

5 June 2012



The Secretary  
Senate Economics Legislation Committee  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Via email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

See Distribution

## **LPG AUSTRALIA**

### **SUBMISSION TO THE SENATE ECONOMICS LEGISLATION COMMITTEE**

#### **Inquiry into the Clean Energy Legislation Amendment Bill 2012 and related bills**

Dear Secretary

LPG Australia is pleased to accept your invitation to make a submission to the Senate Economics Legislation Committee's Inquiry into the Clean Energy Legislation Amendment Bill 2012 and related bills. This submission will address the proposed amendments to the *Clean Energy Act 2011* and the *Fuel Tax Act 2006* to change the coverage arrangements for gaseous fuels.

LPG Australia is the national peak body which represents the bulk of the downstream alternative gaseous fuels industry which covers Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG). The industry comprises major companies and small to medium businesses in the alternative gaseous fuels supply chain; refiners, fuel marketers, equipment manufacturers, LPG vehicle converters, and the providers of services to the industry.

At present, LPG is the primary alternative gaseous fuel used in Australia. LPG delivers a significant contribution to meeting our energy needs in two ways:

1. As a stationary energy source, LPG is used by households and businesses for a variety of uses:
  - a. LPG has provided Australians with access to gas for cooking, and space and hot water heating, since the 1950s. Today, it is the gaseous fuel used by around one million households for these purposes. LPG is also used by around seven million households for recreational activities (BBQs and outdoor heating).
  - b. LPG also supplies around 100,000 commercial and industrial enterprises and is used in a variety of industrial processes, including power generation and heating.
  - c. LPG's use is most prevalent in areas not connected to the natural gas network, especially regional Australia.
2. As an automotive fuel, LPG (Autogas) is Australia's primary alternative transport fuel accounting for the bulk of the sector's share of the overall transport fuel market. LPG fuels over 500,000 vehicles, the majority being owned by private motorists, is the predominant fuel used by the taxi industry and is heavily used by fleet and trade vehicles, including light commercial vehicles.

While not as well established as LPG, on the back of recent substantial infrastructure investments, the use of LNG and CNG has the potential to expand in a variety of both domestic stationary energy and transport applications, particularly power generation, heavy trucks and buses.

Because transport fuels are currently exempt from carbon pricing, this submission focuses on the impact of the proposed amendments on gaseous fuels used as a stationary energy source.

## Overview

Since the Clean Energy Future Package was announced in July 2011, LPG Australia has made numerous representations to Parliamentary Committees, Senators, Members of Parliament and Government officials requesting that LPG, LNG and CNG used in the stationary energy sector be brought within the Carbon Pricing Mechanism (CPM) rather than be subject to an equivalent carbon price under the fuel tax system.

Consequently, LPG Australia supports the broad thrust of the changes relating to the coverage of gaseous fuels embodied in the Clean Energy Legislation Amendment Bill 2012 and related bills. The changes proposed in these bills would, to the extent they bring stationary energy LPG, LNG and CNG within the CPM, prevent these fuels from being disadvantaged relative to their principal stationary energy competitors – natural gas and electricity. For this reason, the gaseous fuels industry would have much preferred LPG and LNG to be brought within the CPM from 1 July 2012, as is proposed for CNG. Nevertheless, LPG Australia acknowledges the Government's argument that there is now insufficient time for it to develop and implement legislation and regulations to do this.

As a result, LPG Australia has sought to ensure the transitional arrangements that might apply to LPG and LNG from 1 July 2012 to 30 June 2013 impose minimal additional costs on industry in terms of being required to make earlier fuel tax payments than would apply under the CPM and developing and implementing systems to manage these payments for one year. Most importantly, LPG Australia has sought to ensure industry would be able to comply with the transitional arrangements, in particular the settlement period (i.e. the period over which a fuel tax liability is calculated) and the settlement date (i.e. the period of time after the settlement period by which business must pay the required fuel tax). This is critical given the nature of stationary energy gaseous fuels transactions – many customers using the fuel in many different ways over long periods, sometimes with quarterly invoicing.

## Issues

LPG Australia offers the following comments on the Clean Energy Legislation Amendment Bill 2012 and related bills, together with the associated Explanatory Memorandum.

