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| Report to the Minister under s 95ZE of the Competition and Consumer Act 2010 |
| Monitoring of prices, costs and profits to assess the general effect of the carbon tax scheme in Australia |
| October 2014 |

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# Executive Summary

This report provides information about both the ACCC’s monitoring of the impact of the carbon tax scheme and the ACCC’s monitoring of the effect of the carbon tax repeal for the September 2014 quarter.

The report is informed by

* responses to voluntary information requests to suppliers of regulated goods, liable entities and additional entities
* responses to 244 carbon tax removal substantiation notices
* the receipt of 283 carbon tax removal substantiation statements, and
* additional information gathered by the ACCC and AER.

The ACCC has seen a significant response from entities since the carbon tax was repealed on 17 July 2014 and this trend has continued in the September 2014 quarter.

The ACCC has observed entities acting quickly to remove carbon tax cost components from prices, widespread adherence to the reporting and information requirements of the new carbon tax price reduction obligation laws, and has received far fewer complaints in comparison to the number received at the same stage during the introduction of the carbon tax scheme in 2012.

By way of comparison, the ACCC received 2488 complaints and inquiries in the September 2012 quarter when the carbon tax scheme was introduced. In the September 2014 quarter, during which the carbon tax was repealed, the ACCC received 367 complaints and inquiries.

Behaviour during this early stage of the transition is encouraging. The ACCC will continue to gather and assess pricing information and engage with entities to confirm that all carbon tax cost savings are passed through.

In addition to our monitoring and enforcement activities, the ACCC expects competition to play an important role in ensuring that all carbon tax costs are passed through and, following the repeal, ensuring that carbon tax cost savings are passed through. The ACCC will monitor to see that this occurs.

## Sector summaries

### Electricity

The electricity sector is the ACCC’s main area of focus, as the impact of the carbon tax scheme was most significant in the sector.

In the wholesale electricity sector, a number of generators have stated that since the repeal of the carbon tax, they have adjusted their bidding activity by reducing the price of dispatch offers submitted to AEMO. Average monthly wholesale prices fell from June to September 2014 in all NEM jurisdictions, the fall ranging from $17 per MWh in Queensland to $5 per MWh in Tasmania. While the carbon tax will have played a role in this, a range of other factors may have contributed.

In the retail electricity sector, the range of estimated average annual cost savings due to the repeal of the carbon tax has been significant, differing between the states and territories, and between retailers. Retailers chose to express the estimated average cost savings as percentages, dollar values or cents per kilowatt-hour. These estimates are averages only: an individual customer’s cost saving will depend on the customer’s tariff structure, location and consumption. The range of estimated average annual cost savings for residential customers provided by retailers are:

Electricity - range of estimated average annual cost savings

|  |  |  |  |
| --- | --- | --- | --- |
| State | **Range of % figures** | **Range of $ figures** | **Range of c/kWh figures** |
| New South Wales | 6.01–10 | 158–179 | 2.383 |
| Victoria | 7–12.4 | 132–146 | 2.401–2.881 |
| Queensland | 8–11.14 | 170–174 | - |
| South Australia | 5.2– 8 | 136–159 | 2.379 |
| Tasmania | 9.4 | - | - |
| Australia Capital Territory | 11–11.5 | 189–222 | 2.776 |
| Western Australia | 9.8 | 46–263 | - |
| Northern Territory | - | - | 1.53 |

The estimated average annual cost savings provided by retailers are generally in line with the ACCC’s expectations. The variance in these figures across states and territories reflects a number of factors, including variance in state or territory carbon intensity, average consumption values, and differences in approach between state based regulators. The ACCC is continuing its assessment of actual prices offered to ensure all carbon tax costs are passed on. For further explanation of these figures, see page 46.

The implementation of the carbon tax repeal by electricity retailers is well underway. Most retailers had changed their prices to be carbon exclusive by the end of September 2014. The remaining retailers will change their prices by 1 November 2014, and only two have not confirmed timeframes.

All but two retailers are backdating the price change to at least 1 July 2014 or had removed the carbon component as at 1 July 2014. These retailers have confirmed that they are or will be providing credits or adjustments to customer bills for carbon amounts charged between 1 July 2014 and the date that the retailer implemented its price change. One retailer is backdating its price change to 18 July 2014, and another has not confirmed whether it will backdate its price change.

### Natural gas

In the natural gas sector, the range of estimated average annual cost savings due to the carbon tax repeal also varies between the states and territories, and between retailers. Retailers chose to express the estimated average cost savings as percentages, dollar values or dollar per gigajoule. As with electricity, an individual customer’s cost saving will vary depending on individual circumstances. The range of estimated average annual cost savings for residential customers provided by retailers are:

Natural gas - range of estimated average annual cost savings

|  |  |  |  |
| --- | --- | --- | --- |
| State | Range of % figures | Range of $ figures | Range of $/GJ figures |
| New South Wales | 3.6–5 | 27–93 | - |
| Victoria | 6.4–8 | 75–105 | 1.61 |
| Queensland | 3.2– 4 | - | - |
| South Australia | 3.6–5 | 37 | 1.92 |
| Tasmania | 4.7–5.14 | - | 1.56 |
| Australian Capital Territory | 5.5–5.9 | 93–98 | - |
| Western Australia | - | - | 1.58 – 1.70 |
| Northern Territory | 3.5 | - | - |

The range of estimated average annual cost savings are generally in line with the ACCC’s expectations. The variance in these figures across states and territories reflects a number of factors, similar to those for electricity. For further explanation of these figures, see page 52.

As with the electricity sector, the implementation of the carbon tax repeal by natural gas retailers is well progressed. All but one natural gas retailer had changed their prices by the end of September 2014 to be carbon exclusive, with the remaining retailer to complete its price change in October 2014. All retailers are backdating the price change to 1 July 2014 or had removed the carbon component as at 1 July 2014. Retailers have confirmed they are or will be providing a credit or adjustment to customer bills for any carbon amount that has been collected after 1 July 2014.

### Synthetic greenhouse gases

In the SGG sector, some suppliers have reported to the ACCC actual or expected price reductions of between 40 and 80 per cent due to the carbon tax repeal.

The ACCC is working through the various factors in the SGG sector which may influence pricing. These include the extent to which stock on hand is carbon exclusive or inclusive, the different approaches of SGG suppliers to list pricing, and the extent of stockpiling prior to the introduction of the tax. The ACCC will continue to engage with SGG suppliers to understand their price components and confirm that carbon tax cost savings are being passed through.

### Landfill

Out of the 45 liable entities that operate a landfill facility in Australia:

* 23 liable entities charged gate fees with a carbon tax cost component for the 2014/15 financial year that have now been removed, leading to reductions in gate fees ranging from $5.00 to $38.50 per tonne, with an average reduction of $17.12 per tonne. Most have refunded or intend to refund money already collected during the refund period, while others will use it to fund abatement measures.
* Eight never passed through any carbon tax costs in their landfill facilities’ gate fees and consequently, took no action in relation to their gate fees after the carbon tax was repealed.
* 11 did not include carbon tax cost components in their gate fees from 1 July 2014 in anticipation of the carbon tax being repealed during the 2014/15 financial year.
* Two liable entities have not yet taken any steps to remove the carbon tax cost components from their gate fees but have engaged expert consultants to assist determine the steps they need to take now that the carbon tax has been repealed.
* With respect to one liable entity, having regard to its standard price list, the ACCC notes that those prices post 1 July 2014 remain the same as those charged from 1 January 2014 to 30 June 2014. The ACCC will continue to engage with this entity in relation to this matter.

17 local council landfill operators who are liable entities included a carbon tax cost component in their waste management charges set for 2014/15. 13 have removed the carbon tax cost component, with 10 of these 13 providing or committing to provide refunds/credits to rate payers this financial year and three committing to lowering 2015/16 waste management charges instead. The remaining four liable entity local councils who included a carbon tax cost component in their 2014/15 waste management charges have yet to make a decision on this issue or did not provide information to the ACCC.

The key issue arising in the landfill sector is that 34 landfill operators set their gate fees to cover the costs of emissions that waste will generate in future years as it decomposes. As a result of the carbon tax repeal, these costs will no longer eventuate. The total money collected by landfill operators for future liabilities is reported to be approximately $200 million.[[1]](#footnote-1) Of these 34 landfill operators:

* Nine operators have confirmed they have or will provide refunds to contract customers.
* Seven will use the amounts in various ways to reduce operational costs or for other environmental management programs.
* The remaining 18 are yet to determine how they will deal with the amounts, and are awaiting the outcome of discussions between the Government and ALOA.

### Local council rates

Local councils generally had indirect costs arising from the carbon tax that they included in their rates, for example an increase in electricity costs. The conduct of local councils concerning the setting of their rates is not subject to the carbon tax provisions or other provisions in the CCA. However, the ACCC is aware that at least 13 local councils that are not liable entities have made public statements about the removal of carbon tax costs from their rates and charges, with rate payers seeing savings ranging from $7.00 to $38.48 for 2014/15. In addition, the ACCC is aware that at least nine local councils that are liable entities have made public statements about the removal of carbon tax costs from their rates and charges, with rate payers seeing savings ranging from $8.17 to $45.00 for 2014/15.

### Additional industries

Businesses in the remaining industries under assessment - manufacturing, liquid and gaseous fuels, and transport, have indicated that where the prices contained a carbon tax cost component this will be, or has already been, removed.

The ACCC also notes that a number of entities in these industries have made statements indicating how the repeal should affect them. For example:

* T&T Line (Spirit of Tasmania) imposed a $3 per passenger per journey carbon tax which was removed as of 29 July 2014, with refunds provided for the period from 1 July 2014 to the removal of the carbon tax cost component on 29 July 2014.
* SeaRoad Holdings stated in 2012 it would add $15-20 per shipping container (or 8 per cent) to the cost of crossing Bass Strait because of the tax on heavy fuel oil. SeaRoad Holdings indicated to the ACCC prior to the carbon tax repeal that it will cut shipping rates once the carbon tax was repealed.
* Teys Australia, an Australian meat processor and exporter, has indicated it will save $5 million per year which it hopes is subsequently passed on to producers.
* Queensland public transport has cuts fees for public transport as a result of the repeal. Savings of approximately $30 million will see a reduction from 3 November 2014 and a freezing of fares from 2015.
* Peak zone 1 GoCard fares will drop 18 cents and peak zone 2 GoCard fares will drop 21 cents.
* Public Transport Authority in Western Australia has announced it will reduce fares by about 10 cents per ticket as of 1 November 2014.
* A fare free day for bus, train and ferry travel is planned for 3 November 2014. This free day of travel is designed to save commuters the same amount of money they have been paying for the carbon tax between July 1 and 31 October 2014 and applies across the whole community.
* The Australian Dairy Industry Council has welcomed the repeal of the carbon tax maintaining the carbon tax cost the average dairy farmer between $2000 and $7000 per year.

Where the removal of the carbon tax cost component is not reflected in prices, the ACCC may seek further explanation. This is particularly the case where entities increased their prices when the carbon tax was introduced.

## Key issues

A number of key issues have been identified as priority areas for further attention.

* The carbon tax was one of many costs affecting entities’ final prices. The ACCC is working closely with entities to understand all factors which influence prices to ensure that final prices reflect the full pass through of cost savings from the carbon tax repeal.
* The level of detail provided in the responses to the carbon tax removal substantiation notices varied significantly and in some instances, was disappointingly low. The ACCC will be seeking further information from a number of entities to enable the ACCC to test the claims made by these entities in their substantiation notice responses and customer statements, to assure itself that all carbon tax cost savings have been passed through.
* The management of money collected by landfill operators for future carbon tax liabilities that will no longer eventuate as a result of the carbon tax repeal. This issue will be guided by further discussions between the Government and ALOA.
* The ACCC continues to assess representations made by domestic airlines that they did not recover the carbon tax cost and so, prices will not change as a result of the carbon tax repeal.

Table 1: Overview of key issues relating to the impact of the carbon tax and its repeal

| Issue | The ACCC’s observations post-repeal and ongoing expectations  |
| --- | --- |
| **Retrospective application of the carbon tax repeal and timing of pricing changes** |
| The carbon tax repeal legislation commenced on 18 July 2014, removing the liability for entities to pay carbon tax costs from 1 July 2014.As such, entities may have legitimately included carbon tax cost components in their pricing from 1 July 2014, but will not have corresponding carbon tax costs for that same period, thereby creating a potential windfall gain.Many entities advised that in some circumstances, it may take time to adjust billing systems to reflect cost savings following the repeal of the carbon tax.In addition to this, some entities have been constrained in relation to the adjustment of prices by the timing dictated by applicable state-based legislation, the operation of government assistance programs, or the operation of commercial contracts. | Some entities removed carbon tax costs from their prices as of 1 July 2014 in anticipation of the carbon tax repeal.Many entities have removed the carbon tax costs component from their prices as soon as they were able, backdated to 1 July 2014. As a result of carbon tax removal customer statements, estimated cost savings have been clearly communicated to customers.A significant number of entities have committed to passing through any value obtained from a windfall gain, including back to 1 July 2014. Entities may pass this benefit through in the form of a direct refund, generally decreased prices or the provision of additional services. The ACCC expects entities to pass through carbon tax cost savings as soon as practicable and to clearly communicate to their customers how and when price changes will take effect. |
| **Quantifying carbon tax cost savings and timing of pass through of these savings** |
| Most entities have indicated that they have passed through, or will pass through, direct carbon tax cost savings. However many entities have asserted that the pass through of indirect carbon tax cost savings will take longer as entities must wait for their suppliers to pass through their carbon tax cost savings. Many entities noted that some suppliers did not advise them of any pass through of carbon tax costs, however entities are aware that there may have been some unidentified pass through, given these suppliers operated in industries where carbon tax costs were generally passed through. | Some entities have provided evidence of how they have identified and quantified their direct and indirect carbon tax costs. However, some have provided limited detail and the ACCC will be seeking further information. Suppliers of regulated goods are required by law to pass through all direct and indirect carbon tax cost savings and so, must be able to identify and quantify these savings (section 60C of the CCA).The ACCC expects that entities will assist this process by pro-actively contacting suppliers to enquire about the pass through of cost savings attributable to the repeal. |
| **Pass through of carbon tax cost** |
| Entities in some industries were unable to pass through their carbon tax costs due to trade exposure, competition from entities that do not incur direct carbon tax costs, or bargaining power of customers. Entities in these industries did not pass through any of their carbon costs or achieved only a partial pass through of their carbon tax costs. | Entities have continued to engage with the ACCC to explain how they have absorbed carbon tax costs or only passed through a small proportion of their (net) carbon tax liability. In most circumstances, the ACCC has been provided with sufficient information to substantiate this claim. In some circumstances the ACCC may investigate an entity’s claim of having absorbed carbon tax costs, and therefore having no carbon tax cost component to remove from prices.  |
| **Prices affected by factors independent of the carbon tax** |
| Most entities identified cost drivers separate to the carbon tax, which have and/or will affect prices regardless of the carbon tax repeal. Given that there was some uncertainty around when the carbon tax would be repealed, entities were generally unable to predict whether the combined effect of these non-carbon tax cost drivers would be greater than the effect of removing the carbon tax cost components from prices. | In many instances, the price of other input costs increased at the start of the 2014/15 financial year. Consequently, a price reduction caused by the removal of a carbon tax cost component may have been offset partially or wholly by other input cost increases.Many entities have explained how other cost drivers are impacting pricing and provided evidence of the removal of the carbon tax cost component. However in some circumstances, the ACCC will be seeking further evidence to show how these other cost drivers have impacted prices and assure itself that all carbon tax cost components have been removed from prices. |
| **Australian Government assistance in certain industries** |
| The Australian Government offered several forms of assistance to help reduce the impact of the carbon tax in certain industries. The assistance partially or wholly offset entities’ carbon tax costs. These entities generally did not, or did not except to a limited extent, increase their prices as a result of the carbon tax. Entities whose carbon tax costs were only partially offset by government assistance, and who made a partial pass through of carbon tax costs to their customers, had stated their intentions to remove the carbon tax cost component from their prices. | The method in which some forms of assistance were determined involved using industry averages of emission intensity. Therefore reconciliations are conducted at the end of the NGER reporting period when entities’ final carbon tax liabilities are calculated in order to determine whether they received the correct amount of assistance. Some entities have advised they will not be in a position to fully determine the carbon tax cost savings they will be able to pass through to their customers until after February 2015. The ACCC will seek further explanation from these entities.The ACCC expects these entities to pass on any identifiable savings as soon as they are able after this reconciliation process has been completed. Where entities’ carbon tax costs were offset wholly by government assistance, and they consequently did not pass through their carbon tax costs to their customers, the ACCC has not seen pricing adjustments being made in response to the carbon tax repeal. |
| **Pricing of stock on hand at the time of repeal** |
| A number of entities reported that, at the time of repeal, they had a backlog of stock on hand which had input costs that included legitimately incurred carbon tax costs. | Some entities advised that stock on hand that contains a carbon tax cost component will be depleted within 30 to 60 days of the repeal. Other entities have not provided clear timeframes for depletion of stock on hand. The ACCC will seek further explanation from these entities.Once an entity has sold all its stock on hand that contains a carbon tax cost component, the ACCC expects entities to adjust their pricing accordingly and communicate this adjustment to customers. Competition may also force a price reduction as these entities compete with entities in possession of carbon exclusive stock.  |

Table 2: Overview of industry assessments, the ACCC’s expectations and the ACCC’s monitoring activities.

