

APPENDIX 6b

Proposal for future management of land for coal exploration in Central Queensland

**PROPOSAL FOR
FUTURE MANAGEMENT OF LAND FOR
COAL EXPLORATION
IN CENTRAL QUEENSLAND**

Department of Minerals and Energy

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INTRODUCTION

The purpose of this paper is to describe proposals for very significant changes to the arrangements for coal exploration in Central Queensland.

The proposed changes will remove current restrictions on access to land for exploration purposes.

The previous policy under which the Government exercised heavy control over exploration within the State's major coalfields and strongly influenced the timing and location of exploration expenditure will be replaced by arrangements which will allow companies to make such determinations on the basis of normal commercial considerations.

By way of background, the paper sets out briefly the current system of land allocation and discusses the perceived problems with the system. A new, commercially-responsive administrative system is then described and the mechanisms by which such a system could be introduced are discussed.

BACKGROUND

The current system

The basic framework for administration of coal exploration titles in Queensland is contained in the provisions of the *Mineral Resources Act 1989-1990*. Overlaying these legislative provisions are various policy arrangements which guide the administration of these titles.

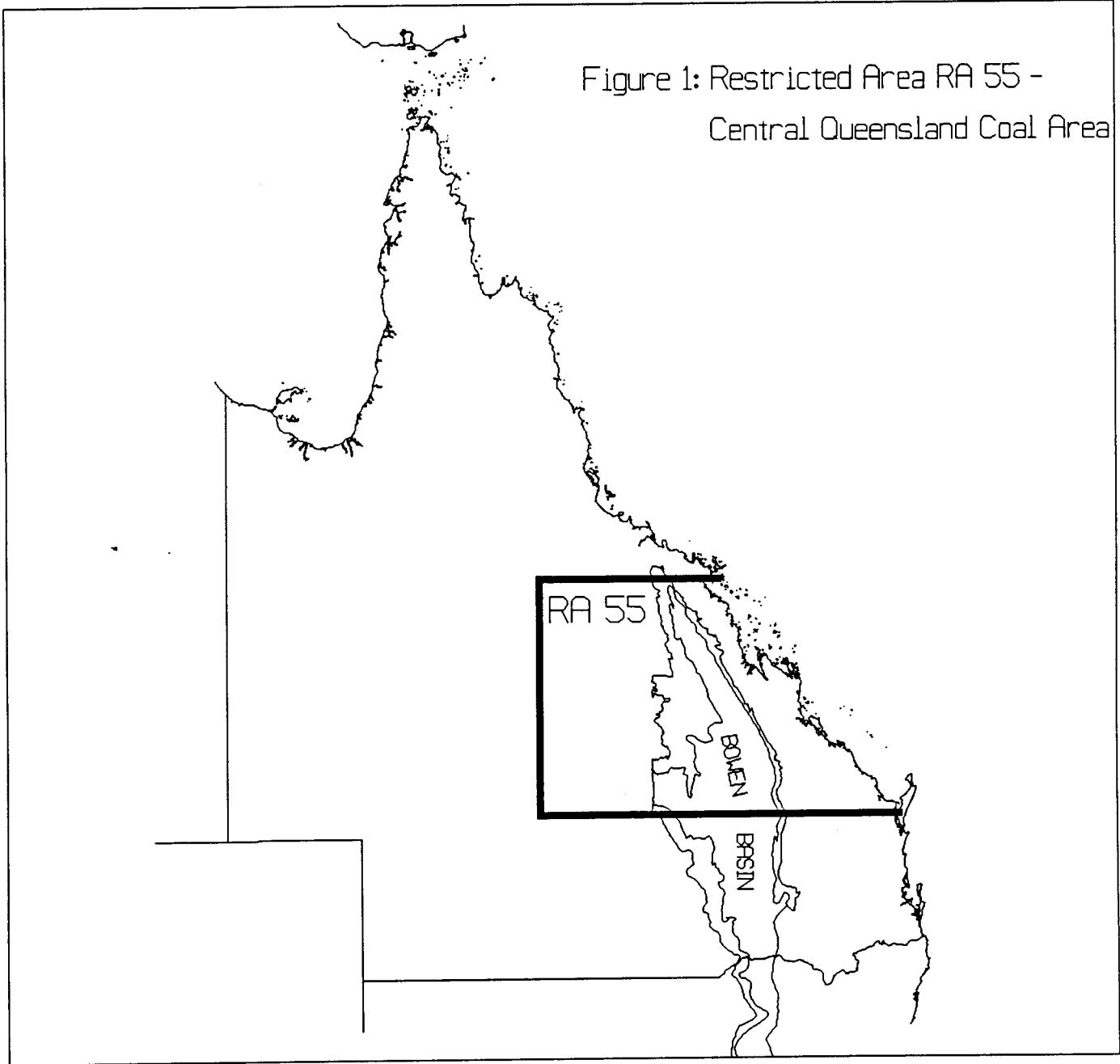
The basic method of land allocation for exploration under the *Mineral Resources Act* is non-competitive. It is generally open to any eligible person to apply for an exploration title over any land not already held under similar title. By lodging an application, the applicant establishes priority to the area in question. Thus it is a general characteristic of the system in Queensland that land is allocated on a "first-come, first-served" basis.

