

Addendum – Mining revenue

Overview

- 1 On 5 July 2024, the Commission issued a draft report chapter on the mining assessment. The Commission considered changes to the 2020 Review assessment method. The draft positions in the chapter included:
 - splitting the coal assessment by price band
 - changing the capacity measure for brown coal
 - changing the capacity measure for onshore oil and gas.
- 2 Following the Draft Report, the Commission collected data from states and territories (states) to allow it to analyse each change. Its analysis is complete. The draft positions and the GST impacts of the proposed changes are presented in this addendum to the Draft Report.
- 3 This addendum complements the Draft Report and does not respond to comments from the states in their submissions on the Draft Report. These comments will be considered in the preparation of the Review’s Final Report.

Splitting the coal assessment by price band

- 4 In the Draft Report the Commission proposed splitting black coal by price band, using 2 price bands — above and below \$200 per tonne.

Supplementary state data

- 5 States provided supplementary data to allow the Commission to estimate the impact of the price band assessment. They provided data for the 3 assessment years of the 2024 Update (2020–21 to 2022–23) and for 3 price bands:
 - \$0 to \$200
 - above \$200 to \$300
 - above \$300.
- 6 Data were sought for 3 price bands to provide the Commission flexibility to test price bands at different levels.
- 7 Compared with the data states provided in the 2024 Update, the supplementary data contained large revisions to state royalties in the second (an increase of \$1.5 billion) and third (a decrease of \$1.3 billion) assessment years. Revisions of this size affect the comparison with the 2024 Update assessment. Consequently, the addendum removes the effect of these revisions.

- 8 States expressed 2 concerns with a price band approach. The possibility of:
- increasing the likelihood of a dominant state¹ in a particular price band, with implications for policy neutrality
 - introducing an effective actual per capita assessment when a price band comprised only one state's production.
- 9 The supplementary data showed that, under a 2-band approach, there was no dominant state in any assessment year for the 2024 Update, but there was under a 3-band approach. Queensland had a dominant share of production in the highest price band (\$300 and above) in the middle assessment year (2022–23). There were no instances of a price band only including one state's production.
- 10 Table 1 provides a snapshot of the supplementary data. It shows the rapid growth in value of production and average price between 2020–21 and 2022–23.

Table 1 Summary coal data, 2020–21 to 2022–23

Data	2020-21	2021-22	2022-23
Revenue (\$b)	3.1	12.4	18.9
Value of production (\$b)	41.5	119.4	128.9
Volume of production (mill tonnes)	416	407	389
Average price (\$ per tonne) (a)	100	293	332

Source: Commission calculation, state provided data.

(a) The average price was calculated as the value of production divided by the volume of production.

- 11 Table 2 shows the extent of the shift in value of production from the lowest price band (\$0 to \$200 per tonne) to the highest price band (\$300 per tonne and above) in response to the increasing average price.
- 12 Table 2 also shows that in the first assessment year, all value of production fell within the lowest price band. For that year, the assessment defaulted to an aggregate coal assessment.

Table 2 Proportion of value of production by price band, 2020–21 to 2022–23

Proportion of total value of production in price band	2020-21	2021-22	2022-23
	%	%	%
\$0 to \$200	100	15	7
\$200 to \$300	0	18	9
\$300 and above	0	67	84

Source: State provided data.

¹ The Commission defined a state to be dominant if the difference between its revenue base share and its population share exceeded 50 percentage points.

A 2-price band approach

13 Table 3 shows the GST impact of splitting the coal assessment into 2 price bands (above and below \$200 per tonne). It also shows the volatility of the annual GST impacts. As noted earlier, the assessment in the 2020-21 year defaults to an aggregate coal assessment.

Table 3 2-price band approach, 2024-25

GST impact	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2020-21	-14	-48	62	0	0	0	0	0	62
2021-22	52	-4	-56	7	0	1	0	0	60
2022-23	241	56	-325	25	0	2	0	0	325
3-year average	93	1	-106	11	0	1	0	0	106
3-year average (\$pc)	11	0	-19	4	0	2	0	0	4

Source: Commission calculation, state provided data.

Note: The effects of revisions have been removed.

14 Assessing black coal using 2 price bands increases the assessed capacity of Queensland (the state with an above average share of high value coal) and reduces the assessed capacity of other states.

A 3-price band approach

15 Table 4 shows the GST impact of splitting the coal assessment into 3 price bands.

- \$0 to \$200
- above \$200 to \$300
- above \$300.

16 The annual GST impacts are the same as the 2-price band for the first year because in both approaches all production falls within the lowest price band. In the last 2 assessment years, the annual GST impacts are bigger than the 2-band approach. This is due to the separate assessment of a \$300 and above price band. As a consequence of high coal prices and the effect of its progressive royalty rate regime, Queensland has a high share of production in the \$300 and above price band. Separately assessing that price band increases Queensland's assessed capacity and reduces the assessed capacity of New South Wales, the only other state with production in the band.

Table 4 3-price band approach, 2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2020-21	-14	-48	62	0	0	0	0	0	62
2021-22	163	-4	-167	7	0	1	0	0	171
2022-23	357	56	-441	25	0	2	0	0	441
3-year average	169	1	-182	11	0	1	0	0	182
3-year average (\$pc)	20	0	-32	4	0	2	0	0	7

Source: Commission calculation, state provided data.

Note: The effects of revisions have been removed.

