

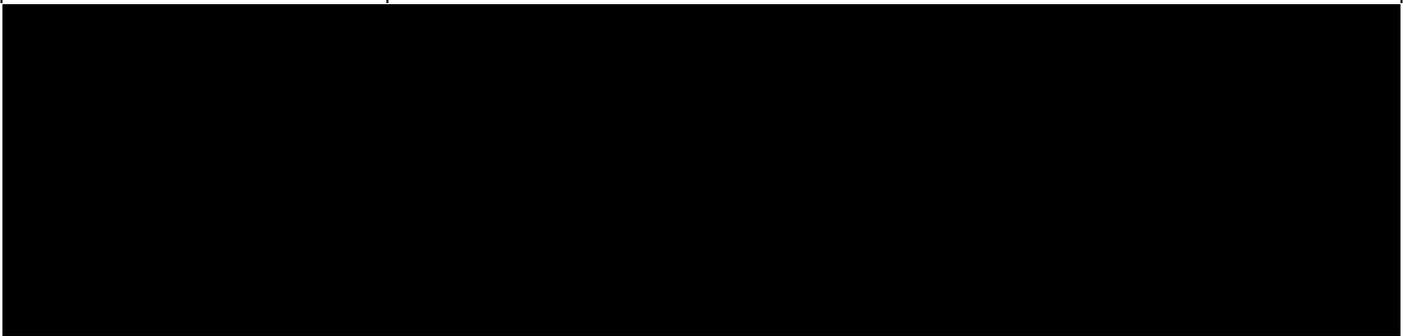


## Overview

This submission cover sheet should be used to provide comments on the Clean Energy Legislative Package.

## Contact Details

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22 August 2011

**Carbon Price Legislation Branch**

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Canberra ACT 2600

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See Distribution

**LPG AUSTRALIA**

**SUBMISSION ON  
CLEAN ENERGY LEGISLATIVE PACKAGE**

- References:
- A. LPG Australia Submission on Implementation of Alternative Fuels Taxation Policy, to Treasury, dated 15 November 2010
  - B. LPG Australia Submission to Treasury on Exposure Draft Explanatory Memorandum, dated 18 February 2011 (NOTAL)
  - C. LPG Australia Submission to the Senate Select Committee – Carbon Tax, dated August 2011 (NOTAL)

## **Background**

LPG Australia represents the broad LPG industry – the participants in the LPG supply chain, and the providers of services to it.

LPG is a significant part of Australia's energy industry, serving two distinct market segments.

As a stationary energy source, it is the gaseous fuel used by domestic, commercial and industrial customers in the many parts of Australia where natural gas is unavailable. It serves a million domestic customers for household

LONG TERM ETS		
Payment Method	Collected as excise	Purchase of permits
Payment Timing	Weekly if as proposed for Autogas excise (well before payment from customers)	By February 1 of year following fiscal year
Rate	Fixed 6 monthly by Government based on market	Set by market
Ability to manage costs by trading in Australia or internationally	None	Yes
Banking of permits	None	Yes
Ability of Retailer to minimize cost through integration with other group activities	None	Yes

The significant disadvantages that stationary LPG will suffer are thus:

- a. Large working capital impost; and
- b. Under the long term ETS, exclusion from the ability to minimise cost through commercial activities.

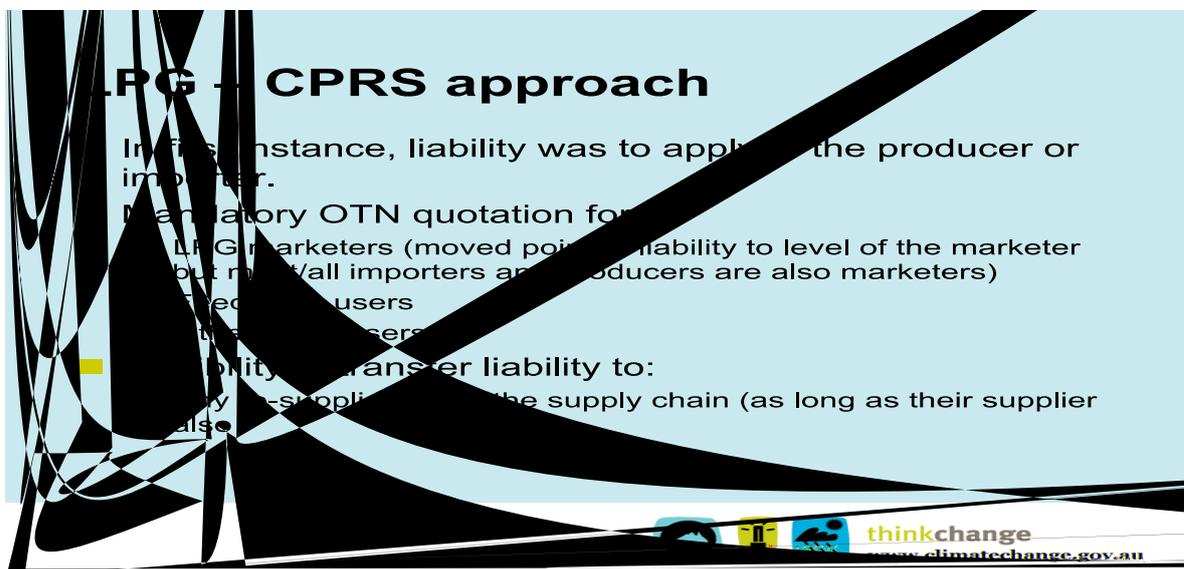
The comparison between LPG and electricity leaves LPG similarly disadvantaged. While electricity is treated differently from natural gas, with the obligation being at the generator level, LPG is disadvantaged compared to electricity through the timing of payments and the inability to manage cost through trading.

