

Revaluation 2010

Industrial Committee

Practice Note 7 Valuation of Coal

1.0 Introduction

- 1.1 This practice note makes recommendations on the valuation of all opencast coal lands and heritages. The recommendations include the royalty rates per tonne to be applied to coal where worked, the approach to the valuation of plant, buildings, and other works. There are currently no operating deep mines in Scotland since the flooding and closure of the Longannet mine in 2002. As a consequence, no recommendations are made in this practice note for the valuation of deep mines. However, in view of possible future developments reference is made to both deep mines and coal bed methane.
- 1.2 The Coal Authority was created in 1994 taking its powers and responsibilities from the Coal Industry Act 1994. The Act's main objective was the restructuring and privatisation of the coal industry. The Coal Authority's responsibilities include the ownership and management of the nation's coal resource. In leasing opencast coal to private sector operators the Coal Authority collects production related rent (royalties). The Coal Authority initially departed from British Coal's practice of setting a uniform opencast coal royalty for all sites only to return to it again in 2003. It now appears that the Coal Authority will consider industry wide factors when fixing its uniform opencast royalty in contrast to its initial practice of reflecting individual site considerations. Site access rights (wayleaves) to enable the coal to be worked are invariably negotiated between the operator and the landowner(s). Where mineral rights other than coal have been severed from the land there may also be a mineral disturbance agreement. As a result, there is a variety of evidence to be considered for rating valuation purposes.

2.0 Basis of Valuation

- 2.1 The valuation of the mineral elements to Net Annual Value is to be arrived at by applying an appropriate royalty rate per tonne to the annual output for the year 2007/08 unless, upon examination of information for other relevant periods available, this is regarded as inappropriate in which case an average of the annual output for the relevant periods available should be taken. Output should be stated in tonnes for all minerals and the level of annual output adopted should reflect any marked change in trend.
- 2.2 All buildings, roadways, fences, etc. should be valued by the application of the contractor's basis with reference to Basic Principles Practice Note 2 Contractor's Basis Valuations.

- 2.3 The items of plant and machinery at a subject to be included in valuation will be governed by the provisions of The Valuation for Rating (Plant and Machinery) (Scotland) Regulations 2000 (as amended). All rateable items of plant and machinery should be valued by application of the contractor's basis with reference to Basic Principles Practice Note 2 Contractor's Basis Valuations.
- 2.4 From the total Net Annual Value arrived at in accordance with the above, the Rateable Value will be derived in terms of the current regulations existing with regard to mineral subjects.

3.0 Royalty Rates for Opencast Coal

- 3.1 In the absence of preferred conclusive local evidence, it is recommended that for the majority of sites a royalty within the range £1.90/tonne to £2.50/tonne be adopted. The royalty adopted should include for the mineral element together with all land values, wayleaves and other surface and mineral disturbance rights and is to be applied to the appropriate annual output when valuing to Net Annual Value. Within the recommended range consideration should be given to mineral quality and working conditions at each site.
- 3.2 Site evidence may mean royalties above or below the recommended range are appropriate. For example, where the opencast is part of reclamation or remediation operations the coal extraction may not be wholly economical and a royalty below £1.90/tonne may be appropriate. Remote sites and sites with particular working difficulties etc. may require similar treatment. Such sites need special consideration.
- 3.3 Appendix A lists the main criteria when considering site specific working conditions etc. Care should be exercised to ensure the appropriateness of the royalty adopted in the current context.

4.0 Deep Mines

- 4.1 At present, there are no deep mine operations in Scotland and no recommendations are made. The valuation of any such operation which comes into existence should be considered in the context of all available information, including comparisons from elsewhere in the UK.

5.0 Coal Bed Methane

- 5.1 At present, there are no commercial Coal Bed Methane extraction operations in Scotland and no recommendations are made. The valuation of any such operation which comes into existence should be considered in the context of all available information, including comparisons from elsewhere in the UK.

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Valuation of Coal

Opencast Coal Sites

Main criteria when considering working conditions etc

Criteria

Coal Quality:-

- Calorific value (Net)
- Ash content
- Moisture content
- Sulphur content
- Other impurities

Geological:-

- Total excavation dig : coal ratio (m3:te)
- Seam gradient
- Slope stability
- Faulting
- Blasting required

Working

Considerations:-

- Pumping required
- Site contamination treatment
- Made ground (as part of cover)
- Old workings
- Onerous planning restrictions
- Single or split working area
- Consolidation of backfill for building development
- Reinstatement requirements

Distance to Markets

N.B: It should be noted that when considering the appropriate royalty per tonne to be applied several of the criteria listed above are interactive. At any particular site certain characteristics may be more favourable than others. The characteristics of any site must be considered as a whole.