2025 Commonwealth Grants Commission Methodology Review

Northern Territory Department of Treasury and Finance response to Draft Report – Mining Revenue Addendum

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1. Coal and Oil and Gas Royalties

On 23 August 2024, the Commonwealth Grants Commission (Commission) issued an addendum to the 2025 Review Draft Report setting out the impacts of proposed changes to coal and oil and gas royalty assessments.

The Northern Territory Department of Treasury and Finance makes no further comments on the changes to the coal assessment. The Department notes the Commission's advice on estimated impacts and discussion on the risks and merits of the method change, which included balancing the objectives of assessing differential coal values between New South Wales, Queensland and Victoria, while avoiding dominant states, data limitations and complexity issues.

In respect of oil and gas, the Department does not oppose the method change, but notes state circumstances have the potential to change significantly following the 2025 Review, which may impact the appropriateness of the method change.

The Department restates that the Territory currently has large unproduced reserves of onshore gas, specifically in the Beetaloo Sub-basin, which are expected to commence production in the near future after the 2025 Review. If this occurs, there may be material changes in state production shares and warrant a reconsideration of whether a value or volume approach will continue to reflect 'what states do'.

At present, the shift from a value to a volume-based method is conceptually justified on the basis that the largest producing state, Queensland, imposes royalties on volumes, so volume methods better align with 'what states do'. However, most other states, including the Territory, impose onshore oil and gas royalties on a value basis. If the Territory (or other value-based states) were to significantly increase production, the case for assessing royalties on a volume-based measure will weaken. The Department submits that, other than the objective of reflecting 'what Queensland does', there is no strong underlying rationale for a volume approach over a value method.

While the mining addendum paper shows the method change has low materiality at this time (i.e. value and volume shares are similar), it is not possible to know how either a value or volume method may differ for future assessments, as this would depend on the relative value and production volume of new projects. It is sufficient to note that if oil and gas production significantly increases in states with a value-based regime, there may no longer be a substantial case for a volume-based approach.

Accordingly, while the method change is not opposed at this time, the Department submits that if there is a major change in state production shares, there may be a case to revert to a value-based regime.