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ECONOMICS LEGISLATION COMMITTEE

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SENATE
ECONOMICS LEGISLATION COMMITTEE
Tuesday, 25 June 2002

Members: Senator Brandis (*Chair*) Senator Collins (*Deputy Chair*), Senators Chapman, Murray, Schacht and Watson

Substitute members: Senator Allison to replace Senator Murray for matters relating to the Resources portfolio

Participating members: Senators Abetz, Boswell, Calvert, George Campbell, Cherry, Conroy, Cook, Coonan, Crane, Eggleston, Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Knowles, Lightfoot, Mason, McGauran, Murphy, Payne, Ridgeway, Sherry, Stott Despoja, Tchen and Tierney

Senators in attendance: Senators Allison, Brandis and Collins

Terms of reference for the inquiry:

Diesel Fuel Rebate Scheme Amendment Bill 2002.

Committee met at 12.03 p.m.

CHAIR—I declare open this public hearing of the Senate Economics Legislation Committee. I apologise for being a couple of minutes late. The purpose of today's hearing is to receive evidence concerning the Diesel Fuel Rebate Scheme Amendment Bill 2002. The bill was referred to the committee by the Senate on 19 June 2002. The committee is required to report by Wednesday, 26 June 2002. The committee will hear evidence today from the Australian Greenhouse Office, Elgas Ltd and the EcoGeneration Association. I thank the witnesses for making themselves available at such short notice.

I remind all of those present of the Senate's resolutions for the protection of witnesses. Resolution 1(9) sets out the chairman's responsibilities to ensure that questions are relevant as follows:

A chairman of a committee shall take care to ensure that all questions put to witnesses are relevant to the committee's inquiry and that the information sought by those questions is necessary for the purpose of that inquiry. Where a member of a committee requests discussion of a ruling of the chairman on this matter, the committee shall deliberate in private session and determine whether any question which is the subject of the ruling is to be permitted.

Resolution 1(10) sets out the procedure to be followed if a witness objects to answering a question. It reads:

Where a witness objects to answering any question put to the witness on any ground, including the ground that the question is not relevant or that the answer may incriminate the witness, the witness shall be invited to state the ground upon which objection to answering the question is taken. Unless the committee determines immediately that the question should not be pressed, the committee shall then consider in private session whether it will insist upon an answer to the question, having regard to the relevance of the question to the committee's inquiry and the importance to the inquiry of the information sought by the question. If the committee determines that it requires an answer to the question, the witness shall be informed of that determination and the reasons for the determination, and shall be required to answer the question only in private session unless the committee determines that it

is essential to the committee's inquiry that the question be answered in public session. Where a witness declines to answer a question to which a committee has required an answer, the committee shall report the facts to the Senate.

I also remind senators and officers that an officer of the Commonwealth Public Service shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. Witnesses should note that the evidence given to the committee is protected by parliamentary privilege. The giving of false or misleading evidence to the committee may constitute contempt of the Senate.

[12.07 p.m.]

WRIGHT, Dr Diana, Senior Executive Manager, Sustainable Energy Group, Australian Greenhouse Office

WYDER, Mr Joseph, Program Manager, Remote Power, Australian Greenhouse Office

CHAIR—Welcome, Dr Wright. Would you like to make an opening statement before we proceed to questions?

Dr Wright—No.

Senator ALLISON—Perhaps you could expand for the committee your comment to the effect that the extension of the diesel fuel rebate to small retail hospitality businesses could reduce the potential target market for the Commonwealth's renewable remote power generation program by up to 21 million litres of diesel fuel—in other words, about four per cent of the total. Could you expand on those figures and how you arrived at them?

Dr Wright—Yes. In 1999, the AGO commissioned a study by Energy Strategies to try and determine the amount of diesel that was used for off-grid electricity production. The figures that we have used in providing comment are based on that report.

Senator ALLISON—Is it possible for the report to be made available to the committee?

Dr Wright—Yes.

Senator ALLISON—If we could have that expeditiously, that would be useful.