| Impact of the carbon tax scheme  | The ACCC’s observations post-repeal and ongoing expectations | ACCC’s monitoring activities |
| --- | --- | --- |
| ***Tier 1—suppliers of regulated goods in industries where there are significant effects of the carbon tax scheme and the carbon tax price reduction obligation applies (section 60C of the CCA).*** |
| **Wholesale and retail electricity** |
| Carbon uplift in electricity spot price and derivatives market, resulting in price increases by electricity retailers. | Average monthly wholesale prices fell from June to September 2014 across all NEM states. While the carbon tax will have played a role in this, a range of other factors may have contributed. A number of generators stated that since the repeal of the carbon tax, they have adjusted their bidding activity accordingly by reducing the price of dispatch offers submitted to AEMO. They noted, however, that there are a number of other factors that influence their bidding strategy such as supply and demand levels, short run marginal costs, offers made by other market participants, minimum load requirements and contract positions. In the derivatives market, OTC contracts with AFMA addendums have had the carbon uplift set to zero, backdated to 1 July 2014. The futures market appears to have largely factored in the repeal of the carbon tax.As at the end of September 2014 most retailers had changed their prices to be carbon exclusive. The remaining retailers have indicated they will change their prices by 1 November 2014, except for two retailers who have not confirmed timeframes. All but two retailers have indicated they are backdating the price change to at least 1 July 2014 or had removed the carbon component as at 1 July 2014. These retailers have confirmed that they are or will be providing credits or adjustments to customer bills for carbon amounts charged between 1 July 2014 and the date that the retailer implemented its price change. | The ACCC will continue to collect prices each quarter from electricity retailers and seek further information to assure itself that all cost savings are being passed through. The AER will continue to monitor NEM wholesale prices and the ACCC will provide further information in future reports.The ACCC will continue to monitor for complaints. |
| **Natural Gas** |
| Generally a pass through of carbon tax costs by gas producers and gas transmission/ distribution businesses, resulting in increases by gas retailers. Pass through of retailers’ direct liability resulting in increased prices. | As at the end of September 2014 all natural gas retailers but one had changed their prices to be carbon exclusive, with the remaining retailer to complete its price change by October 2014. All retailers have indicated they are backdating the price change to 1 July 2014 or had removed the carbon component as at 1 July 2014. Retailers have confirmed they are or will be providing a credit or adjustment to customer bills for any carbon amount that has been collected after 1 July 2014.Gas transmission and distribution businesses have removed the carbon component from their prices. Any carbon tax over-recovery from 1 July 2014 to the date of a price change will be refunded to customers in the current regulatory year or in the next regulatory year.Where carbon tax costs had been passed through in wholesale contracts, gas producers have ceased passing through these costs, effective 1 July 2014. Customers already invoiced for carbon after 1 July 2014 have had their invoice amended to be carbon exclusive or have been refunded. | The ACCC will continue to collect prices every quarter from natural gas retailers and seek further information to assure itself that all cost savings are being passed through. The ACCC will continue to monitor for complaints. |
| **Synthetic greenhouse gas** |
| SGG importers paid the equivalent carbon price levy (the levy) on SGG imports from 1 July 2012 – 30 June 2014. Multiple importers stockpiled large quantities of SGGs in the lead up to the carbon tax scheme. Import volumes of SGGs were low once the carbon tax scheme commenced. Market prices for SGGs rose substantially around the time the carbon tax was introduced. In some cases the price increase was more than the levy component would have been for the SGG.SGG importers and wholesalers say that the carbon tax scheme imposed additional indirect costs, including increased security and insurance costs. Entities that import SGG equipment were liable to pay the levy, but this was ordinarily a small amount. | Some SGG wholesalers have reported list price reductions of between 40 and 80 per cent. Other wholesalers that do not maintain list prices have stated that they expect their prices for SGGs to fall by similar levels following the carbon tax repeal.Some importers claim they have been unable to identify cost savings attributable to the carbon tax because they did not incur a direct carbon tax liability. However, they have committed to providing their customers with competitive pricing. There is evidence that market forces are already pushing down prices at the import level, and the ACCC expects they will ensure importers pass through any carbon tax repeal related savings that are realised. Some SGG suppliers imported stock prior to the introduction of the carbon tax and competed with other entities that possessed carbon inclusive stock. Competition will play a role in forcing price reductions as these entities now compete with carbon exclusive stock. Market forces should also push down prices for SGGs further down the supply chain. However, end-users may not see cost savings immediately. | The ACCC will continue to assess responses to the carbon tax removal substantiation notices.The ACCC will monitor to ensure that SGG suppliers identify both direct and indirect cost savings attributable to the carbon tax repeal and pass these savings through. The ACCC will seek information from SGG importers to identify whether they made any windfall gains in the period between 1 July 2014 and the carbon tax repeal. The ACCC will continue to monitor for complaints. |
| ***Tier 2—liable entities and additional entities in industries where the effects of the carbon tax scheme are mixed and there has been some pass through of carbon tax costs*** |
| **Landfill facility operation** |
| Local government or privately operated. Most passed through all carbon tax costs, a small number passed through partial carbon tax costs, and a small number absorbed carbon tax costs. Not all entities incurred direct carbon tax costs in the first year of the carbon tax. | After the carbon tax was repealed, landfill fees have generally reduced, or have not risen by as much as they otherwise would have. For entities which did not pass through carbon tax costs, there has been no change in prices directly due to the removal of the carbon tax.Most entities have refunded or intend to refund money already collected during the refund period, while others will use it to fund abatement measures. A very small number of operators are still determining how their fees will be affected. Many entities are determining how they will deal with money already collected for future carbon tax liabilities that will no longer eventuate.* The ACCC expects refunds to identifiable customers. Where such money cannot be refunded, the ACCC expects the ACCC expects local councils to use the money for the benefit of rate payers. With respect to private companies, the ACCC is aware that negotiations are currently taking place between the industry and the Government as to how these funds could be utilised.
 | Where this has not already been provided, the ACCC will obtain confirmation that fees reflect carbon tax repeal savings and obtain confirmation that intended refunds have been provided. The ACCC will obtain further information to better understand how entities will or have dealt with monies already collected for future carbon tax liabilities that will no longer eventuate.The ACCC will continue to monitor for complaints. |
| **Local councils that are not liable entities** |
| Where the carbon tax affected the rates of local councils that are not liable entities, it is likely that this was by way of pass through of carbon tax costs from local councils’ suppliers, such as electricity and landfill. Only a small number of local councils specifically attributed rate increases to the carbon tax. | Local councils are ultimately accountable to their rate payers. The ACCC expects that local councils will take account of the carbon tax repeal and pass on any identifiable savings.While the ACCC is not able to compel price reductions for local government services, it expects that government bodies will assess the extent to which the prices of services were increased due to the carbon tax and take action to reflect any savings from the carbon tax repeal in current pricing. | To date, the ACCC’s monitoring role has not covered these councils however the ACCC is monitoring statements attributed to councils. Where councils have previously made public statements attributing rate rises to the carbon tax and fail to take steps to pass through any carbon tax cost savings, the ACCC may publish this information in future reports to the Minister. The ACCC will continue to monitor for complaints. |
| **Paper, glass and plastic** |
| Exposed to international trade and substitutability of products. Some entities passed through full costs, some passed through partial costs and some absorbed costs**.** | The ACCC expects entities in the paper, glass and plastic manufacturing industry that passed through carbon tax costs to pass through carbon tax cost savings by removing the carbon charge per tonne or removing the carbon tax cost component from prices.Some entities have already removed the carbon tax cost component from some of their products, while others are delaying the removal to take account of stock on hand that is carbon tax cost inclusive. Some entities have not yet determined whether prices will be reduced. | Where this has not already been provided, the ACCC will obtain confirmation that carbon tax cost components have been removed.The ACCC will obtain further information to better understand the effect of the carbon tax repeal transition period.The ACCC will continue to monitor for complaints. |
| **Food – dairy and ingredients** |
| Less perishable products are exposed to international trade. Some entities in this industry did not incur direct carbon tax costs. Some entities passed through partial costs for perishable or specialised products. | The ACCC expects that where entities in the dairy and ingredient manufacturing industry were able to achieve a pass through of carbon tax costs, any carbon tax cost component of prices will be removed now that the carbon tax has been repealed. Some entities have already done so; others will do so as part of a regular price review process under contracts.Many products will see no change in prices as a result of the removal of the carbon tax. | Where this has not already been provided, the ACCC will obtain confirmation that carbon tax cost components have been removed.The ACCC will continue to monitor for complaints. |
| **Explosives** |
| High volume of gas required as an input. Exposed to international trade. Entities made only a partial pass through, if at all. | The ACCC expects that explosive manufacturers will remove any carbon tax cost component from prices. Some have already done so; others will do so as part of a regular price review process under contracts. | Where this has not already been provided, the ACCC will obtain confirmation that carbon tax cost components have been removed.The ACCC will continue to monitor for complaints. |
| **Construction materials** |
| Some construction materials are trade exposed, others are not. Some passed through costs, some absorbed costs. | The ACCC expects that where entities in the construction materials manufacturing industry were able to achieve a pass through of carbon tax costs, any carbon tax cost component of prices will be removed after repeal. Some entities have already done so; others will do so as part of a regular price review process under contracts. Some entities have predicted that prices will rise overall, despite the removal of the carbon tax cost component from their prices, as other input costs have risen.Many products will see no change in prices directly due to the removal of the carbon tax because there was not a carbon tax cost component in these prices when the carbon tax scheme was in place. | Where this has not already been provided, the ACCC will obtain confirmation that carbon tax cost components have been removed.The ACCC will obtain further information to better understand the carbon tax cost component of prices.The ACCC will continue to monitor for complaints. |
| **Liquid and gaseous fuels** |
| Exposed to international trade. For non-transport use fuels, some passed through costs, some absorbed costs. | The ACCC expects that following the carbon tax repeal, prices for non-transport use of LPG, LNG and CNG will reduce, or will not rise by as much as they otherwise would have. Entities indicated their intentions to remove carbon tax component from their prices.  | Where this has not already been provided, the ACCC will obtain confirmation that carbon tax cost components have been removed.The ACCC will obtain further information to better understand the impact of the carbon tax repeal.The ACCC will continue to monitor for complaints. |
| **Transport** |
| Transport operators passed costs through to freight forwarders, who passed through to customers.  | The ACCC expects that transport operators will remove their carbon tax surcharges from their pricing and contracts and freight forwarders will then pass these cost savings on to their customers.  | The ACCC will obtain further information to better understand the ongoing impact of the carbon tax and the impact of the carbon tax repeal transition period. The ACCC will continue to monitor for complaints. |
| **Domestic passenger air transport services** |
| Domestic airlines claim that, regardless of their surcharge mentioned at the introduction of the carbon tax, they were unable to recover carbon tax costs from passengers. They have stated publicly, and to the ACCC that they do not expect any reductions in passenger air fares directly related to the carbon tax repeal. | The ACCC expects that if domestic airlines fully or partially recovered carbon tax costs from customers, following the carbon tax repeal, carbon tax cost savings will be passed through to customers. | The ACCC will continue assessment of the representations made by the domestic airlines.  |
| ***Tier 3—industries included in Tier 2 in the July report where further monitoring has determined that entities do not pass through carbon tax costs.*** |
| **High technology** |
| Internationally trade exposed and domestic competitors, including competitors that are not liable under the carbon tax. Absorbed costs. | Further monitoring confirmed no pass through of carbon tax costs. Therefore, there has been no change in prices directly due to the repeal of the carbon tax. | No additional information sought at this time.The ACCC will continue to monitor for complaints. |

1. The ACCC’s role

## The ACCC’s monitoring role

On 18 February 2014, pursuant to section 95ZE of the CCA, the Minister gave the ACCC a Direction to undertake formal monitoring of the prices, costs and profits relating to the supply of regulated goods by corporations and the supply of goods by liable entities in order to assess the general effect of the carbon tax scheme in Australia. The Direction takes effect for the period 1 March 2014 to 30 June 2015. In accordance with the Direction, the ACCC is required to report to the Minister on its monitoring activities within 28 days of the end of each quarter of each financial year.

This is the third report to the Minister under the Direction pursuant to section 95ZE of the CCA. The third report covers the ACCC’s monitoring activities for the period July to September 2014, providing an overview of the additional information gathered through the ACCC’s monitoring activities since the last report, together with updated assessments of the general impact of the carbon tax scheme in Australia. It also has regard to information required to be provided or published by electricity retailers and producers, natural gas suppliers, and bulk importers of synthetic greenhouse gases, under the new Part V of the CCA.

This report does not repeat information provided in previous reports, rather it clarifies or expands upon the information already provided. For further information, including detailed industry assessments, see [the carbon monitoring reports for the June 2014 quarter and the March 2014 quarter](http://www.accc.gov.au/publications/monitoring-of-prices-costs-profits-to-assess-the-general-effect-of-the-carbon-tax-scheme-in-australia).

Given the significant public interest in the effect of carbon tax repeal on prices and in order to provide comprehensive and timely information to the Minister, this report also covers the ACCC’s monitoring of the effect of the carbon tax repeal. In addition, this report provides detail of the ACCC’s proposed strategy for future monitoring, compliance and enforcement activities.

The Clean Energy Legislation (Carbon Tax Repeal) Act 2014 received Royal Assent on 17 July 2014. As a result, the CCA was amended to include a new Part V – Carbon Tax Price Reduction Obligation.

Under section 60J of the new Part V, the Commission must, within 28 days after the end of each full quarter, give the Minister a written report about the operations of the Commission under Part V for that quarter. The first report to the Minister under section 60J is due to the Minister by 28 January 2015 following the first full quarter after the carbon tax repeal (see section 60J(6)).

Further information regarding the ACCC’s operations in relation to Part V and the effect of the carbon tax repeal for the December 2014 quarter will be provided in the report to the Minister on 28 January 2015.

The ACCC is also required to report to Parliament within 13 months of the carbon tax repeal date, 17 July 2014, on:

* penalties ordered for a failure to pass on all cost savings, an amount equal to 250 per cent of those cost savings that were not passed through (section 60CA(5)), and
* compliance with the carbon tax removal substantiation statements (section 60FD(11)).

## Part V of the CCA

Part V includes a range of provisions that provide for the ACCC’s role in the carbon tax repeal.

Under section 60C of the CCA, suppliers of regulated goods engage in price exploitation if they fail to pass through all cost savings directly or indirectly attributable to the carbon tax repeal. Regulated goods are:

* electricity
* natural gas
* synthetic greenhouse gas (SGG), typically refrigerant gases, and
* synthetic greenhouse gas equipment, which is equipment that contains an SGG.

The Minister can, by legislative instrument, specify additional goods under subsection 60B(2) of the CCA to be included as regulated goods for the purpose of the carbon tax price reduction obligation. The ACCC can recommend additional goods to the Minister where issues are identified through its monitoring role.

Under section 60K of the CCA, all businesses are prohibited from making false or misleading representations during the carbon tax repeal transition period about the effect of the carbon tax repeal or the carbon tax scheme on the price for the supply of the goods or services.

The ACCC has:

* received 244 substantiation notice responses from natural gas retailers, electricity retailers and producers, and bulk importers of synthetic greenhouse gases (section 60FA). The ACCC observed full compliance with responding to carbon tax removal substantiation notices.
* received 283 substantiation statements from gas retailers, electricity retailers and producers, and bulk importers of synthetic greenhouse gases (section 60FD).

For further information, see the **‘Monitoring activities’** sectionand ‘**Annexure 1: Industry assessments**’.

Under section 60H of the CCA, the ACCC may also require a person to produce specified information or documents that relate to prices or the setting of prices if a member of the Commission reasonably believes this information will or may be useful to the ACCC in its price monitoring role. This provision has not been used to date.

The information gathered from the responses to the substantiation notices, the substantiation statements and through the ACCC’s other information gathering tools will assist the ACCC in determining whether suppliers of regulated goods are passing through all carbon tax costs savings and whether businesses are making accurate representations about the effect of the carbon tax repeal or the carbon tax scheme.

The ACCC may exercise its enforcement powers in circumstances in which the ACCC is concerned an entity may have failed to pass through all carbon tax costs savings, or has made false or misleading representations about the effect of the carbon tax scheme or carbon tax repeal on prices (see the ‘**Enforcement**’ section).

1. Monitoring activities

The ACCC’s monitoring activities have revealed that price reductions resulting from the carbon tax repeal have taken effect in many industries.

In the electricity sector, the pass through of cost savings attributable to the carbon tax repeal is occurring. Most retailers have implemented price changes to remove any carbon tax component. The remainder have indicated they will do so by 1 November 2014, except for two retailers who have not confirmed timeframes. All but two retailers have indicated that they are backdating the price changes to at least 1 July 2014 or had removed the carbon component as at 1 July 2014. One retailer is backdating its price change to 18 July 2014. Only one retailer has not confirmed that it is, or will be, providing refunds or adjustments for bills incorporating carbon before the price change was effected.

In the gas sector, there is a similar story. All but one retailer have implemented price changes to remove the carbon component and the remaining retailer will complete its price change in October 2014. All retailers are backdating the change to 1 July 2014 or had removed the carbon component as at 1 July 2014. Retailers are, or will be, providing refunds or adjustments for bills incorporating carbon before the price change was effected.

Some SGG wholesalers said that they expected direct carbon tax cost savings of 40 – 80 per cent that would be passed on to customers. SGG importers said that they did not have any direct cost savings to pass on, due to stockpiling prior to the carbon tax, but they would respond to competitive market forces, and they had noticed prices were falling and expected them to continue to fall.

The three major suppliers of LPG for non-transport use have publicly stated they have removed the carbon tax component from their prices and have arrangements in place to refund any carbon costs paid between 1 July 2014 and 18 July 2014. However, due to suppliers passing through increases in other operating costs, the effect of the carbon tax repeal on LPG prices may be that recent price increases are not as high as they otherwise would have been, had the carbon tax not been repealed.

Councils such as Charles Sturt Council, City of Greater Geelong, Glen Eira City Council, Townsville City Council and Town of Victoria Park all removed the carbon component from their rates and/or waste management fees from their 2014/15 budgets in anticipation of the carbon tax repeal. Some other councils waited until the carbon tax was repealed to reduce their rates and/or their waste management fees to rate payers, and will provide a refund to their rate payers for the amount that has already been collected. The higher refund amounts include Brisbane City Council refunding $36 on average to rate payers in its October rates notices, Redland City Council providing a one off refund to ratepayers of $38.48, and Cessnock City Council providing a $45 credit on its ratepayers’ accounts.

Almost all landfill operators have confirmed removal of the carbon tax cost component from their gate fees.

## The ACCC’s role

The ACCC’s role under the Direction is to monitor the prices, costs and profits in relation to the supply of regulated goods and the supply of goods by liable entities to assess the general effect of the carbon tax scheme in Australia. The ACCC is also monitoring the impact of the repeal of the carbon tax scheme in relation to suppliers of regulated goods and liable entities.

Under the Direction, the supply of regulated goods concerns the following industries:

* retail and wholesale electricity
* natural gas, and
* synthetic greenhouse gas.

The supply of goods by liable entities concerns the following industries:

* waste
* manufacturing
* energy (water, liquefied natural gas (LNG) and liquefied petroleum gas (LPG))
* mining, and
* domestic passenger air transport services (prior to 20 June 2014, entities in this sector were classified as additional entities).

Due to public interest, the ACCC has also gathered information about local councils that are not liable entities.

The ACCC has also gathered further information from entities that made public statements about the impact of the carbon tax scheme upon, or during, implementation (additional entities). These remaining additional entities operate in the surface transportation industry.

## June 2014 voluntary information requests

Following analysis of the responses to the March 2014 information requests, the ACCC identified further information that was required in order to provide a better understanding of the impact of the carbon tax scheme in priority industries.

Accordingly in June 2014 the ACCC, as part of its ongoing monitoring, sent 197 voluntary information requests to entities in these industries, returnable in July 2014, to inform this report.

An analysis of the responses to the information requests, together with additional information gathered after the repeal of the carbon tax scheme (see ‘**Information obtained under Part V of the CCA**’below), is provided in ‘**Annexure 1: Industry assessments**’section of the report. The ACCC and AER have also gathered information from a range of other sources and this information has also informed the industry assessments where relevant.

The ACCC has continued to use a tiered approach when assessing the information received in response to the June 2014 voluntary information requests:

* Tier 1 industries concern suppliers of regulated goods and are the primary focus of the ACCC’s monitoring role. These assessments are the most detailed as the impact of the carbon tax scheme was significant and the carbon tax price reduction obligation applies to entities in these industries.
* Tier 2 industries concern liable entities, local councils and additional entities. Entities in these industries are not liable under the carbon tax price reduction obligation provision but the ACCC expects that, in effective, competitive markets, carbon tax cost savings will be passed through.
* Tier 3 for this report and future reports, concerns industries which were Tier 2 industries in the previous report, however based on further information provided to the ACCC, the ACCC considers that the effect of the carbon tax scheme was not complicated and/or the pass through of any attributable carbon tax cost savings has occurred seamlessly and as such, the ACCC does not propose to monitor these industries any further.

Industry assessments, based on the responses to the voluntary information requests, substantiation notices and statements, and other information obtained by the ACCC and the AER, can be found in ‘**Annexure 1: Industry assessments’** section of this report. An overview of the key points in these industry assessments and the ACCC’s expectation of the pass through of carbon tax cost savings in these industries is in **table 2, page 13**.

In the July 2014 report to the Minister, the ACCC identified key issues arising from responses to the information requests and stakeholders. An update on relevant key issues, including the ACCC’s observations and ongoing expectations as to how these issues will be addressed is at page 25. An overview of these key issues is in **table 1, page 10**.

The Tier 3 industries addressed in the July 2014 Report to the Minister are not addressed in this report because entities in these industries either did not pass carbon tax costs through, or due to trade exposure, competitive forces will play a role in ensuring the pass through of carbon tax cost savings. The ACCC will continue to monitor these industries for complaints. For further detail of the previous Tier 3 industries, see the [carbon monitoring report: June 2014 quarter.](http://www.accc.gov.au/publications/monitoring-of-prices-costs-profits-to-assess-the-general-effect-of-the-carbon-tax-scheme-in-australia/carbon-monitoring-report-june-quarter-2014)

## Information provided under Part V of the CCA

### Carbon tax removal substantiation statements

Section 60FD of the CCA required gas retailers, electricity retailers and producers, and importers of SGGs to provide a written statement to the ACCC that sets out on an average annual percentage price basis, or an average annual dollar price basis, the entity’s estimated cost savings directly or indirectly attributable to the carbon tax repeal that have been, or will be, passed on to each class of customers during the financial year that began on 1 July 2014. These entities were also required to ensure that a copy of the statement is available on the entity’s website, in a way that is readily accessible to the public, until the end of 30 June 2015.

