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Victorian response to CGC 2025 Review

Draft Report – Mining Addendum

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1. Introduction

In August 2024, the Commonwealth Grants Commission (CGC) provided states an addendum to its 2025 Methodology Review draft report, providing draft positions on the assessment of mining revenue. Victoria thanks the CGC and its staff for the opportunity to comment.

This response provides Victoria's views on the mining addendum and should be considered in conjunction with Victoria's response to the full draft report provided to the CGC in August 2024. Victoria's positions on mining provided in this response supersede those provided in response to the earlier draft report for the issues raised in the addendum. Victoria's views on all other mining assessment issues not raised in the addendum and this response remain the same as previously provided in response to the earlier draft report. Specifically, Victoria continues to support the CGC's decisions not to adopt a dominant state adjustment in any of the mineral assessments, and not to adopt an equal per capita (EPC) assessment for unconventional onshore gas or uranium mining royalties.

2. Summary of Victoria's recommendations

Victoria's recommendations in response to the mining addendum	
Coal royalties	<ul style="list-style-type: none">• Victoria supports the CGC's proposal to split the black coal assessment into two price bands.• Victoria supports the CGC's decision to proceed with an actual per capita (APC) assessment of brown coal royalties.
Onshore oil and gas royalties	<ul style="list-style-type: none">• Victoria supports the CGC's proposal to separately assess onshore oil and gas capacity using their respective measures for volume of production.

3. Coal royalties

3.1 Splitting the coal assessment by price bands

Victoria supports the CGC's proposal to split the assessment of black coal royalties through a fixed price band approach.

Victoria understands the rationale behind splitting the coal assessment is to reflect the progressivity of coal royalty regimes between states. Victoria agrees that the current assessment approach understates the revenue raising capacity of states with high value coal and overstates the capacity of states with low value coal in progressive royalty schemes.

A fixed price band assessment with a small number of bands based on states' progressive coal price thresholds strikes a balance between capturing the different rates and avoiding data confidentiality concerns. The choice of price bands also better reflects the principle of "what states do" than differentiating by coal type.

Victoria's recommendations

- Victoria supports the CGC's proposal to split the black coal assessment into two price bands.

3.2 Separate assessment for brown coal

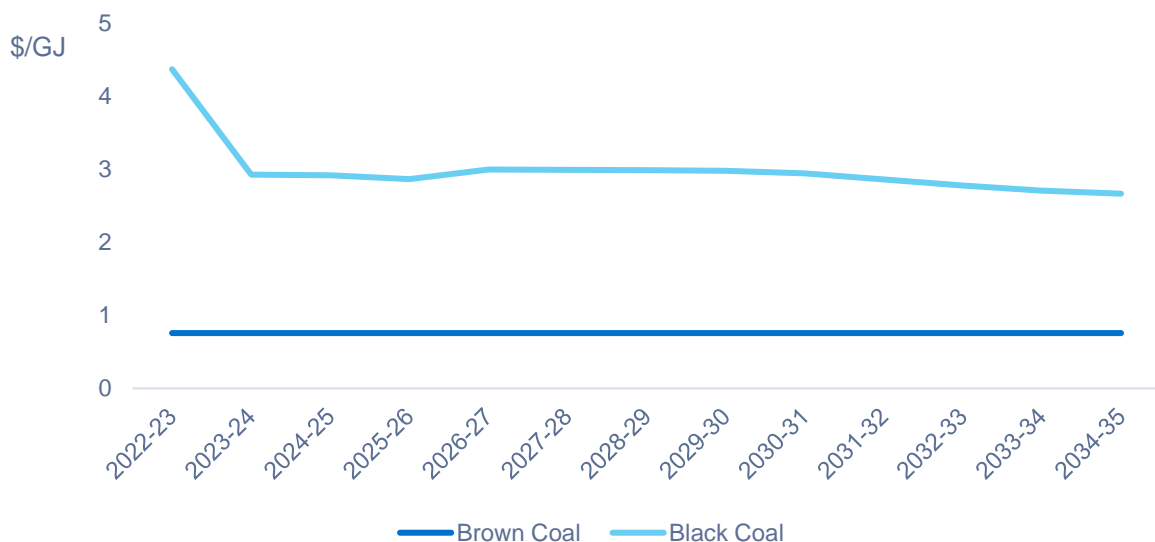
Victoria supports the CGC's decision to proceed with an actual per capita (APC) assessment of brown coal royalties. This decision more accurately captures Victoria's revenue raising capacity than the 2020 methodology, which assumed brown coal to be of equal value to black coal on a per-gigajoule basis. Victoria reiterates that previous assessments have overestimated the value of brown coal by considering it of equal value on a per-gigajoule basis as NSW and Queensland black coal.