A number of exceptions to this "first-come, first-served" principle exist, the most significant of which is the restriction which applies in relation to applications for coal exploration and mining titles in the major coalfields of Central Queensland, through the provisions of Restricted Area (RA) 55 - the Central Queensland Coal Area.

Within RA55 access to land is strictly controlled. Land within RA55 is not available for coal exploration or mining without the express approval of Cabinet.

Releases of land from RA55 have generally been made on the basis of a call for expressions of interest requiring companies to outline their proposals for development of the coal resources within the area and to submit a proposed program of exploration work.

Figure 1: Restricted Area RA 55 -
Central Queensland Coal Area



Selection between competing bids has been based on an assessment of the merits of each expression of interest, and in particular on judgements as to the value of the work program submitted.

This system is seen to require change because it:

- . unnecessarily obstructs access to land for exploration purposes within Queensland's major coal province;
- . has demonstrably suppressed levels of exploration activity in the past;
- . imposes on government an obligation to determine the appropriate timing, target and level of expenditure on coal exploration, rather than allowing these decision to be made by exploration firms based on commercial considerations.
- . involves an allocation system under which decisions are necessarily based on judgements as to the relative worth of competing work programs. The system works reasonably effectively when levels of competition are relatively low, but becomes increasingly difficult to administer as competition for exploration rights becomes more intense.

Proposed new arrangements

It is proposed to introduce a new system of allocation of land for coal exploration in Central Queensland which involves:

- . releasing most of the land presently contained within RA55 on a "first come, first served" basis, in accordance with the normal provisions of the *Mineral Resources Act*. This release would be made as soon as possible taking into account the requirement for potential explorers to be advised of the impending removal of restrictions.
- . releasing the remaining parcels of land, which will cover a relatively small number of known coal deposits and areas of high prospectivity, on a competitive basis during 1993.
- . revoking RA55 upon completion of the land release program.

It is proposed that land from the competitive release areas be allocated on the basis of cash bonus bids with an accompanying work program. Bids involving a work program only (no cash bonus) would be considered in cases where no acceptable cash bid is received.

The new arrangements are expected to:

- . minimise constraints on access to land for basic exploration;
- . allow an orderly and efficient allocation of significant resources already proven;
- . allow exploration firms to make commercial decisions about the level, timing and targets of exploration expenditure;
- . ensure that allocation decisions are made on bid selection processes which are demonstrably objective and soundly based; and
- . provide an opportunity for the government to gain revenue from coal deposits considered by companies to be sufficiently prospective to justify cash bids.

PROPOSALS

Proposal 1 - Release of land from Restricted Area RA55

It is proposed that all land within RA55, with the exception of the land dealt with under Proposal 2 and areas currently held under coal exploration or mining tenements, be made freely available to be taken up for coal exploration under the normal provisions of the *Mineral Resources Act 1989-1990*.

In this way, the majority of the land within the Central Queensland Coal Area will become available for application for coal exploration on a "first-come, first-served" basis. While it is not anticipated that there will be high level of demand for land within these areas, the removal of restrictions will allow companies greater freedom to develop and test exploration concepts.