The ACCC received 283carbon tax removal substantiation statements, including 39 unexpected substantiation statements from entities which the ACCC did not consider to be covered by the substantiation statement provision, but the entity provided in the abundance of caution. The ACCC is currently assessing the information provided in the carbon tax removal substantiation statements. This information has assisted in preparing the industry assessments in this report. Where necessary, the ACCC will seek further clarification from entities in relation to the content of their carbon tax removal substantiation statements.

Electricity retailers and producers that sell to customers and natural gas retailers that sell to customers were also required to prepare a written statement for customers that identified their costs savings to each class of customer by 18 August 2014. This statement was required to be communicated to customers by 15 September 2014 (section 60FE of the CCA). These appear to have been widely disseminated, with very few complaints to indicate otherwise.

For further detail on the carbon tax removal substantiation statement and the statement for customers see [carbon tax removal substantiation statements](http://www.accc.gov.au/business/carbon-tax-repeal/requirements-for-suppliers-of-regulated-goods/carbon-tax-removal-substantiation-statements).

### Responses to carbon tax removal substantiation notices

The ACCC was required to issue carbon tax removal substantiation notices to:

* electricity retailers and producers that sell electricity to electricity customers
* natural gas retailers that sell natural gas to natural gas customers, and
* bulk SGG importers that sell SGGs to SGG customers.

In response to the carbon tax removal substantiation notice, these entities were required to:

* explain how the carbon tax repeal has affected, or is affecting, the entity’s regulated supply input costs
* explain how reductions in the entity’s regulated supply input costs that are directly or indirectly attributable to the carbon tax repeal are reflected in the prices charged by the entity for regulated supplies of electricity, natural gas or synthetic greenhouse gas, and
* provide information and/or documents to substantiate this explanation.

The ACCC is currently assessing the information provided in response to 244 carbon tax removal substantiation notices. Whilst all notices were responded to, the level of detail provided varied significantly between responses and in some was disappointingly low. The ACCC will be seeking further information from a number of entities to enable the ACCC to test the claims made by entities in their substantiation and customer statements, to assess whether carbon tax cost savings have been passed through, and to inform the January 2015 report to the Minister.

For further detail on the carbon tax removal substantiation notices see [carbon tax removal substantiation notices](http://www.accc.gov.au/business/carbon-tax-repeal/requirements-for-suppliers-of-regulated-goods/carbon-tax-removal-substantiation-notices).

## Future activities

Responses to the carbon tax removal substantiation notices, the carbon tax removal substantiation statements, further voluntary information requests and information gathered by the ACCC more broadly will inform the industry assessments provided in the January 2015 report to the Minister.

Further, under section 60H of the new Part V, a member of the ACCC may, by written notice to a person, require the person to give the ACCC specified information or documents that relate to prices or the setting of prices. Failure to comply with this information request is an offence that may attract a penalty of up to $3400 (section 60H(4)).

The ACCC also has information gathering powers under section 155 of the CCA, where the Commission, Chairman or Deputy Chairperson has reason to believe that a person is capable of furnishing information, producing documents or giving evidence in relation to a matter that constitutes or may constitute a contravention of the CCA.

Neither compulsory information gathering power has been exercised to date.

1. Key issues

Based on responses to the ACCC’s voluntary information requests and through stakeholder engagement, some key issues in relation to the impact of the carbon tax scheme and its repeal have arisen that are relevant across industries.

In future reports to the Minister pursuant to section 60J of the CCA, the ACCC expects that future key issues will be limited to only some industries or particular entities, as entities work through issues arising from the repeal of the carbon tax scheme.

## Retrospective application of the carbon tax repeal and timing of the pass through of cost savings

The carbon tax repeal legislation, which commenced on 18 July 2014, removed the liability for entities to pay carbon tax costs from 1 July 2014. As such, entities may have legitimately included carbon components in their pricing from 1 July 2014 but will not have corresponding carbon tax costs for that same period, thereby creating a potential windfall gain.

Some entities removed carbon tax costs from their prices on or before 1 July 2014 in anticipation of the carbon tax repeal, given the government’s intention for the substantive provisions of the carbon tax repeal to commence from 1 July 2014. For these entities, there is no windfall gain arising from the retrospective commencement of the carbon tax repeal. Four electricity retailers and three gas retailers approached their pricing in this way.

Many entities have removed the carbon tax costs component from their prices as soon as they were able, backdated to 1 July 2014. As a result of carbon tax removal customer statements, these have been clearly communicated to customers.

A significant number of entities have committed to passing through any value obtained from a windfall gain, including back to 1 July 2014.

The ACCC expects that an entity will pass through any value from a windfall gain. Entities might pass through this benefit in the form of a direct refund, but it may also be in the form of generally decreased prices or the provision of other services.

Where an entity removed the carbon tax cost from its prices as of 1 July 2014 in anticipation of carbon tax repeal, then there was no carbon tax price adjustment on 17 July 2014. This may give customers the impression that the entity did not take action in response to the repeal. In these circumstances, the ACCC expects entities to provide clear information to their customers regarding how their prices reflect the repeal of the carbon tax and when price adjustments occurred.

For the electricity and gas sectors in some jurisdictions, some of their pricing is affected by determinations made by regulatory bodies. These entities may be complying with decisions made by these regulatory bodies in relation to adjusting prices to remove carbon tax costs components.

Many entities advised that it had taken, or will take, some time to adjust billing systems to reflect cost savings following the repeal of the carbon tax. For example, most electricity retailers will have implemented their pricing changes by September or October 2014.

It may take time for entities to adjust their billing systems, especially in relation to mass market customers for example. However the ACCC’s view is that the effective date for price changes resulting from the carbon tax repeal should be 1 July 2014, and the price changes should be implemented as soon as practicable after the carbon tax repeal.

If the billing cycle of an electricity, natural gas or synthetic greenhouse gas supplier is such that it will issue bills to customers before the price change can be implemented in their billing system, then those suppliers must provide a refund or adjustment in those customers’ next bills to ensure compliance with the carbon tax price reduction obligation. This will mean that the reduced prices are effectively charged as at 1 July 2014. The ACCC recommends that other suppliers also look to providing refunds or credit adjustments if they face similar delays with implementing pricing changes resulting from the carbon tax repeal.

In addition to delay caused by billing system changes, some entities have been constrained by the timing dictated by applicable legislation,[[2]](#footnote-2) the operation of government assistance programs, or the operation of commercial contracts, in relation to adjusting prices. In these instances, many entities are refunding their customers for any carbon tax costs components paid in the refund period, some have advised they will use the value from this windfall gain to decrease prices or provide additional services.

The ACCC notes that a significant number of entities have committed to the pass through of cost savings (see the ‘**Monitoring activities**’ section).

In most cases, the ACCC has seen clear communication by entities to their customers, including through the statement for customers required under section 60FE of the CCA, regarding how any refunds or adjustments will operate (for further information, see the ‘**Monitoring activities**’ section).

Some entities have contracts with commercial and industrial customers that do not identify the carbon tax cost component, or do not allow prices to be adjusted during the term of the contract or permit price adjustment on a fixed periodic basis. These contracts may be carbon inclusive or carbon exclusive. Parties to such contracts will have to wait until the terms of the contract permit for price negotiation.

The Second Reading Speech to the Clean Energy Legislation (Carbon Tax Repeal) Act 2014 specifically notes Parliament’s intention that it is not intended to override any pre-existing contracts. Commercial and industrial customers are well informed customers who have elected to enter into particular contracts with the knowledge of a potential repeal of the carbon tax. Should issues arise about the pass through of cost savings from the repeal of the carbon tax in relation to commercial / industrial contracts, the ACCC considers that those would be best resolved between the parties to those contracts.

## Quantifying carbon tax cost savings and timing of pass through of these savings

The resources allocated by entities to monitor the impact of the carbon tax varied. All entities tracked their direct carbon costs, some also tracked their indirect carbon costs that arose from their suppliers charging them a carbon tax component, and some tracked the costs of ensuring compliance with the carbon tax. There was great variety, even within industries, as to what entities considered constituted an indirect carbon cost versus a separate operating cost, and the costs entities reported for ensuring compliance with the carbon tax. For example, some entities estimated the cost of their employees’ time in this respect and others did not.

For some entities, the calculation of their direct carbon cost could not be completely precise, given it involved future estimates and predictions—something specifically acknowledged by the NGER (Measurement) Determination.[[3]](#footnote-3)

The ACCC has observed significant pass through and commitment to pass through, of direct cost savings attributable to the carbon tax repeal. However some entities claim they face challenges in relation to the pass through of indirect cost savings attributable to the carbon tax repeal.

Some entities have not considered the impact of the carbon tax repeal on the prices they pay for their inputs and how these savings may be passed on to their customers.

Many entities have asserted that the pass through of indirect carbon tax cost savings will take longer than the pass through of direct carbon tax cost savings as they must wait for their suppliers to pass through their carbon tax cost savings. Further, many entities stated that their suppliers did not include carbon tax costs as a separate line item in prices charged and provided only limited information about the carbon component of their prices, which made calculating their indirect carbon tax costs difficult.

The ACCC expects that entities tracked and quantified their direct and indirect carbon tax costs as best as they are able so that, following the repeal of the carbon tax, cost savings can be readily identified and passed through to customers. Suppliers of regulated goods are required by law to pass through all direct and indirect cost savings and so, must be able to identify and quantify these savings.

The ACCC expects entities to assist this process by proactively contacting suppliers to enquire about the timing and quantum of any carbon tax cost savings they should receive. Entities that are customers of suppliers of regulated goods in particular should be aware that suppliers of regulated goods are required to comply with the carbon tax price reduction obligation and face penalties if they fail to pass through all direct and indirect cost savings attributable to the carbon tax repeal.

## Pass through of carbon tax costs

Entities in some industries said that they were generally unable to pass through their carbon tax costs for the following reasons:

* Some entities that were subject to the carbon tax compete with domestic entities that were not subject to the carbon tax.
* Some entities faced competition from overseas industry participants to the same effect.
* In some industries, demand factors and market conditions may have prevented pass through. For example where entities faced customers with significant negotiating power that did not accept pricing changes to allow the pass through of carbon tax costs.

Entities have continued to engage with the ACCC to explain how they have absorbed carbon tax costs or only passed through a small proportion of their (net) carbon tax liability. In most circumstances, the ACCC has been provided with sufficient information to support this claim.

The ACCC expects entities to be able to provide evidence that they absorbed carbon tax costs or only passed through a small proportion of their (net) carbon tax liability.

In some circumstances the ACCC may investigate an entity’s claim of having absorbed carbon tax costs, and therefore having no carbon tax cost component to remove from prices. For example, where the market conditions are such that pass through of carbon tax costs would be expected and an entity claims that it did not pass through carbon tax costs, the ACCC may investigate further.

## Prices affected by many factors independent of the carbon tax

Many entities have explained how other cost drivers are impacting pricing and provided evidence of removal of the carbon tax cost component. However in some circumstances, the ACCC will be seeking further evidence to show how these other cost drivers have impacted prices and to assure itself that all carbon tax cost components have been removed from their prices.

Prices in all industries are affected by many factors other than the carbon tax. Most entities identified cost drivers that operate independent of the carbon tax, which have already affected or will affect prices regardless of the carbon tax repeal. Some cost drivers specified by entities in different industries include:

* forthcoming increases to relevant state government landfill levies which were applicable to that industry
* the projected increasing volume of gas exports that will cause Australian gas prices to increase to match the much higher international gas prices
* where prices in trade exposed industries are influenced by international price benchmarks, movements in those international price benchmarks
* cost increases that suppliers may impose on entities when new supply contracts are entered into at the start of the 2014–15 financial year, and
* changes to regulated prices, including distribution and transmission.

Because of these factors, and given the uncertainty around exactly when the carbon tax would be repealed, entities had previously advised that they were not able to guarantee in all cases that prices will fall when they remove the carbon tax costs component from their prices upon repeal. Entities considered they were unable to predict the combined effect of these non-carbon tax cost drivers and the carbon tax repeal because if the repeal of the carbon tax coincided with any of the above anticipated increases in entities’ operating costs, prices may rise, or not fall by as much as they otherwise would have, despite the entities removing the carbon tax costs components from their prices.

In many instances, the price of other input costs or cost influences increased at the start of the 2014/15 financial year. For example:

* the anticipated increase to the state government landfill levies referred to above occurred on 1 July 2014
* movements in international price benchmarks, such as the Saudi Aramco Contract Price in relation to LPG
* regulated tariffs for electricity in Queensland, and natural gas in NSW and WA increased on 1 July 2014, and
* many entities reported increases to ongoing input costs, such as wages and fuel.

Consequently, a price reduction caused by the removal of a carbon tax cost component may have been offset partially or wholly by other input cost increases.

## Australian Government assistance in certain industries

The Australian Government offered several forms of assistance to help reduce the impact of the carbon tax in certain industries. This assistance was generally focused on industries which were emissions-intensive and/or trade exposed.

Types of assistance included:

* the Jobs and Competitiveness Program, which was provided to emissions-intensive trade-exposed industries
* the Energy Security Fund, which was provided to emissions-intensive coal-fired electricity generators
* the Steel Transformation Plan, which was provided to Australian steel manufacturers
* the Clean Technology Investment Program, which was provided to support manufacturers investing in low emissions technology, and
* the Clean Technology Food and Foundries Investment Program, which was provided to support manufacturers in the food or foundry industries.

The assistance received by an entity may have either partially or wholly offset that entity’s carbon tax costs. As a result, the entities which received assistance generally did not, or did not except to a limited extent, increase their prices as a result of the carbon tax.

A substantial pass through in carbon tax cost savings after the repeal was not expected from entities that received such assistance, as any price increases made did not fully cover the carbon tax. Where entities’ carbon tax costs were offset wholly by government assistance, and they consequently did not pass through their carbon tax costs to their customers, the ACCC has not observed pricing adjustments being made in response to the carbon tax repeal. These entities’ prices may, however, have been adjusted in response to other cost drivers unrelated to the carbon tax.

Entities whose carbon tax costs were only partially offset by government assistance, and who made a partial pass through of carbon tax costs to their customers, had stated their intentions to remove the carbon tax cost component from their prices. The ACCC’s further monitoring activities will include confirming whether and when their pricing will be adjusted to remove these carbon tax cost components.

The method in which some forms of assistance were determined involved using industry averages of emission intensity, and/or were based on an entity’s previous year’s level of production. Therefore reconciliations are conducted at the end of the NGER reporting period when entities’ final carbon tax liabilities are calculated and entities’ production levels for that year are known, in order to determine whether they received the correct amount of assistance.

In these circumstances, some entities have advised that they will not be in a position to fully determine the carbon tax cost savings they will be able to pass through to their customers until after February 2015. At that time, entities will be aware of their final carbon tax liability for the 2013/14 financial year, as well as the amount of assistance they should have received for the same period. The ACCC will seek further explanation from these entities.

The ACCC expects these entities to pass on any identifiable savings as soon as they are able after this reconciliation process has been completed.

## Pricing of stock on hand at the time of repeal

A number of entities reported that, at the time of repeal, they had a backlog of stock on hand which had input costs that included legitimately accrued carbon tax costs. Some of these entities advised their contracts allowed them, or they had negotiated with their customers, to charge prices for this backlog of stock on hand that include the carbon tax costs component. Their prices for stock produced or acquired after the carbon tax repeal, however, do not include the carbon tax cost input.

Some entities advised that stock on hand that contains a carbon tax cost component will be depleted within 30 to 60 days of the repeal. Other entities have not provided clear timeframes for depletion of stock on hand. The ACCC will seek further explanation from these entities.

Once an entity has sold all its stock on hand that contains a carbon tax cost component, the ACCC expects entities to adjust their pricing accordingly and communicate this adjustment to customers.

Following the carbon tax repeal, where stock that does not have a carbon tax component is available, the ACCC expects competition to play a role in ensuring entities remove a carbon tax component from prices as soon as carbon tax-inclusive stock depletes.

Competition may also force a price reduction as these entities compete with entities possessing carbon exclusive stock.

1. Monitoring activities—industry assessments

For the purpose of efficiency in reporting, the ACCC has categorised particular industries and industry sub-sectors. It is acknowledged that because there may be multiple markets to contemplate within an industry assessment, the presence and influence of competitive forces identified in each industry assessment may vary.

The industry assessments are divided by tier and contained in **Annexure 1**

* **Tier 1** concerns suppliers of regulated goods. These assessments concern industries where there are significant effects of the carbon tax scheme. The carbon tax price reduction obligation applies to entities in these industries.

Tier 1 industries are:

* retail and wholesale electricity,
* natural gas, and
* synthetic greenhouse gas (typically refrigerant gases).

Tier 1 industries are the primary focus for the ACCC’s ongoing monitoring activities. In its ongoing monitoring role, the ACCC will continue to assess the impact of the carbon tax scheme and the carbon tax repeal in these industries and the response by entities in these industries to the carbon tax repeal.

* **Tier 2** includesliable entities, local councils and additional entities**.** These entitiesare not suppliers of regulated goods and are not covered by the carbon tax price reduction obligation provision.These industry assessments concern industries where the effects of the carbon tax scheme are mixed. There has been some pass through of carbon tax costs, but for a variety of reasons some entities in these industries did not pass through carbon tax costs to their customers.

Tier 2 industries and industry sub-sectors are:

* landfill
* manufacturing:
	+ paper, glass and plastic
	+ food—dairy and ingredients
	+ explosives
	+ construction materials
* liquid fuels
* transport, and
* domestic passenger air transport services.

The ACCC will continue to monitor these industries. For the January 2015 report to the Minister, if further information demonstrates entities in these industries are passing through carbon tax cost savings where applicable and no concerns have arisen, the ACCC will move these entities to Tier 3 and continue to monitor for complaints.

* **Tier 3** for this report includes one industry which was formerly in Tier 2 – high technology. The ACCC has gathered further information regarding the high technology industry and confirmed its expectation stated in the July 2014 report to the Minister that the carbon tax scheme did not impact prices in this industry and so the ACCC does not expect any carbon tax cost savings to be passed through following repeal. The ACCC will continue to monitor for complaints.
1. Compliance activities

## Further correspondence

In March and June 2014, the ACCC sought information voluntarily from entities which made public statements about the impact of the carbon tax upon, or during, its implementation (additional entities).

Information about the pricing approach of these additional entities has enabled the ACCC to assess whether there is any risk of consumers being misled by implication of previous statements of the entity.

## Stakeholder engagement

Since February 2014, the ACCC has engaged with businesses, industry associations, small business groups and consumer representative groups to discuss their rights, responsibilities and obligations under the CCA in light of the amendments, and to gather information under the Direction. In the September 2014 quarter, the ACCC met with a number of industry associations, and a number of individual energy suppliers.

The ACCC’s engagement initially focused on explaining the ACCC’s role in monitoring prices and the parameters of the Direction, obtaining relevant information, and setting the ACCC’s expectations. Following the repeal, the focus of the ACCC’s role has shifted to explaining the various obligations under the new Part V of the CCA, and how each group of stakeholders will be affected, setting expectations of timeliness of pass through, and monitoring response to the carbon tax repeal.

The ACCC has met with the major industry associations representing Tier 1 and 2 industries as well as directly engaging with most energy providers.

## Publications

The ACCC has provided information on its website for businesses and consumers explaining the amendments to the CCA and the ACCC’s role in relation to the carbon tax repeal. There are pages aimed specifically at consumers, small and other businesses, and suppliers of regulated goods. For further information, visit <http://www.accc.gov.au/business/carbon-tax-repeal>.

The ACCC has also issued a new digital publication, [carbon tax price reduction obligation](http://www.accc.gov.au/publications/carbon-tax-price-reduction-obligation), which provides detailed guidance on the new law (section 60C of Part V of the CCA) and the ACCC’s approach to enforcing it.

