



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ENVIRONMENT, COMMUNICATIONS, INFORMATION
TECHNOLOGY AND THE ARTS REFERENCES COMMITTEE

Reference: Energy white paper

TUESDAY, 10 AUGUST 2004

CANBERRA

BY AUTHORITY OF THE SENATE

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:
<http://parlinfoweb.aph.gov.au>

SENATE
ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS REFERENCES COMMITTEE

Tuesday, 10 August 2004

Members: Senator Cherry (*Chair*), Senator Tierney (*Deputy Chair*), Senators Lundy, Mackay, Tchen and Wong

Participating members: Senators Abetz, Allison, Bolkus, Boswell, Brown, Buckland, George Campbell, Carr, Chapman, Colbeck, Conroy, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Harradine, Harris, Humphries, Knowles, Lees, Mason, McGauran, Murphy, Nettle, O'Brien, Payne and Watson

Senators in attendance: Senators Allison, Cherry, Tchen and Wong

Terms of reference for the inquiry:

To inquire into and report on:

The budgetary and environmental implications of the government's energy white paper.

WITNESSES

**BROWN, Mr Colin Leslie, Manager, Costing and Quantitative Analysis Unit, Taxation Analysis
Division, Department of the Treasury 1**

**COLMER, Mr Patrick Joseph, General Manager, Indirect Tax Division, Department of the
Treasury 1**

**DOUGLAS, Mr Justin, Manager, Environment and Agriculture Unit, Department of the
Treasury 1**

**MRAKOVIC, Ms Maryanne, General Manager, Industry, Environment and Defence Division,
Department of the Treasury 1**

PARKER, Mr David, Acting Executive Director, Revenue Group, Department of the Treasury 1

Committee met at 7.39 p.m.

BROWN, Mr Colin Leslie, Manager, Costing and Quantitative Analysis Unit, Taxation Analysis Division, Department of the Treasury

COLMER, Mr Patrick Joseph, General Manager, Indirect Tax Division, Department of the Treasury

DOUGLAS, Mr Justin, Manager, Environment and Agriculture Unit, Department of the Treasury

MRAKOVIC, Ms Maryanne, General Manager, Industry, Environment and Defence Division, Department of the Treasury

PARKER, Mr David, Acting Executive Director, Revenue Group, Department of the Treasury

CHAIR—I declare open this public hearing of the inquiry by the Senate Environment, Communications, Information Technology and the Arts References Committee into the budgetary and environmental implications of the government's energy white paper. I welcome the officers from the Department of the Treasury who are appearing today. Thanks for your time today especially at such short notice. It is much appreciated.

Before we move to questions, I remind the officers that they will not be asked to express an opinion on matters of policy. However, they may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. But they will not be asked to express opinions on the relative merits of alternative policies. Officers shall be given reasonable opportunity to refer questions asked of them to senior officers or to a minister. The committee prefers all evidence to be given in public but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in private you may ask to do so and we will consider your request. Witnesses are also reminded that the evidence given to the committee is protected by parliamentary privilege and the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. I now invite one of you to make an opening statement before we move to questions, or we can move straight to questions, if you wish.

Mr Parker—Thank you, Chair. I do not propose to make a substantive opening statement but we will introduce ourselves because it is not typical for Treasury to appear before this committee. I come to this table as the head of Revenue Group in Treasury, which broadly looks after the taxation system. I also have a second hat here. Until October-November last year I was the Treasury person on the Energy Task Force. After that time that role was taken over by Maryanne Mrakovcic who heads up our Industry, Environment and Defence Division. She is joined here by one of her staff, Justin Douglas, who looks after environment matters. On my right I have Patrick Colmer whose job is to look after indirect tax issues so he looks after the GST, excises and the like. To his right there is Colin Brown who is the Manager of the Costing and Quantitative Analysis Unit. He is effectively the numbers man responsible for some of the costings that appear in the white paper.

We have read the transcripts of the earlier hearings of the committee and we are happy to answer the questions that we can, some of which have been passed on by our colleagues from other portfolios. We will do our best to answer those and we will take it from there.

Senator ALLISON—We might start with those questions which you would already have seen flick-passed to Treasury from other departments. You presumably saw those and are prepared to answer them?

Mr Parker—Sure.

Senator ALLISON—The first question I asked was about the small increase in urban air pollution and greenhouse emissions due to some additional use of diesel. Are you able to answer how much is a ‘small amount’? Can you tell us how that is calculated?

Mr Parker—That is not something that Treasury has worked out. That is actually one of the questions we were a little bit surprised to see flicked to us.

Senator ALLISON—We were surprised as well.

Mr Parker—We are aware of the debate which took place in the Energy Task Force but we did not have a role in actually estimating that.

Senator ALLISON—To whom do you think we should address that question?

Mr Parker—I think that it is probably Environment.

Mr Colmer—It would be somewhere in the environment portfolio, either the environment department itself or the Greenhouse Office, I would have thought. I notice that they have referred it to us but I am not quite sure why, Senator.

Senator ALLISON—You have had the benefit of the *Hansard* for some time. Were there any conversations between you and the Greenhouse Office, or Environment?

Mr Parker—No.

Senator ALLISON—How do you then suggest that we pursue this question? There must be something to back it up. Someone wrote it and had some advice about writing it.

Ms Mrakovcic—I think it is more appropriately put to the environment department.

Senator ALLISON—All of our questions about the road user charge were also referred to Treasury. I wonder if it is possible to give us a bit of a presentation, some remarks, about where you are at in terms of the design of the road user charge system. I asked about alternative fuel vehicles, about what happens to them from 2011 when they start paying excise and how that works with the road user charge. We did establish that the road user charge is a notional one; it is not based on externalities of the cost of roads—or only very loosely et cetera. Can you give us your perspective about some of those issues?

