



GAS ENERGY AUSTRALIA

SUBMISSION

**GAS ENERGY AUSTRALIA
SUBMISSION TO
THE NATIONAL TRANSPORT COMMISSION
2014 HEAVY VEHICLE CHARGES DETERMINATION
DRAFT REGULATORY IMPACT STATEMENT**

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17 January 2014

Mr Ramon Staheli

Project Director Pricing
2014 Heavy Vehicle Charges Determination Draft Regulatory Impact Statement
National Transport Commission
L15/628 Bourke Street
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Via email: rstaheli@ntc.gov.au

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GAS ENERGY AUSTRALIA SUBMISSION TO THE NATIONAL TRANSPORT COMMISSION

2014 Heavy Vehicle Charges Determination Draft Regulatory Impact Statement

Dear Mr Staheli

Gas Energy Australia is pleased to make a submission responding to the National Transport Commission (NTC) 2014 Heavy Vehicle Charges Determination Draft Regulatory Impact Statement (RIS), dated November 2013.

Gas Energy Australia welcomes the release of the draft RIS which canvasses possible changes to the charges that apply to heavy vehicles in Australia – which comprise an annual registration fee and a road user charge (RUC) levied on each litre of diesel fuel. This Submission focuses on the following options put forward in the draft RIS:

- a. Base Case - an annual adjustment to the current charges without any updates to the methodology used to determine charges.
- b. Updated Status Quo - an annual adjustment to the current charges along with routine updates to the methodology used to determine charges.
- c. Option A - an annual adjustment to the current charges along with significant changes to the methodology used to determine charges, while maintaining the current split between registration fees and the RUC i.e. 38%/62%.
- d. Options B - Option A along with recovering a higher proportion of revenue through the RUC than now i.e. a roughly 28%/72% registration fees/RUC split.
- e. Options C - Option A along with recovering an even higher proportion of revenue through the RUC than now i.e. a roughly 21/79 per cent registration fees/RUC split.

In keeping with Gas Energy Australia's mission "to optimise the value of gaseous fuels for the benefit of the national interest and the community...leading to improved energy security, carbon reduction lower energy costs and the development and growth of the industry", this submission will principally address how the proposed changes to heavy vehicle charging in Australia might affect the take-up of gas-powered heavy vehicles and the consequent impacts on the economy and community.

The principal message this submission seeks to convey is that increased user charging akin to Option C, would enhance the Australian economy by increasing economic efficiency and productivity as well as encourage increased take-up of gas-powered heavy vehicles which would deliver better environmental and health outcomes, as well as improve Australia's energy security.

1. Gas Energy Australia

Gas Energy 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, consultants and other providers of services to the industry.

LPG is the most widely used alternative gaseous transport fuel in Australia but it is used mainly in light 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 domestic transport applications, particularly powering trucks and buses.

2. Road use issues

Gas Energy Australia agrees with the assessment of the NTC's Heavy Vehicle Charges Determination Draft RIS that road pricing and investment reform has the potential to yield a substantial efficiency dividend to the Australian economy given the importance of freight costs in determining the affordability of most consumer goods.

Gas Energy Australia also agrees with the conclusions of the December 2009 Report on Australia's Future Tax System (the Henry Tax Review), cited in the Draft RIS, that a move from indiscriminate road taxes to a user-based charging and investment model would deliver productivity growth, improved living standards and more sustainable cities.

Given the longer term nature of the type of mass-distance-location pricing reform favoured by the Henry Tax Review, Gas Energy Australia considers that the government and regulatory authorities need to consider reforms which can be delivered in the near term that would improve the efficiency of heavy vehicle charging in Australia. In terms of addressing road wear and tear, the Henry Tax Review noted that current heavy vehicle charging arrangements over-recover from heavy vehicles that travel fewer annual kilometres and are more lightly laden or less fuel efficient than the average and under-recover from those that travel further and are more heavily laden or more fuel-efficient than the average. Consequently, Gas Energy Australia supports moving towards the adoption of an approach to heavy vehicle charging akin to Option C which would increase user charging and hence increase economic efficiency and productivity.

3. Other issues

The Henry Tax Review also discussed the use of various charging arrangements to address costs other than road wear associated with vehicle usage, including environmental damage. It advocated the use, as much as possible, of specific taxes or charges to address particular spillover impacts of vehicle use. While in theory this approach would tend to deliver the most economically efficient outcome, in practice many of these specific taxes or charges are not currently feasible due to a variety of technical, economic and political reasons. For example, the Henry Tax Review

recommended that greenhouse gas (GHG) emissions are best dealt with through an economy-wide tool such as a carbon tax.

As a result, Gas Energy Australia considers proposals to change Australia's heavy vehicle charging regime should take account of possible impacts on costs other than road wear. At the same time, Gas Energy Australia supports using existing transport tax and charging arrangements to address the most significant spillover impacts of heavy vehicle use. Gas Energy Australia also notes that changes to the heavy vehicles charging regime that increase the RUC (which is collected via a less than full credit for diesel fuel tax) and reduce registration fees have the potential to improve the attractiveness of gas-powered trucks which do not pay the RUC.