## Media and public communications

The ACCC’s media activities are a key tool for assisting consumers and businesses in understanding the carbon tax repeal and the ACCC’s role under the Direction. For the September 2014 quarter the ACCC has made 42 statements to the media and issued threemedia releases explaining the ACCC’s role under the Direction. The ACCC also published two articles in magazines focused on particular industries.

## Complaints and inquiries received

In the September 2014 quarter the ACCC has received 367 carbon pricing complaints and inquiries.

Table 3: Complaints and inquiries received in the September 2014 quarter.

|  |  |
| --- | --- |
| Industry | This Period |
|
| Energy | **Electricity** | 76 |
| **Natural Gas** | 21 |
| **Unspecified** | 103 |
| Synthetic Greenhouse Gas\* | 39 |
| Waste or landfill | 12 |
| Transportation or Fuel | 9 |
| Manufacturing or Construction | 4 |
| Government\*\* | 55 |
| Retail | 5 |
| Food and Grocery (FMCG) | 4 |
| Other | 39 |
| Total | **367** |

\* This figure includes equipment containing such gas (typically refrigerant).

\*\* These largely relate to queries regarding government policy or councils.

In addition, there were 13 scam related carbon complaints in the September 2014 quarter.

Most consumers asked about the level of savings they could expect, while most businesses asked about their obligations under the new legislation. Complaints largely concerned receiving savings that were smaller than expected.

In relation to energy, the ACCC is aware that a number of pricing determinations occurred during the September 2014 quarter, leading to price rises, which were then communicated to customers by energy retailers. This has caused some customers concern that cost savings attributable to the carbon tax repeal were not being passed on.

1. Enforcement

If an entity fails to comply with its obligations in relation to the carbon tax repeal under Part V of the CCA, or in relation to other provisions of the CCA, the ACCC may, in accordance with its [Compliance and Enforcement Policy](http://www.accc.gov.au/publications/compliance-and-enforcement-policy), take enforcement action against that supplier.

The ACCC has undertaken limited enforcement action to date. The ACCC has received a relatively small number of complaints which were resolved by explanation of the carbon tax repeal scheme. For more information, see the ‘**Compliance activities**’section of this report.

## Part V of the CCA

### The carbon tax price reduction obligation

In the new Part V of the CCA, section 60C requires that suppliers of regulated goods must pass through all direct and indirect cost savings that are attributable to the carbon tax repeal (the carbon tax price reduction obligation).

The ACCC may give an entity a written notice if the ACCC considers that the entity has engaged in price exploitation in relation to the carbon tax repeal, which is prima facie evidence that the price for the supply of the entity’s goods did not pass through all of the entity’s cost savings (section 60D of the CCA).

The ACCC can also give an entity a written notice if the ACCC considers that doing so will aid the prevention of the entity engaging in price exploitation in relation to the carbon tax repeal (section 60E of the CCA).

To date, the ACCC has not issued a notice under section 60D or section 60E as work continues to progress on collating and assessing all the information that the ACCC has received thus far.

### False or misleading representations

Section 60K prohibits all entities from making false or misleading representations in trade or commerce about the effect of the carbon tax repeal or carbon tax scheme on the price for the supply of goods and services.

### Penalties

Entities in breach of the new carbon tax price reduction obligation, or the false or misleading representations provision may be liable for:

* court imposed pecuniary penalties of up to $1.1 million for a body corporate and $220,000 for individuals per contravention, or
* infringement notices for $102,000 for a corporation, $10,200 for a body corporate other than a listed corporation and $2,040 for an individual per alleged contravention.

If an electricity retailer or producer, natural gas retailer or bulk SGG importer contravenes the carbon tax price reduction obligation, the entity is required to pay to the Commonwealth an amount equal to 250 per cent of those costs savings that were not passed through (section 60CA of the CCA). This may apply in addition to court imposed pecuniary penalties.

### Information gathering

The ACCC has issued carbon tax removal substantiation notices to electricity retailers and producers, natural gas retailers and bulk SGG importers (section 60FA of the CCA).The recipient of the carbon tax removal substantiation notice must comply with the notice within a period of 21 days from the date the notice was issued, unless the period for compliance has been extended (section 60FC of the CCA).

Section 60FD of the CCA requires that electricity retailers or producers, natural gas retailers and bulk SGG importers that sell to consumers to give the ACCC a statement that sets out the entity’s cost savings attributable to the carbon tax repeal that will be passed on to its customers (carbon tax removal substantiation statement). A copy of the statement provided to the ACCC must also be made available on the entity’s website, in a way that is readily accessible to the public, until 30 June 2015.

Information provided in responses to the carbon tax removal substantiation notice and in the carbon tax removal substantiation statements will assist the ACCC in its monitoring, investigative and enforcement activities.

Non-compliance with the carbon tax removal substantiation notice and substantiation statement is a criminal offence. The penalty for non-compliance with section 60FC is $34,000, and non-compliance with section 60FD is $85,000. The ACCC has received responses to all carbon tax removal substantiation notices issued by the ACCC, and received all carbon tax removal substantiation statements from electricity and natural gas retailers. The ACCC will continue to assess these responses and statements for compliance with the law.

## Existing provisions of the CCA

Additionally, the other provisions of the CCA, including the Australian Consumer Law, allow the ACCC to investigate and take enforcement action against businesses engaging in misleading or deceptive conduct in trade or commerce, or making false or misleading representations in trade or commerce. The ACCC will also have regard to the existing provisions of the CCA relating to restrictive trade practices, and may investigate and take enforcement action against businesses that engage in restrictive trade practices in relation to the carbon tax repeal.

## The ACCC’s approach to enforcement

The information gathered by the ACCC in response to the first two rounds of voluntary information requests is being assessed with other information including the responses to the carbon tax removal substantiation notices issued by the ACCC and the carbon tax removal substantiation statements received by the ACCC. This information will assist the ACCC to understand the components of an entity’s price and assess whether entities have complied with their obligations to pass through all carbon tax cost savings.

The ACCC’s enforcement approach will vary depending on the circumstances and will be decided in accordance with the ACCC’s Compliance and Enforcement Policy. The carbon tax price reduction obligation and false or misleading carbon pricing representations are an enforcement priority for the ACCC. The ACCC will be taking a scaled enforcement approach to investigating carbon related complaints. When the ACCC receives a complaint, it will engage with complainants and traders as necessary, and investigate further when required. Where appropriate, the ACCC may issue statutory notices in order to obtain information and documents to assess matters further.

In enforcing compliance with sections 60FC and 60FD of the CCA, the ACCC may refer matters to the Commonwealth Department of Public Prosecution, as any breach of these provisions is a criminal offence.

In the report due to the Minister in January 2015, the ACCC will provide an update on the enforcement activities undertaken in the December 2014 quarter.

# Annexure 1: Industry assessments

## Tier 1 industry assessments

Tier 1 industry assessments are based on responses to the ACCC’s information requests to suppliers of regulated goods and other information obtained by the ACCC and the AER in the course of their work. Entities in these industries are significantly affected by the carbon tax scheme and are required by the carbon tax price reduction obligation to pass through all cost savings directly and indirectly attributable to the carbon tax repeal.

The ACCC expects that entities in these industries will continue to engage with the ACCC in its monitoring role and commit to working through the various complexities to ensure that all direct and indirect carbon tax cost savings are passed through to customers.

Suppliers of electricity, natural gas and bulk SGG importers that contravene the carbon tax price reduction obligation face pecuniary penalties of up to $1.1 million for a body corporate and $220,000 for individuals per contravention and will be required to pay to the Commonwealth an amount equal to 250 per cent of those costs savings that were not passed through.

### Electricity

Average monthly wholesale prices fell from June to September 2014 across all NEM states. While the carbon tax will have played a role in this, a range of other factors may have also contributed.

In the derivatives market, OTC contracts with AFMA addendums have had the carbon uplift set to zero, backdated to 1 July 2014. The futures market appears to have largely factored in the repeal of the carbon tax.

As at the end of September 2014 most retailers had changed their prices to be carbon exclusive. The remaining retailers have indicated they will change their prices by 1 November 2014, except for two retailers who have not confirmed timeframes.

All but two retailers have indicated they are backdating the price change to at least 1 July 2014 or had removed the carbon component as at 1 July 2014. These retailers have confirmed that they are or will be providing credits or adjustments to customer bills for carbon amounts charged between 1 July 2014 and the date that the retailer implemented its price change.

#### Wholesale market

1. **Impact of the carbon tax scheme and the carbon tax repeal**

When the carbon tax was in place, the majority of generators in the NEM incurred a carbon liability based on the amount they generated and the carbon intensity of their plant. The liability increased the cost of generating electricity, and the generators sought to recover this cost by factoring their liability into their bids into the wholesale spot market and increasing hedge contract prices.

The spot market price, set for a 30 minute period, is the average of the highest bids required to meet demand in each five minute dispatch interval within that period. There is no requirement that generators’ bids reflect their costs, so it is not possible to determine the precise extent to which the spot price reflects carbon costs.

It is possible, however, to make a number of observations of spot price outcomes with the carbon tax in place and following the removal of the carbon tax.

As highlighted in the ACCC’s second monitoring report, analysis of spot price outcomes by the AER shows that, after some initial volatility around the time the carbon tax was introduced, the volume weighted average spot price in the NEM (filtered for extreme price events) in the months that followed introduction of the carbon tax settled around $21 per MWh above the average price for June 2012.

While at any time there is a range of factors influencing wholesale spot prices – including demand, generation availability, wind and solar production, fuel costs and hedge contract positions – carbon costs clearly contributed to these increased spot prices. Further analysis from the AER showed that during 2012–13, the average increase in the spot price required for the marginal generator to recover their carbon costs was broadly consistent in mainland regions ($17.70 per MWh), but significantly lower in Tasmania ($10 per MWh).

Following the repeal of the carbon tax, the AER has assessed recent outcomes in the spot market to see whether any trends are emerging.

As shown in table 4, average monthly spot prices fell from June to September 2014 across all NEM states. To put these prices in context, the monthly average prices in July were the lowest since May 2012 in Queensland, and June 2012 in NSW and Victoria. The monthly average prices for August were lower again in all NEM states except Tasmania. September spot prices in Queensland, New South Wales and Victoria were around their July levels.

Table 4: Monthly volume weighted average spot price ($/MWh)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | QLD | NSW | VIC | SA | TAS |
| June 2014 | $52 | $50 | $50 | $56 | $43 |
| July 2014 | $34 | $42 | $40 | $55 | $34 |
| August 2014 | $27 | $37 | $36 | $44 | $37 |
| September 2014 | $35 | $41 | $38 | $43 | $38 |

In Queensland, NSW and Victoria, the fall in spot prices from June to August appears to be largely explained by increases in capacity being bid into the wholesale market by baseload power stations at lower prices. While a range of factors may also have contributed, the repeal of the carbon tax will have played a significant role in this changed generator bidding behaviour. The increase in prices from August to September in Queensland, New South Wales and Victoria appears to be due to tighter supply – demand conditions particularly early in the month. Prices were particularly volatile in early September, but fell later in the month.

Some caution should be exercised, however, in using this data to reach conclusions on long term spot price trends. Graph 1 shows weekly average spot prices in the NEM states from April—September 2014. While prices trended downwards since June (particularly in Queensland, New South Wales and Victoria), there was still considerable volatility in week to week prices. While this volatility is not unusual, it does make it difficult to isolate precise drivers for these price outcomes.

Graph 1: Weekly average wholesale prices, April – September 2014 (S/MWh)



The relatively short period of time since the carbon tax was repealed and the volatility of wholesale market outcomes make it difficult to identify any strong long term trend. The AER will continue to monitor wholesale market outcomes and the ACCC will report on any emerging trends in future monitoring reports.

**Hedge products**

As mentioned in the ACCC’s July 2014 report to the Minister, carbon costs were incorporated into OTC contracts in a variety of ways, with many including an addendum developed by AFMA. The AFMA Addendum calculated a carbon uplift by multiplying the carbon reference price with the average carbon intensity for the NEM published by AEMO.

On 19 June 2014, the AFMA Electricity Committee passed a resolution that set the carbon reference price to $0 from 1 July 2014 in the event of a retrospective carbon tax repeal passing both Houses of Parliament by 18 July 2014. As the carbon tax repeal legislation was passed on 17 July 2014, AFMA confirmed that the carbon reference price in the AFMA addendum is $0 from 1 July 2014.[[4]](#footnote-4)

Information provided to the ACCC indicates that all parties to contracts with an AFMA Addendum have applied this revised price.

The electricity futures market also appears to have factored in the repeal of the carbon tax. The Australian Power Index is the average price of base futures contracts across New South Wales, Victoria, Queensland and South Australia for a calendar year. Graph 2 shows the Australian Power Index for 2015. It shows a downward trend in futures prices since the start of the year. In part, this trend will have reflected the anticipated repeal of the carbon tax. However, other market factors, such as reduced demand, will have also played a role. The fall in prices appears to have stopped as of July 2014, which indicates that the contract market has already factored the repeal of the carbon tax.

Graph 2: Australian Power Index—National 2015



1. **Estimated cost savings**

Under the new provisions of the CCA, generators[[5]](#footnote-5) were required to provide the ACCC with a carbon tax removal substantiation statement (section 60FD of the CCA). The substantiation statement sets out the generator’s estimated average cost savings that are indirectly or directly attributable to the carbon tax repeal and will be passed on to customers. Generators were also required to provide information to substantiate the statement.

As set out above, electricity generators in the NEM sell their electricity into a central pool. The spot market price, set for a 30 minute period, is the average of the highest bids required to meet demand in each 5 minute dispatch interval within that period.

A number of generators stated that because the NEM spot price is influenced by factors such as generator dispatch offers, customer demand, available generation capacity, transmission constraints and technical characteristics of generation plants, they are unable to estimate the amount of cost savings which will be passed on to market customers as a result of the repeal of the carbon tax.

The ACCC acknowledges that because of the way the NEM operates there is no direct relationship between a generator’s estimated cost savings and the price charged to market customers.

Nonetheless, NEM generators used a variety of methods to calculate the estimated cost saving. The most common methods were:

* Multiplying the average carbon intensity for the NEM as determined by AEMO for the 2013/14 financial year, by the 2013/14 or 2014/15 carbon reference price.
* As per the above, but dividing this figure by the volume weighted average pool price for 2013/14 to express the cost saving as a percentage.
* Using the previous year’s estimated carbon liability.
* Adjusting the 2012/13 carbon liability to account for the 2013/14 or 2014/15 carbon reference price.

A number of generators stated that since the repeal of the carbon tax, they have adjusted their bidding activity accordingly by reducing the price of dispatch offers submitted to AEMO. They noted, however, that there are a number of other factors that influence their bidding strategy such as supply and demand levels, short run marginal costs, offers of other market participants, minimum load requirements and contract positions.

Energy costs in WA are determined through a number of mechanisms. Market participants enter into confidential bilateral contracts for the supply of electricity. Participants can then trade around their bilateral position in a daily forward market (the STEM). Offers and bids into the STEM create a clearing price for those trades.

For customers on bilateral contracts, one method to calculate the estimated cost saving was to determine the weighted average price reduction based on the difference between the carbon inclusive and carbon exclusive rates. Another method was to multiply forecast contract volumes by carbon charges. Generators in WA also stated that for customers who are market participants registered with IMO, which operates the Wholesale Electricity Market in Western Australia, carbon is no longer included in any submissions to the STEM or balancing market.

Finally, wind farm, solar and hydro generators indicated that given they never had a carbon liability they do not have a cost saving to pass on to customers. However the price they receive from the NEM will be dictated by the spot prices for NEM generation.

#### Retail markets

1. **Mass market customers**

##### Industry developments

In all NEM jurisdictions except for Victoria, annual retail price resets usually occur around 1 July 2014. This corresponds to the timing of network tariffs changes. Victorian network (and retail) prices are typically reset in January.

As at 1 July 2014 in the NEM jurisdictions, retail price regulation was in place in Queensland, the ACT and Tasmania. In these jurisdictions, state government regulators make pricing determinations regarding standing offers that retailers must make. However, retailers are also able to make market offers, pricing above or below the regulated tariff. In NSW, price regulation was removed from 1 July 2014.

The Queensland Competition Authority made a decision prior to 1 July 2014 that took into account the potential repeal of the carbon tax by publishing a price with carbon included and one without. On 18 July the carbon exclusive prices were published in the Queensland Government Gazette, with effect from 1 July 2014.[[6]](#footnote-6)

Similarly the Independent Competition and Regulatory Commission in the ACT made a determination that included both a carbon inclusive and a carbon exclusive price, with the carbon exclusive price to take effect from the date that the repeal legislation received Royal Assent.[[7]](#footnote-7)

The Office of the Tasmanian Economic Regulator approved a standing offer that took effect from 1 July 2014. The offer was based on carbon exclusive costs in the expectation that the carbon price would be removed with retrospective effect from 1 July 2014.[[8]](#footnote-8)

State and territory regulators determined that the following net price adjustments should apply to standing offers following the repeal of the carbon tax.

Table 5: Estimated price adjustments

|  |  |  |
| --- | --- | --- |
| State | Regulator/Decision maker | Estimated Price Adjustments  |
| Queensland | Queensland Competition Authority | 5.1% or $72 per annum increase (rather than 13.6% or $191 increase per annum if the carbon tax was not repealed).[[9]](#footnote-9) |
| Tasmania | Office of the Tasmanian Economic Regulator | 7.8% reduction |
| ACT | Independent Competition and Regulatory Commission | 7.3% or $143 reduction per annum (rather than 4.3% or $85 increase per annum if carbon tax was not repealed).[[10]](#footnote-10) |

The Western Australian and Northern Territory governments regulate prices and have required tariff changes to pass on savings from the repeal of the carbon tax. The ACCC was advised that in Western Australia the state government has approved that from 1 September 2014 electricity tariffs be amended to reflect the repeal of the carbon tax and for Horizon Power and Synergy to refund any carbon revenue collected from 1 July 2014. The Treasurer indicated that he expects a reduction of approximately 8 per cent for residential customers depending on consumption.[[11]](#footnote-11) Carbon exclusive prices were gazetted on 22 August 2014.[[12]](#footnote-12)

In the Northern Territory, it is estimated that the annual average cost savings for residential customers would be $142.[[13]](#footnote-13) The Electricity Pricing Order issued by the Northern Territory Treasurer on 17 December 2013 allowed Power and Water Corporation to charge 1.53c/kWh for the Greenhouse Gas Emissions Scheme in place in the Northern Territory.[[14]](#footnote-14) The ACCC understands that as the carbon tax has been repealed, no such scheme existed in the Northern Territory from 1 July 2014 and these amounts can no longer be charged.

As foreshadowed in the ACCC’s July 2014 report to the Minister, the ESC announced on 17 July 2014 that it would not pursue enforcement action under the Electricity Industry Act 2000 (Vic) where a retailer varied its standing offer tariff on one occasion only, as soon as practicable following the repeal of the carbon tax, to introduce a carbon exclusive standing offer tariff. In addition, the decision permits retailers to begin to bill customers at the lower tariff immediately after the variation is published in the Government Gazette. This announcement removed regulatory impediments to Victorian retailers adjusting their prices once the carbon tax was repealed. A number of retailers have exercised this option. As at 8 September 2014, the following retailers have notified the ESC that they are utilising the one additional variation:[[15]](#footnote-15)

* Lumo Energy
* Simply Energy
* Red Energy
* ERM Power
* QEnergy
* Alinta Energy
* People Energy
* Momentum Energy
* Origin Energy
* Dodo Power and Gas
* AGL Energy
* Powerdirect

##### Retailer’s implementation of the carbon tax repeal

Retailers advised the ACCC that price changes for mass market customers can be expensive and complex exercises that take time to implement. The time required to implement a price change varied between retailers. So while all residential and small business customers should receive the benefit of the carbon tax repeal, they will not all receive it at the same time. From 1 July 2014 the ACCC has observed several different approaches to re-pricing. Three retailers, Aurora, Momentum Energy and Red Energy, have changed to carbon-exclusive prices from 1 July 2014 in anticipation of the carbon tax repeal.[[16]](#footnote-16) Powershop reported that it adjusted its pricing by offering an additional guaranteed discount in August 2013 and absorbing cost increases in January 2014, in anticipation of the repeal of the carbon tax.