Mr Parker—We will be happy to do that, but I would just flag that some of these policy matters are still in the development stage and that a number of them, including the treatment of the road user charge insofar as it applies to alternative fuel vehicles, are things which are not intended to commence until seven years hence.

Senator ALLISON—But you will appreciate that decisions about buying new fleets, putting in retailing opportunities for the alternative fuels and so on are made at least as far in advance as this.

Mr Parker—I just want to say that that particular thing may not be Mr Colmer's highest priority but I will pass the question to him.

Mr Colmer—The road user charge is something that is going to be determined by the National Transport Commission and the intention of the road user charge is, as you say, to service the cost of externalities of road use by heavy vehicles. The policy decision is that, once the determination is made, the grant under the current Energy Grants Credits Scheme will be adjusted so that for trucks or for on-road use the amount of grant is equal to the excise paid minus the road user charge. At this stage we do not know what the road user charge will be. That is something that is up to the National Transport Commission to determine. That is something that, again, is in the Transport portfolio. I understand that the National Transport Commission has started considering the process of determining that charge, but the detail of how that charge is actually defined and what will be taken into account is not something that I have any great inside knowledge of. My understanding, though, is that it is intended to cover as far as possible the actual cost of heavy vehicles to the road network.

Senator ALLISON—So there has been no thought given to the interaction between those lower excise fuels, alternative fuels, LNG, LPG, as they relate to larger vehicles?

Mr Colmer—The intention, as has been announced so far, is that the amount of grant under the Energy Grants Credits Scheme will be the excise less the road user charge. There are still some matters on which we need to get clarification from government, and that is one of those.

Senator ALLISON—When you say 'from government', you mean from ministers, from cabinet.

Mr Colmer—Yes.

Senator ALLISON—It is not the department you are waiting on some advice from.

Mr Colmer—There are still matters of detail that will need to be resolved in the implementation of some of these programs. There has not been an explicit decision on the treatment of alternative fuels under the new business credit system.

Senator ALLISON—When can we expect that to be worked through?

Mr Colmer—I do not have a time frame on that at the minute. I do not know.

Senator ALLISON—When will you have a time frame?

Mr Colmer—I do not know. The change is expected to come in from 2006. We are anticipating doing some detailed consultation and legislation design work, probably in 2005. I would imagine that there will be a number of issues on which we will need to go back to the government for clarification as part of that process before legislation is finalised. As I said, there has been no explicit decision on the position of alternative fuels, but the basic policy position is that the transport sector should pay the cost of using the roads.

Senator ALLISON—Are there any objectives with regard to alternative fuels that you know of, apart from the Prime Minister's 350 million litres of biofuels? Are there any other objectives which would be provided in the process of establishing what the road user charge would be with regard to alternative fuels?

Mr Colmer—I do not believe that the road user charge will have any particular bearing on the type of fuel used in a vehicle. My understanding of the road user charge is that it is essentially defined by the type of vehicle—the mass, the number of wheels and axles, and the damage to the road. Again, that really is a matter of detail which I think needs to be referred to the National Transport Commission.

Senator ALLISON—This is very interesting. It was my understanding from last week's hearing that it is not about the amount of road damage a vehicle does. That is a very notional description of the road user charge. It does not, for instance, relate to the weight of goods being carried or the distance. It is purely based on the amount of excise that is paid. Isn't that right?

Mr Colmer—That is not my understanding. My understanding is that the road user charge is about the use of roads. The excise rate is determined quite independently from that. And, in fact, as you would probably be aware, the excise rate has been at its current level since 2000—it has not been changed. The grant rate is intended to be the excise rate minus the road user charge.

Senator ALLISON—Can you give the committee your version of what you think the road user charge will take into account. I understand that somebody else is doing it, but you are clear that it is about using the road.

Mr Colmer—My understanding is that the road user charge is designed to take account of the impact of vehicles on the road.

Senator ALLISON—How?

Mr Colmer—If you look at page 100 of the energy statement, it says that the process of establishing the road user charge is a cooperative federal-state process which assesses the impact of heavy vehicles on road costs.

Senator ALLISON—And is that all we have to go by in terms of the impact on roads? As I understood it, the cost of roads is to be established on a kind of notional basis, and that is to be used somehow in the process of determining what the road user charge is.

Mr Colmer—I would have to take your advice on that one. You have perhaps had the benefit of getting a greater insight from the Department of Transport and Regional Services.

Senator ALLISON—So you cannot shed any light on this subject, other than what is written in the document.

Mr Colmer—I cannot.

Mr Parker—We could note that, as you know, there are two components to the road user charge. One is the registration, which is a state based arrangement, which is affected by mass, number of wheels and so forth. In effect, the excise system operates as an indirect mechanism to pick up effectively a distance based charge. That is, it is an indirect mechanism because—

Senator ALLISON—That is what I suggested before.

Mr Parker—the distance is highly correlated with the amount of energy that is used to move the truck. It is also correlated with weight and so on, so the excise system becomes—

Senator ALLISON—So what is the point? Why not just stick with the excise system? What is the point of replacing it with a road user charge? What is the underlying Treasury type philosophy for that?

Mr Parker—What is proposed is a much more transparent arrangement where the net excise that is paid by the transport sector is determined according to a methodology determined by the National Transport Commission, which is driven by road costs. That, in effect, becomes collected through the excise system.

Senator ALLISON—I am not sure I understand how that is more transparent. What is not transparent at the present time about excise?

Mr Colmer—At the moment excise is very transparent. It is 38.143c a litre on most fuels.

Senator ALLISON—That is what I would have thought.