CHAIR—Is there a copy here? Can you table that report?

Dr Wright—We will check while this committee is in session and see if we can get you a clean copy before you finish.

CHAIR—Thank you.

Senator ALLISON—So we understand the impact of this change, can you inform the committee about the number of projects under the RRP GP that are hybrids of diesel and renewable energy? Even rough percentages would do.

Dr Wright—My advice is that 716 projects that are hybrids have been approved.

Senator ALLISON—For the benefit of the committee, can you describe what a hybrid is in terms of electricity generation, and how it works?

CHAIR—Dr Wright, I should say that there is no reason why other officers cannot be present at the table if they are the appropriate person to respond to questions.

Dr Wright—Yes. It is when you have both renewables and diesel sharing the load, and that can be done in a range of manners, depending on the situation.

Senator ALLISON—Would it be fair to say that the majority of schemes under that program still have an element of diesel—they are still dual to some extent?

Dr Wright—I believe that they would all have diesel backup in case of failure.

Senator ALLISON—Can you confirm that the states are effectively administering this program? Have you had discussions with the states about what impact they think this measure will have on the uptake of further remote area power generation switching to dual renewable diesel?

Dr Wright—Basically, we based our assessment on the energy strategies report and our knowledge of the partnership agreements and the way the states were implementing those. All the major projects under RPPGP come to the Greenhouse Office and our minister for approval, and we get to check those against the program guidelines. So we did not feel the need to consult with the states on this matter.

Senator ALLISON—It is my understanding that in some states particular groups have been targeted by the states in terms of getting the program running and that the tourism and hospitality remote industries or sectors were the most recent groups to be encouraged to switch to the remote area power program. Can you indicate whether that has been the case from what you have seen of the recent uptake?

Dr Wright—The way the program operates is that the Commonwealth has a partnership agreement with each state and the design of the programs in each state has been developed by those states to allow them to target the program according to their specific circumstances. For example, quite a number of wind projects come from South Australia and there are different numbers of Indigenous communities. So it is very much targeted by the state for their specific purposes.

Senator ALLISON—So you have not noticed types of projects that have been coming through?

Dr Wright—For the major projects that come through, we do keep records; but I do not have that information with me. Projects of lower value are administered by the states. We can get access to that information but it is not information that we keep on a monthly basis. We are tending to get it quarterly.

Senator ALLISON—For the benefit of the committee, can you explain why it is that the reduction in diesel excise would change the payback period, what tourist operators and other remote area operators such as caravan park owners and the like would have to pay out with regard to this program and what difference this would make to that payback period.

Dr Wright—Because there will be a change in the access to the rebate, that will reduce the cost of diesel to retail, tourist and hospitality industry operators and, therefore, the payback period will be extended because the price of fuel—the diesel—to them is cheaper. So it could be a third longer or more, depending on their circumstances and the type of technology they choose to put into replace that. So it would depend on scale and the generation capacity they require. I could not give you a figure on how long but, basically, the cost is reduced. That is not to say that, if remote communities take a slightly longer-term view, it is still not worth while their doing it. We do not see that this is going to take away a component of the possible RPPGP market; it would just change the mix in terms of the cost effectiveness and what they would look at.

Senator ALLISON—So it is possible that a tourism business, for instance, that might be marginal in relation to returns would be most likely to be affected by this change. Would that be fair to say? I can understand the other advantages to Indigenous communities that might be quite large in size and that they might conclude they would proceed regardless of extended payback periods. But I am interested in the tourism industry in particular and whether you can comment on that.

Dr Wright—I really do not think it is possible for me to comment on that hypothetical. It would be very much a business decision for the operator at the time. There are so many different circumstances. But what I would say is that the target for the RPPGP program has a number of facets: to encourage the renewable power industry, to provide more reliable 24-

hour a day power and to provide power to Indigenous communities. There are a number of factors and a number of reasons why communities and operators may choose to go down this track, not just immediate returns to their business.

