

## GUIDELINE TO ROYALTY CALCULATIONS

- Royalty for coal is charged as a percentage of the **value of production**.
- The **value of production** is equal to the total revenue from the sale of the coal less allowable deductions.
- Deductions will differ from mine to mine.
- Allowable deductions include:
  - Beneficiation costs at a rate of:
    - \$3.50 per tonne for coal which has been subject to a full cycle of washing;
    - \$2.00 per tonne for coal which has been subject to a simple washing process such as wet jigging;
    - \$0.50 per tonne for coal which has been crushed and screened but not subject to a washing process.
  - Levies
    - Coal research levy at \$0.04545455/tonne of product coal.
    - Mine Subsidence Levy – the levy rate payable to the Mine Subsidence Compensation Fund for individual underground mines is prescribed in the Mine Subsidence Compensation Regulation 2012. Rates are in relation to each dollar of the land value of a colliery holding. Rates vary from \$0.00132 to \$0.39006 per dollar of land value.
    - Mines Rescue Levy prescribed under the *Coal Industry Act 2001*.
    - Commonwealth Levy for Long Service Leave is required under the *Coal Mining Industry (Long Service Leave) Payroll Levy Act 1992* (Commonwealth). The levy is a prescribed under the *Coal Mining Industry (Long Service Leave) Payroll Levy Regulations 1993* as 2.7% of eligible wages paid.
  - Bad debts
- The coal ad valorem royalty rates are 6.2% for deep underground mines (coal extracted below 400 metres), 7.2% for underground mines and 8.2% for open cut mines<sup>1</sup>. These rates are applied to the **value of production**, which is the sale value of coal less deductions.
- A sample spreadsheet for the estimation of coal royalties in NSW is provided by the NSW Industry and Investment at the following web address  
[www.resourcesandenergy.nsw.gov.au/\\_data/assets/excel\\_doc/0004/434416/Monthly-Ad-Valorem-Coal-31122008-.xls](http://www.resourcesandenergy.nsw.gov.au/_data/assets/excel_doc/0004/434416/Monthly-Ad-Valorem-Coal-31122008-.xls)
- Deductions have very little impact on the total estimate of royalties at any given assumed coal price as they reduce the **value of production** that royalty rates are applied to. They are not deducted from the royalty estimates themselves as has been claimed in submissions to previous mining projects.

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<sup>1</sup> Royalty is also payable if the coal reject is used or disposed of for the purpose of producing energy. Coal reject is defined as a by-product of the mining or processing of coal that has energy value of less than 16 gigajoules per dry tonne or contains more than 35% ash by dry weight. The rate of royalty on coal in coal reject is no more than half the rate applicable to coal.

- The main influence of deductions on the **value of production**, to which the royalty rate is applied, is the level of Beneficiation. The impact of different levels of Beneficiation on the effective royalty rate for a 5 Mtpa coal mine is provided in Table 1<sup>2</sup>.

**Table 1 – Effective Royalty Rate for a 5Mtpa Coal Mine Under Different Levels of Beneficiation**

SCENARIO	OPEN CUT	UNDERGROUND MINE
BASE ROYALTY RATE	8.2%	7.2%
100% CRUSHED AND SCREENED ONLY	8.1%	7.1%
100% SIMPLE WASH	8.0%	7.0%
100% FULL WASH	7.9%	6.9%

- Claims in submissions to previous mining projects that allowance for deductions can reduce the estimate of royalties from a project by 50% is incorrect.
- Including an allowance for deductions reduces estimated royalties by between 1% and 5%.

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<sup>2</sup> Assuming 5 Mtpa of thermal product coal, a coal price of AUD\$100/t, employment of 450 with an average wage of \$120,000 per annum, land value of \$20M and a mine subsidence levy for underground mining of \$0.19.