Mr Colmer—What we are currently working on is a notional road user charge of 20c and what we are trying to do is ensure that the actual road user charge reflects changes in costs over time.

Senator ALLISON—So it is to reflect major increases or decreases in road funding—is that too crude?

Mr Parker—It probably is.

Senator ALLISON—From a Treasury point of view, why would you do that? What is the advantage? You say that it is more transparent. I am not sure that it is; the current system seems pretty transparent to me. In what sense is this is an advantage?

Mr Colmer—I think you have to go back to the basic rationale underlying the business credits scheme, and that is to simplify the system, to make it more equitable, to make it more efficient and to try to ensure that costs are levied where they are actually raised. The intention broadly behind the business credits scheme is, amongst other things, to remove the embedded

tax cost on business. The question is: how much of that excise relates to the use of roads and how much of it is revenue raising? Part of the basic philosophy underlying the whole excise reform package was the intention to clarify the policy underpinnings of the excise system—fundamentally as a revenue raising system based primarily on the private use of fuel in transport.

Senator ALLISON—If we can stay with the big trucks, can you explain in what sense this is more equitable? Will it alter the tax paid overall, whether it is into revenue or into something else, for different groups? In what sense are you changing the equity?

Mr Colmer—The road user charge, as I understand it, starts off with an assessment of the cost on the road system of heavy vehicles. There are then two separate components: there are registration fees, which are levied by various state and national registration authorities; and there is the excise fee, which is on a per litre of fuel basis.

Senator ALLISON—If this is one of the equity issues, would you expect that the heavy trucks that do the most damage will pay more than they currently do?

Mr Colmer—They certainly pay more under the registration system. In terms of how the actual road user charge is going to be implemented, I am not sure of the detail of that, but I think it is going to be, at this stage at least, an average figure.

Senator ALLISON—What you mean by ‘average’?

Mr Colmer—It will be one figure across the transport sector.

Senator ALLISON—The road user charge will be the same for all classes of vehicle?

Mr Parker—No, Patrick means per litre of fuel used.

Senator ALLISON—Is it the case that there is an absolute relationship between the amount of fuel used and the amount of damage which is done to the road?

Mr Colmer—I think it is probably an indirect link.

Senator ALLISON—If it is an indirect link, what does that lead us to understand about the shift? You talk about this being more equitable. I ask you again: who are the winners and who are the losers? Who are the ones who should be paying more, and who are; who are the ones who should be paying less, and who will be under this scheme? How can you say this is more equitable without being able to explain that?

Mr Colmer—I do not think that can be answered without looking at the total relationship between fuel use and registration charges. If you want to talk about that, you need to talk to the transport people.

Senator ALLISON—We have already talked to them and they were not able to enlighten us. They said we should talk to you, that you had all the wisdom on this issue.

Mr Parker—I think it is fair to say that, as far as the road user charge is concerned, through the excise system, there is not a substantial change in respect of heavy trucks operating outside the present urban boundaries. There may be slight changes in the level of the charge when it is reset by the National Transport Commission, but the system is basically carried over for that class from the existing system to the new system. It does not change substantially. Where there are changes in the reform arrangements, it is around issues of the urban boundary, the classes of trucks—the plus 20 tonnes, the 4.5 to 20 tonnes. There is the issue of heavy petrol vehicles and so forth. In terms of your standard long-haul diesel truck, there are no substantive changes coming out of the present reform.

Senator ALLISON—Let us turn to buses in metro areas. You will know that buses currently do not pay excise on diesel in city areas.

Mr Colmer—It depends on the weight of the bus and where they are being used.

Senator ALLISON—Those that are over 4.5 tonnes?

Mr Colmer—Those that are over 20 tonnes do not pay excise; those between 4.5 and 20 tonnes do pay excise depending on what journeys they undertake and what fuel they use.

Senator ALLISON—What effect will the road user charge have on buses in the current arrangement?

Mr Colmer—Buses will be subjected to the same road user charge as other vehicles. The removal of the boundary means that they will have more eligibility for the grant under the new scheme for the use of fuel.

Senator ALLISON—What about those buses that are already using alternative fuels like ethanol and compressed natural gas?

Mr Colmer—As I said earlier, there are still some issues of detail that need to be resolved. The actual policy around the interaction of the road user charge and alternative fuels has not yet been settled.

Senator ALLISON—That is for those that continue to use alternative fuel. There is nothing in this measure which would discourage a shift to diesel. This came up as part of the GST inquiry as well. It was made clear that if the diesel excise were significantly reduced, it would affect that incentive, particularly for buses, to convert to gas. A lot of state governments have commissioned fleets which use compressed natural gas. What sort of work did you do in terms of the impact of this change on those buses?

Mr Colmer—In terms of the work that was actually done on that, again that is probably more of a transport or environment issue. At the moment CNG under the current Energy Grants Credits Scheme is just a little over 0.1 per cent of the total payments. It is a very small part of the overall program. What will happen with the change is a little unclear. There certainly has not been a major shift to alternative fuels under the Energy Grants Credits Scheme.

Senator ALLISON—So, in the work which is being done on how alternative fuels gel with the new system, you have not assessed the number which might have been online for converting to alternative fuels over the next few years? Some of that is fairly easy to predict based on projections.

Mr Colmer—I do not know what other portfolios have done on that.

Senator ALLISON—But that has not been a matter for Treasury to look at?

Mr Colmer—Our concern from the excise perspective has been the operation of the tax system. The whole purpose of the Energy Task Force was to bring together a range of departments with a range of interests to resolve policy, taking account of all of these things. In that work, issues such as that were really the responsibility of the individual portfolios.