How many price bands?

- 17 States disagreed on the number and choice of price bands.
- 18 While more price bands would better reflect the differences in state capacities to raise revenue from high value and low value coal, there are practical considerations to adding price bands. Adding bands makes the price band approach more susceptible to creating data confidentiality issues, creating dominant states, and introducing an effective actual per capita assessment for some price bands.
- 19 In the draft report, the Commission proposed a 2-band approach because it was the least data intensive and was less likely to be susceptible to data confidentiality issues. New South Wales favoured 2 bands above and below the average coal price in a year (Table 1 sets out the average price for each assessment year). Queensland favoured 2 bands above and below \$200 per tonne.
- 20 While the New South Wales variation would be more responsive to market conditions, it has disadvantages. It has a 2-step process for collecting data. In the first step, states would initially provide annual volume and value of production data, which the Commission would use to derive an annual average price for each assessment year. In the second step, the Commission would ask states to split their annual royalty and value of production data into that above and below the annual average price. The Commission has not quantified the GST impacts of the New South Wales variation because it has not collected the additional data required for the second step.
- 21 The New South Wales variation would also deliver a split assessment even when there was not much divergence in price between high value and low value coal. Dominant state concerns are more likely to arise with higher price band thresholds. The supplementary data shows the New South Wales variation would have created a dominant state situation in the middle assessment year.
- 22 The Commission prefers a fixed 2-band approach because it is less susceptible to data confidentiality issues and because in the short term it does not give rise to an additional dominant state, which the 3-band approach does in the middle

assessment year. It prefers the fixed 2-band approach over the average 2-band approach because it is likely less susceptible to dominant state issues.

Commission draft position

- 23 As outlined in the Draft Report, the Commission proposes to:
- split the coal assessment by price band
 - use 2 price bands, above and below \$200 per tonne.

Changing the capacity measure for brown coal

- 24 In the Draft Report the Commission proposed separating brown coal from black coal royalties and assessing brown coal royalties using the actual revenue received.
- 25 Victoria is the only state raising brown coal royalties. In the 2020 Review, the Commission assessed brown coal with other coal. It estimated a value of production for Victoria using its royalty revenue and historical production data previously estimated by Victoria. Brown coal does not have a price as it is largely an internal transfer within mining/generation entities. In the absence of a price for brown coal, there is no reliable way to derive its value of production.
- 26 Table 5 shows the GST impact of assessing the royalties actual per capita.

Table 5 GST impact of assessing brown coal royalties actual per capita, 2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
GST impact (\$m)	-32	79	-47	0	0	0	0	0	79
GST impact (\$pc)	-4	11	-8	0	0	0	0	0	3

Source: Commission calculation, state provided data.

- 27 Splitting brown coal from black coal and assessing royalties actual per capita reduces Victoria's assessed capacity and increases the assessed capacity of other states.

Commission draft position

- 28 As outlined in the Draft Report, the Commission proposes to:
- split brown coal from black coal
 - assess brown coal capacity using the revenue received.

Changing the capacity measure for onshore oil and gas

- 29 In the Draft Report, the Commission proposed changing the capacity measure for onshore oil and gas from value of production to volume of production.
- 30 States use different volume measures for oil and gas. They provided oil volumes in millions of barrels and gas volumes in trillion cubic feet.² The Commission derived assessed revenue separately for oil and gas and combined them.
- 31 Table 6 shows the GST impact of assessing onshore oil and gas royalties using the volume of production.

Table 6 Summary onshore oil and gas data, 2020–21 to 2022–23

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
GST impact (\$m)	-1	7	29	-9	-25	0	0	-1	36
GST impact (\$pc)	0	1	5	-3	-13	0	0	-3	1

Source: Commission calculation, state provided data.

- 32 Assessing onshore oil and gas royalties using the volume of production increases the assessed capacity of Victoria and Queensland and decreases the assessed capacity of other states.

Commission draft position

- 33 As noted in the draft report, the Commission proposes to assess onshore oil and gas capacity using the volume of production.

Indicative distribution impacts

- 34 The impact of the GST distribution in 2024–25 from the proposed method changes to the mining revenue assessment are shown in Table 7. There are 3 changes proposed:
- splitting the coal assessment by price bands
 - assessing brown coal royalties using the revenue raised
 - assessing states capacity to raise onshore oil and gas royalties using the volume of production.

² Queensland and Western Australia provided gas volumes in gigajoules. The Commission converted them to trillion cubic feet.

Table 7 GST impact of assessing brown coal royalties actual per capita, 2024–25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revisions	20	43	-103	19	12	4	3	2	103
Coal									
Price band approach	93	1	-106	11	0	1	0	0	106
Brown coal	-32	79	-47	0	0	0	0	0	79
Sub-total	81	124	-256	29	12	5	3	2	256
Onshore oil and gas	-1	7	29	-9	-25	0	0	-1	36
Total	80	131	-227	20	-13	5	3	1	240
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revisions	2	6	-18	6	7	6	7	7	4
Coal									
Price band approach	11	0	-19	4	0	2	0	0	3
Brown coal	-4	11	-8	0	0	0	0	0	4
Sub-total	10	18	-46	10	7	8	7	7	9
Onshore oil and gas	0	1	5	-3	-13	0	0	-3	1
Total	9	19	-40	7	-7	8	7	3	9

Source: Commission calculation, state provided data.