### *Clean Energy Legislation Amendment Bill 2012 and related bills*

1. With regard to the definitions of “designated fuel” and “non-transport combustion” in section 5, LPG Australia notes that:

- a. The *Excise Act 1901* defines LPG as 100 per cent propane or as a propane and butane blend. Some customers that use 100 per cent butane are outside the *Excise Act 1901* (given definitional issues) and would generate insufficient CO<sub>2</sub> to be included in the CPM.

LPG Australia considers this definition should be amended as a matter of urgency because there is potential for market distortion by customers purchasing large amounts of butane which is free of both excise and a carbon price and blending it to gain a competitive advantage; and

- b. Currently, LPG used for forklifts primarily used off public roads fall outside of the *Excise Act 1901* (and CPM) due to how LPG for this use is defined in the *Excise Act 1901*. The ATO has indicated LPG used for forklifts primarily used off public roads may be subject to carbon excise from 1 July 2012, but at this stage this is unclear. .

LPG Australia requests the ATO's clarification.

2. With regard to the references to "entered for home consumption" in sections 36B(1)(b) and 36C(1)(b).

LPG Australia suggests it might be useful to define "entered for home consumption" in the Act or clarify its meaning in the associated Explanatory Memorandum as being the same as in relation to the *Excise Act 1901*. At the very least it would be useful for the Explanatory Memorandum to confirm that "entered for home consumption" does not include LPG or LNG moved under bond or that is exported.

3. With regard to the references to "potential greenhouse gas emissions embodied in the LPG and LNG" in sections 36B(1)(g), 36B(5)(e), 36C(1)(g), 36C(5)(e), 36D(1)(e), 36D(4)(d) and 36E(1)(f), LPG Australia notes that it has made a number of representations to the Government that the correct emission rate for stationary energy LPG be applied.
  - a. The Clean Energy Act 2011 legislation has calculated a Greenhouse Gas (GHG) emission rate for LPG of 0.0016 tonnes of carbon emitted per litre. However, the relevant National Greenhouse Accounts (NGA) factors for transport and non-transport LPG combustion are 0.00158 and 0.00153 tonnes per litre respectively. The 3% difference between the two NGA figures is attributable to the inclusion of butane in LPG Autogas, compared to stationary LPG which is generally propane only.
  - b. Consequently, LPG Australia has sought assurance from the Government that the correct emission rate for stationary energy LPG will be applied from 1 July 2012 under the excise regime and from 1 July 2013 under the CPM.

#### *Explanatory Memorandum*

1. With regard to paragraph 2.10, LPG Australia considers the reference to "1 July 2013" in the second sentence should be changed to "30 June 2013".
2. LPG Australia considers the Explanatory Memorandum should acknowledge the costs to industry of developing and implementing systems to manage the fuel tax payments that might apply to stationary energy LPG and LNG from 1 July 2012 to 30 June 2013. The implicit assumption that industry would be able to use the same systems that were developed and implemented to manage fuel tax payments for LPG, LNG and CNG used as transport fuel is incorrect given the much different nature of stationary energy gaseous fuels transactions.
3. LPG Australia considers it worth noting that the gaseous fuels industry's management systems are based on invoices. As a result, the need to reconcile invoices to comply with the current excise system's administrative arrangements, which are based on physical movements, imposes additional costs on the industry. Moreover, these costs will be increased as a result of the shortness of time industry will have to develop and implement management systems to comply with the transitional arrangements that will apply to LPG and LNG from 1 July 2012 to 30 June 2013.

#### **Conclusion**

LPG Australia supports the broad thrust of the proposed changes in the Clean Energy Legislation Amendment Bill 2012 and related bills to bring stationary energy LPG, LNG and CNG within the CPM. While noting that supporting regulations will need to be developed, LPG Australia considers these proposed amendments will work as intended.

LPG Australia stands ready to work with and assist the Department of Climate Change and Energy Efficiency and the Clean Energy Regulator develop the regulations needed to support stationary energy LPG, LNG and CNG being brought within the CPM.

For your consideration.

Yours sincerely

Michael Carmody  
Chief Executive Officer

Distribution: Members of the Senate Economics Legislation Committee

For Information:

LPG Australia Advisory Council Working Group – Excise  
LPG Australia Secretariat