Senator ALLISON—So at no stage was it suggested to Treasury that the road user charge should be lower for public transport, for instance, in order to overcome what might be an incentive to shift to diesel?

Mr Colmer—I am not aware of anything of that nature.

Senator ALLISON—What does the GST currently raise on public transport?

Mr Colmer—I do not have that figure.

Senator ALLISON—I will go to the question of the excises to be removed from burner fuels. What impact will that have on the lubricating oil recycling system?

Mr Colmer—The oil recycling system is a relatively new program. It is something that had grown up piecemeal over a number of years. In 2000 there was a new program which the Department of the Environment and Heritage brought in, the Product Stewardship for Oil Program—

Senator ALLISON—I am aware of that.

Mr Colmer—What we have been trying to do over a number of years is migrate some of the pre-existing excise arrangements into the Product Stewardship for Oil Program. Again, I think that is an issue that you really need to take up with the Department of the Environment and Heritage, the people who run that scheme. I think they are aware of the need to deal with oil recycling as a unified program rather than a series of diverse and varied arrangements, which was the situation prior to 2000 and the implementation of that scheme. The PSO scheme has made a number of advances, to my understanding, but there is further work to be done on that. Again, that is something that you really need to talk to the Department of the Environment and Heritage about.

Senator ALLISON—But the removal of excise will have a major impact, will it not, on the incentive to recycle lubricating oil?

Mr Colmer—And we have said to the Department of the Environment and Heritage that they need to work out the appropriate way of dealing with that through the product stewardship scheme.

Senator ALLISON—Have you given them any suggestions as to what that might be? It is a tax matter, isn't it?

Mr Colmer—No, I do not believe it is a tax matter. I think the position that we are in is that prior to the implementation of that scheme there were a variety of arrangements that had been implemented over the years and that scheme provides a coherent platform on which to deal with the issue of oil recycling. It has not yet matured to the stage where it is actually dealing comprehensively with the issue of oil recycling, and we have flagged with the department of the environment our view that they should be working through options to ensure that, under the PSO scheme, those oil recycling issues can be adequately dealt with.

Senator ALLISON—Like what?

Mr Colmer—Again I am not sure of the detail on this. I am not sure of the exact time frame but some time in the last six months I understand that they have brought on line some new rates for the various grants paid under that scheme to take account of some of the changes that are happening in the excise system.

Senator ALLISON—The rates have been increased for collection and so forth?

Mr Colmer—You would have to ask them for the detail. But they are aware of the longer term view to streamline the excise arrangements and they are aware that that leads to implications for the product stewardship scheme and are working to develop proposals to deal with that.

Senator ALLISON—Do you have any idea what the time frame is?

Mr Colmer—No.

Senator WONG—I assume if you have read the transcript you will have noticed the discussion regarding the costing of \$11.5 billion of a five per cent MRET target.

Ms Mrakovcic—Yes, I have read that.

Senator WONG—Did Treasury have any involvement in that costing?

Ms Mrakovcic—No.

Senator WONG—You were not asked to verify it or check it?

Ms Mrakovcic—No, not as far as I am aware.

Senator WONG—You were not asked to verify or confirm the modelling upon which the 11½ billion was based?

Ms Mrakovcic—I am not aware of the basis for the 11½ billion.

Senator WONG—Has Treasury ever costed various scenarios for different levels of MRET?

Ms Mrakovcic—Do you mean in terms of the economic cost?

Senator WONG—Yes.

Ms Mrakovcic—No—again, not as far as I am aware.

Senator WONG—I will turn to the Renewable Energy Development Initiative. I did ask Environment some questions on this. The white paper, at page 182, provides \$100 million over seven years. My recollection of the previous department evidence is that funding was to comprise \$50 million from the Commercial Ready Program, which is a Backing Australia's Ability measure. Is that correct?

Ms Mrakovcic—I think that in terms of the Commercial Ready Program and whether it is part of backing Australia's Ability it is probably best put to Industry, Tourism and Resources.

Senator WONG—You are Treasury and you have costed this, presumably. These costing for the white paper are—

Ms Mrakovcic—No. In fact, the costings for expenditure components are done by Finance.

Senator WONG—You did not cost this at all? You had no involvement in this? You cannot tell me where the various components of funding come from for the Renewable Energy Development Initiative?

Ms Mrakovcic—Our information would be exactly what you have in front of you.

Senator WONG—Does that mean we have to turn up again to get Finance along? It is a very simple question. If you are able to get an answer to us I would appreciate it, because this is the third department I have asked and everyone keeps handballing it. I am asking about the \$50 million which is from the Commercial Ready Program. I just want to know: which package of measures—that is, which line items in the budget paper—is this \$50 million being sourced from? It is very simple. Someone must have dealt with that because you have moved it from that into this announcement. Someone in government should be able to tell me that.

Ms Mrakovcic—As far as I know, the Commercial Ready Program is something that would be administered by Industry, Tourism and Resources. I would presume that they would have a good understanding of their portfolio estimates. However, I am happy to take the question and see if we can provide you—

Senator WONG—Do you want to ask them and see if you can get a response to a question on notice? You can indicate to them that if it does not happen—because I have asked this at a number of hearings now—we will reconvene, subject to John Cherry's patience, and ask ITR or Finance. It is a very straightforward question. It must have been done by government in order for

this announcement to be made. It says in the white paper you are pulling this from the Commercial Ready Program—I just want to know which bits of it.

Mr Parker—We will undertake to do that.

Senator WONG—Thank you very much. I really appreciate that. Are you able to answer questions on the removal of excise on burner fuels, at page 179 of the white paper? To whom do I address this?

Mr Colmer—What is your question?