Victoria refers to the extensive evidence it previously provided to support this position in response to the CGC's draft report. Supplementary evidence is provided below to further support the rationale for the CGC's position to assess its brown coal revenue APC.

Figure 1 outlines fuel price forecasts for electricity generators in the National Electricity Market, produced for the Australian Energy Market Operator's (AEMO) 2024 Integrated System Plan. It shows the forecast price of brown coal per gigajoule is consistently well below the price of black coal. Furthermore, black coal prices are subject to variations due to international market pressures. As brown coal exports are not viable, prices are not subject to the same volatility. As such, Victorian brown coal values should not be assumed to increase when black coal prices increase.

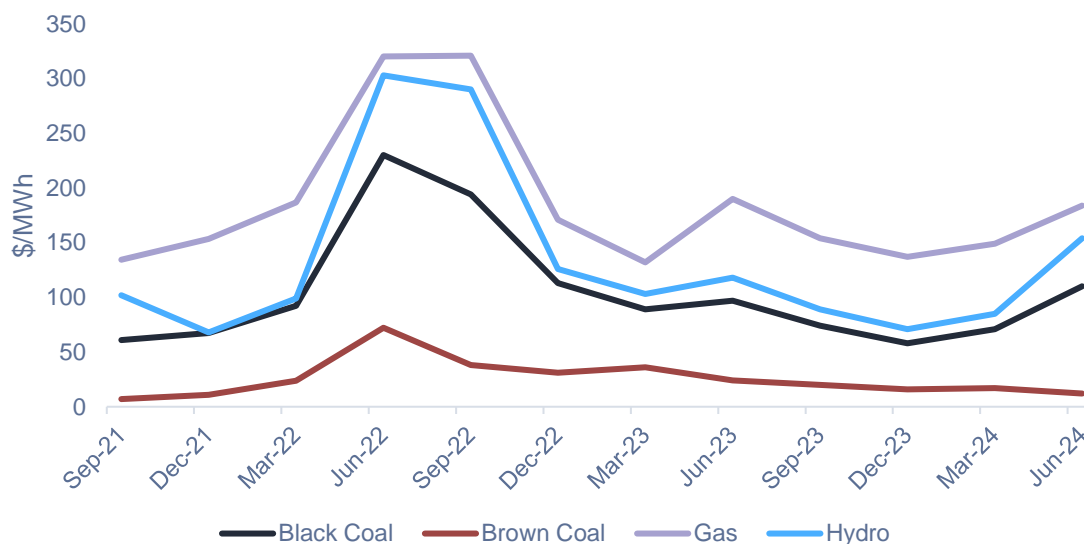
Figure 2 also shows that the marginal electricity price set by brown coal generators has been significantly lower than the marginal price set by black coal generators, largely due to the difference in fuel costs. While there are several factors that affect the price received by electricity generators, Figure 2 illustrates that on a per-gigajoule basis, Victorian brown coal generators have operated at significantly lower prices than black coal in NSW and Queensland.

Figure 1: Average fuel price forecasts for brown and black coal generators in the National Electricity Market



Source: Australian Energy Market Operator- integrated System Plan, Inputs and Assumptions workbook

Figure 2: Average NEM price received by fuel type when generators of that fuel type set the marginal price- Q2 2022- Q2-2024