The draft legislation will thus result in the stationary energy fuel for regional Australia being taxed at effective rates above the taxation of natural gas. The cost of carbon tax on LPG will be higher than if it was treated properly. Higher costs will impact households and businesses across Australia.

### The Appropriate Treatment for LPG

LPG Australia's position is that LPG as stationary energy should be treated (as it was in the CPRS) in parallel to natural gas. LPG retailers (marketers) would be responsible for purchasing the required permits to reflect the carbon content of the LPG they sell as stationary energy. An Obligation Transfer Number (OTN) system would make administration for LPG producers and retailers simple.

The CPRS approach for LPG is summarised on the following Climate Change Dept slide:



As legislation was drafted for the CPRS, amendment of the current carbon tax legislation to treat LPG appropriately can be done easily.

Administratively the process is simple. There are only a small number of LPG producers and retailers. The CPRS process clearly identified that the permit system is the correct policy approach for LPG, and implementation would be straightforward. For the CPRS, LPG Australia recommended that the primary Point of Obligation for LPG carbon tax is by Retailers, at the point of their sale to downstream customers or resellers.

Obligation would rest with Suppliers only if they supply LPG to a Marketer, distributor or customer not nominated as a Scheme Point of Obligation for LPG.

### **Lack of Consultation**

The adoption of this excise methodology for stationary LPG has come as a complete surprise to the industry, as the approach under the CPRS was to treat LPG in parallel to natural gas. LPG Australia and the Government had agreed on the appropriate treatment for LPG, and it was included in the draft CPRS legislation.

The change from a carbon tax/ETS to an excise tax occurred without consultation. LPG Australia has been unable to discover the reason for this change.

### **Technical Issue in the Draft Legislation - Greenhouse Emission Rate for LPG**

The legislation has calculated a GHG emission rate for LPG of 0.0016 tonnes of carbon emitted per litre. However, the relevant NGA factors for transport and non-transport LPG combustion are 0.00158 and 0.00153 tonnes respectively. The 4% 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.

Overall, the emissions factors applied under the legislation appear to be simplifying the carbon price estimation by adopting slightly higher emission rates to account for all LPG and gaseous fuels used for both transport and non-transport purposes.

The approach may have been driven by the use of the excise system, which also provides for the collection of fuel tax on transport LPG.

LPG Australia's recommended approach of removing LPG carbon tax from the excise system would allow the correct emission rate for stationary LPG to be applied.

### **Parallel Treatment of Domestic LNG**

LPG Australia supports policy consistency for stationary energy fuels. Domestic LNG, similarly to LPG, serves both stationary energy and transport markets. The draft legislation proposes to apply carbon tax to stationary LNG through the excise system, and to exclude it from the permit/ETS system.

LPG Australia's position on the treatment of LPG – inclusion in the permit/ETS system – would be the appropriate policy for LNG.

Application of it to LNG would mean that domestic LNG manufacturers would purchase natural gas carbon tax free under an OTN, and then be responsible for acquiring permits for the carbon content of the LNG sold into the stationary energy market.

For your consideration.

Yours sincerely

A handwritten signature in red ink, appearing to read 'M Carmody', with a horizontal line underneath.

Michael Carmody  
Chief Executive Officer

Distribution: Federal Government of Climate Change and Energy Efficiency

For information:

The Hon. Wayne Swan Treasurer  
The Hon. Greg Combet Minister for Climate Change and Energy Efficiency  
The Hon. Martin Ferguson Minister for Resources Energy and Tourism  
The Hon. Bill Shorten Minister for Finance and Superannuation  
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