Senator WONG—My question relates to the difference between the forgone revenue, which I think is \$60 million, and the removal of grants resulting in savings of \$50 million a year. Can you explain the \$10 million discrepancy?

Mr Colmer—The \$10 million discrepancy essentially comprises burner fuels such as heating oil and kerosene used for home heating purposes. The bulk of the burner fuels at the moment, \$50 million worth of excise, is used by large companies and they are eligible for an Energy Grants Credits Scheme payment. The \$10 million discrepancy is basically for private domestic use, primarily for home heating.

Senator WONG—What else?

Mr Colmer—There are a variety of uses for kerosene, such as as a solvent and various sorts of things, but the major use is home use.

Senator WONG—So essentially there are a range of burner fuels that do not currently attract grants?

Mr Colmer—That is right. That is why there is the \$10 million difference.

Senator WONG—Thank you very much. I want to ask about the extension of full credit for fuels used in electricity generation. I think it is on the same page. It says:

Diesel and fuel oil used for power generation will be effectively excise-free from 1 July 2006.

Where does the \$140 million derive from?

Mr Colmer—That is an estimate of the current excise paid on those fuels used for commercial power generation in rural and remote areas.

Senator WONG—If we have a costing of revenue forgone, you know where that will come from.

Mr Colmer—In what sense do you mean where it will come from?

Senator WONG—I am interested in geography.

Mr Colmer—There are a variety of uses, but most of it is in rural and more remote areas.

Senator WONG—Can we get geography as opposed to just rural and remote areas?

Mr Colmer—I am not sure that we have that but we—

Senator WONG—You must have done it to have costed the forgone revenue. You must have worked out who was not going to be paying this.

Mr Brown—The forgone revenue would have been calculated based on claims for grants et cetera from people who are eligible for them, but then, with the actual excise collected from people who are not eligible and who are not claiming grants because they are not actually putting in an application to have excise rebated, it becomes a little difficult to know exactly where they all are. There is a certain amount of fuel cleared that excise is paid on, but if people are not actually putting in a claim to have it rebated then getting the exact location and address of those people is a bit hard.

Senator WONG—What proportion of that is the \$140 million, though? You are saying there is some component of users who are affected by this measure that you could not track—

Mr Brown—We know the type of user who would become eligible, but actually tracking them geographically is a little bit difficult.

Mr Parker—It is a question of whether the system actually captures that information—that is, their geographic location—but we can have a look and see what we can find.

Mr Colmer—Generally speaking, we are talking about places where there is no access to alternatives—that is, places that are away from natural gas pipelines or coal sources. I would not like to be held to this, but I would guess that they are more in the centre and more to the north of the country.

Senator WONG—Are you able to see if you can find for me some indication of which geographic areas are going to be the biggest beneficiaries of this measure?

Mr Colmer—We can have a look at that.

Mr Parker—We can have look and see what we can find for you. We will ask the tax office if they have any information.

Senator WONG—Did you do any state-by-state analysis of revenue forgone under this measure, for example? Of the \$140 million, how much is in WA?

Mr Brown—There is a similar problem in that, again, you start from excise that is paid by the refiner of the fuels. The location of those refiners, in terms of where they pay the excise, bears very little resemblance to where the fuel might be used. An oil company might have its head office in Melbourne but be refining fuel in a number of states. In that sense, it gets a little bit difficult to track down where fuel is actually being used on that basis. Again, it is one of those

things where we do not have direct evidence to say precisely which states fuel is being used in. You can look broadly statistically—

Senator WONG—You can do that?

Mr Brown—You can do that in terms of ABS statistics and things like that, which tell you something about where fuel is being used, but you cannot pin it down.

Senator WONG—What about for the purpose of electricity generation? That is what we are talking about, isn't it?

Mr Brown—Yes.

Senator WONG—That is the \$140 million.

Mr Brown—Again, it is a broad statistical analysis that you can look at but we do not have precise statistics in terms of being able to track it through the system.

Senator WONG—What statistics do you have? What is this broad statistical analysis you are talking about, Mr Brown?

Mr Brown—You are looking at fuel use statistics from sources such as ABARE.

Senator WONG—Were they relied on for the purpose of this costing?

Mr Brown—Not to get geographical spread.

Senator WONG—What were they relied on for?

Mr Brown—We rely on a range of statistics to get the types of fuel and the broad use of fuel across Australia so that we can determine just what uses would become rebatable under the grants scheme. But the geographical spread was not a high priority for us.

Senator WONG—But you must have some sense of it. If you are getting an estimate of revenue forgone, you are going to know broadly where that comes from—or where that is not going to come from.

Mr Parker—As we said, we will endeavour to get you whatever information we can about the geographic use.

Senator WONG—We are on a slightly different angle here. Could you do that in relation to this as well? Is the extension of this credit going to encourage the use of diesel generators or peak shaving by generators in the national electricity market? Do you not understand what I mean?

Mr Colmer—I think we understand what you mean. Again, I am not sure that that is an issue on which we can comment very well from a taxation perspective.

Senator WONG—It has made it cheaper to use diesel generators than any other form of fuel, where you have excess demand.

Mr Parker—Treasury has not made an estimate to that effect.

Senator WONG—Was that discussed in the task force?

Mr Parker—I do not recall that being discussed. I am now trying to recall things which occurred more than a year ago.

Senator WONG—But there is a clear policy decision to send a price signal here.

Mr Parker—Yes. I will make a general comment in terms of these issues of the behavioural response to those various price signals in terms of the extent to which Treasury might take account of them, not only in this respect but also in terms of questions of alternate fuel use for transport and the like—similar questions arise in that context. We can give you a definite answer that we have specifically not taken account of them in terms of putting together these costings. That is in a sense a scientific direct response. It is a yes or no answer. But there is, if you like, a question of why that is the case. That goes very much to the methodology that is used in these costings. It becomes a question of art where, for example, the issue of the effect of the changed excise arrangements on alternate fuel use and transport—

Senator WONG—Hang on, Mr Parker, this is not the question I asked, which I asked very specifically. There has been a decision made to extend for credit for fields used in electricity generation to diesel and oil, right?

