the closure and institutional control period.

Under the revised Chandler Facility, the construction phase occurs for 48 months over five calendar years. Surface storage revenue is first forecast to be realised in the final year of construction and the underground revenue is first realised during the first full operational year. The revenue streams from the Chandler Facility are expected to last for 25 years. This will result in a project life of 29 years (2019 to 2047).

The data provided by Tellus shows that project revenues, expressed in real dollars, have reduced slightly by around 4.0 per cent from the original Chandler Facility. They also follow a different profile, with higher revenues in the earlier stages of production and lower revenues in the future.

Total employment in the construction phase of the Facility has been assumed to be the same as in the original Chandler Facility at 1,299 full time equivalent (FTE) workers. However, while the length of the construction period is the same, this employment is assumed to occur over five calendar years

compared to over four calendar years under the original Chandler Facility configuration. Operational employment in the original Chandler Facility configuration was assumed to average around 150 FTE jobs each year at steady state production while in the revised Chandler Facility configuration it is assumed to be 146 FTE per annum

TABLE 1.2 MAJOR PROJECT ASSUMPTIONS: CHANDLER FACILITY

Item	Original Chandler Facility	Revised Chandler Facility
Construction period	4 years (48 months)	4 years (48 months)
Construction workforce	1,299 FTE over four years	1,299 FTE over five years
Operational life	25 years (2017 to 2041)	25 years (2023 to 2047)
Steady state production workforce	150 FTE	146 FTE
Life of project (construction + operation life)	25 years	29 years

SOURCE: TELLUS HOLDINGS. NOTE: FTE = FULL TIME EQUIVALENT JOB YEAR

1.2.2 Key project financial assumptions

The key financial assumptions of the original Chandler Facility compared to the revised Chandler Facility are presented in Table 1.3. The original Chandler Facility included capital expenditure (excluding financing costs) of \$648 million, and annual operations expenditure of \$81 million per annum.

The revised Chandler Facility includes capital expenditure of \$445 million (excluding financing costs). Note that operations expenditure has not been calculated for the revised Chandler Facility. This is because the discount rates apply to different time periods which makes an accurate comparison of the two estimates difficult. However, the figures are of a similar order.

TABLE 1.3 PROJECT FINANCIAL ASSUMPTIONS: CHANDLER FACILITY

Item	Original Chandler Facility	Revised Chandler Facility
Capital expenditure (excluding finance costs)	\$648 million	\$445 million
Operations expenditure (2017-2041) per annum	\$81 million	~ \$81 million

SOURCE: TELLUS HOLDINGS

1.2.3 Local content assumptions

The same local content assumptions for the supply of goods and services required in the construction and operations phases under each project configuration have been applied as presented in Table 1.4. Note that Tellus have indicated that the shares to local and Northern Territory businesses may well be slightly higher than previously assumed, but a more conservative approach has been presented in this report.

Under the original Chandler Facility, it was assumed that around \$118 million of capital expenditure would occur in the Local region and an average of \$26 million per annum of local spending during the operation phase. The Facility was assumed to source 477 construction workers from the Local region and an average of 77 FTE workers per annum from the Local region in operations.

Under the revised Chandler Facility, an estimated \$81 million will be spent in the Local region during the construction phase. The revised Chandler Facility is expected to employ 477 construction workers from the Local region and 77 FTE operations workers. In the operations phase, there will be a similar level of local spending as the original Chandler Facility configuration.