Other retailers waited until the tax was repealed before implementing changes to billing systems. This resulted in some customers being billed at carbon inclusive prices after the carbon tax was repealed on 17 July 2014, depending on where they fell in their retailer’s billing cycle. All but two retailers have confirmed that where they included carbon in customer’s bills between 1 July 2014 and the introduction of carbon exclusive prices they will reimburse or otherwise compensate those customers in their next bill. People Energy will backdate its prices to 18 July 2014 when it considers that it started to receive cost savings from the spot market. People Energy indicated that it has not received a retrospective cost savings from the spot market for the preceding period that it can pass onto its customers. Sanctuary Energy has not confirmed when a price change has or will occur or whether it will backdate any price change.

Table 6 shows mass market retailers’ implementation dates for price changes as well as the effective date of the price change.

Table 6: Mass market retailers—Date of price changes and effective dates for price changes to pass on cost savings due to the repeal of the carbon tax

| Retailers  | Date of price change | Effective date |
| --- | --- | --- |
| ActewAGL Retail | 1-Aug-14 | 1-Jul-14 |
|
| AGL Energy[[17]](#footnote-17) | 2-Sep-14 or 12-Sep-14 | 1-Jul-14 |
|
| Alinta Energy | 8-Sep-14 | 1-Jul-14 |
|
| Aurora Energy | 1-Jul-14 | 1-Jul-14 |
|
| BlueNRG | Oct-14 | 1-Jul-14 |
|
| Click Energy | Oct-14 | 1-Jul-14 |
|
| Commander Power & Gas | Information not supplied | 1-Jul-14 |
|
| CovaU | 22-Aug-14 | 1-Jul-14 |
| Diamond Energy[[18]](#footnote-18) | Not applicable | Not applicable |
|
| Dodo Power & Gas |  Sep – Oct-14 |  1 Jul 2014  |
|
| EnergyAustralia | Mid-Sep 2014 | 1-Jul-14 |
|
| Ergon Energy | 24-Jul-14 | 1-Jul-14 |
|
| ERM Power Retail | Jul-14 | 1-Jul-14 |
|
| GoEnergy | Sep/Oct 2014 | 1-Jul-14 |
|
| Jacana Energy | 1-Aug-14 | 1-Jul-14 |
| Horizon Power | 1-Sep-14 | 1-Jul-14 |
|
| Lumo Energy | 18-Jul-14 | 1-Jul-14 |
|
| Metered Energy | 18-Jul-14 | 1-Jul-14 |
| Momentum Energy[[19]](#footnote-19) | 1-Jul-14 | 1-Jul-14 |
|
| Neighbourhood Energy | 8-Sep-14 | 1-Jul-14 |
|
| Origin Energy | 15-Sep-14 | 1-Jul-14 |
|
| Pacific Hydro Retail[[20]](#footnote-20) | 16-Sep-14 | From Apr-2014 |
| People Energy | 1-Sep-14 | 18-Jul-14 |
|
| Pooled Energy | 1-Nov-14 | 1-Jul-14 |
| Power and Water Corporation | 1-Aug-14 | 1-Jul-14 |
|
|
| Powerdirect[[21]](#footnote-21) | 15-Sep-2014 or 14-Oct-14 | 1-Jul-14 |
|
| Powershop [[22]](#footnote-22) | Jan-14 | Jan-14 |
|
| QEnergy | 30-Jul-14 | 1-Jul-14 |
|
| Red Energy | 1-Jul-14 | 1-Jul-14 |
|
| Sanctuary Energy | Information not supplied | Information not supplied |
|
| Simply Energy | 1 Aug-14 | 1-Jul-14 |
|
| Synergy | 1-Sep-14 | 1-Jul-14 |
| WIN Energy | Sep-14 | 1-Jul-14 |
|

Source: carbon tax removal substantiation statements and additional information from retailers.

##### Estimated cost savings

##### Carbon tax removal substantiation statements

In accordance with the new provisions of the CCA, electricity retailers have provided the ACCC with carbon tax removal substantiation statements (substantiation statements; see ‘**Monitoring activities**’).

Generally, electricity retailers provided information on the following customer classes: residential, small business and commercial and industrial. Some retailers also classed their customers by state, by region, or by level of consumption (i.e. small residential/large residential). Electricity retailers had the choice of providing the quantity of estimated average carbon cost savings in a dollar figure, or a percentage.

Electricity retailers used different methods to calculate their carbon cost savings, reflecting that retailers source their electricity in various ways. For some retailers calculating carbon cost savings may have been relatively straight forward. For example a retailer who fully hedged its load with carbon exclusive contracts (that is, contracts that separately identify the carbon charge) would be able to determine projected carbon cost savings quite easily. Other retailers who are not fully hedged and are exposed to spot prices, or hedge using carbon inclusive contracts may have to rely on less precise methods to estimate carbon cost savings as the carbon tax component is not clear. Retailers are also entitled to recoup reasonable costs associated with implementing the carbon tax repeal, and these costs are expected to vary among retailers.

Importantly, the ACCC expects electricity retailers to consider using the same methodology to remove carbon costs from their prices as they used when the carbon tax was introduced. If they do not, they would need to justify the reasons for using a different methodology and justify how all cost savings have been passed through.

Some retailers have explained that there will be no cost savings to pass on to their mass market customers. Momentum Energy has indicated that customers on its clean energy product did not attract a carbon charge and so will not have cost savings.[[23]](#footnote-23) Similarly, Diamond Energy has indicated to the ACCC that as it produces and purchases renewable energy, the repeal of the carbon tax does not result in direct or indirect cost savings. Diamond Energy further indicated that it will monitor market prices and ensure it continues to provide competitive rates. Other retailers, including Pacific Hydro Retail and Powershop have advised that they set their prices with reference to the expected repeal of the carbon tax and as such their prices contained little or no amount for carbon at the time the carbon tax was repealed. Regardless of whether retailers have cost savings from the repeal of the carbon tax to pass on, the ACCC expects that there is an important role for competition to incentivise discounting in the market as consumers shop around for better deals on their electricity bills.

Where retailers have indicated that customers would be receiving a cost saving, the range of average cost savings for residential customers in each jurisdiction is set out in Table 7 below. The table provides ranges as percentages, dollar values or cent per kilowatt-hour, reflecting the format that retailers chose to express the figures.[[24]](#footnote-24) As the lowest and highest figures in the range are averages, individual customer’s savings could fall outside the range. An individual customer’s cost savings will depend on the customer’s tariff structure, location and consumption.

Table 7: Range of estimated average annual cost savings due to the repeal of the carbon tax

|  |  |  |  |
| --- | --- | --- | --- |
| State | Range of % figures | Range of $ figures | Range of c/kWh figures |
| New South Wales | 6.01–10 | 158–179 | 2.383 |
| Victoria | 7–12.4 | 132–146 | 2.401–2.881 |
| Queensland | 8–11.14 | 170–174 | - |
| South Australia | 5.2– 8[[25]](#footnote-25) | 136–159 | 2.379 |
| Tasmania | 9.4 | - | - |
| Australia Capital Territory | 11–11.5 | 189–222 | 2.776 |
| Western Australia | 9.8 | 46–263[[26]](#footnote-26) | - |
| Northern Territory | - | - | 1.53 |

For the retailers that provided figures that were not state specific, the range of figures provided is 9.11 per cent, $130 or 1.5c per kWh – 2.29c per kWh.[[27]](#footnote-27) However, it should be noted that not all of the retailers in this group retail in the same jurisdictions. As such, caution should be exercised in comparing these figures.

The ACCC has summarised the individual figures provided by retailers for residential and small business customers in the table at Annexure 2. However, the figures are not always comparable as there are various calculation methods that satisfy the legislative requirements.

Particular issues to note that may account for variation in figures include:

* variation in consumption values used to calculate average percentage or dollar cost savings
* inclusion or exclusion of GST when reporting expected dollar savings
* inclusion or exclusion of expected discounts
* differences in national and state based figures
* variation in relevant carbon intensity factor (state or NEM wide) used.

The range of consumption values used is the most significant factor in accounting for variations in the figures. Where retailers have provided figures that are not on a c/kWh or $/MWh basis, then these figures will be based on an estimated consumption figure that is often not specified. Retailers may have used a national average annual consumption figure, a state average figure, or a figure that corresponds to the particular features of the class of customer that that particular retailer sells to. All of these approaches fulfil the requirements of the legislation.

##### Analysis of retail pricing data

In March, April and July 2014, the ACCC sought pricing information from retailers regarding their standing offers, lowest generally available market offers, and most common offers (by number of customer) for both residential and small business customers in each electricity supply area in which the retailer is active.

##### Carbon inclusive pricing as at 1 July 2014

In all NEM jurisdictions except Victoria, annual price changes usually occur around 1 July to reflect variations in network tariffs that occur at this time. In Victoria, variations in network tariffs and hence retail price variations usually occur around 1 January each year. Retailers’ price changes are also impacted by other factors, including: changes to the wholesale cost of energy, the costs of solar energy schemes and operating costs.

Most electricity retailers indicated that their prices still contained amounts for carbon as at 1 July 2014. However, retailers confirmed their intention to remove carbon components from their pricing in the near future. More than half of the electricity retailers who had not removed carbon components from their pricing increased their prices as at 1 July 2014, or soon after. In general, retailers explained that the increases in prices were due to the factors mentioned above. These adjusted prices will be the benchmark from which the ACCC will measure the impact of the removal of the carbon tax.

Other retailers did not change their prices on 1 July 2014 and indicated that they had delayed their usual price changes so that they could factor in the repeal of the carbon tax at the same time. The ACCC will compare the electricity prices provided in July 2014 to prices provided in future information requests. The ACCC will be mindful of the impact on prices from changes in other costs when assessing the impact of the carbon tax removal.

##### Carbon exclusive pricing as at 1 July 2014

Two retailers, Aurora and Red Energy, indicated that they had reduced prices for their standing offers, lowest generally available market offers and most common offers as at 1 July 2014, in anticipation of the carbon tax being repealed.

The ACCC has calculated annual electricity bills from the pricing information supplied by these retailers. The calculation was based on annual consumption of 6500 kWh. According to the ACCC’s analysis the net reduction to Aurora’s standing offer was 7.8 per cent for residential customers. For Red Energy’s residential standing offer customers, ACCC analysis indicated that the average net decrease was approximately: 8.2 per cent in NSW, 7.5 per cent in Victoria and 3.2 per cent in South Australia.[[28]](#footnote-28) These price decreases represent the net effect of the retailers removing carbon from their prices as well as other factors that impact the price, including changes in network costs.

1. **Commercial and industrial customers**

Retailers with commercial and industrial (C&I) customers were also required to provide carbon tax removal substantiation statements to the ACCC in respect of these customers. Many mass-market retailers also sell to C&I customers. In general, their carbon tax removal substantiation statements covered C&I customers as a separate class of customer. Other retailers only sell to C&I customers and have provided carbon tax removal substantiation statements for that class of customer only. Some electricity generators also retail directly to C&I customers and have included this class of customer in their carbon tax removal substantiation statements.

Retailers have reported that for C&I customers, the impact of the carbon tax repeal will depend on the customers’ contractual terms. Broadly, retailers have indicated that they offered three types of contracts:

* Carbon exclusive or unbundled
* Carbon inclusive or bundled
* NEM pool price.

Carbon exclusive contracts allow for the pass through of a separate, itemised carbon charge. In some cases that carbon charge is fixed, in others it is floating. Floating charges are generally calculated with reference to the average carbon intensity of the NEM, multiplied by the carbon reference price. Retailers have advised that both fixed and floating carbon charges have been reset to $0 from 1 July 2014.

Carbon inclusive contracts have energy charges that are fixed, and do not specify a carbon component. Often fixed energy charges are calculated with reference to a number of forward looking factors, including the expectation of the repeal of the carbon tax. In general, retailers noted that these contracts do not provide for a price adjustment upon the repeal of the carbon tax and customers on these contracts will not have their prices adjusted until the term of the contract expires. Retailers explained that usually this customer load is hedged with ‘matched’ products that are also carbon inclusive and do not allow for adjustments relating to the repeal of the carbon tax. As such, retailers report that they will not have cost savings to pass on to customers with these types of contracts. Retailers reported that carbon inclusive contracts remained popular with customers in mid 2014 as the energy charge under these contracts was cheaper than for carbon exclusive contracts.

Finally, some retailers also offer NEM pool price contracts. Under these arrangements, retailers do not set a specific price but simply pass though the cost of purchasing electricity from the pool. To the extent that pool prices decrease to reflect the removal of the carbon tax customers on these types of contracts will receive the benefit of lower prices.

Based on the information provided to date, the ACCC considers that it is reasonable that the impact of the carbon tax repeal will depend on the customers’ contractual terms, and that prices under carbon inclusive contracts may not be adjusted until the fixed term of the contract expires. The ACCC will continue to assess the information provided by individual retailers but is mindful that the intention of the carbon tax repeal legislation is not to override pre-existing contracts. Should issues arise regarding the pass though of cost savings from the repeal of the carbon tax in relation to C&I contracts, the ACCC considers that those would be best resolved between the parties.

#### The ACCC’s monitoring activities

Retailers were required to publish a copy of their substantiation statement on their website (section 60FE of the CCA). They were also to provide their customers with a statement within 30 to 60 days after repeal informing them of the estimated savings for a customer in their class (see ‘**Monitoring Activities**’).

The ACCC will continue to assess the content of the substantiation statements in light of the information provided to it in the substantiation notice responses. Whilst all notices were complied with, the level of detail provided varied significantly between responses and in some was disappointingly low. The ACCC will be seeking further information from a number of entities to enable the ACCC to test the claims made by entities in their substantiation and customer statements, to assess whether carbon tax cost savings have been passed through, and to inform the January 2015 report to the Minister.

The ACCC will also continue to seek pricing information from mass market retailers at regular intervals throughout the carbon tax repeal transition period, using its price monitoring powers under the new section 60G of the CCA.

### Natural gas

As at the end of September 2014 all natural gas retailers but one had changed their prices to be carbon exclusive, with the remaining retailer to complete its price change in October 2014. All retailers have indicated they are backdating the price change to 1 July 2014 or had removed the carbon component as at 1 July 2014.

Retailers have confirmed that they are or will be providing a credit or adjustment to customer bills for any carbon amount that has been collected after 1 July 2014.

Gas transmission and distribution businesses have removed the carbon component from their prices. Any carbon tax over-recovery from 1 July 2014 to the date of a price change will be refunded to customers in the current regulatory year or in the next regulatory year.

Where carbon costs had been passed through in wholesale contracts, gas producers have ceased passing through these costs, effective 1 July 2014. Customers already invoiced for carbon after 1 July 2014 have had their invoice amended to be carbon exclusive or have been refunded.

#### Upstream markets

As indicated in the July 2014 report to the Minister, most distribution networks and transmission pipelines are regulated with reference tariffs set under access arrangements. Reference tariffs for 2014/15 that came into effect on 1 July 2014 included carbon costs, as they had been approved prior to the repeal of the carbon tax.

Under most access arrangements, it will not be possible to vary reference tariffs within a regulatory year. However, network operators can remove the carbon tax from the prices in their commercial arrangements with their customers at any time. As the repeal of the carbon tax occurred outside of normal tariff adjustment timeframes, the AER has indicated that any voluntary action taken to effect immediate removal of the carbon cost component from prices and associated under-recovery will be taken into account when reference tariffs are reset.

Network operators have removed the carbon components from their prices effective from dates ranging between 1 July and 1 September 2014. Any over-recovery of carbon costs from 1 July 2014 to the effective date of price change will be either refunded to customers in the current regulatory year or in the next regulatory year.

The ACCC welcomes the proactive approach by network operators to remove the carbon tax from their prices as quickly as possible.

As indicated in the July 2014 report to the Minister, generally wholesale contracts between gas producers and retailers or other large users have provided for the pass through of carbon costs.

Where carbon costs had been passed through natural gas producers have indicated that following the repeal of the carbon tax, they have ceased to charge a carbon component under those contracts, effective 1 July 2014, except for a small number of carbon inclusive contracts. Gas producers who had invoiced customers after 1 July 2014 including a carbon pass through have either sent updated carbon exclusive invoices or refunded the carbon amount (excluding carbon inclusive contracts). There have been no changes to prices under agreements that had not allowed the pass through of carbon costs.

Some gas producers have noted that while they have removed carbon pass through from their contracts effective 1 July 2014, their final carbon tax liability for 2013-14 will not be finalised until the true-up process in February 2015 and may lead to adjustments for over-recovery or under-recovery of carbon tax.

#### Retail—mass market customers

##### Industry developments

Typically, retail gas prices are reset every year around 1 July in all jurisdictions except Victoria.[[29]](#footnote-29) These price resets usually cover changes in wholesale, network and retail costs. Most retailers effected a price reset around 1 July 2014, with most prices still including a carbon component (see detail below).

NSW retains retail price regulation for small business and residential customers (those consuming less than 1 terajoule per year). Price regulation in NSW only applies to customers who have not entered into a market contract with a natural gas retailer. IPART’s June 2014 decision for NSW regulated gas prices allowed an increase of 17.8% on average. These price increases included a carbon component. In August 2014, IPART approved a revised increase in regulated gas prices of 11.2% to account for the removal of the carbon tax. IPART calculated that the 6.2% decrease would save the average customer between $50 and $90 per year depending on usage and location.[[30]](#footnote-30)

As indicated in the electricity industry assessment, the ESC released its final decision regarding variations to standing offer tariffs following the removal of the carbon tax. The ESC will not pursue enforcement action under the *Gas Industry Act 2001* (Vic) where a retailer varies its standing offer tariff one additional time to introduce a carbon exclusive standing offer tariff. The ESC’s decision also allows retailers to immediately begin billing customers at the lower tariff without having to wait until the notice period has expired, and to backdate the carbon price-exclusive standing offer tariff variation to 1 July 2014. As of 8 September 2014, seven natural gas retailers have notified the ESC that they will use the one additional variation, which will allow them to begin billing customers at the lower tariff.

##### Impact of the carbon tax scheme and its repeal

Most retailers have indicated that adjusting tariffs and updating billing software to effect a price change for mass market customers is an expensive and complex process. However, irrespective of the time taken to effect a price change in the retailer’s billing system, the ACCC expects that the effective date for the price change should be when the retailers receive a reduction in costs following the removal of the carbon tax component.

There have been different approaches by gas retailers to re-pricing as set out in the table below. Three retailers, Aurora, Red Energy and Kleenheat, introduced carbon-exclusive prices from 1 July 2014 in anticipation of the carbon tax repeal. Other retailers waited until after the carbon tax was repealed to implement changes to their billing systems. All but one retailer had implemented their price change by the end of September 2014, with the remaining retailer to finalise its price change in October 2014.

Irrespective of the date of price change in customer’s bills, all retailers have indicated that the effective date for carbon exclusive prices is 1 July 2014. When customers were billed at the carbon–inclusive price between 1 July 2014 and the date when the price was changed, customers will receive a refund or credit in a subsequent bill.