In order to manage the transition effectively, it will be necessary to foreshadow the date of release of land from RA55 so that all interested parties have the opportunity to lodge applications for exploration permits over areas which they may wish to acquire on the day on which the land becomes available. In this way, the provisions of the *Mineral Resources Act* with regard to simultaneous applications will effectively deal with any competing applications for the same area.

A period of at least two months after the date of release of the land by Cabinet will be required to allow companies sufficient time to assess the land to be released and to prepare applications for any areas of immediate interest.

Proposal 2 - Management of major untenanted resources

There are a number of areas currently within RA55 known to contain significant coal resources which are not held under title.

In several of these, the government has carried out major exploration programs to define resources and to provide technical information regarding coal quality, mineability and so forth.

It is considered desirable that these deposits be handled separately from the remainder of RA55 because:

- . a high level of competition can be expected for at least some of these deposits. Separate treatment would allow a form of competitive bidding to be employed to enable efficient allocation of these areas.
- . it is reasonable that the government seek to offset its investment in the those areas where it has conducted exploration programs, either by use of a cash bidding process or by requiring, in conjunction with a work program bid, a cash contribution to reimburse the costs of exploration.

The areas to be dealt with in this way will be retained within RA55 until the period for receipt of bids has closed and successful bidders have lodged applications for exploration permits.

Once this process is completed, all of the land within RA55 will have been released and the Restricted Area will be revoked.

In all, twelve areas have been defined for competitive release (see Figure 2). One additional area (at Taraborah) has been set aside for a geophysical research project being conducted under a co-operative agreement between the Department of Minerals and Energy and the New Energy and Industrial Technology Development Organisation of Japan (NEDO). The Taraoborah area will not be released until after completion of the research program, which is scheduled to run for 5 years from 1993.

The twelve areas have been identified on the basis of current knowledge of resource size, quality and distribution. Some deposits have been extensively tested in the past, mainly through Government drilling programs. Others are less well defined but have clearly established prospectivity based on extrapolation of existing data.