Senator ALLISON—Indeed; I was trying to draw a distinction, though, between the tourist industry—which is, of course, what this legislation is about—and perhaps bigger communities, remote though they may be. It has been suggested in some of the submissions that the Diesel and Alternative Fuels Grant Scheme ought to be extended in these circumstances to cover liquid petroleum gas. Can you see any difficulties with that proposition? Clearly we have a bill that would be difficult to amend to do that, but can you see any reason why that would pose problems?

Dr Wright—I do not think I have enough information to form a judgment on that at the moment. However, that scheme is scheduled to be replaced in July 2003 by the Energy Credit Scheme and, in the process of developing that scheme, that would be a sensible point at which to take on board those considerations.

Senator ALLISON—Was the AGO consulted about this legislation?

Dr Wright—We have been consulted to the extent that we liaise with the ATO on the excise. So we did have consultations in terms of the impact on our target audience and the quantity of diesel that might be displaced.

Senator ALLISON—So, essentially, the comments that you have provided for the committee would have been passed on to the Department of Transport and Regional Services. Is that right?

Dr Wright—No, to the tax office. The tax office has had access to the energy strategies data.

Senator ALLISON—Thank you. You may not know the answer to this question but is it possible to describe the kinds of generators that are currently in the remote area power generation scheme that have diesel and the sorts of percentages of diesel that are used compared with other sources? Is it possible to give us a picture of what they typically are, say, for a caravan park?

Dr Wright—I am not sure we have that information.

Mr Wyder—There is a variety of loads in remote Australia, and the quantities of diesel consumed to meet those loads are dependent on the number of diesel generator sets, their size and how they are operated, so I cannot give a typical answer.

CHAIR—There being no further questions, thank you very much indeed, Dr Wright and officers from the Australian Greenhouse Office.

[12.19 p.m.]

NEILSEN, Mr Warring, Corporate Affairs Manager, Elgas Limited and ALPGA

CHAIR—The committee has before it a written submission from Elgas Ltd. Do you have any comments to make on the capacity in which you appear? Also, do you wish to make any additions or alterations to your written submission, or do you wish to make a brief opening statement?

Mr Neilsen—Today I am here representing Elgas and the LPG industry. Yes, I would like to make an opening statement. I feel that it is necessary to describe our industry and where we sit. It is important from our position that Australia produces some 3.3 million tonnes of LPG annually: we have a demand of around 2.3 million tonnes and we export over a million tonnes of LPG per year. Seventy-five per cent of our production is naturally occurring. We see ourselves as being a fairly significant player in the energy market. The industry has invested \$2.3 billion in infrastructure, maintaining supply throughout Australia. We service in the vicinity of a million homes with LPG. We have 15,000 people employed in our industry. Seventy per cent of our market is in remote and regional Australia. We also would have the majority of our water-gas outlets—I think there are a bit over 1,800—in regional Australia. So we are quite strongly represented in the areas that I am here to give evidence on today.

The case for LPG we think is extremely strong. It is easily transportable. The consumer bears the true cost of the fuel, unlike electricity, that has some subsidisation in it. We compete in an open market against electricity and natural gas. The base line is that LPG is a very environmentally friendly fuel. We think we are well suited to applications like remote power generation.

I will cover a few points of our submission, to reinforce the statements. Our current investment in diesel substitution in the marketplace is around \$3.5 million, with a further \$1 million on proposed resorts. We see this bill increasing consumption of diesel by some 12 million litres, which would produce another 13,200 tonnes of CO₂. If we consider our industry in general and then our share of the remote power generation, this bill would cause some 27 million litres of diesel to come back into the marketplace. The bottom line is that there should be some consideration of LPG being a composite make-up for remote power generation. It should have a share of support.

