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S22 exemption

From: Parker, David
Sent: Saturday, 1 May 2010 5:14 PM
To: Barrett, Chris (Treasurer's Office)
Cc: Henry, Ken; Chalmers, Jim; McDonald, Hamish; Jacobs, Martin; Davis, Graeme; Bartley, Scott
Subject: RE: Electricity [SEC=~~IN~~CONFIDENCE]

Chris

First line response

- there will be no impact for 2 years
- any impact after that is expected to be small: royalties will be abolished which will reduce cost and RSPT tax for coal for electricity is expected to be low because that is generally not the high quality/high profit coal which we export.

DRET is producing some numbers and will provide a brief for tomorrow early morning - specifically to give an upper bound on the effect.

Here is a frame of the issue.

- There will be no impact for 2 years
- After that it will depend on whether RSPT > abolished royalties
- Royalty down is obvious, RSPT up will depend on type of coal (and gas) plus the financials of specific mine.
- The gain (royalty) and loss (RSPT) will be distributed to miners and generators (and then to customers) depending on:
 - terms of existing contracts which have royalty pass through and law change clauses - that will depend on specific contract words (is a refund of the royalty a "change" to the royalty and is the law change clause triggered by the RSPT - this wont necessarily be automatic i.e. the lawyers will have a go.
 - new contract price negotiations - will depend on competitive balance between a generator and coal suppliers (many generators have several).
- For vertically integrated low rent stuff it is not likely to be a big deal (taxing point issue here).
- The black coal is a more of a possible issue but note that mush black coal burned is not export quality (too high ash content) and Australian generators have built their plant specially to burn it. For some mines the electricity stuff is a by-product of an export business of higher quality coal. This means that even for black coal it is a something of a segmented market - not full rent.

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