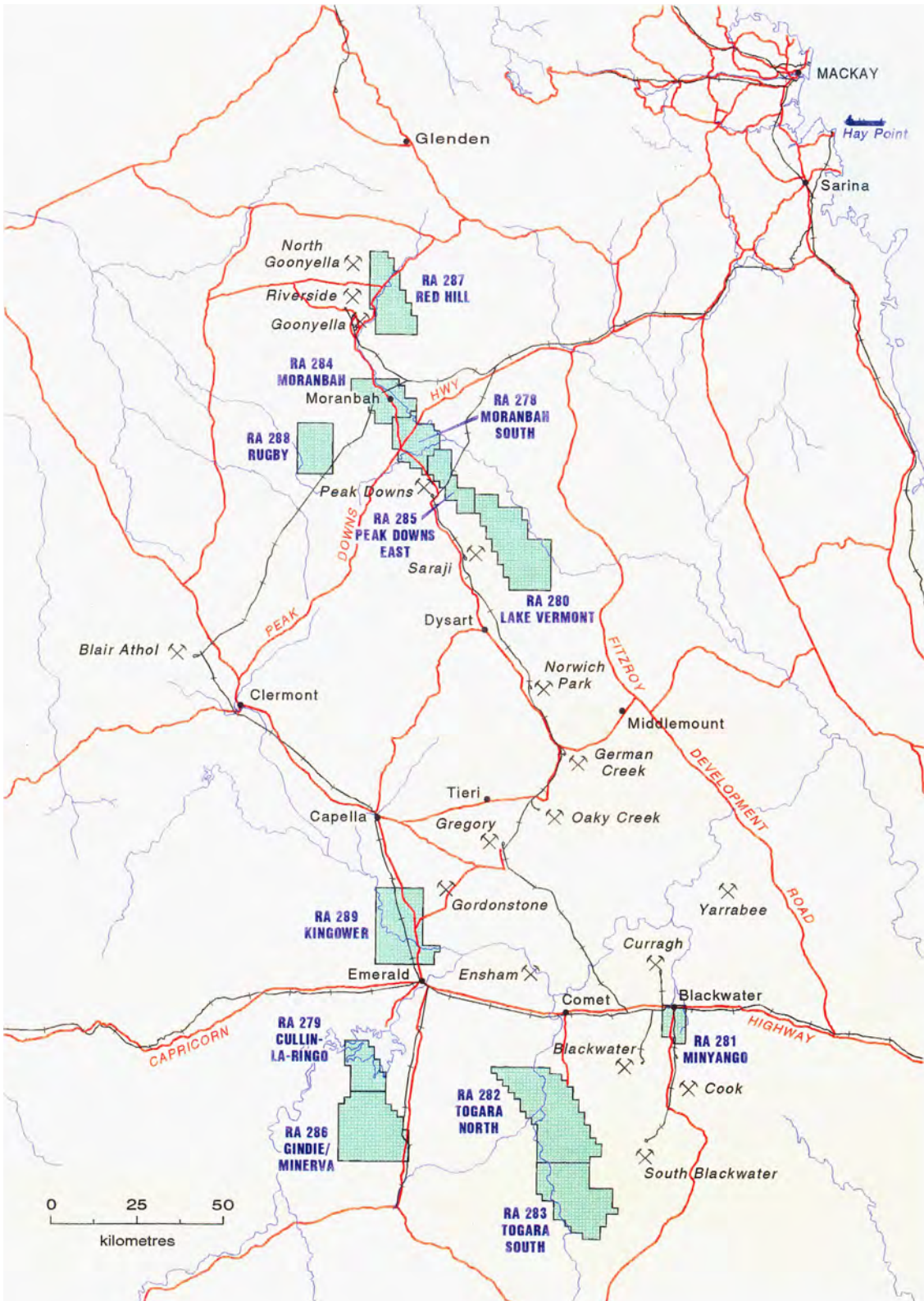


Figure 2 Location of areas proposed for competitive release.

RA55 IDENTIFIED RESOURCE AREAS

RESOURCE AREA	NO. OF SUB BLOCKS	RANKING	COAL TYPE	MINE TYPE	RESOURCES	INFORMATION LEVEL	COMMENTS
MORANBAH SOUTH	47	A	med vol. bituminous coking	oc	40 I large I	low	Moranbah Coal Measures
CULLIN-LA-RINGO	42	A	high vol. low ash steaming	ug	v. large	medium	numerous seams Reids Dome Beds
LAKE VERMONT	111	A/B	low-med vol. coking/steaming	oc ug	110 M 165 M	high	Rangal Coal Measures
MINYANGO	22	A/B	med vol. low-med ash coking/steaming	ug	265 I (coking) 15 I (steaming)	low to medium	Rangal Coal Measures 200-400m depth
TOGARA NORTH	148	B	med-high vol. med ash, steaming	ug	730 I	high	Rangal Coal Measures basalt covered, thick seam
TOGARA SOUTH	99	B	med-high vol. med ash, steaming	ug	1190 I	high	Rangal Coal Measures basalt covered, thick seam
MORANBAH	47	B	med-high vol. med ash, coking	ug	large I	medium	Moranbah Coal Measures
PEAK DOWNS EAST	36	B	low-vol coking	ug	large?	low	Moranbah Coal Measures
MINERVA	114	B	high vol. low ash steaming	oc ug	v. small large?	low	Reids Dome Beds
* TAROBORAH	180	C	high vol. low ash steaming	oc ug	15 o/c 110 ug	medium	* includes Retreat Creek area to north
RUGBY	48	C	med vol. med ash, high sulphur steaming	ug	180 I	high	Collinsville Coal Measures thick seam
KINGOWER	103	C	high vol. steaming	oc ug	unknown	low to nil	possible extensions of coal measures from EPC'S 505/389
RED HILL	71	C	med-high vol, med ash steaming med-high vol coking	oc ug	v. small v. large?	low-medium low to nil	includes deep Moranbah coals downdip from Goonyella ML's

M = measured oc = opencut
I = indicated ug = underground

* to be retained for DRI/NEDO Seismic delineation project
Rankings indicate relative prospectivity from "A" for high to "C" for low.

Proposal 3 - Scheduling of releases

As indicated above, a period of at least 2 months should be allowed from the date of a Cabinet decision to release RA55 before removing the restrictions, to allow companies sufficient time to prepare for the release. Assuming that the proposal passes through Cabinet at the end of October or very soon after, it is therefore proposed that applications for areas other than those retained for competitive bidding should be accepted from 1 February 1993.

