25 July 2016

Pricing Team
National Transport Commission
Level 15/628 Bourke Street
Melbourne VIC 3000

HEAVY VEHICLE CHARGES DISCUSSION PAPER SUBMISSION

Dear Pricing Team

Gas Energy Australia is grateful for the opportunity to respond to the National Transport Commission's (NTC) Heavy Vehicle Charges discussion paper. Gas Energy Australia acknowledges that the existing PAYGO system has limitations including volatility of the cost base and charges and revenue uncertainty. We support the NTC's work in developing options to improve the PAYGO system to better balance cost recovery, efficiency and equity objectives.

Gas Energy Australia provides the following comments to the questions in the NTC's discussion paper:

1. **When analysing whether government revenues are sufficient to pay for road maintenance and construction, what revenues and expenditure items should be included or excluded?**

   Currently, there is no mechanism for governments to collect road user charges from electric and hybrid vehicles which pay no fuel excise. In addition, these vehicles are typically heavier and larger than equivalent conventional vehicles due to the size and weight of battery packs. Gas Energy Australia supports the statements in the NTC's submission responding to the Federal Treasury's March 2015 Tax Discussion Paper that increased adoption of electric vehicles will contribute to a shortfall between revenue and road infrastructure costs in the future. Gas Energy Australia considers all operators of vehicles that use roads should contribute to their maintenance and construction costs. In addition, the contribution of road users to the revenue should also cover other costs, such as poor air quality and worse public health outcomes.

   This submission notes the need to consider the relative environmental benefits of alternative fuels. Gas Energy Australia supports the inclusion of the environmental benefits as a consideration in setting and collection of road user charges, noting that this should include "well to wheel" environmental impacts. For example, Gas Energy Australia considers the carbon emission reduction potential of electric vehicles needs to take account of the high proportion of coal use in electricity generation in Australia.

   Gas Energy Australia also notes that road use contributes to public health impacts and while not considered as an expenditure item for road infrastructure, should be considered when setting and collecting road user charges. For example, the 2008 *NSW Cleaner Vehicles and Fuels Strategy* by the Department of Environment and Climate Change NSW reported that the health cost of diesel particulates was $257,000 per tonne. This could be incorporated into the pricing of the road user charge by heavy vehicles using diesel to better reflect the true economic costs of their road use.

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Hence, Gas Energy Australia support introducing some mechanism which allows for the collection of revenue to cover all the costs of road use, not just road wear and tear, from all vehicles, not just those using currently taxed fuels, with recognition of the environmental and health benefits of the fuel being used.

2. Is the problem definition accurate? If not, what other problems should the next phase of reform seek to address?

Gas Energy Australia agrees that the issues with the existing PAYGO system identified in the problem definition are accurate. However, we consider that addressing the limitations of the current charge setting process for heavy vehicles is of particular importance given that it also impacts on other important initiatives. For example, the Coalition Government in its Energy White Paper reaffirmed its commitment, in line with that of the previous Labor Government, that the fuel excise burden on heavy vehicles powered by gaseous fuels should not exceed 50% of that imposed on diesel heavy vehicles on an energy equivalent basis due to their environmental benefits. Nevertheless, subsequent discretionary political decisions to freeze the Road User Charge have contributed to this excise burden exceeding 70% and have increased the health and environmental damage from road transport. Hence, Gas Energy Australia encourages the NTC to prioritise improving the process for setting and implementing heavy vehicle charges.

3. Do you agree with these assessment criteria? Should the options be assessed against any other criteria?

Gas Energy Australia agrees with the criteria used to assess the options for improving the PAYGO system. However, we suggest that a higher weighting be assigned to the criteria of compatibility with the Heavy Vehicle Road Reform (HVRR) process. A number of sources including the Henry Tax Review and Infrastructure Australia's *Australian Infrastructure Plan* report have highlighted the limitations of the current PAYGO system in facilitating efficient usage and provision of infrastructure and recommend reform to heavy vehicle charging and investment in the near future. Hence, any changes to the existing system should be aligned with the HVRR process to avoid impeding progress towards reform.

4. What are your views on option 1? Should we transition to a 'life cycle' cost base?

Gas Energy Australia notes that Option 1 meets the criteria set by NTC and does not have any objections to its adoption.

5. What are your views on option 2?

Gas Energy Australia does not support Option 2 given that it is incompatible with the HVRR process which we consider to be important.

6. What are your views on option 3? Is this a feasible option? Is the ring-fencing of funds a worthwhile goal in its own right?

Gas Energy Australia supports linking revenue and expenditure to facilitate more efficient investment, use and operation of the road network and alignment with the HVRR objectives. Analysing the experiences of Austria in establishing an organisation to finance, maintain, operate and invest in the motorway network directly from user charges could provide guidance on the feasibility of ring-fencing in Australia.

7. What are your views on option 4? If we introduced an unders and overs account, what period should it cover? Should any over-recovery amount be adjusted for the opportunity cost?

Gas Energy Australia notes implementing Option 4 is required with Option 1 and hence, we also support this.

8. What are your views on option 5? Should we revert to a general taxation option?

Gas Energy does not support reverting to a general taxation option as this contradicts the proposals by organisations including Infrastructure Australia and the Transport and Infrastructure Council to turn the provision of road infrastructure into an economic service. The experiences of other infrastructure services such as electricity and water networks suggests that the use of general taxation is not necessary to achieve cost recovery goals.

9. What are your views on option 6? Should the status quo continue?

GEA is not in favour of continuing with the status quo given the major shortcomings of the existing PAYGO system identified in the Discussion Paper.

10. What are your views on option 7? Should the cost allocation matrix be re-examined?

Gas Energy Australia notes implementing Option 7 is required with Option 1 and hence, we also support this.

11. What are your views on option 8? Is there an argument to re-examine the share of local government expenditure included in the cost base?

Gas Energy Australia notes implementing Option 8 would most likely be necessary with Option 1 and hence, we also support this. However, an assessment should be undertaken to verify that the benefits of this task would be likely to outweigh the costs.

12. What are your views on option 9? Could the UK model be adopted in Australia? What other forms of independent regulation might work in the Australian context?

Gas Energy Australia supports the use of independent regulation for pricing road use. This would reduce the scope for discretionary decisions by politicians impacting on efficient pricing of an economic service. Infrastructure Australia's *Australian Infrastructure Plan* notes that other infrastructure markets including water and electricity networks have been able to meet economic efficiency and cost recovery needs with the right regulatory and incentive arrangements. Moreover, the report states that transitioning towards a similar user pays approach for road infrastructure should be a priority for the Australian Governments to achieve these benefits. Under this approach, Gas Energy Australia considers that the efficient price for road use should be determined by an independent regulatory body, as is the case for other infrastructure markets, rather than politicians.

There are significant externalities produced from road use and we consider it important for the independent regulator to have some mechanism for accounting for carbon and noxious emissions in prices. As noted in the answer to Question 2, governments had intended to account for the environmental benefits of gaseous fuels for transport under the PAYGO system, but subsequent discretionary decisions by politicians have increased the relative excise burden on these fuels.

13. What are your views on the NTC's assessment of the compatibility of options?

Gas Energy Australia agrees that Options 3, 4 and 9 are compatible with Option 1.

14. What is your preferred option, or combination of options?

Gas Energy Australia supports the implementation of Option 1 together with Options 3, 4 and 9.

GEA looks forward to continue working with the NTC on behalf of the gaseous fuels industry to address the limitations of the PAYGO system and on other initiatives in the future to improve the transport system.

Yours sincerely

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Chief Executive Officer