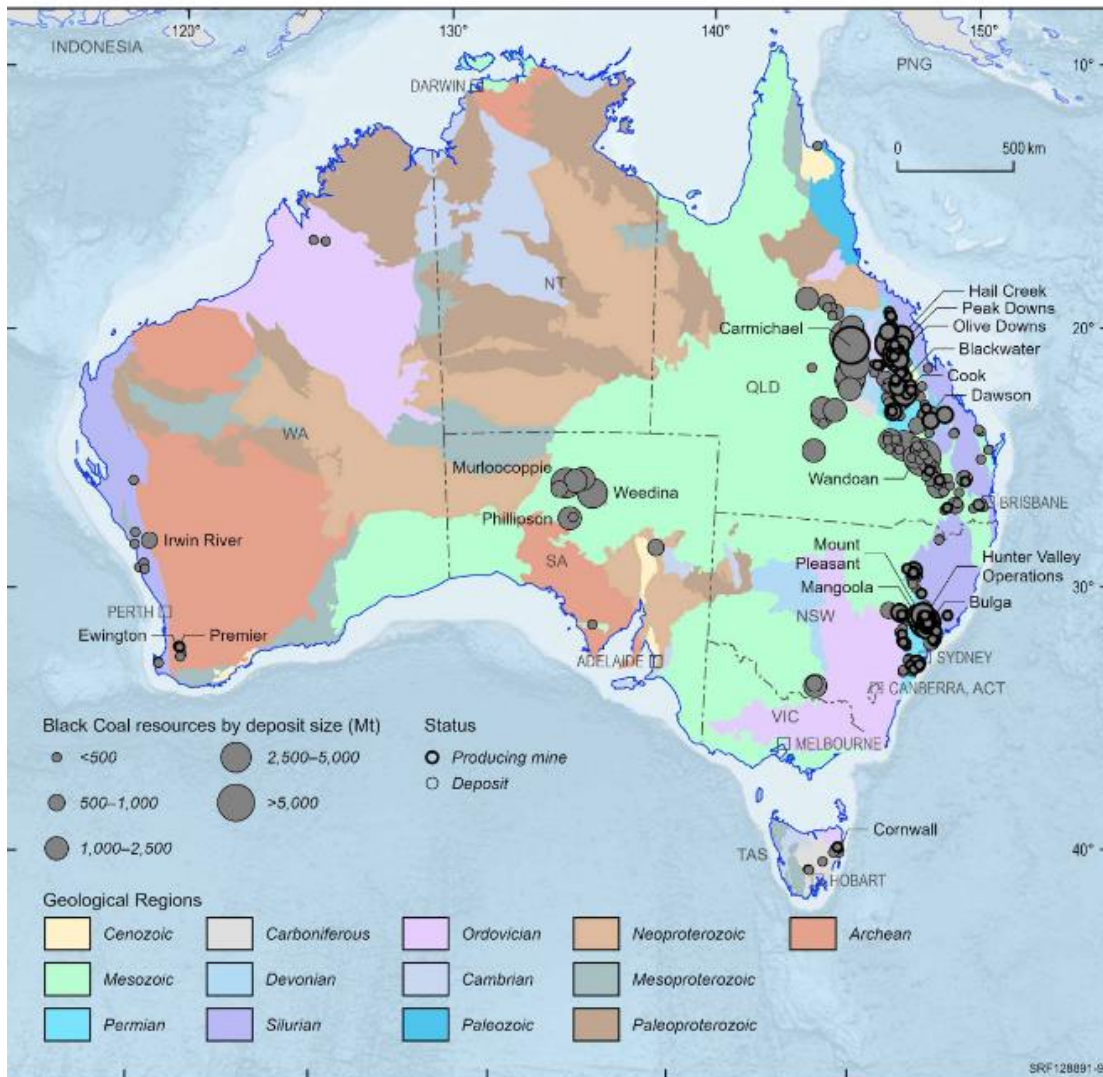
Source: AEMO, Quarterly Energy Dynamics, Q2 2024

Other states have opposed the CGC’s position to separately assess brown coal revenues, on the basis that there is no clear distinction between what is classified as metallurgical coal and what is classified as thermal coal. Victoria does not support these views and considers this issue does not obscure the clear difference between its brown coal and thermal black coal in other states. Victoria’s brown coal is characterised by a higher moisture content, lower carbon content, and subsequently lower energy content, a distinction recognised by Geoscience Australia and the International Energy Agency.¹

Victoria notes that Geoscience Australia makes a clear distinction between Victorian lignite (brown coal) and bituminous or sub-bituminous black coal mined in NSW and Queensland, illustrated by Figures 3 and 4.