In this light, Gas Energy Australia also supports the adoption of an approach to heavy vehicle charging akin to Option C because it would encourage increased take-up of gas-powered heavy vehicles which would offer a number of benefits to the community compared to diesel-powered heavy vehicles which are discussed below.

4. Environmental benefits of gas-powered heavy vehicles

Greater use of alternative gaseous transport fuels would deliver a cleaner environment, including increased GHG abatement.

Research focusing on heavy vehicle transport conducted by Rare Consulting and cited in the Federal Government's Strategic Framework for Alternative Transport Fuels (SFfATF), which was released in December 2011, concluded that GHG emissions reductions of up to 17 per cent for CNG and up to 20 per cent for LNG can be achieved.

The United States Department of Energy (US DOE) has also concluded that natural gas burns cleaner than conventional gasoline (petrol) or diesel due to its lower carbon content and that switching from oil-based fuels to natural gas can result in substantial reductions of hydrocarbon, carbon monoxide and oxides of nitrogen, as well as greenhouse gas emissions. It also noted that because natural gas is non-toxic, it isn't harmful to soil or water.

US DOE based these conclusions on its review of studies, including a 2007 study for the California Energy Commission (CEC) that analysed the life cycle emissions of alternative and conventionally fuelled vehicles. US DOE's review found that, compared to reformulated gasoline, CNG and LNG vehicles reduce life cycle particulate matter emissions by 80 per cent, carbon monoxide emissions by 20 to 40 per cent, emissions of volatile organic compounds by 10 per cent and GHG emissions by 21 to 26 per cent. In studies of heavy-duty vehicles, US DOE's review found that the use of CNG and LNG, when compared to diesel, reduces life cycle particulate matter from 85 per cent to near 100 per cent (i.e., undetectable levels), emissions of nitrogen oxides by 17 to 80 per cent and emissions of GHGs by at least 16 to 23 per cent.

While the extent of the superior environmental performance of natural gas powered engines over their diesel equivalents can vary somewhat depending on the composition of the natural gas and the type of engine used, that superiority has been consistently demonstrated in studies conducted in different countries.

Further, in June 2012, the World Health Organization¹ announced there was now sufficient evidence to conclude that diesel engine exhaust does cause cancer in humans. Requirements to fit costly filters do result in the trapping of some of the pollutants associated with diesel exhaust. However, not only are many such filters an unnecessary expense for gas powered engines, but it is the finer particulates associated with diesel exhaust not caught by filters that are most harmful to humans.

In addition, natural gas engines are also noticeably quieter than diesel powered engines.

¹ World Health Press Release 213 dated 12 June 2012

5. Energy security benefits of gas-powered heavy vehicles

Greater use of alternative gaseous fuels would also improve Australia's energy security.

Both the 2011 National Energy Security Assessment (NESA) and the SFfATF acknowledged that it is prudent to maintain a diverse energy supply and encourage the development of commercially viable alternative liquid fuels and technologies. The 2011 NESA also concluded that diversity of supply, including access to alternative fuels, helped Australia maintain its liquid fuel security in the face of a spate of unhelpful events, including a return to high global oil prices, the political crisis in Libya, as well as oil spills and natural disasters.

Australia possesses vast natural gas reserves which the Federal Government, in its 2012 Energy White Paper, estimated to be equivalent to 184 years of supply at current production rates. The contribution of these reserves to Australia's liquid fuel security as a substitute for petrol and diesel will increase in line with the progressive roll-out of refueling infrastructure.

Greater use of alternative gaseous fuels would also improve Australia's energy security by reducing fuel costs which would benefit both businesses and households as a result of lower freight costs. The gap between the global price of diesel and fuel oils and the price of natural gas in Australia makes the supply of LNG and CNG to heavy vehicles more price competitive than oil based products. Overtime, pricing is also more stable than oil based products which are affected by fluctuations in the global oil market and exchange rates.

6. Conclusion

A move towards the adoption of an approach to heavy vehicle charging that increased user charging akin to Option C, would benefit the Australian economy and community as a result of increased economic efficiency and productivity.

Option C would also encourage increased take-up of gas-powered heavy vehicles which, compared to diesel-powered heavy vehicles, would make a significant and cost effective contribution to delivering better environmental and health outcomes, including reduced GHG emissions, as well as an improvement in Australia's energy security.

7. Recommendations

Gas Energy Australia recommends the NTC convey to the Standing Council on Transport and Infrastructure in February 2014 that:

- a. increased user charging akin to Option C, would enhance the Australian economy by increasing economic efficiency and productivity;
- b. proposals to change Australia's heavy vehicle charging regime should take account of possible impacts on costs of heavy vehicle use other than road wear; and
- c. gas powered vehicles can make a significant and cost effective contribution to delivering better environmental and health outcomes, including reducing GHG emissions, as well as improving Australia's energy security.

For your consideration.

Yours sincerely



Mike Carmody
Director and Chief Executive Officer

Distribution: National Transport Commission

For Information:

Members – Gas Energy Australia - LNG (Transport) Task Force
Members – Gas Energy Australia - CNG (Transport) Task Force
Members – Advisory Council Working Group – Tax & Excise
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