With regard to the areas for competitive release, two options have been considered:

1. Simultaneous release of all areas.
2. Staged release over a period of (say) two years.

Under the simultaneous release option, all of the areas for competitive bidding would be released at the same time, as soon as appropriate technical and commercial information packages on the release areas are prepared.

Advantages of this approach may include:

- . companies would have access to the fullest possible information on which to assess the relative merits of the areas on offer.
- . delays in making the more attractive uncommitted areas of the Bowen Basin available for further investigation would be minimised.
- . opportunity for early development would be maximised (subject to commercial considerations);
- . questions of priority of release of areas would not arise;

Disadvantages of this approach may include:

- . restriction of bids to only the most prospective areas because of limitations on exploration budgets;
- . lack of opportunity to evaluate industry response to program and, if necessary, adjust to optimise outcome;
- . severe workload on DRI staff during the period of advertisement, promotion and bid evaluation. This could be alleviated by use of consultants.

Under the progressive release option, the areas for competitive bidding would be progressively released over a period of, say, two years.

This would:

- . allow industry response to the bid process to be assessed, and the allocation method to be adjusted if required;
- . allow the rate of release of acreage to be modified if necessary to reflect the level of industry interest in taking up new acreage; and
- . allow bidders who are unsuccessful in the first release to reassess their priorities and to bid for areas in a later release.
- . ensure sufficient time for preparation of technical data packages, promotion of releases and evaluation of bids without imposing unmanageable demands on internal staff resources;

Disadvantages of a progressive release approach may include:

- . companies would be required to assess the relative merits of the areas on offer without access to complete information on all the areas on offer.
- . land access would continue to be restricted for the duration of the release program;
- . exploration could be delayed (for a limited period) and this could suppress opportunity for early development;
- . government would be required to determine the priority of release of areas.

On balance, the simultaneous release of the competitive bid areas is preferred, provided adequate staff and financial resources are made available to allow the release to be handled in a competent and professional manner. This will require a substantial amount of input from consultants to prepare comprehensive information packages on each of the release areas. It will also involve a program for international promotion of the release.

Under the proposed schedule bids for all areas would be open from 1 July 1993. Bids would close at the end of 1993 and successful bidders would be awarded exploration permits early in 1994.

Proposal 4 - Promotion of releases

The initial release of land for non-competitive application proposed for 1 February 1992 will be widely advertised prior to release so that companies have sufficient time to prepare applications over areas of interest for lodgement on the date of release. Advertisement will be achieved by way of:

- Notification in the Queensland Government Mining Journal
- Direct mailing to all coal companies currently active in Queensland.

A major promotional effort will be required with respect to the competitive releases. For these areas it is proposed, in addition to the above mechanisms, to make direct approaches to potential exploration investors both in Australia and overseas. The overseas promotion efforts will be arranged with the assistance of the Queensland Coal Board and the Trade & Investment Branch, Department of the Premier, Trade and Economic Development, to take advantage of the services offered by Agent-General's offices, Austrade and so forth.

To support the promotion of the competitive release areas it is proposed to prepare:

- an initial advice document which will be used to introduce potential investors to the opportunities in Central Queensland and to provide a catalogue of the areas on offer; and
- a set of more detailed documents providing, for each area on offer, information on coal resources and quality, potential utilisation and other technical matters, as well as information on commercial and economic factors necessary to allow companies to make a proper evaluation of the prospects.

The documents will aim to provide, in a readily useable format, all the basic information which a potential investor would require. They should project a professional and businesslike image.

To enable prospective bidders to determine bid values, it will be necessary to include information on levels of government charges such as rail, port and royalties.

The preparation of these documents will be a major undertaking for which it is proposed to engage the services of a suitable consultant. Two Departmental officers with strong knowledge of the available technical information will be seconded to the consultant for the duration of the project.

The initial advice document will be produced for gratis issue.

The more detailed documents will be supplied at a price designed to at least partially offset the cost of their preparation. Individual packages could reasonably be offered for sale at prices of the order of \$1,000 depending on the level of information available for the area in question and the costs of production.

Under current planning, the initial advice document would be completed before the end of March 1993, to allow active promotion both in Australia and overseas prior to the release date of 1 July 1993.

All technical information packages would be available for distribution by the official opening date of 1 July 1993, thus allowing interested parties up to six months for project evaluation and bid preparation.