Mr Parker—Yes.

Senator WONG—There is a clear price signal sent there, isn't there? You are essentially reducing the cost of power generation reliant on those fuels.

Mr Parker—Yes.

Senator WONG—First, do you concede that there is a private enterprise signal there and that that encourages diesel and fuel oil generation?

Mr Parker—Yes, there is.

Senator WONG—Thank you. Was the fact that this potentially encourages the use of diesel generators for peak shaving by generators in the national electricity market something that was considered?

Mr Parker—May I have your indulgence for a second?

Senator WONG—That is fine.

Mr Parker—I will ask one of my people behind me—someone who was involved in the process—if he recollects that. My colleague was one of the Treasury people on the secretariat of

the task force. He does not specifically recollect whether any analysis of behavioural responses to that changed incentive was done. He has made the point—it is quite correct—that the way that you look at this depends very much on the starting point of the analysis. What has been done here is that what was a disincentive for diesel generation vis-a-vis other fuels has been removed.

Senator WONG—Yes.

Mr Parker—Other fuels were tax exempt and remain tax exempt, so what has been implemented here is a move to a situation where it is neutral in terms of fuel choice for electricity generation. It goes back to the question of neutrality and that broad policy.

Senator WONG—Given that, to move from a disincentive for diesel generation to a neutral position is essentially a disincentive for natural gas and renewable energy power generation, isn't it?

Mr Parker—Compared to the previous situation, that is right.

Senator ALLISON—Just on that point, have you done any work on off-road vehicles in industry, forklift drives, those sorts of vehicles? I gather quite a substantial number of them are already operating on alternative fuels. Are we likely to see them switch back to diesel or go to diesel.

Mr Colmer—I think the same general position holds—we have not done any explicit work on that, that I am aware of, in the Treasury portfolio. Again, it is a question about trying to achieve neutrality. Just as a general observation, price is an important factor in the use of fuels but it is not the only one. There are a whole wide range of other factors that are taken into account in the decision to use fuels.

Senator ALLISON—By the users, not by Treasury.

Mr Colmer—By the users, that is right.

Senator ALLISON—Is it possible to get a breakdown of the expected cost in the credits for diesel for infrastructure construction, large-scale electricity generation, water supply and conservation activities?

Mr Colmer—I think you already have the cost for the large-scale electricity generation.

Senator ALLISON—I have?

Mr Colmer—We had a discussion about that earlier, and I think that would be the figure that is in the white paper.

Senator WONG—The \$140 million?

Mr Colmer—Yes. We can certainly look at those other questions and see what we have. I do not have those figures at my fingertips.

Senator ALLISON—I am just thinking about desalination. Do you know whether this reduction in excise on diesel will facilitate more desalination opportunities?

Mr Colmer—Will facilitate? I guess that would depend on—

Senator ALLISON—Make them more viable.

Mr Colmer—Yes, I understand the meaning of the word, Senator. Frankly, I would not really know. It would depend on what the fuel was being used for. It would depend on the access to alternative fuel sources in desalination plants.

Senator ALLISON—I am sorry, I am not comparing with alternative fuel sources. I am just making the point that, if diesel is much cheaper for use in water activities, desalination may become more viable than it is currently under the arrangements we have.

Mr Colmer—That may be the case.

Senator ALLISON—But you have done no work on that?

Mr Colmer—I am not sure what the entire electricity industry is worth nationally, but I would think that \$140 million which is currently spent on diesel would be a very small proportion of the total cost of generating electricity in the country.

Senator WONG—The conversion of partial excise for fuel used to road user charge: we have had some discussion about that. The white paper indicates that in 2006-07 savings to budget will be \$180 million and then \$220 million in the subsequent financial year. Can you tell me how those figures were arrived at?

Mr Brown—How the road user charge estimates were arrived at was discussed earlier. You have a projection of what revenue we will have from excise and then a deduction for the amount of on-road credit that would be being paid. The amount of that credit is assumed to be calculated as a residual equal to the road user charge, and the road user charge is indexed going forward to maintain its real value. So those figures—the reduction in outlay—reflect the fact that the notional road user charge part of it has increased, reducing the amount of grants that would be payable.

Senator WONG—I will come to the indexation; I want to ask a couple of questions about that. How is the \$180 million calculation arrived at?

Mr Brown—That is arrived at by taking a projected level of the road user charge—

Senator WONG—What is the level?

Mr Brown—and applying it across all users. I do not have the level to my immediate recollection, because what we are looking at is something which was an estimate that we were supplied with as a notional level of indexed forward road user charge.

Senator WONG—Who supplied you with that?

Mr Brown—That came from the energy task force.

Senator WONG—Are you able to provide for me the bases of the \$180 million and the \$200 million calculations? You can take it on notice if you are not able to do that now.

Mr Brown—We can take that on notice.

Senator WONG—How was the growth factor between the 2006-07 and the 2007-08 financial years determined? I think you raised that.

Mr Brown—That was to maintain the real value of it. Essentially, it is a CPI projection.

Senator WONG—So you are presuming the charge will go up by CPI?

Mr Brown—Something around that. That is purely an assumption to maintain its real value. As was pointed out earlier, the actual amount of that charge is something which is yet to be determined.

Senator WONG—Was it the commission?

Mr Colmer—The National Transport Commission.