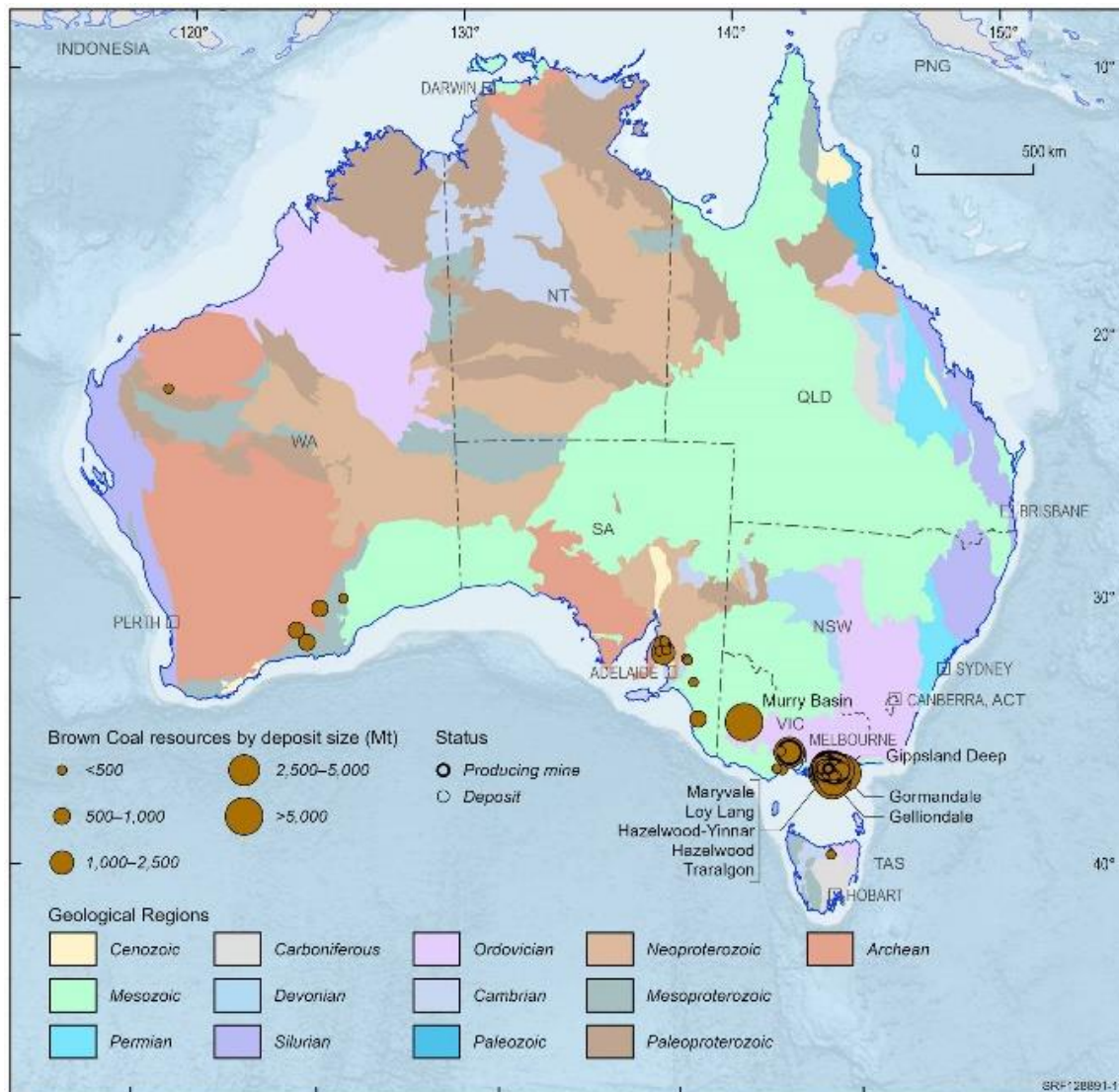
¹ <https://iea.blob.core.windows.net/assets/cad89b87-a586-4e12-87bb-428524b0385f/CoalInformationdocumentation2024Julyedition.pdf>

Figure 3: Australian black coal deposits and operating mines, 2022



Source: Geoscience Australia. <https://www.ga.gov.au/education/minerals-energy/australian-energy-facts/coal>

Figure 4: Australian brown coal deposits and operating mines, 2022.



Source: Geoscience Australia. <https://www.ga.gov.au/education/minerals-energy/australian-energy-facts/coal>

Victoria's recommendations

- Victoria supports the CGC's decision to proceed with an actual per capita (APC) assessment of brown coal royalties.

4. Onshore oil and gas

Victoria's recommendations

- Victoria supports the CGC's proposal to separately assess onshore oil and gas capacity using their respective measures for volume of production.