Diesel substitution is a new technology. It has been around for some time now but is becoming more developed. In remote power generation we are now substituting 30 per cent, and up to 40 per cent at times. This application clearly enables the end user in any remote area to reduce his costs quite substantially. One customer, for example, would save \$97,000. However, if you said, 'Okay, you can use diesel,' and it gets the rebate but he still maintains use of LPG, he saves up to \$456,000. With the new bill in operation, he is only saving a further \$56,000. So for a further \$56,000 we are in fact giving away a lot of environmental benefits. That is a case worth considering. I will conclude there and leave it open for questions.

Senator ALLISON—Could you explain to the committee the differences in the price of LPG and diesel currently and post this bill.

Mr Neilsen—You could take the case that diesel would sell in some locations for around 70c a litre, and LPG would be around 46c a litre. There is roughly 30c to 34c a litre differential.

Senator ALLISON—Could you tell us briefly, from your experience, the advantages to the resort tourist operations, particularly, of a switch to the dual generation.

Mr Neilsen—The thing that we have found most attractive to the resort areas, especially in the Whitsundays, where there are fairly pristine conditions, is that limiting the amount of diesel they are using on the islands helps reduce their own contamination and also improves their environment. One of the biggest issues that resorts have now is to have an environmentally responsible culture in their management of their islands. They have taken enormous steps to promote that activity within their whole management of the islands. We have cases now where, even with the diesel substitution, at the end of the life of the engine they are actually considering going over to gas turbine engines themselves, and totally doing away with diesel altogether. Couran Cove is a good example of that initiative.

Senator ALLISON—It is a device that you provide to their generator, isn't it? They have an existing diesel generator and there is some modification made to that device in order to take gas. Is that correct?

Mr Neilsen—Yes. It is a fuel management system, a computerised system that actually fixes onto the motor and manages the motor system, allowing the injection of LPG into that motor.

Senator ALLISON—And it is an inexpensive way of converting—at least in part—to gas, as compared with a new generator running on gas?

Mr Neilsen—It is extremely efficient, yes.

Senator ALLISON—How easy would it be for your customers to revert to gas? You mention that 30 or 40 per cent of the fuel used can be gas. Is it a matter for the operators themselves to determine what level of gas is used? If it were cheaper for them to use diesel, could they simply do that with this system in place?

Mr Neilsen—Yes. The substitution system is just a simple electronic management system. They could simply not turn it on.

Senator ALLISON—I think you said there are improvements in the technology coming on stream. What is your ultimate expectation in terms of substitution?

Mr Neilsen—There have been figures that we have been quoted from the technology that they expect up to 60, 70 or 80 per cent substitution.

Senator ALLISON—To 80 per cent?

Mr Neilsen—Yes, 80 per cent substitution. At the moment, our existing operations range from 30 to 40 per cent.

Senator ALLISON—Would it be possible to convert existing gen sets that already have the 30 to 40 per cent, to upgrade those to 80 per cent? Or would you need a completely new unit?

Mr Neilsen—You could upgrade those. It would probably depend a little bit on the engine itself, as well. But yes, it would appear from the work that has been done on the new management system that they upgrade their technology and it would do that.

Senator ALLISON—Where, in your opinion, is the opportunity— still in remote areas—for expansion and reducing the amount of diesel? I think some of our submissions suggest that caravan parks and roadhouses might have been the next to have moved to a conversion to gas were it not for this legislation.

Mr Neilsen—Correct. I think the market is only being slightly tapped at the moment. The opportunity there for LPG to substitute for diesel is enormous. If you have asked why the market has not been replaced so quickly, the simple reason is that we have to have the

technology. The technology has only recently got sophisticated enough to make it a very simple management system. Like everything else, there is the application reliability and efficiency for an operator. He needs a system that will work and not break down. We have got to that level now. I would see the market increasing dramatically if not for this legislation; the bill will certainly kill that off.

Senator ALLISON—I appreciate that you may not be in a position to have the figures, but where would you place alternative fuels? Let's concentrate on gas. What percentage of the market do you think is still to be converted to cleaner fuels? Have we tapped five per cent, or is it higher than that?