Table 8: Mass market retailers—date of price changes and effective dates for price changes to pass on cost savings due to the repeal of the carbon tax

| Entity | Date of pricing change | Effective date |
| --- | --- | --- |
| Aurora | 1 July 2014 | 1 July 2014 |
| Red Energy | 1 July 2014[[31]](#footnote-31) | 1 July 2014 |
| Kleenheat | 1 July 2014 | 1 July 2014 |
| Tas Gas | 17 July 2014 | 1 July 2014 |
| Lumo Energy | 18 July 2014 | 1 July 2014 |
| Metered Energy Holdings | 18 July 2014 | 1 July 2014 |
| Simply Energy | August 2014 | 1 July 2014 |
| Western Downs Regional Council | August 2014 | 1 July 2014 |
| Alinta Energy | August – September 2014 | 1 July 2014 |
| ActewAGL | September 2014 | 1 July 2014 |
| AGL | September 2014 | 1 July 2014 |
| Synergy[[32]](#footnote-32) | September 2014 | 1 July 2014 |
| Origin | September 2014 | 1 July 2014 |
| EnergyAustralia | September 2014 | 1 July 2014 |
| Dodo Power & Gas | September – October 2014 | 1 July 2014 |
| Maranoa Regional Council | Not applicable | Not applicable |
| Esperance Gas Distribution | Not applicable | Not applicable |

##### Estimated cost savings

Section 60FD of the new Part V requires natural gas retailers to provide the ACCC with carbon tax removal substantiation statements (see ‘**Monitoring activities**’). The statement sets out the business’ estimated average annual cost savings from the repeal of the carbon tax that will be passed on to each class of customers. Natural gas retailers were also required to place the statement on their website and communicate the content of the statements to their customers (section 60FE of the CCA).

Two small retailers, Esperance Gas Distribution and Maranoa Regional Council, have indicated that as their carbon cost was small they did not adjust their prices to pass through these costs. Therefore, there is no carbon tax cost saving to pass through to customers on repeal.

Where retailers indicated that customers would receive a saving, the range of estimated average savings for residential customers in each jurisdiction is set out in Table 9 below. Natural gas retailers had the choice of providing estimated carbon tax cost savings as a dollar figure, a percentage or dollar per gigajoule.

Many natural gas retailers pointed out that customer savings will vary depending on individual circumstances such as the customer’s supply address, tariff type, consumption and the level of any discounts. Some natural gas retailers also indicated that they may pass along the cost of compliance with the carbon tax repeal to their customers.

Table 9: Range of estimated average annual cost savings due to the repeal of the carbon tax

|  |  |  |  |
| --- | --- | --- | --- |
| State | Range of % figures | Range of $ figures | Range of $/GJ figures |
| New South Wales | 3.6–5 | 27–93 | - |
| Victoria | 6.4–8 | 75–105 | 1.61 |
| Queensland | 3.2– 4 | - | - |
| South Australia | 3.6–5 | 37 | 1.92 |
| Tasmania | 4.7–5.14 | - | 1.56 |
| Australian Capital Territory | 5.5–5.9 | 93–98 | - |
| Western Australia | - | - | 1.58 – 1.70 |
| Northern Territory | 3.5 | - | - |

The ACCC has summarised the figures provided by each retailer for residential customers in the table at Annexure 3. However, the ACCC notes that the figures are not always comparable given the various calculation methods used to determine the estimated the cost savings.

Particular issues that may account for variation in figures include:

* inclusion or exclusion of GST when reporting expected dollar savings
* variation in consumption values used to calculate average percentage or dollar savings.

Importantly, the ACCC expects natural gas retailers to use the same methodology to remove carbon costs from their prices as they used when the carbon tax was introduced. If a natural gas retailer uses a different methodology, the ACCC expects the retailer to be able to justify and explain the different methodology.

##### Analysis of retail pricing data

As part of its price monitoring role, the ACCC has received retail prices from natural gas retailers. The prices supplied in the most recent request were effective as at 1 July 2014. These prices were compared to prices from March-April 2014.

As indicated above, Victorian prices did not change as tariffs are typically adjusted in January each year instead of July as is the case in other jurisdictions.

Three entities had already removed the carbon tax from their prices from 1 July 2014. According to ACCC analysis, Aurora’s standing offer for Tasmanian customers decreased by 2.6 per cent for residential customers. Removal of the carbon tax resulted in cost savings of 4.7 per cent on average, but this was partially offset by increases in other supply costs.

One retailer indicated that it delayed implementing a price reset to coincide with the price change to remove the carbon price.

The ACCC has calculated annual gas bills from the pricing information supplied by natural gas retailers using an estimated average annual residential usage of 45GJ.

All standing offer adjustments that retained a carbon charge resulted in increased prices for residential gas customers, except for one retailer in Tasmania. Gas retailers in the eastern states commented that wholesale gas prices are being pushed up to international commodity levels. This was particularly noted as a reason for regulated gas price increases in NSW in IPART’s June 2014 price decision. IPART stated in its decision:

“The ability to export Liquid Natural Gas is driving a fundamental change in eastern Australia’s wholesale gas market. With gas reserves being directed to these exports, eastern Australia is becoming part of a single global market for commodity gas, and wholesale gas prices are being influenced by international prices.”[[33]](#footnote-33)

Natural gas prices only increased minimally in Western Australia due to price increases being limited to CPI unless otherwise determined by the Western Australian Government.

Overall retailers also indicated that natural gas prices are rising due to increased distribution, transmission, retail and energy efficiency schemes costs. A retailer also advised that certain tariffs were restructured for those tariffs to be more cost reflective.

The graph below summarises the changes to standing offer prices from March-April 2014 to 1 July 2014, excluding retailers that had already removed carbon costs from their prices.

Graph 3: Retail gas standing offer average price changes (carbon inclusive) 1 July 2014—residential customers[[34]](#footnote-34)

Source: ACCC data collected from natural gas retailer’s response to ACCC Price Monitoring Requests.

The ACCC will continue to monitor natural gas prices to ensure cost savings from the repeal of the carbon tax are reflected in actual natural gas prices. These figures will be assessed against known carbon exclusive figures in the ACCC’s next monitoring report.

#### Retail—commercial & industrial (C&I) customers

As noted in the July 2014 report to the Minister, C&I customers typically acquire gas from retailers under fixed term contracts. These contracts allow for retailers’ direct and indirect (upstream) carbon tax costs to be passed through to the customer. Commonly contracts identify retailers’ direct pass through costs as a line item on customer bills.

C&I customers with an Obligation Transfer Number (OTN) are responsible for the direct emissions instead of the retailer. The direct carbon liability of these customers ceased from 1 July 2014.

Due to the diversity of offers available to C&I customers based on their individual consumption requirements, it is difficult to provide a carbon tax savings comparison. Savings communicated by natural gas retailers range from 1 to 18.5 per cent. These figures are based on factors unique to the requirements of each C&I customer which includes geographic location, consumption and peak / off peak usage.

#### The ACCC’s monitoring activities

The ACCC will continue to assess the content of substantiation statements in light of the responses to the carbon tax removal substantiation notices and report on these findings in the January 2015 report to the Minister.

The ACCC will continue to monitor natural gas prices, and provide an update on how the repeal of the carbon tax is reflected in natural gas prices in subsequent monitoring reports.

### Synthetic greenhouse gas

Some SGG wholesalers have reported list price reductions of between 40 and 80 per cent. Other wholesalers that do not maintain list prices have stated that they expect their prices for SGGs to fall by similar levels following the carbon tax repeal.

Some importers who reportedly stockpiled SGGs before the carbon tax scheme came into effect have said that there will be little to no cost savings attributable to the carbon tax repeal that will be passed through to customers, but they are committed to ensuring their customers receive competitive prices. The customers in this case are predominantly large SGG wholesalers. The importers have further stated that they have observed market prices falling and that they anticipate that prices will continue to fall.

The ACCC expects all SGG suppliers to provide clear information to their customers about the impact of the carbon tax repeal on their prices and be prepared to support their statements with evidence. The ACCC expects that customers of SGG suppliers will query the impact of the carbon tax repeal on pricing.

Statements by SGG suppliers that they will respond to the market in determining their prices align with the ACCC’s expectation that market forces will exert pressure on the prices of SGGs at all levels of the supply chain, and will help ensure that SGG suppliers pass through carbon tax cost savings.

The ACCC will continue to engage with SGG suppliers to better understand their indirect carbon tax cost savings. The ACCC may exercise its enforcement powers in circumstances where it considers a SGG supplier has failed to identify and pass through all indirect cost savings attributable to the carbon tax repeal, or has made false or misleading representations about the impact of the carbon tax repeal or carbon tax scheme on their prices.

#### Industry background

In order to import SGGs into Australia, an entity must hold a licence issued by the relevant Minister or their delegate under the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989*. There are two ways entities can import SGGs:

* in bulk form, which requires a ‘controlled substances’ licence, or
* inside equipment (for example, a refrigerator), which requires an ‘ozone depleting substances/synthetic greenhouse gas equipment’ licence.

The ACCC has issued information requests to current or former controlled substances licence holders. There are currently 26 controlled substance licence holders and less than half supply large quantities of SGGs in bulk form. A number of licence holders import small quantities for specialised uses. Others import SGGs for their own use, and do not sell them.

The equivalent carbon price levy (the levy) substantially increased the price of importing SGGs into Australia after 1 July 2012 and caused the wholesale price of many bulk SGGs to increase at that time. In order to avoid purchasing at a significantly higher cost, some SGG wholesalers that were also licensed to import, bought SGGs from local importers that had stockpiles of SGGs imported before the levy applied.

SGG equipment is imported into Australia already containing synthetic greenhouse gas and includes products such as refrigerators, automobiles and air conditioning units. Since these products are generally manufactured overseas, the suppliers of the contained SGGs are not subject to the carbon tax. Entities that import SGG equipment were liable to pay the levy, but this will ordinarily be a small amount because each product is pre-charged with a minimal amount of synthetic greenhouse gas.

#### Impact of the carbon tax and the carbon tax repeal

Prior to the carbon tax repeal, the ACCC sought information from importers about their past imports of SGGs. In particular, the ACCC sought information about imports of some of the most common SGGs: R134a, R404A and R410A. The requests related to imports both in the period prior to 1 July 2012 when the levy did not apply, and after the levy came into effect.

A number of importers stockpiled large quantities of SGGs prior to 1 July 2012 to avoid the levy, and import volumes fell significantly after this point. For instance, there were no imports of R410A, and only a small volume of imports of R134A and R404A between 1 July 2012 and 30 June 2014. It is important to note that while SGG importers stockpiled SGGs prior to the introduction of the levy and there were limited imports of SGGs which did attract the levy following the introduction of the carbon tax, market prices for SGGs rose substantially around the time that the carbon tax came into effect.

In their responses to the ACCC information requests, SGG suppliers said that demand for SGGs fell in the lead up to the carbon tax repeal, as customers delayed purchases in expectation of lower post-repeal prices and end-users adopted practices to reduce SGG costs such as using recycled SGGs. SGG suppliers claim that this placed downward pressure on market prices for the common SGGs mentioned above. SGG suppliers have also advised the ACCC that they consider that, following the carbon tax repeal, customers may revert to similar purchasing practices that were observed before the carbon tax was introduced.

All SGG importers that paid the levy on SGGs imports claim that they are committed to passing through the direct carbon tax cost savings to customers following the repeal. The pass through of direct carbon tax cost savings from importers to their customers should be relatively straightforward. It is less clear what benefit customers will receive from indirect cost savings associated with the carbon tax repeal. This is explored further in the ‘**substantiation statements**’ section below.

The ACCC understands that on average it takes around one month for an importer to alter its list prices or implement a price change. Most importers that have existing contracts with wholesalers are able to lower prices under the contract. These factors mean that large SGG suppliers purchasing SGGs from importers should see direct cost savings associated with the removal of the levy soon after the repeal. Not all importers maintain list pricing, but the ACCC understands that some importers that do have already adjusted their list pricing to reflect removal of the levy.

SGGs are regulated goods, and entities supplying SGGs to customers at all levels of the supply chain have an obligation to pass on any cost savings attributable to the carbon tax repeal. For this reason, the market price for SGGs is likely to fall. Although importers should be able to pass on cost savings quickly, industry associations consider that cost savings will not be immediate through the whole industry, given its complex structure. They also said that imported SGGs that attracted the levy could take six months to work through the supply chain. As importers stockpiled certain SGGs before the carbon tax, there should only be small volumes of those SGGs that attracted the levy in the supply chain following the carbon tax repeal.

Some SGG suppliers said that the carbon tax caused structural changes in the industry that increased input costs. For example, increased stock value imposed increased security and insurance costs. The SGG suppliers consider that some of these costs are fixed and part of doing business in the industry, and as such will not fall after the repeal. The ACCC will seek further information from SGG suppliers in the post-repeal period as to the effect these inputs costs currently have on prices, and how irreversible structural changes may have followed the introduction of the levy.

##### Substantiation statements

All licenced SGG importers that sell SGGs to customers were required to provide the ACCC with a carbon tax removal substantiation statement by 18 August 2014 (see the ‘**Carbon tax removal substantiation statements**’ section of this report). The ACCC has made a preliminary assessment of the substantiation statements provided, and will further consider them when analysing responses to both the carbon tax removal substantiation notices and further price monitoring information requests.

In their substantiation statements, some SGG suppliers said that there were no identifiable cost savings attributable to the carbon tax that could be passed through to customers, because the supplier was either:

* an importer that did not pay the levy during the carbon tax period, and therefore had no direct carbon tax liability, or
* a wholesaler and its supplier did not identify the carbon tax component in pricing and invoicing.

The ACCC expects customers will query their SGG supplier to ensure that cost savings attributable to the carbon tax repeal are passed through to them. One substantiation statement provides a good example of how an entity should approach a situation where a supplier is not disclosing cost savings attributable to the carbon price. The entity’s supplier only provided single line pricing without quantifying the carbon tax component. The entity wrote to the supplier and queried the cost savings it would receive following the carbon tax repeal. The supplier then provided the entity with reduced list pricing. The entity has made a commitment to pass its suppliers’ list price reductions on to customers in full.

Other substantiation statements, such as those from SGG suppliers that predominantly acquired their stock from local importers, indicated that the suppliers were committed to passing on cost savings attributable to the carbon tax repeal. These particular suppliers estimated that there could be average cost savings of between 40 to 80 per cent for customers, with particular cost savings depending on the circumstances (such as quantity purchased and existing contracts).

A common theme in the substantiation statements is that SGG suppliers claim to have difficulty in identifying indirect cost savings attributable to the carbon tax repeal. The ACCC expects SGG suppliers to be able to give clear figures to justify representations that they have no indirect cost savings to pass on to customers.

The ACCC also expects market forces to place downward pressure on the resale prices of SGGs.

#### The ACCC’s monitoring activities

The ACCC will continue to assess the content of the substantiation statements in light of the information provided to it in the substantiation notice responses. The ACCC will provide further information about the substantiation notice responses in the next report.

The ACCC will continue to engage with SGG suppliers to better understand their indirect carbon tax cost savings and monitor to ensure that they identify any indirect cost savings associated with the carbon tax repeal, including energy costs. SGG suppliers must identify whether they have any indirect cost savings because of the carbon tax repeal. Entities must pass through any indirect cost savings attributable to the carbon tax repeal, just as they need to pass through cost savings that are directly attributable to the repeal.

The ACCC will continue to engage with SGG suppliers to understand their claim that the carbon tax led to structural changes to in the SGG industry, which led to increased storage, insurance and security costs. Some SGG suppliers claim that these are now normal operating costs in the industry. If these costs do fall in the carbon tax repeal transition period as stock values decrease, suppliers must pass them through to customers insofar as they are attributable to carbon tax repeal.

The ACCC will continue to make enquiries with SGG suppliers to determine whether:

* the cost savings envisaged by large SGG wholesalers (40 - 80 per cent) are being passed through to customers,
* SGG importers who said that they had no direct cost savings respond to the competitive pressures they identified, and
* indirect cost savings are being passed through as the suppliers obtain them.

## Tier 2 industry assessments

Tier 2 industry assessments are based on the responses to the ACCC’s information requests to some liable entities and some additional entities and further information gathered by the ACCC. Information provided by entities in these industries suggests that the effect of the carbon tax scheme is mixed and the degree and extent to which carbon tax costs are passed through varies. As such, following the repeal of the carbon tax, the degree and extent of carbon tax cost savings to be passed through to customers also varies.

Entities in these industries are not liable under the carbon tax price reduction obligation provisions but the ACCC expects that in effective, competitive markets, carbon tax cost savings will be passed through. The ACCC may also recommend additional goods to the Minister to be included on the list of regulated goods (section 60B(2) of the CCA).

The ACCC expects that entities in these industries will engage with the ACCC in its ongoing monitoring role and commit to working through the complexities they have encountered with the carbon tax scheme to ensure that carbon tax cost savings are passed through to customers now that the carbon tax has been repealed.

For the January 2015 report to the Minister, if further information gathered by the ACCC in its ongoing monitoring role demonstrates that entities in these industries are passing through carbon tax cost savings where applicable and no concerns have arisen, the ACCC will move these entities to Tier 3 and continue to monitor for complaints.

### Landfill facility operation

Almost all landfill facility operators that are liable entities in this industry have removed carbon components from their prices. Liable entities’ gate fees for general waste have, on average, decreased post-repeal. The majority of liable entities have provided, or will be providing, refunds for the refund period. Other liable entities are using the money collected during the refund period to fund measures that will lead to lower prices, or lower price increases, in the future (e.g. emissions abatement measures).

Where landfill operators have collected money for future carbon tax liabilities that will no longer eventuate, and have not yet determined what they will do with this money, the ACCC considers that they should refund it to customers where possible. Where this is not possible (for example, where customers cannot be identified):

* The ACCC recommends that local councils utilise the money for the benefit of rate-payers, for example, by expending the money on projects or infrastructure benefiting their communities (such as emissions abatement measures), or by setting future fees and charges lower than they otherwise would have been to account for this additional money.
* With respect to private companies, the ACCC is aware that negotiations are currently taking place between ALOA and the Government as to how these funds could be utilised.

#### Industry background

Landfill facility operators are not suppliers of regulated goods so the carbon tax price reduction obligations of the CCA do not apply to them.

From 1 July 2014 liable entities in this industry generally faced increased operating costs unrelated to the carbon tax. The most significant cost increases were state government imposed landfill levies applicable to many entities in this industry.[[35]](#footnote-35) Levies are generally passed on to landfill facilities’ customers on a dollar per tonne basis as part of the gate fees for using the landfill facility. All levies have increased in the 2014/15 financial year. The amount by which they have increased varies between states from $3.70 to $32.00 per tonne (depending on the regulated area and type of waste).[[36]](#footnote-36)

#### Impact of the carbon tax scheme and its repeal

Landfill facilities are generally operated by private companies or local councils. Many landfills did not exceed the relevant emissions threshold and therefore their operators are not liable entities. Information was sought from 45 liable entities in this industry. 13 of these are private companies and 32 are local councils.[[37]](#footnote-37)

* The following discussion regarding landfill facility gate fees (also known as landfill disposal charges) relates to both private companies and local councils that are liable entities in this industry.
* The discussion regarding waste management fees (also known as waste collection charges) relates only to local council liable entities.
* In passing through carbon tax costs, some local council liable entities in this industry only included a carbon tax cost component in their waste management charges, some only included a carbon tax cost component in their landfill facilities’ gate fees, and some did both.

###### Landfill facility gate fees[[38]](#footnote-38)

Of the 45 landfill facility operators that are liable entities:

* Eight never passed through any carbon tax costs in their landfill facilities’ gate fees and consequently, took no action in relation to their gate fees after the carbon tax was repealed.
* 11 did not include carbon tax cost components in their gate fees from 1 July 2014 in anticipation of the carbon tax being repealed during the 2014/15 financial year.
* Two liable entities have not yet taken any steps to remove the carbon tax cost components from their gate fees. These two entities are small businesses and are managed and operated jointly. They advised the ACCC that they have engaged a consultant to assist them to determine the steps they need to take now that the carbon tax has been repealed.
* With respect to one liable entity, West Australian Landfill Services Pty Ltd (WALS), having regard to its standard price list, the ACCC notes that those prices post 1 July 2014 remain the same as those charged from 1 January 2014 to 30 June 2014. The ACCC will continue to engage with WALS in relation to this matter.
* 23 liable entities included a carbon tax cost component in the landfill gate fees they set for the 2014/15 financial year and subsequently removed the carbon tax cost components after the carbon tax was repealed.