TABLE 1.4 LOCAL CONTENT ASSUMPTIONS: ORIGINAL CHANDLER FACILITY AND REVISED CHANDLER FACILITY

Item	Original Chandler Facility		Revised Chandler Facility	
Local content assumption (capital expenditure)	Local	18%	Local	18%
	NT	36%	NT	36%
	Australia	67%	Australia	67%
	Overseas	33%	Overseas	33%
Local content assumptions (operation expenditure)	Local	32%	Local	32%
	NT	52%	NT	52%
	Australia	64%	Australia	64%
	Overseas	36%	Overseas	36%

SOURCE: TELLUS HOLDINGS

1.3 Summary of data changes

There are several data changes between the two project configurations. These include:

- A reduction in capital expenditure from \$648 million to \$445 million (not including financing costs) including a reduction in capital spending in the local area.
- The length of the construction period remains the same however construction under the revised Chandler Facility occurs in five years instead of over four years under the original Chandler Facility configuration.
- Revenue is not expected to be earned until the final year of construction in the revised Chandler Facility compared to the original Chandler Facility where revenue was expected to be earned from the first year of construction.
- A project life of 29 years compared to 25 years in the original configuration.
- A slight reduction in the steady state production workforces.
- A slight change downward forecast of revenues and a different revenue profile with higher revenues forecast in the early stages of production.

1.4 Approach to determining revised economic impact

The economic impact of the revised Chandler Facility was estimated by scaling the economic impacts of the original Chandler Facility to reflect the new capital, revenue and cost profiles of the Facility. Annual operating costs and EBITDA data was incorporated into the scaling process to increase the accuracy of the results compared to simply scaling the revenue assumed under the revised project configuration.

The economic impact of the original Chandler Facility was estimated by ACIL Allen using a Computable General Equilibrium modelling approach using ACIL Allen's *Tasman Global Model*. While some of the assumptions of the original Chandler Facility have changed under the assumptions in the revised Chandler Facility, from an economic modelling perspective, these changes are not expected to result in the need to complete detailed economic modelling. This is because most of the key drivers of economic impact, which relate to local content spending and employment, are unchanged or very similar including:

- The shares of goods and services supplied from within the local region and the Northern Territory are unchanged.
- Construction employment is expected to remain unchanged.
- Operations employment is marginally lower representing a decrease of four FTE employees or 3.0 per cent. Construction employment is assumed to remain the same.
- Total Facility revenue is forecast to be slightly lower representing a decrease of around 4.0 per cent.

The results of the scaled economic impact approach are set out in the following sections.

1.5 Economic impacts

ACIL Allen used Computable General Equilibrium modelling using the *Tasman Global* model to estimate the impacts of the construction and operation activities associated with the Chandler Facility. It is important to note that when reading this section, the revised Chandler Facility economic impacts are presented in 2019 dollars while the original Chandler Facility economic impacts are presented in 2016 dollars. This should be considered when comparing the economic impact results between the two project configurations and no direct comparison should be made.

1.5.1 Gross Product

The expenditure in the construction and operation of the revised Chandler Facility will generate a stimulus to the economy in the form of the direct expenditure required to construct and operate the Facility, and the further indirect stimulus to labour income and profits of companies in the wider economy that this initial spending creates. The resulting increase in the value of production in the economy as a result of the Facility is referred to as contribution to Gross Product.

Table 1.5 presents the contribution of the revised Chandler Facility to Gross Product. Over the life of the project, the revised Chandler Facility will contribute \$4.3 billion to the Gross Domestic Product of Australia or an average of \$151 million per annum.

The additional spending (including on wages) in the economy as a result of the Chandler Facility will contribute significantly to the Gross State Product of the Northern Territory. The Gross Territory Product of the Northern Territory is forecast to increase by \$3.8 billion over the life of the project or an average of \$133 million per annum. The annual contribution of the revised Chandler Facility to the Gross Territory Product is equivalent to 0.5 per cent of the Gross Territory Product of \$26.2 billion.

Most of this impact from the Facility will be realised in the Local region where the Chandler Facility is located and where production occurs. An estimated \$3.9 billion will be added to the Gross Regional Product of the Local region or an average of \$134 million per annum. The reason that this impact is larger than the contribution to the Gross State Product of the Northern Territory is that the Facility will draw resources such as labour away from the rest of the Northern Territory. For example, some of the workforce for the Facility will travel from outside of the local region to work at the Chandler Facility.