Mr Neilsen—I would say that it is probably lower than five per cent. In most of the work that we have done, our company was up around the Whitsundays and the resorts. There are a lot of roadhouses, as you identified before, which have not been touched yet. There are quite a number of installations in Western Australia and in the Northern Territory. It would be hard to say. It is probably around two, three, four per cent.

Senator ALLISON—Have you worked with the state governments on some of these conversions? Has your association worked with state governments—Western Australia, Northern Territory and others—on power generation?

Mr Neilsen—To answer that, I think most of our efforts have been directly with the marketplace. We have had discussions with AGO and we have had discussions with government. But I guess the comment we have had back is that the legislation in place does not really have an incentive for LPG to be part of power generation; it is mainly for renewables. Therefore, we have had to go out and do our own thing there. We have not as yet been able to convince governments—state or federal—that they should include LPG.

Senator ALLISON—Your customers do not take advantage of the remote area power generation program?

Mr Neilsen—No.

Senator ALLISON—Thank you.

CHAIR—Thank you, Mr Neilson.

[12.34 p.m.]

BRAZZALE, Mr Ric, Executive Director, Australian EcoGeneration Association

CHAIR—Mr Brazzale's evidence will be taken by telephone. Mr Brazzale, welcome. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. The committee has before it a written submission from the Australian EcoGeneration Association. Mr Brazzale, please indicate whether there are any alterations to or additions to your written submission and whether you wish to make an opening statement.

Mr Brazzale—I do not wish to amend our submission. The opening statement I would like to make is that, in providing relief to remote generators of electricity that use diesel, we think it is very important that we do not at the same time adversely affect the economics of the conversion to more sustainable energy forms, particularly renewable power systems that are subject to numerous other government measures, such as reducing greenhouse emissions as well as developing a sustainable energy industry. So it is within that context that we have made our submission. If you choose to proceed with the expansion of the rebate scheme, we would like you to give consideration to also giving those businesses that do convert to more sustainable energy forms the ability to still capture the rebate by keeping the relative economics the same. That is all I have to say as an introductory comment.

CHAIR—Thank you very much. We will now proceed to a question session.

Senator ALLISON—Mr Brazzale, I am going to ask you to expand on the last point you made—the suggestion that those businesses that switch from diesel to alternative fuel sources should receive some sort of rebate. Would you like to suggest to the committee how that rebate might work?

Mr Brazzale—Let us say the property or the business is currently using diesel, they would be currently getting the rebate or be entitled to a rebate shortly. To the extent that they converted—let's say they put in a renewable energy system—they would then displace part, or possibly even all, of the diesel that they would otherwise have consumed and therefore not then be entitled to the rebate. So what we are advocating is that we determine a notional amount of diesel used—in other words, calculate that amount of fuel that would otherwise have been used to produce electricity that is now produced by renewable energy sources—and enable the owner of that property to still obtain the rebate. They are still consuming electricity, they are still generating electricity, except they have switched some part from diesel to more sustainable forms.

Senator ALLISON—I wonder whether it is possible, Mr Brazzale, to give the committee some examples, if you like, of remote areas that have been part of the program that might not have otherwise adopted those schemes? I note your comment in your submission that the take-up of RRPGP has been slow because the price of diesel is already so low. Can you give the committee some examples of where the costs have been marginal, where decisions might have been made to not proceed on that basis, just to flesh that out a bit?

Mr Brazzale—If we had more time I would be able to get specific examples. We have someone in our Canberra office who deals extensively with installers and proponents of RPG and also remote systems. If I had had notice, I could have gotten you additional information. I do not have that on hand at the moment, unfortunately.

CHAIR—Mr Brazzale, that concludes the questions. On behalf of the committee, I thank you very much for your evidence today.

Mr Brazzale—Thank you very much.

CHAIR—That concludes this hearing of the Senate Economics Legislation Committee into the Diesel Fuel Rebate Scheme Amendment Bill 2002. I thank the witnesses, the secretariat and the *Hansard* officers for their assistance.

Committee adjourned at 12.39 p.m.