Of those 23 liable entities:

* Some are, or will be, providing refunds to account customers and contract customers for the refund period.
* Some are, or will be, also providing refunds to ad hoc customers and the general public upon production of a receipt evidencing payment of a carbon tax cost component in the refund period.
* Some had either made no decision as to what they would do with the money collected from customers paying carbon tax cost components during the refund period, or did not provide any information to the ACCC on this issue.
* Some decided that they would not refund the money collected from customers paying carbon tax cost components during the refund period, but would instead use the money to:
* fund future improvements or redevelopments to their landfill facility,
* fund the installation and operation of landfill gas collection and flaring infrastructure at their landfill facility,
* lower operating or capital costs for the landfill facility in the future, or
* set landfill facility gate fees for the 2015/16 financial year lower than they otherwise would have been.

Where such information was available, of these 23 liable entities that included a carbon tax cost component in their 2014/15 landfill gate fees and subsequently removed the carbon tax cost components after the carbon tax was repealed, the reductions in gate fees ranged from $5.00 to $38.50 per tonne, with an average reduction of $17.12 per tonne.

###### Waste management charges

Of the 32 local council landfill facility operators that are liable entities, information on waste management charges was only available for 28 of these entities:

* Seven never passed through any carbon tax costs in their waste management charges and consequently, took no action in relation to these charges after the carbon tax was repealed.
* Four did not include any carbon tax cost components in the waste management charges they set for 2014/15 in anticipation of the carbon tax being repealed during the 2014/15 financial year.
* 17 included a carbon tax cost component in the waste management charges they set for the 2014/15 financial year. Of the 17 local council liable entities that included a carbon tax cost component in their 2014/15 waste management charges, 13 have subsequently removed the carbon tax cost components from these charges after the carbon tax was repealed. Of the entities that have removed the carbon tax cost component:
* 10 have provided, or will be providing, refunds to rate-payers for the carbon components paid in their 2014/15 waste management charges, by way of applying credits to the rate-payers’ accounts. Given the differences in billing cycles, these credits are being applied to rate-payers’ accounts anywhere from August 2014 to March 2015, depending on the relevant local council.
* Three have decided that instead of refunding rate-payers during the 2014/15 financial year for the carbon components paid in their 2014/15 waste management charges, they will lower rate-payers’ waste management charges for the 2015/16 financial year by the refund amounts.

The remaining four local council liable entities that included carbon tax cost components in their 2014/15 waste management charges either advised the ACCC they have not yet made a decision as to what they will do with the money collected from charging carbon tax cost components in their 2014/15 waste management charges, or did not provide any information to the ACCC on this issue. The ACCC will seek further information from these councils regarding what they intend to do.

###### Money collected for future carbon tax liabilities that will no longer eventuate

The carbon costs component that the vast majority of liable entities charged to a customer or rate-payer took into account the entity’s liability for the waste deposited by that customer or rate-payer for as long as that waste will continue to produce liable emissions.[[39]](#footnote-39) Accordingly now that the carbon tax has been repealed, these entities have collected monies for future carbon tax liabilities that will no longer eventuate. The exceptions are the six liable entities that never passed through any carbon tax costs.

Nine liable entities that hold these excess funds are, or will be, providing refunds to account customers and contract customers for the portion of the carbon components they paid from 1  July 2012 that account for the future emissions of the waste deposited. These entities noted that there will be some funds remaining after these refunds are provided as not all customers are account or contract customers. Most of these entities advised that they are waiting on the outcome of discussions between the ALOA and the Government as to what they should do with the remaining excess funds after making these refunds. Others advised they intend to use the remaining excess funds for landfill remediation works, or invest the money in infrastructure projects required to satisfy state government Environment Protection Authority (EPA) regulations.

Seven liable entities that hold excess funds advised that they do not intend to provide any refunds of this money, rather they intend to use it in the following ways:

* to fund waste related environmental management programs required to satisfy state government EPA regulations
* to fund the installation and operation of landfill gas collection and flaring infrastructure, or other emissions abatement measures
* to lower operating or capital costs for the landfill facility in the future
* to fund future improvements / redevelopments to the landfill facility
* to offset against loan debt in its waste business functions, or
* as one entity in NSW advised, it will use the funds in accordance with the NSW Local Government Act.[[40]](#footnote-40)

18 liable entities that hold excess funds had not yet determined what they would do with this money. Of these entities:

* five advised they are waiting on the outcome of discussions between the ALOA and the Government as to what they should do with the excess funds
* four advised they are examining options and may use the money to fund waste minimisation and/or other environmental projects, or emissions abatement measures
* two advised they are examining options and may use the money to lower gate fees and/or collection charges in the future
* one advised it is examining options and may use the money to offset against the debt in its waste business functions and/or invest it in infrastructure to improve the diversion of waste from landfill
* six either have not yet made any consideration as to what they will do with this money, or did not provide any information to the ACCC on this issue.

#### The ACCC’s monitoring activities

The carbon tax price reduction obligation does not apply to the landfill industry, however the ACCC expects landfill operators to be transparent with customers and rate-payers about the impact of the carbon tax scheme and the impact of the carbon tax repeal on their prices.

For the three liable entities whose adjustments to gate fees after repeal remain unresolved, the ACCC expects that they should take steps to remove the carbon components from their gate fees as a matter of priority.

As other industry participants adjust their prices to reflect the repeal of the carbon tax, the ACCC expects that competition from those other industry participants, and pressure from customers, should drive these remaining entities to ensure any carbon tax costs components are removed from their prices.

Local council liable entities that have not yet considered what they will do with the money collected from rate-payers who have paid the carbon components in their 2014/15 waste management charges should make a decision as to whether this money is refunded to rate-payers, used to set 2015/16 waste management charges lower than they otherwise would have been, or expended on projects or infrastructure benefiting their communities.

In relation to the liable entities that have not yet determined what they will do with money collected for future carbon tax liabilities that will no longer eventuate, the ACCC considers that they should refund the money to customers where possible. Where this is not possible (for example, where customers cannot be identified):

* The ACCC recommends that local councils utilise the money for the benefit of rate-payers, whether by expending the money on projects or infrastructure benefiting their communities (such as emissions abatement measures), or by setting future fees and charges lower than they otherwise would have been to account for this additional money.
* With respect to private companies, the ACCC is aware that negotiations are currently taking place between the ALOA and the Government as to how these funds could be utilised.

In its monitoring role, the ACCC will continue to seek information from entities within this industry and may also contact landfill operators’ customers. Subsequent information gathering will include verifying whether the remaining three liable entities have removed the carbon components from their gate fees, confirming whether intended refunds have been made, and confirming entities’ decisions regarding any revenue collected for future carbon tax liabilities that will no longer eventuate.

### Local councils that are not liable entities

The ACCC’s price monitoring role to date has not covered the impact of the carbon tax, and its repeal, on local councils that were not liable entities. However given the public interest in the response by local councils to the carbon tax scheme and its repeal, the ACCC has provided the following information.

The carbon tax likely affected most local councils’ rates by way of pass through of carbon tax costs from local councils’ suppliers. Local councils are ultimately accountable to their rate payers. The ACCC expects that local councils will take account of the carbon tax repeal and pass on any identifiable savings, in setting future rates or investing in infrastructure projects.

#### Industry background

The majority of Australian local councils are not liable entities. Many local councils operate landfills that did not produce enough emissions to exceed the relevant threshold, and many local councils do not operate landfills at all. Local councils that are not liable entities did not face direct carbon tax costs. Their carbon tax costs generally arose from third party suppliers passing through their carbon tax costs to the local councils, such as suppliers of electricity and landfill services.

Most of the liable entities that are local councils were discussed in the landfill facility operation section of the July 2014 report to the Minister. 31 local councils are liable entities because they operated landfills with emissions that exceeded the threshold of 25,000 tonnes CO2-e per year.[[41]](#footnote-41) However, landfill operation is not the only area in which a local council’s carbon tax liability may arise. For example, Western Downs Regional Council’s and Maranoa Regional Council’s carbon tax liability arose from being natural gas retailers.

#### Impact of the carbon tax

###### Rates

Where the carbon tax increased council rates (both for those that are liable entities and those who were not), the increase may have been to:

* the waste management charges, which are (depending on the state or territory) generally calculated, and sometimes levied, separately to general rates, but are generally included on rates notices as forming part of the total amount payable by a rate-payer
* the general rates amount (i.e. the amounts payable by a rate-payer excluding other specified charges like waste management charges, rural bushfire levies, etc.), or
* both the waste management charges and the general rates amount.

Broadly, both for those that are liable entities and those that were not, the increase in council rates usually occurred in some combination of the following circumstances:

* some councils pro-actively estimated the impact of the carbon tax on their operations and accounted for these estimates in their budgets and rate-setting process.

**Example – Local City Council A:** At the introduction of the carbon tax, Local City Council A estimated that the carbon tax would add around $30 million to its costs from third party suppliers passing through their carbon tax costs and the estimated impact the carbon tax would have on the CPI generally. Local City Council A therefore specified that rates had increased by 3% due to the carbon tax alone, because of this estimated increase to its costs.

* some councils did not include estimates of the impact of the carbon tax in their budgets and rate-setting process, however some suppliers passed through a specified carbon component to the councils in their pricing. Councils paid those carbon inclusive costs and consequently, those suppliers’ carbon inclusive costs were used by councils when estimating operating costs for the following year.

**Example – Local City Council B:** At the introduction of the carbon tax Local City Council B did not account for estimated carbon tax costs in its budget and rate-setting process. Electricity for all council buildings and functions is supplied by Electricity Retailer Pty Ltd.

In 2012/13, the prices Electricity Retailer Pty Ltd charged Local City Council B included carbon components as separate line items on invoices. In setting its 2013/14 budget and rates, Local City Council B used its 2012/13 electricity costs to estimate its electricity costs for 2013/14. Local Council B did not specifically make an allowance for its estimated carbon tax costs in its 2013/14 budget, but as its budgets simply reflect Local City Council B’s operating costs, its indirect carbon costs were included in its 2013/14 budget and consequently, the rates it set for 2013/14.

* some councils did not include estimates of the impact of the carbon tax in their budgets and rate-setting process, however some suppliers passed through a carbon component to the councils in their pricing. These carbon components were not separately specified – they were simply incorporated into the price councils paid. Consequently, those suppliers’ carbon inclusive costs were used by councils when estimating operating costs for the following year, and councils were not aware of this pass through amount.

**Example – Local City Council C**: At the introduction of the carbon tax Local City Council C did not account for estimated carbon tax costs in its budget and rate-setting process. It contracts its waste management functions to Landfill Company Pty Ltd, who is a liable entity.

In 2012/13, the prices Landfill Company Pty Ltd charged Local City Council C included carbon components, but Landfill Company Pty Ltd never specified the carbon components. In setting its 2013/14 budget and rates, Local City Council C used its 2012/13 waste management costs to estimate its waste management costs for 2013/14. Local Council C did not specifically make an allowance for its estimated carbon tax costs in its 2013/14 budget, but as its budgets simply reflect Local City Council C’s operating costs, its indirect carbon costs were included in its 2013/14 budget and consequently, the rates it set for 2013/14. However, as Landfill Company Pty Ltd never specified the carbon components in the amounts charged, Local City Council C would not have even been able to separate out the carbon component included in the estimate of waste management costs for 2013/14.

* local councils in NSW had a carbon tax cost component included in their 2012/13 rates due to IPART’s rate peg determination made in December 2011. Individual councils may apply to IPART for increases above the rate peg. This only covers general rates and does not include waste management charges, which are levied separately to general rates.

In making the December 2011 rate peg determination, IPART took into account the rise in the LGCI. Recognising that the effects of the carbon tax on inputs will, in time, be reflected in the LGCI, but not until after the 2012/13 rate peg was determined, IPART determined that it would make a specific carbon price related advance of 0.4% to the 2012/13 rate peg. This was done to assist NSW local councils in meeting an increase in costs due to the introduction of the carbon tax. IPART also determined that it would reverse this rate peg over two years by removing 0.1% from the 2013/14 rate peg and 0.3% from the 2014/15 rate peg, when the effects of the carbon price on inputs would be measured in the LGCI.[[42]](#footnote-42) The rate peg announced by IPART for 2014/15 includes this 0.3% deduction.[[43]](#footnote-43)

###### Other

At the introduction of the carbon tax, a number of local councils considered they would be liable to pay the carbon tax for emissions from their landfill facilities and so were originally listed as a liable entity. Some of these councils therefore acted in anticipation that they would be liable for direct carbon tax costs and included a carbon component in their landfill facility’s gate fees and waste management charges in order to fund the direct carbon tax costs they estimated they would be liable to pay.

However when they came to reporting emissions later in the 2012/13 financial year, they discovered they were actually not liable entities as either their landfill emissions were under the relevant threshold, or an entity they contracted to operate the landfill on their behalf was considered to have the operational control of the landfill facility, and therefore held the carbon tax liability for the landfill instead of the council. These councils were subsequently removed from the liable entities list. Consequently, they have collected funds for carbon tax liabilities that did not eventuate.

#### The ACCC’s expectations regarding the impact of the carbon tax repeal

###### Rates

Council rates are not covered by the carbon tax price reduction obligation. Further, council rates are not covered by the CCA, because setting and levying rates is a statutory function imposed by the relevant state or territory local government Acts, and is not considered carrying on a business in trade or commerce.

The function of councils is to provide municipal services for their constituency, so the ACCC expects any gains not returned directly to ratepayers to be utilised in some form for the benefit of ratepayers.

Where councils have specifically accounted for the carbon tax in setting their 2014/15 budgets and rates (see Local City Council A example above), the ACCC considers best practice would be for these councils to:

* review the estimated costs of the carbon tax included in the 2014/15 rates and calculate and provide a refund to rate-payers for the carbon tax costs that have been included in their 2014/15 rates, and
* subsequently ensure that budgets set for 2015/16 do not include any estimated carbon tax costs.

If councils that have specifically accounted for the carbon tax in setting their 2014/15 budgets and rates do not take these actions, the ACCC will engage with them to seek an explanation and may publicise their lack of action.

Where councils have not specifically accounted for the carbon tax in setting their 2014/15 budgets and rates (see Local Council B and C examples above), to the extent there are indirect carbon tax costs within any of councils’ operating expenses upon which the budgets and rate calculations are based, the ACCC would expect councils’ suppliers to remove the carbon tax costs from the prices they charge councils.

Generally, councils are able to conduct reviews of their budgets during the financial year in which those budgets apply. Where those reviews identify suppliers that have reduced the prices charged to councils by removing carbon components, the best practice would be for those councils to identify whether one-off refunds could be provided to rate-payers as a credit to their accounts, in order to pass on those savings.

Councils can also assist this process by pro-actively contacting suppliers to enquire about the removal of the carbon tax from prices charged (although this task would be difficult for councils unaware of the carbon components in prices they have been charged).

As councils’ suppliers remove carbon tax costs from their prices, this will generally mean that councils will likely achieve some level of operational cost savings during 2014/15 resulting from the repeal of the carbon tax. This should either produce a lower than expected operating deficit or a greater operating surplus than predicted. The best practice for councils would be to take this result into account in preparing the budgets for 2015/16, in the form of things such as lower rates or paying off debt, or by expending the money on projects or infrastructure benefiting their communities (such as emissions abatement measures, or in the provision of other municipal services).

The ACCC is aware that:

* it may take some time to identify pass through savings as upstream suppliers themselves work though their savings,
* councils have to work within the requirements of relevant state and territory local government legislation, and
* some councils have already announced the actions they intend to take following the carbon tax repeal, in line with the ‘best practice’ steps set out above.

###### Other

In relation to the local councils that collected money for carbon tax liabilities that did not eventuate, the ACCC considers that they should refund the money to customers and rate-payers where possible. Where this is not possible (for example, where customers cannot be identified), local councils should utilise the money for the benefit of rate-payers, whether by expending the money on projects or infrastructure benefiting their communities (such as emissions abatement measures), or by setting future fees and charges lower than they otherwise would have been to account for this additional money.

The following table details local councils’ announcements regarding refunds due to the carbon tax repeal. The refund amounts vary between councils that are liable entities and those that are not. Refund amounts also vary depending on how each council passed through their carbon tax costs (see examples of Local City Council A, B and C above).

Table 10: Local councils’ announcements regarding refunds due to the carbon tax repeal

| Council | Date of announcement or media report | Announcement |
| --- | --- | --- |
| Glen Eira City Council (liable entity) | 16/07/2014 | The carbon tax component was removed from waste management charges as part of the 2014-15 budget, resulting in reductions of up to $37.00. |
| Brisbane City Council(liable entity) | 17/07/2014 | A refund of $36.00 on average will be applied to rate-payers’ October quarterly rates notices. |
| Townsville City Council(liable entity) | 17/07/2014 | Ratepayers will receive a $20 saving up front on their waste utility charge ($214 down from $234). |
| Casey City Council | 25/07/2014 | The 6.3 per cent rate rise announced in June will now fall to 5.9 per cent. |
| Town of Victoria Park | 26/07/2014 | It had cut the carbon tax charge from its 2014-15 budget. |
| Kingston City Council | 30/07/2014 | It had originally flagged a 4.25 per cent increase in rates for 2014/15, but after the carbon tax repeal, the rate rise will now be 4.06 per cent.  |
| City of Greater Geelong | 31/07/2014 | The carbon tax component was removed from waste management charges as part of the 2014-15 budget. |
| Maitland City Council(liable entity) | 01/08/2014 | The domestic waste management charge has been reduced by $29.45. |
| Wyndham City Council(liable entity) | 5/08/2014 | It will remove the carbon tax component from the waste management service charge, resulting in a reduction of $8.17 in 2014/15, from $259 per bin to $250.83.  |
| Logan City Council(liable entity) | 05/08/2014 | It has resolved to make a one off refund through the rates notice to those ratepayers who have contributed to the carbon tax through the waste charge on their rates notice. |
| Singleton Council | 05/08/2014 | It will reduce domestic and commercial waste charge in mid-September. Any waste charges that have been collected by the council will be adjusted by means of a credit to ratepayers' accounts. |
| Charles Sturt Council | 06/08/2014 | The 2014-15 budget already factored in savings from the carbon tax repeal. |
| City of Darwin(liable entity) | 13/08/2014 | Rate-payers will see a refund of $29.67 by means of a grant in their August rates notices. |
| Cessnock City Council(liable entity) | 14/08/2014 | The annual domestic waste management service charge will reduce from $525 to $480 per service, a saving of $45. As rates notices have already been issued, ratepayers will receive a credit on their account to reflect the lower charge. |
| Wodonga City Council | 19/08/2014 | Rate-payers will get a $17.40 reduction in waste management charges.  |
| Redland City Council | 22/08/2014 | Rate-payers will receive a one off refund of $38.48 in their next rates notices. |
| Rockhampton Regional Council(liable entity) | 27/08/2014 | Rate-payers will receive a reduction in their January 2015 rates notice which signifies the portion of the carbon tax expense per property. |
| Mackay Regional Council | 27/08/2014 | Rate-payers will receive a $18.46 refund as a credit that will be displayed in February rates notices. |
| Indigo Shire Council | 28/08/2014 | A reduction in waste collection charges of about $14.00 will be passed on to ratepayers |
| City of Tea Tree Gully | 09/09/2014 | Rate-payers will receive a refund as a credit on their next quarterly rates notices in October, with the average residential ratepayer saving $7.00. |
| Blue Mountains City Council | 10/09/2014 | A one-off credit of $18.59 will be applied to all residential properties levied in 2014-15. Residents will see this credit on one of their quarterly rate notices in 2014-15. |
| Ipswich City Council | 18/09/2014 | A one-off refund will be included in October-December 2014 rates notices and rate-payers should expect to see an average refund of $14.04. |

#### The ACCC’s monitoring activities

Where councils have previously made public statements attributing rate rises to the carbon tax and fail to take steps to pass through any carbon tax cost savings, the ACCC may publish this information in future reports to the Minister.

### Plastic, glass and paper

The ACCC expects entities in the paper, glass and plastic manufacturing industry that passed through carbon tax costs to pass through carbon tax cost savings by removing the carbon charge per tonne or removing the carbon tax cost component from prices.

Some entities have already removed the carbon tax cost component from some of their products, while others are delaying the removal to take account of stock on hand. Some entities have not yet determined whether prices will be reduced.

