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Ms. Brenda Berkeley  
General Manager  
Indirect Tax Division  
Treasury  
CANBERRA ACT 2600

## SUBMISSION RE EXCISE TAX FOR ALTERNATIVE FUELS

Dear Ms. Berkeley

Thank you for the briefing on the Government's Alternative Fuels Taxation policy in Melbourne on 26 October, and for the follow-up meeting with John Lincoln and me in Canberra on 3 November. We have appreciated the opportunity to discuss some of the issues that are particular to CNG with you and your colleagues.

This submission is a distillation of the issues that we raised in the two discussions.

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### THE APPLICATION OF EXCISE ON ALTERNATIVE FUELS

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It should be clear from the outset that we have no objection to the concept of excise on alternative fuels, including CNG and LNG, for transport use. Our objection is to the premature nature of the proposed imposition of that excise and the inequities that would result from its introduction in the current form.

Our argument is that the policy for taxing alternative fuels in general, and CNG in particular, has only ever been spelled out in the broadest terms, and that little or no thought has yet been given to the practical issues of implementation and management of the legislation, should it be passed by Parliament in its present form.

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### THE DISCOUNT FORMULA

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We have argued that the "one size fits all" 50% discounting of all alternative fuels is ill-considered. It assumes that all alternative fuels have the same environmental, economic and energy security benefits, and is a policy that is not supported by the facts.

In order to arrive at an equitable formula, we believe that at some time in the future, the discounting formula should be re-visited to better reflect the life cycle emissions of the various alternative fuels, their impact on the Australian economy and their energy security potential.

This is fundamental to achieving a level playing field in the taxing of alternative fuels and of itself, suggests that a start date for the imposition of the excise of 2011 is premature.

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## THE REVENUE POTENTIAL

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At this stage, the NGV industry in Australia is so miniscule that application of excise from 2011 has the potential to cause serious damage to the industry before it can become established.

The revenue collected on CNG/LNG in the next five years would be insufficient to cover the costs of collection.

At this stage, the number of CNG vehicles on the road in Australia would number less than 2000, with at least 98% of these being Government operated urban buses. There is probably another 1500 or so off-road forklifts that would be eligible for the Off-Road rebate, and would therefore be effectively excise-free.

This leaves perhaps 200 vehicles Australia-wide that are refueled in a number of different ways, with no more than 100 being refueled in a traditional service station type environment (and therefore easily accounted for).

Until some of the issues referred to below are addressed and resolved, the cost of administering the excise scheme will far exceed the potential revenue.

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## PROBLEMS OF MEASUREMENT OF CNG FOR EXCISE PURPOSES

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Unlike the liquid petroleum fuels (petrol, diesel and LPG), CNG is drawn from the pipeline network, compressed and dispensed as required at the point at which it is needed. There is no logical or consistent manufacturing point similar to a refinery or tank farm gate at which the fuel could be measured for taxation purposes. This presents a challenge in identifying a consistent point at which the excise could be levied.

The proposed legislation has indicated that excise would be levied on a "per cubic metre" basis. However, current Australian legislation (from 1 July 2010) requires CNG to be measured in kilograms, although there are still some existing facilities that dispense in M<sup>3</sup>. Managing the excise while this metering differential exists is likely to cause confusion in the management of the reporting system.

Depot-based refuelling of forklifts and road going vehicles is usually not metered. In many cases, the use of natural gas for transport purposes is peripheral to the primary use of the gas on the site, e.g. a bakery or other high consumption site.

Without major re-construction of the CNG site, it will be particularly difficult to identify the actual consumption of gas for transport purposes. In order to do so would require the installation of CNG dispensers, similar to those used in the three public or semi-public sites in Australia at this time. This would put a major impost on current users and rather than install the equipment and establishing an excise reporting system, it is likely that some current operators would abandon CNG altogether and revert to diesel.

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## HOME REFUELLING

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Home refuelling, which is hoped to play a major role in the development of the CNG market in the future, has never previously been metered at the compression unit. This presents a particular problem in that there is currently no technology available in home metering that can differentiate between normal domestic use and transport use. The only way this could be achieved is by the installation of a second supply line and meter for the home refueller at substantial additional cost to the home-owner. It would

also require a different approach to charging excise, due to the nature of domestic meters that measure in volumetric flow, rather than mass flow.

Domestic gas consumption is measured in base units which are then multiplied by a heating value and a pressure factor to calculate usage in MJ, rather than M<sup>3</sup> or kg. This will further complicate the application of the excise, if it is to be applied in this manner.