Senator WONG—And so if they determine that it will be less than CPI—

Mr Brown—That is a possibility, but it is yet to be determined. I have no basis for assuming that either way. In the figures that were provided to us the underlying assumption was essentially maintenance of its real value, which is a fairly neutral assumption.

Senator WONG—Why is that neutral?

Mr Brown—Just because you would say that there is a level of charge and we are maintaining its real value.

Senator WONG—So is the policy assumption that each year the real level of this charge will be maintained?

Mr Brown—That was a costing assumption which was basically underlying the projections that we did.

Senator WONG—A few things have happened since last week, but I am trying to remember: does the commission meet annually? Was that the idea? Or would they meet once every few years?

Mr Colmer—I believe the intention was to adjust the charge annually.

Senator WONG—Yes, I understand that.

Mr Colmer—Again, as I explained, the actual methodology for establishing that determination is something that will be handled by the National Transport Commission. At the moment, I—

Senator WONG—I appreciate that, but you have made certain costing assumptions about an annual CPI indexation. I am trying to work out what the mechanism for that is. If the commission is only going to meet once every three years, on what basis can you assume indexation on an annual basis?

Mr Brown—The indexation is a costing assumption. It is not actually a policy position.

Mr Parker—On page 100 of the white paper in the second paragraph it mentions the National Transport Commission process. It then goes on to say:

The excise-based charge will be adjusted annually in the way that the states and territories adjust registration fees

Senator WONG—It is silent on what the adjustment is. So we are clear that the assumption is CPI?

Mr Parker—Yes, CPI.

Senator WONG—On the \$180 million saving, is it assumed that there will in fact be an increase in the real cost being paid by transport operators, whether through an excise or road user charge?

Mr Colmer—That this is the basis of the costing, yes.

Senator WONG—Are you able to give me a more detailed basis for the calculation of the \$180 million? That is what you have taken on notice, isn't it?

Mr Brown—That is correct.

Senator WONG—And the \$220 million. But I assume it will be as above, plus CPI.

Mr Brown—That is correct.

Senator WONG—I think DOTARS gave evidence about the rationale for the removal of the metropolitan boundaries and the extension of on-road credits to all fuels. The net cost to government is \$130 million for 2006-07 and 2007-08. Can I ask why there is no growth factor built into these figures? One presumes that you are likely to see an increase in the number of vehicles or vehicle kilometres travelled over the two years, or is the assumption that the same number of people will travel the same amount?

Mr Brown—That in fact relates to the assumed indexation of the road user charge component, in part, because you have a fixed level of excise assumed into the future but the road user charge component is indexed.

Senator WONG—So you are saying the growth factor is costed in terms of your indexation of the road user charge?

Mr Brown—The base figure is the amount of fuel use and that is based on a growth projection in terms of volumes of fuel. However, you have an amount of grant which would be gradually declining as the road user charge is indexed. As a result, it cancels out an element of the growth. It is not that there is no growth assumed in the figure. It is simply that the outcome shows very little growth—

Senator WONG—Very little? It is precisely the same.

Mr Brown—After rounding.

Senator WONG—What was it until you adjusted it?

Mr Brown—I do not have the—

Senator WONG—What is the unadjusted figure? I understand you are saying to me that the net expense to government will be retained because we are assuming indexation in the road user charge; is that right?

Mr Brown—The volume of fuel is expected to increase, but the amount of grant is decreasing. Fuel volume is increasing at roughly the same rate as the decrease in the grant. So, for the total amount paid, the growth in one is offset by the change in the other.

Senator WONG—What was the unadjusted figure for 2007-08 then?

Mr Brown—I do not have that figure with me. We apply a rounding figure because they are estimates and we do not want to put an unreasonable degree of precision on them.

Senator WONG—I would like to understand, with some figures before me, the offset that you are talking about and what the actual numbers are.

Mr Brown—I do not have the exact growth figures here but, if you had an expectation of inflation in something like a two to 2½ per cent band, that would be roughly the same as the growth in fuel volume that would be anticipated in the modelling. That is all that that figure coming out at about the same level is reflecting.

Senator WONG—Why? Because the road user charge increases through CPI?

Mr Brown—Yes. The road user charge is assumed to be indexed to the CPI.

Senator WONG—On that basis, would you anticipate that over time, beyond the forward estimate period, the net cost to government will decrease?

Mr Brown—I would expect that those numbers will change, but it will depend on the exact formulation, depending on how road user charges are set into the future.

Senator WONG—Sorry, I was making an assumption of CPI indexation annually, which is, I understand, what your costing assumptions were.

Mr Brown—Whether it increases or decreases will depend in part on what differences there are in those growth rates. I do not have that to hand. At the moment what the figures are reflecting is that there is not a great deal of difference. Over time, yes, you would expect a gradual change in those numbers, but that depends on how far out your project. At the moment the figures are projected out over the forward estimates period.

Senator WONG—When you say a slight change in numbers, do you mean that you would anticipate over a longer period an increased net cost to government from this measure?

Mr Colmer—Just the boundaries?

Senator WONG—Just the boundaries.

Mr Brown—I do not know that I would want to venture a view on that. It is one of those things that are relatively finely balanced.

Senator WONG—It depends on what level the charge is set at, I suppose.

Mr Brown—That is right, and it also depends on the time frames that you are looking at it over.

Senator WONG—Were any additional compliance costs built into the road user charge costings?

Mr Colmer—A few measures have been identified in here. For example, on page 179 is the conditional excise credits measure, which is funding being provided to the department of transport to develop some of the mechanisms for managing the program and managing the compliance with the program. As a basic proposition, though, in terms of compliance costs—and if by that I assume you mean administration costs from government—the department of finance is still working through what the impact will be. These programs are run by the tax office. There was a figure that was used as an estimate here but I understand that the tax office and the department of finance are trying to refine that figure to get a better estimate of what the actual compliance impact on the tax office will be.