TABLE 1.5 CONTRIBUTION TO GROSS PRODUCT: REVISED CHANDLER FACILITY (2019 \$ MILLION)

	Average (2019 to 2047)	Total (2019 to 2047)	NPV (4% Discount Rate)	NPV (7% Discount Rate)
Local region	134	3,895	1,924	1,180
Northern Territory	133	3,870	1,917	1,179
Australia	151	4,385	2,219	1,383

SOURCE: ACIL ALLEN CONSULTING

Over the life of the project under the original Chandler Facility configuration and in 2016 dollars, the Gross Domestic Product of Australia was forecast to rise by nearly \$4.1 billion or an average of \$166 million each year. Most of this impact was also expected to be realised in the Northern Territory with nearly all of the impact realised in the Local region. In total, \$3.6 billion or an average of \$144 million per annum was forecast to be added to the Gross Territory Product of the Northern Territory. This represented a significant annual contribution to the Northern Territory of around 0.6 per cent of the Gross Territory Product in 2015-16 of \$23.1 billion.

Table 1.6 shows the contribution to Gross Product from the original Chandler Facility configuration. A comparison of the results under each configuration shows that the contribution to Gross Product is similar. Whilst it is difficult to compare 2016 dollars and 2019 dollars, the expected share of the contribution of the Chandler Facility to the Gross Territory Product is similar under each configuration at around 0.5 to 0.6 per cent.

TABLE 1.6 CONTRIBUTION TO GROSS PRODUCT: ORIGINAL CHANDLER FACILITY (2016 \$ MILLION)

	Total (2019 to 2047)	NPV (4% Discount Rate)	NPV (7% Discount Rate)
Local region	3,600	1,990	1,350
Northern Territory	3,590	1,995	1,360
Australia	4,150	2,300	1,570

SOURCE: ACIL ALLEN CONSULTING

1.5.2 Real incomes

Another measure of the contribution to the economy, is the contribution to real incomes. Real income is a measure of the ability to purchase goods and services, adjusted for inflation. A rise in real income indicates a rise in the capacity for current consumption, but also an increased ability to accumulate wealth in the form of financial and other assets. The change in real income from a development is a measure of the change in welfare of an economy.

The extent to which the local residents will benefit from the additional economic output depends on the level of ownership of the capital (including the natural resources) utilised in the business as well as any wealth transfers undertaken by Australian governments as a result of the taxation revenues generated by the Chandler Facility.

The revised Chandler Facility is expected to contribute \$3.7 billion to the real incomes of Australian residents over the life of the project (**Table 1.7**). This is equivalent to \$129 million per annum in each of the 29 years of the project. An estimated \$609 million will be realised in the Northern Territory including \$613 million in the Local region or an average of \$21 million per annum. The reason that the real incomes in the Local region are expected to benefit more is that the Facility is expected to draw resources, particularly labour, away from the rest of the Northern Territory. For example, some of the workforce for the Facility will travel from outside of the local region to work at the Chandler Facility.

The reason that the majority of the impact on real incomes is realised in the rest of Australia is that only a small portion of the Facility is assumed to be owned by local residents and the majority owned by shareholders who live elsewhere in Australia. A significant portion of the wealth generated by the economic activity of the Facility is therefore transferred outside of the Local region to the Australian shareholders of Tellus Holdings. In addition, the distribution of Federal taxes generated by the Facility is assumed to primarily occur in the rest of Australia where the bulk of the population resides.

TABLE 1.7 CONTRIBUTION TO REAL INCOMES: REVISED CHANDLER FACILITY (2019 \$ MILLION)

	Average (2019 to 2047)	Total (2019 to 2047)	NPV (4% Discount Rate)	NPV (7% Discount Rate)
Local region	21	613	405	330
Northern Territory	21	609	411	338
Australia	129	3,731	2,033	1,332

SOURCE: ACIL ALLEN CONSULTING

Table 1.8 presents the contribution to real incomes under the original Chandler Facility configuration and using 2016 dollars. The Chandler Facility was forecast to contribute an estimated \$3.4 billion to the real incomes of Australians over the life of the project or an average of around \$135 million per annum. This includes an increase of \$440 million to real incomes in the Northern Territory and \$475 million to the residents of the Local region.