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## REPORTING ENTITIES

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Unlike the liquid petroleum fuels and the biofuels, CNG has no centralised production facility, where it could be recorded in bulk for excise purposes. Under the present arrangements, every individual user of CNG, with the exception of the three sites mentioned above, would become a reporting and paying entity. Even the three sites would involve reporting at the retail level, rather than at the production or wholesale level, which would involve a significant impost on a small business such as ours.

More importantly, because of the unique manner of the production of CNG with home refuelling, it will involve every householder in becoming a reporting entity, placing a huge burden on potential customers for these units, and a massive compliance workload for Government.

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## FUTURE DEVELOPMENTS

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The CNG market in the rest of the world is already moving into new fields for production and supply of natural gas.

Because of its nature, there is potential for some users to source their gas from their own land (Coal Seam Methane – CSM) in Queensland as an example. The legislation has given no thought as to how this could be dealt with.

More importantly, the most recent developments in Europe in producing bio-methane from organic waste have opened the door to carbon-neutral motoring, as well as reducing or eliminating the need for traditional sewage treatment works or garbage landfills. This technology is providing the most environmentally sustainable and responsible waste disposal and energy production in the world, and the imposition of excise on transport bio-methane in Australia could well hold back investment in this technology for many years.

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## COMPARABLE ISSUES – ELECTRIC VEHICLES

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The proposed imposition of excise duty on home refuelling of natural gas raises the issue of how excise duty will be raised and collected for the home recharging of Electric Vehicles (EVs).

EV technology is likely to be embraced – either as pure electric vehicles or plug-in hybrids – by the vehicle manufacturers in Australia much sooner than NGVs, although the reverse is the case in Europe, Asia and South America. It is therefore likely that the issue of excise on electricity for transport will be a much more pressing issue in the next five years than it will be on natural gas for transport.

This issue will be even more complex to resolve if one is to consider the technology used to generate the electricity – coal, solar, wind, etc. Surely coal-derived electricity cannot have any claim to the blanket 50% discount for alternative fuels.

Clearly, this issue is something that should have been included in the legislation if it is to have any credibility in achieving the aim for which it was originally claimed and has so far failed to deliver – equity of treatment for all transport fuels.

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## EQUITY

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One of the guiding principles of this legislation is claimed to provide a degree of equity between fuels and to create the mythical "level playing field".

The issues raised above, have indicated that rather than doing so, it has actually created a potentially punitive regime of requiring new and costly equipment in order to measure CNG usage and of forcing thousands of average Australians to become tax collectors.

The application of an extended introductory period for ethanol in the proposed legislation actually provides significant new concessions to ethanol that do not apply to CNG and the other alternative fuels, despite the major concessions and grants that have been made available for ethanol and biodiesel for at least the past eight years. This is claimed to be to enable the ethanol industry to adjust to the new regime. In truth, the ethanol industry is far better equipped to deal with the transition than CNG/LNG.

NGVs are an emerging industry, with limited take-up in Australia to date, despite the fact that it is the fastest growing sector of the automotive industry worldwide. The application of excise, particularly on the basis of a less than equal footing with ethanol would be to severely damage or even destroy the NGV industry while it is still in its gestational period.

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## RECOMMENDATION

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Given the issues outlined above, it is clear that the imposition of excise on CNG commencing in July 2011 would be unfair, inequitable and almost certainly unworkable.

It is clear that there are numerous issues that need to be resolved before the aims of the legislation of a level playing field could be realised. It is also clear that these issues will not be capable of resolution within a few months. It will take an extended period of study and negotiation to determine how this legislation can be implemented with any degree of fairness and recognition of the environmental, economic and energy security benefits of natural gas as a transport fuel.

It is therefore our strong recommendation that CNG be granted a similar deferral for implementation to that granted to ethanol to 2016-2020. This will enable all stakeholders to reach a solution that meets the aims of the legislation.

During that deferral period, OES CNG Pty Ltd is happy to work with Treasury and other stakeholders in an effort to develop a process to achieve the level playing field that this legislation aims for, but fails to deliver.

Thank you for your consideration of this submission. I hope that the matters that we have highlighted show the need for further consideration of the issues. Rather than proceed with the legislation as it is now envisaged, it would be prudent to get it right before presenting it to Parliament.

Yours sincerely



Kevin Black  
Manager