Senator WONG—What was the estimate? Was it the \$1.2 million and \$0.4 million?

Mr Colmer—It is probably in here somewhere. It was in fact a small saving, to my recollection, to the tax office. I do not know whether or not it is included in here.

Senator WONG—What is the figure you are talking about? What does it relate to?

Mr Colmer—There are substantial simplifications arising from both the on-road and off-road components of the schemes. At the moment, the schemes are very complex. In particular, the metropolitan boundary carries quite a large compliance burden on both the tax office and transport operators in terms of keeping records and verifying which activities they are

undertaking and which are eligible. The off-road component has extremely complex eligibility criteria which have grown up over a period of 20 or so years. You probably do not care to look at the legislation, as it is quite nightmarish and has been the subject of, amongst other things, quite a great deal of litigation over the years.

Senator WONG—Sure. You are assuming that, because you are fixing this up, it is going to be easier for them to administer?

Mr Colmer—That is right.

Senator WONG—How much was the saving?

Mr Colmer—I do not have that figure here. As I say, I understand that it is still subject to some further study and discussion between the department of finance and the tax office.

Senator WONG—But it must have been estimated in order to arrive at some of these costings. Are we talking about \$1 million, \$2 million, \$5 million, \$10 million or \$20 million?

Mr Colmer—I think we are talking something in the order of—and I am a bit loath to put a figure on it—\$10 million per annum, but I am not sure of that.

Senator WONG—The current system must be very complicated.

Mr Colmer—The current system is indeed very complicated and, as I said, there have been a large number of problems with it. There have been a large number of disputes and litigation. Trying to maintain the records for which bits of fuel use are eligible and which are not is not a trivial task, and it is something that requires significant tax office resources as well.

Senator WONG—I go now to the last table on page 179, about the conditional excise credits for heavy diesel vehicles. Can you tell me what the \$1.2 million and the \$0.4 million expenses are associated with?

Mr Colmer—As I said, they are to develop some of the detail—and I will just try to find you the reference—

Senator WONG—I remember: this is where they are going to have these performance criteria.

Mr Colmer—That is right. It is page 104 of the paper.

Senator WONG—What I am confused about is why there is nothing beyond 2005-06.

Mr Colmer—It is to develop the standards rather than to implement them on an ongoing basis.

Senator WONG—Who implements them?

Mr Colmer—That will be done by the tax office as part of their management of the program. But that funding there is to actually work up the proposal.

Senator WONG—Have we got more money for the tax office to administer this and ensure compliance?

Mr Colmer—As I said, we expect there will be some savings from the tax office in the overall program.

Senator WONG—Because that is an offset. It is more than offset by your change to the boundaries et al.

Senator ALLISON—Can I ask about the effect of home heating and generation on the solar industry. The Australian Business Council of Sustainable Energy is suggesting that the 40 per cent reduction in the cost of diesel for remote areas will drive a move back to diesel from solar. Is that your expectation? Has any work been done in the area?

Mr Colmer—Again, that is not really our field, but I will make an observation in terms of the current system. Domestic use of diesel for power generation is already eligible for an energy grants credit grant and has been eligible under the Diesel Fuel Rebate Scheme since the early eighties. For domestic power generation, it will have no impact on the price of diesel. In terms of heating, I would imagine—and again, this is not my field—that there are not many new houses being built with oil or kerosene heating. I think it is very much a legacy from the past. I am not quite sure. These are, however, issues for environment experts.

Senator ALLISON—I have another question, which is not quite related to what we were talking about. An issue that was raised about solar panels—and I understand there has been a tax office ruling on this; this may not affect Treasury—was the question of the application of the GST to the full amount of electricity which is used by the domestic consumer, regardless of the fact that there is electricity credited because of the solar generation, usually rooftop. The GST is applied to the total and not the net amount.

Mr Colmer—I was not aware of that.

Senator ALLISON—I understand it depends on the measuring arrangement that that user has with the electricity retailer.

Mr Colmer—That is quite possibly the case, but I am not aware of that ruling.

CHAIR—Thank you very much. I am advised by the secretary that we hope to have the transcript by tomorrow. We have a very tight reporting date of 2 September, at this stage, so if we could get answers by Tuesday next week that would be hugely helpful to the committee. If you have difficulty with that, please let the secretariat know. This is at this stage supposed to be a limited inquiry. Thank you very much for your evidence tonight.

Senator ALLISON—Could I just interrupt. Is it possible to get a breakdown of the \$1.5 billion for diesel excise reductions in the metro areas?

Mr Colmer—Sorry, Senator?

Senator ALLISON—I would like a breakdown of the \$1.5 billion.

Mr Colmer—In?

Senator ALLISON—I am talking about the diesel excise reductions.

Mr Colmer—By which areas? I heard you say \$1.5 billion for diesel excise reductions, but you said something at the end of that.

Senator ALLISON—I am talking about the \$1.5 billion on diesel excise reduction. There is nothing more to say about it.

Mr Parker—What dimension of the breakdown are you looking at?

Senator ALLISON—I am looking at the period 2006 to whatever the time frame is. I am just after whatever breakdown is available for that—over those years, the number of vehicles affected according to weight, such as whether they are over 20 tonne or 4.5 to 20 tonne. I would like to get some sort of better understanding of what the make-up of that figure is, of what the assumptions were.

CHAIR—We will add that one to the list, and we will hear from you by email hopefully early next week. Thank you again for your evidence tonight. I declare this hearing closed.

Committee adjourned at 8.57 p.m.