Proposal 5 - Basis of allocation of land

Initial non-competitive release

All of the land not retained for competitive release will become available for routine application in accordance with the normal provisions of the *Mineral Resources Act*. As provided for in that Act, any simultaneous applications for the same land will be resolved by assessing the relative merits of the work programs submitted. It is planned that this release would be effective from 1 February 1993.

Competitive releases

Competitive releases will be made on the basis of cash bonus bids with an accompanying work program. Applications involving work programs only, with no cash bid, will be welcomed but will only be considered where no acceptable cash bid is received for the area.

A "acceptable cash bid" will be a bid:

- . of a value considered by the Minister for Minerals and Energy to be acceptable.
- . submitted by a company or person able to demonstrate the technical and financial resources to adequately progress the exploration and development of the area;
- . submitted by a company or person who is not ineligible to hold an exploration permit by virtue of previous contravention of or non-compliance with the Act (as provided for in section 5.12(3) of the *Mineral Resources Act*).
- . accompanied by a work program acceptable to the Minister, as required in section 5.8(g) of the *Mineral Resources Act*.

As in the Commonwealth jurisdiction, the Minister should reserve the right to reject bids where there is evidence of collusion to depress bid values.

Should more than one "acceptable cash bid" be received for a particular area, the area would be offered to the highest bidder regardless of the supporting work program. In the event that two bids of equal value are received these would be ranked according to assessment of the supporting work program.

Bidders would be able to offer conditional bids for more than one area, for example:

"\$X for area A; if unsuccessful, would accept area B for \$Y".

This would allow bidders to indicate an order of preference for areas acceptable to them, while recognising that they may not have sufficient financial or human resources to service all areas of interest to them.

The highest bidder for an area would be permitted, prior to announcement of bid details, to withdraw the bid. In such a case the area could be offered to other bidders, in decreasing order of bid value.

A mechanism will be required to ensure that trivial bids are not permitted to take advantage of the priority given to cash bids.

This could be achieved by:

- . setting and publicising an arbitrary minimum bid level of, say, \$250,000. Any such minimum should not be misconstrued as a "reserve price" based on a valuation of the deposits: it would be used merely to discourage trivial bids.
- . setting a minimum bid value but keeping this confidential until after the close of bidding. This would avoid the possibility that bids may be depressed by setting too low a minimum, and would overcome any tendency for bids to "converge" on the minimum level.
- . retaining Ministerial discretion to reject any bid considered to be inadequate. In this case, the details of any rejected cash bid should be published in the interests of accountability.

While argument can be mounted in favour of each of these approaches, it is suggested that the use of Ministerial discretion provides the most appropriate means of dealing with the issue of inadequate cash bids.

In this regard it is worth noting that the Federal Government, in applying cash bidding to offshore petroleum areas does not set minimum bid levels but reserves the right to reject bids considered to be inadequate.

The full amount of the bid would become payable upon grant of an exploration permit.

The successful bidder would be offered an exploration permit for an initial period commensurate with the work program submitted, with a maximum period of five years in accordance with the normal provisions of the *Mineral Resources Act*.

At any time during the five year period, or at the end of that period, the successful bidder would be able to apply for a mineral development licence or mining lease in the normal manner. Any such application would be dealt with in accordance with the normal processes. In particular, there would be no absolute right to be granted a mining lease: the usual requirements for hearing before the Warden's Court, public objection and so forth would apply.

In the event that no cash bids are received for a particular area but one or more applications are received accompanied by acceptable work programs, the area would be offered to the applicant with the best work program and no cash bonus would be payable. In these circumstances, formal criteria and evaluation processes similar to those currently employed for dealing with competitive applications for mineral exploration permits would

be used.

Should no bids whatsoever be received for an area, that area would be allowed to revert to vacant land, and would thereby become available to be taken up at any future time by any applicant, in accordance with the usual provision of the *Mineral Resources Act*.

Proposal 6 - Publication of bid details

At the close of bidding, basic bid details will be released by way of a Ministerial Media Release.

The bid details might be published in the following form:

Area 1 - Cullin-la-ringo	
A Company	\$x million (*)
B Company)	
C Company)	
D Company)	\$y million
E Company	Work program only
Area 2 ...	
(*) denotes winning bid	

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