Whilst it is difficult to compare 2016 dollars and 2019 dollars, the expected contribution of the Chandler Facility to real incomes is similar for each configuration.

TABLE 1.8 CONTRIBUTION TO REAL INCOMES: ORIGINAL CHANDLER FACILITY (2016 \$ MILLION)

	Total (2019 to 2047)	NPV (4% Discount Rate)	NPV (7% Discount Rate)
Local region	475	295	220
Northern Territory	440	285	220
Australia	3,390	1,900	1,310

SOURCE: ACIL ALLEN CONSULTING

1.5.3 Job creation

The revised Chandler Facility will result in job creation in the form of direct and indirect employment. The direct employment refers to those jobs required to construct and operate the Facility. Furthermore, there will be additional flow on jobs that are created by the additional spending in the economy on goods and services, including wages, to construct and operate the Facility.

A job year is employment of one full time equivalent (FTE) person for one year. It is expressed in this way to take account of the number of jobs created in the economy rather than the number of workers who are employed. As the jobs created are ad hoc and spread amongst multiple businesses and industries, they are aggregated and expressed as one full time equivalent job.

It is estimated that there will be job creation in Australia of 5,382 FTE job years over the life of the project. This includes the workers required to construct and operate the revised Chandler Facility. On average, 186 FTE jobs will be created in each of the 29 years of the project (Table 1.9).

In the Northern Territory, an estimated 3,886 FTE job years will be created. This is equivalent to 134 FTE jobs in each year of the project. Most of this job creation will occur in the Local region where a total of 2,653 FTE job years will be created or an average of 91 FTE jobs per annum. The Alice Springs Town Council has a very low unemployment rate of 2.3 per cent compared to a Territory wide unemployment rate of 4.5 per cent however, this represents 430 unemployed people living in the Council as of June 2019. Furthermore, there is much higher level of unemployment in the communities of Titjikala, Santa Teresa and Finke. The Chandler Facility therefore represents an important new and sustainable source of employment for job seekers who wish to work directly on the Facility as well as a boost to the flow on jobs throughout the Local region economy.

TABLE 1.9 CONTRIBUTION TO JOB CREATION: REVISED CHANDLER FACILITY (FTE JOB YEARS)

	Average (2019 to 2047)	Total (2019 to 2047)
Local region	91	2,653
Northern Territory	134	3,886
Australia	186	5,382

SOURCE: ACIL ALLEN CONSULTING

The original Chandler Facility was forecast to create an estimated 5,430 FTE job years in Australia over the life of the project. In the Northern Territory, 3,665 FTE job years or 146 FTE job years per annum were forecast to be created (Table 1.10). Around 2,600 of these or an average of 104 FTE jobs per year were forecast to be located in the Local region.

Table 1.10 Contribution to job creation: Original chandler facility (FTE job years)

	Annual average (2017-2014)	Total (2017-2014)
Local region	104	2,596
Northern Territory	146	3,665
Australia	217	5,430

SOURCE: ACIL ALLEN MODELLING

1.5.4 Taxation impacts

The revised Chandler Facility will result in the payment of direct taxation and royalty payments to the government and traditional owners as well as flow on taxation payments made by individuals and companies along the supply chain that support the Chandler Facility. It is estimated that total taxation from the revised project configuration will generate over \$1.9 billion of taxation over the life of the project (Table 1.11). Most of this taxation is generated by company taxes.

TABLE 1.11 CONTRIBUTION TO TAXATION: ORIGINAL CHANDLER FACILITY AND REVISED CHANDLER FACILITY (\$ MILLION)

	Original Chandler Facility (\$2016)	Revised Chandler Facility (\$2019)
Project company taxes	\$902	\$1,088
NT payroll taxes	\$34	\$39
Other taxes on income	\$599	\$530
Other taxes	\$344	\$304
Total	\$1,879	\$1,961

SOURCE: ACIL ALLEN CONSULTING

The original Chandler Facility was forecast to generate just under \$1.9 billion of total direct and indirect taxation over the life of the project (Table 1.11). Whilst it is difficult to compare 2016 dollars and 2019 dollars, the total expected taxation revenue as a result of the Chandler Facility under each configuration is similar.

1.6 Summary of economic impact changes

The revised Chandler Facility results in a similar but slightly higher economic impact when compared to the original Chandler Facility configuration. Part of this results from comparing 2016 dollars to 2019 dollars and should therefore be treated with caution.

Under the revised Chandler Facility, the Gross Domestic Product of Australia increased by \$4.1 billion compared to \$4.3 billion under the revised configuration. However, on an annual basis, the impact is lower under the revised configuration with an average of \$166 million per annum under the original configuration compared to \$151 million per annum under the revised configuration. This is because the life of the project under the revised configuration is 29 years compared to 25 years under the original configuration while the economic impact has remained similar.

The increase in real incomes of Australian residents is forecast to be \$3.4 billion (\$135 million per annum) over the life of the project under the original configuration and \$3.7 billion (\$129 million per annum) under the revised configuration.

In terms of job creation, the original project configuration resulted in job creation over the life of the project of 5,430 FTE job years in Australia and the revised configuration results in job creation in Australia of 5,382 FTE job years.

It is estimated that total taxation from the revised project configuration will generate \$1.9 billion of taxation over the life of the project which is similar to the original project configuration. Note that the original configuration is reported in 2016 dollars and the revised configuration is in 2019 dollars.

1.7 Other economic impacts

ACIL Allen analysed a number of other benefits of the original Chandler Facility in terms of the benefit to the Local region from the creation of new employment opportunities for local job seekers and new businesses opportunities for businesses wishing to support the Facility and other projects identified in the Local region area. These opportunities were identified as assisting in retaining and attracting population to the Local region and particularly the town of Alice Springs, and the communities of Titjikala, Santa Teresa, and Finke.

The economic indicators in the Local region have not significantly altered since the analysis of the original Chandler Facility configuration (Table 1.12). Population continues to decline in the Local region while unemployment remains low but at slightly higher levels than in the previous analysis. It is therefore expected that these benefits would remain as key to the development of the Chandler Facility under the new configuration.

TABLE 1.12 KEY ECONOMIC INDICATORS: LOCAL REGION

	Original Chandler Facility	Revised Chandler Facility
NT unemployment rate	4.2 per cent	4.5 per cent
Local region unemployment rate	1.7 per cent	2.3 per cent
Population growth – from previous year	-0.2 per cent	-0.1 per cent

SOURCE: ACIL ALLEN CONSULTING FROM VARIOUS SOURCES. NOTE: LOCAL REGION HAS BEEN DEFINED AS THE ALICE SPRINGS TOWN COUNCIL AS THIS DATA PROVIDES THE MOST RECENT ECONOMIC SNAPSHOT OF THE REGION

In addition to these other benefits identified in the original assessment of the Chandler Facility, is the progress made in negotiations with Traditional Owners, and with improvements to the Maryvale Road which have benefits for the workers employed at the Chandler Facility and to third party users of the road.

Traditional Owners benefit from the requirement for the project developer to enter into an Indigenous Land Use Agreement (ILUA). An ILUA is made between a native title group and others about the use of the land and water associated with the project site. Tellus is currently negotiating an ILUA with the Native Title Group and the Land Council that has compensation (upfront payments and ongoing royalties and payments), training, employment and other economic opportunities (business and procurement opportunities) for the local Native Title Group.

With safer and quicker access to the Chandler Facility from the upgrade of the Maryvale Road, it is likely there will be a larger drive-in-drive-out workforce or bus-in-bus-out workforce. It also increases the potential for future spin off businesses at the site of the Chandler Facility that are subject to other environmental approvals. These include salt mine tourism, salt art, and the production of other salt products for retail sale.

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