#### Impact of the carbon tax scheme and the carbon tax repeal

The ACCC wrote to a number of entities in this industry in order to clarify issues arising from the previous reporting period.

One entity reported that it had made contractual arrangements with its customers to delay reducing prices after repeal to take account of a backlog of stock on hand which had legitimately incurred a carbon tax cost. This delay ranged from 30-60 days.

Another entity reported it removed carbon tax costs from its prices on 1 July 2014 but advised it had similar issues with pricing of stock on hand which had incurred a carbon tax cost and that pricing for this stock was negotiated on a case by case basis with individual customers.

Entities expressed concerns regarding whether and when suppliers will pass through their savings attributable to the repeal of the carbon tax as this affects whether they are able to reduce their prices.

#### The ACCC’s monitoring activities

The ACCC will continue to monitor this sector to gather further information about the impact of the carbon tax scheme and the timing and quantum of any price adjustments following the carbon tax repeal.

### Food—dairy and ingredients

The ACCC expects that where entities in the dairy and ingredient manufacturing industry were able to achieve a pass through of carbon tax costs, any carbon tax cost component of prices will be removed now that the carbon tax has been repealed.

Some entities have already done so; others will do so as part of regular price review process under contracts.

The price for many products did not contain a carbon tax component so there will be no change in those prices as a result of the removal of the carbon tax.

#### Impact of the carbon tax scheme and the carbon tax repeal

Entities in this sector that provided information to the ACCC only passed through carbon tax costs on some of their products, so there will be a significant number of dairy, sugar and wheat products which will not see any price change as a result of the carbon tax repeal alone. All entities that provided information to the ACCC expressed their intentions to remove the carbon tax component from their prices. Some entities stated that they were limited by contractual terms from changing their prices immediately but would adjust those prices in accordance with those contracts.

#### The ACCC’s monitoring activities

The ACCC will continue to monitor this sector to gather further information about the impact of the carbon tax scheme and the timing and quantum of any price adjustments following the carbon tax repeal.

### Explosives

The ACCC expects that explosive manufacturers will remove any carbon tax cost component from prices. Some have already done so; others will do so as part of a regular price review process under contracts.

#### Impact of the carbon tax scheme and the carbon tax repeal

Entities provided further information which confirms previous statements that the degree of pass through of carbon tax costs was minimal in this industry. In some cases the pass through of carbon tax costs was done via a one-off administration fee, while in others it occurred via a contractual mechanism through which, at regular intervals, prices were raised automatically as input costs increased.

Following the carbon tax repeal, some entities advised that the carbon tax cost has been removed from their prices. However, where entities used automatic contractual mechanisms to adjust costs, entities noted that input costs not related to the carbon tax may well increase, so their prices may rise notwithstanding the removal of the carbon tax cost.

#### The ACCC’s monitoring activities

The ACCC will continue to monitor this sector to gather further information about the impact of the carbon tax scheme and the timing and quantum of any price adjustments following the carbon tax repeal.

### Liquid fuels

The ACCC expects that after repeal, prices for non-transport use of LPG, LNG and CNG will be reduced, or will not rise by as much as they otherwise would have. Entities indicated their intentions to remove carbon from their prices.

#### Impact of the carbon tax scheme and the carbon tax repeal

Fuel for on-road transport use was exempt from the carbon tax (see ‘**Transport**’ industry assessment for detail of off-road transport) and therefore the ACCC does not expect any change in prices directly attributable to the carbon tax repeal.

All carbon costs applicable to liquid fuels are calculated on the basis of embodied emissions rather than direct carbon or carbon equivalent emissions. These costs can be readily calculated on a cents per litre basis by reference to rates published by the ATO. Several entities, particularly those that sold LPG for non-transport use, used these figures to record carbon costs as a separate line item on customer invoices and have indicated that this item was to be removed on the repeal of the carbon tax.

LNG is chemically identical to natural gas but cooled to liquid form so it can be readily transported by methods other than pipelines. LNG is primarily exported and entities advised that carbon tax costs could not be passed on for exports due to trade exposure. Some entities reported that in a small number of circumstances they were able to pass through carbon tax costs in circumstances where supply occurred to a related entity within their corporate group.

A small amount of LNG is sold domestically, to locations where natural gas is unavailable due to remoteness from pipelines, and entities supplying LNG in these circumstances were able to pass on carbon costs.

Entities that were able to pass on carbon tax costs indicated their intention to remove any carbon tax cost component from their pricing and refund any carbon tax costs paid by their high volume contract customers in the refund period.

Some fuels, primarily aviation fuel and non-transport diesel, were subject to an effective carbon tax via the excise system throughout the life of the carbon tax. Entities selling these fuels advised the ACCC that they did not consider that they had changed their prices, characterising these costs as a transaction between final consumers and the ATO.

#### The ACCC’s monitoring activities

The ACCC intends to seek further information from relevant entities in this industry as to the impact of the repeal of carbon tax on prices, and the provision of refunds.

### Construction materials

The ACCC expects that where entities in the construction materials manufacturing industry were able to achieve a pass through of carbon tax costs, any carbon tax cost component of prices will be removed after repeal. Some entities have already done so; others will do so as part of a regular price review process under contracts.

Some entities have stated that prices will rise overall, despite the removal of the carbon tax cost component from their prices, as other input costs have risen.

Many products will see no change in prices directly due to the removal of the carbon tax because there was not a carbon tax cost component in these prices when the carbon tax scheme was in place.

#### Impact of the carbon tax scheme and the carbon tax repeal

Of the entities which provided information to the ACCC, all have stated that they will remove any carbon tax cost component from their prices. However, the timing of the price changes varies slightly among entities and in some cases different timeframes will apply for different products manufactured by an entity. One entity noted that it may take some time before stock on hand which legitimately incurred a carbon tax cost was depleted. Some entities also stated that they will need time to identify the exact level of savings attributable to the carbon tax repeal, as they will not immediately be able to see what savings have been passed through to them by their suppliers. Entities have also noted that some of their customer contracts contain clauses stating when price changes can occur, which impacts when they are able to pass through carbon tax cost savings or when carbon tax cost savings from their suppliers will be passed through to them.

Some entities have calculated that any cost savings attributable to the repeal of the carbon tax will be outweighed by cost increases in other areas such as raw materials, energy, transport and wages. These increases in costs not related to the carbon tax, combined with increased demand for construction materials due to a predicted rise in construction activity, are likely to result in net price increases for some construction materials.

The ACCC previously noted that some entities had achieved different price outcomes. Entities advised that the variance in the ultimate price paid by a customer for a particular product was a result of price and supply negotiations.

#### The ACCC’s monitoring activities

The ACCC will continue to monitor this sector to gather further information about the impact of the carbon tax scheme and the timing and quantum of any price adjustments following the carbon tax repeal.

### Transport

The ACCC expects that all transport operators will have removed their carbon tax surcharges from their pricing and contracts as soon as practicable following the repeal of the carbon tax. The ACCC expects that freight forwarders will have removed their carbon tax surcharges immediately after transport operators have ceased passing through carbon tax costs to the freight forwarders.

#### Impact of the carbon tax scheme and the carbon tax repeal

For the purposes of this assessment, the transport industry is taken to include transport operators and freight forwarders.

Transport operators include entities that operate vehicles and utilise infrastructure to move goods and/or passengers. Freight forwarders are entities that arrange the movement of consignments of freight for their customers utilising the services of transport operators.[[44]](#footnote-44)

Participants in the transport industry paid carbon costs through increases in fuel excise or customs duty (for aviation fuel) or decreases in fuel tax credits (for off-road vehicle, sea and rail fuel).

The carbon tax was applicable to transport fuel in the off-road vehicle, air, sea and rail transport industry sub-sectors by way of changes to fuel excise or customs duty.

Carbon tax costs were set to increase for transport operators and freight forwarders by way of changes in fuel excise or customs duty from 1 July 2014.

There were no entities in the transport industry that increased their carbon surcharges following changes to carbon prices as of 1 July 2014.

#####

##### Transport operators

Transport operators reported different approaches in responding to changes in their carbon tax costs from 1 July 2014. For example:

* One transport operator removed its carbon tax surcharge as of 1 July 2014. This was in anticipation of the repeal of the carbon tax.
* One transport operator made no changes to its carbon tax surcharge despite an increase in the cost of fuel which was due to the reduction in the fuel tax credit. Following the repeal of the carbon tax, this entity immediately withdrew its carbon tax surcharges, and provided refunds of payments of the carbon tax surcharge since 1 July 2014.

The ACCC expects transport entities to remove the carbon surcharge as soon as practicable following the repeal of the carbon tax and that any windfall gains earned by transport operators after 1 July 2014 are passed back to their customers.

##### Freight forwarders

Some entities in this sub-sector reported to the ACCC that as at 1 July 2014 there was no change to carbon tax related input costs, and in turn no changes were made to the carbon surcharge charged to their customers.

One freight forwarder reported that it had removed its carbon surcharge from its pricing prior to the repeal of the carbon tax. This was because its transport operator ceased applying a carbon charge effective 1 July 2014 in anticipation of the repeal.

Freight forwarders have repeated their previous statements to the ACCC that they were prepared to remove their carbon surcharge either:

* following the repeal of the carbon tax, or
* once transport operators ceased passing through carbon tax related costs to them.

Some freight forwarders have contracts with transport operators explicitly stating that the carbon tax surcharge will be removed in the event that the carbon tax is repealed. These entities reported that the removal of the surcharge would be timely as these contracts would not have to be renegotiated.

#### The ACCC’s monitoring activities

The ACCC will monitor entities in the transport industry to ensure carbon surcharges have been removed in a timely manner, and to confirm that where entities have expressed an intention to remove the surcharge, this has occurred.

### Domestic passenger air transport services

The ACCC is continuing its assessment of the representations made by the domestic airlines about the effects on airfares due to the carbon tax and its repeal, and whether any statements made by the airlines may be misleading.

The ACCC’s expectation remains that if domestic airlines fully or partially recovered carbon tax costs from customers, these carbon tax cost savings should be passed through to customers following the carbon tax repeal. The latest monitoring information received from companies in this industry was in regard to prices and costs as at 1 July 2014 and as such, the ACCC continues to assess how the industry has responded to the carbon tax repeal.

#### Impact of the carbon tax scheme and the carbon tax repeal

In response to the latest information request, the domestic airlines have advised the ACCC that their carbon tax costs increased as of 1 July 2014, in accordance with the increase of the carbon tax‑equivalent component in the fuel excise rate (which was set at 6.604 cents per litre for the 2014‑15 financial year). Airlines that chose to become liable entities under the Liquid fuel Opt-in Scheme would instead have been obliged to surrender carbon units, like other liable entities.

Some domestic airlines made public statements prior to the implementation of the carbon tax that costs related to the carbon tax would be passed onto consumers through surcharges on air fares.[[45]](#footnote-45)

Airlines have said to the ACCC and in public statements that, notwithstanding their previous statements, due to strong competition in the domestic passenger air transport industry, they have had to absorb all costs related to the carbon tax.[[46]](#footnote-46)

Domestic airlines have continued to claim to the ACCC that due to strong competition in the domestic passenger travel industry, they have been unable to recover carbon tax costs. Because of this, the domestic airlines do not expect any reduction in passenger air fares related to the carbon tax repeal.

A number of domestic airlines have made public statements regarding the carbon tax and repeal since the last monitoring report. These include:

* On 9 July 2014, Qantas Airways Limited (Qantas) stated:

‘…Given the level of competition and the unique pressures in the domestic aviation market, we were not able to recover the cost of the carbon tax through price increases as we originally intended.

Our all-inclusive fares did not rise, though we did keep a small carbon surcharge on domestic fares so that we could keep track internally of the cost of the tax.This has now been removed, but there won't be any change to the prices that customers pay as it's an administrative step only.

…The cost of the carbon tax went straight to Qantas’ bottom line in FY13 and 14 (totalling more than $100 million per year).’ [[47]](#footnote-47)

* On 16 July 2014, the deputy chairman of Regional Express Pty Ltd (Rex) was attributed as saying that some ticket prices increased to cover the cost of the carbon tax and if the tax was repealed, ‘then we’ll pass on those savings to the passengers’.[[48]](#footnote-48) On 18 July 2014, Rex published a media release stating that ‘Rex did not impose a surcharge when the carbon tax was introduced but we will look at reducing our fares when we see passenger numbers improving’.[[49]](#footnote-49)
* On 10 July 2014, Virgin Australia Airlines Pty Ltd (Virgin) is reported to have confirmed that it had absorbed the carbon tax costs and had not added these costs to ticket prices.[[50]](#footnote-50)

#### The ACCC’s monitoring activities

The domestic airlines’ response to the latest information request corresponds with their response to previous information requests. In particular, the domestic airlines continue to state that they were unable to increase air fares to recover carbon tax costs and that air fares will remain unchanged following repeal of the carbon tax.

The ACCC will continue to evaluate the claims and information provided. The ACCC will also enquire as to how the ATO’s refund of excise impacts airlines’ costs.

## Tier 3 industry assessments

Tier 3 concerns industries where entities either did not pass through carbon tax costs to their customers, or, where these entities did pass through carbon tax costs, they do not appear to face any impediments in passing through carbon tax cost savings now that the carbon tax has been repealed. At this stage, the ACCC does not propose to send further information requests to entities in the high technology industry but the ACCC will continue to monitor for complaints. In the January 2015 report to the Minister, pending further information gathered by the ACCC in its monitoring role, some industries that are currently in Tier 2 may move to Tier 3.

### High technology

Further monitoring confirmed no pass through of carbon tax costs. Therefore, there has been no change in prices directly due to the removal of the carbon tax.

The ACCC sought additional information from one entity in this industry that had previously advised that it may change pricing practices to pass through carbon tax costs to one customer. This entity has now advised that it continued to absorb all carbon tax costs rather than attempt to pass on those costs. As noted in the ACCC’s July 2014 report to the Minister, entities in this industry were not able to pass through any carbon tax costs to customers because of trade exposure. As such, the carbon tax did not have any impact on prices in this industry and the ACCC does not expect any pass through of carbon tax cost savings in this industry now that the carbon tax has been repealed.

# Annexure 2: Estimated average annual cost savings—electricity

|  | Residential | SME |
| --- | --- | --- |
| **$** | **%** | **$** | **%** |
| NSW | ActewAGL | $160 |  | $507 |  |
| AGL Energy |  | 7.80% |  | 7.50% |
| Blue NRG | n/a | n/a | $158.15\* |  |
| Click Energy |  | 7.50% |  | 6.60% |
| Commander Power & Gas | n/a | n/a | $360\* |  |
| CovaU |  | 8% |  | 7% |
| Diamond Energy[[51]](#footnote-51) | $0\* |  | n/a | n/a |
| Dodo Power & Gas | $130\* |  | n/a | n/a |
| EnergyAustralia | $158 | 8.90% | $452 | 8.30% |
| ERM Power Retail | n/a | n/a |  | 9.1%\* |
| GoEnergy | n/a | n/a | $1,457\* |  |
| Lumo Energy |  | 8.70% |  | 8.20% |
| Momentum Energy[[52]](#footnote-52) | $0 or 1.6225c/kwh or 2.1844c/kWh\* |  | $0 or 1.6225c/kwh or 2.1844c/kWh\* |  |
| Origin Energy |  | 8% |  | 7% |
| Pooled Energy |  | 6.01% | n/a | n/a |
| Powerdirect |  | 8.40% |  | 9.10% |
| Qenergy |  | 9.11%\* |  | 9.11%\* |
| Red Energy | $179 or2.383c/kWh |  | $353 or 2.383c/kWh |  |
| Sanctuary Energy | 1.5c/kWh\* |  | 1.5c/kWh\*  |  |
| Simply Energy |  | 10% |  | 9% |
| WINenergy | n/a | n/a | $1,658 | 9.5% |
| VIC | AGL Energy |  | 8.90% |  | 9.70% |
| Alinta Energy | 2.29c/kWh\*  |  | 2.29c/kWh\* |  |
| BlueNRG | n/a | n/a | $158.15\* |  |
| Click Energy |  | 10.20% |  | 11.20% |
| Commander Power & Gas | $130\* |  | $360\* |  |
| Diamond Energy | $0\* |  | n/a | n/a |
| Dodo Power & Gas | $130\* |  | $360\* |  |
| Energy Australia | $132 | 7.20% | $411 | 7.40% |
| ERM Power Retail | n/a | n/a |  | 9.1%\* |
| GoEnergy | n/a | n/a | $1,457 |  |
| Lumo Energy |  | 8.20% |  | 10.70% |
| Momentum Energy | $0 or 1.6225c/kwh or 2.1844c/kWh\* |  | $0 or 1.6225c/kwh or 2.1844c/kWh\* |  |
| Neighbourhood Energy | 2.29c/kWh\*  |  | 2.29c/kWh\* |  |
| Origin Energy |  | 7% |  | 7.50% |
| Pacific Hydro | n/a | n/a |  | 0.41% |
| People Energy | 2.881c/kWh  |  | 2.881c/kWh |  |
| Powerdirect |  | 12.40% |  | 12.70% |
| Powershop | $146 |  | $146 |  |
| QEnergy |  | 9.11%\* |  | 9.11%\* |
| Red Energy | $145 or 2.401 c/kWh |  | $232 or 2.401 c/kWh |  |
| Simply Energy |  | 8% |  | 10% |
| WINenergy | n/a | n/a | $2,123  | 11.5% |
| QLD | AGL Energy |  | 8.20% |  | 8.70% |
| Click Energy |  | 8.80% |  | 9% |
| Diamond Energy | $0\* |  | n/a |  |
| Dodo Power & Gas | $170 |  | n/a |  |
| EnergyAustralia | $174 | 8.30% | $514 | 9.1% |
| Ergon Energy |  | 9.41% |  | 10.06% |
| GoEnergy | n/a | n/a | $1,457\* |  |
| Lumo Energy |  | 8.60% |  | 8.90% |
| Metered Energy |  | 8% |  | 8.00% |
| Origin Energy |  | 8% |  | 8.50% |
| Powerdirect |  | 9.20% |  | 10.30% |
| QEnergy [[53]](#footnote-53) |  | 11.14% or 9.11%\* |  | 11.14% or 9.11%\* |
| Simply Energy |  | 9% | n/a | n/a |
| SA | AGL Energy |  | 5.20% |  | 5.20% |
| Alinta Energy | 2.29c/kWh\* |  | 2.29c/kWh\* |  |
| Commander Power & Gas | n/a | n/a | $360 |  |
| Diamond Energy | $0\* |  | n/a | n/a |
| EnergyAustralia | $136 | 6.30% | $425 | 6.30% |
| ERM Power Retail | n/a |  |  | 9.1%\* |
| GoEnergy | n/a |  | $1,457\* |  |
| Lumo Energy |  | 7.30% |  | 7.20% |
| Momentum Energy | $0 or 1.6225c/kwh or 2.1844c/kWh\* |  | $0 or 1.6225c/kwh or 2.1844c/kWh\* |  |
| Origin Energy |  | 6% |  | 6% |
| Pacific Hydro |  | 0.24% |  | 0.24% |
| Powerdirect |  | 5.90% |  | 7.10% |
| Qenergy |  | 9.11%\* |  | 9.11%\* |
| Red Energy | $159 or 2.379 c/kWh |  | $103 or 2.379c/kWh |  |
| Sanctuary Energy | 1.5c/kWh\* |  | 1.5c/kWh\* |  |
| Simply Energy |  | 8% |  | 8% |
| WINenergy | n/a |  | $700  | 3.25% |
| TAS | Aurora Energy |  | 9.40% |  | 9.40% |
| ERM Power Retail | n/a |  |  | 9.1%\* |
| ACT | ActewAGL | $222 |  | $833 |  |
| EnergyAustralia | $189 | 11% | $536 | 9.30% |
| ERM Power Retail | n/a | n/a |  | 9.1%\* |
| Origin Energy |  | 11.50% |  | 9.50% |
| Red Energy | $191 or 2.776c/kWh |  | n/a | n/a |
| WA | Alinta Energy | n/a | n/a | 1.63c/kWh |  |
| Horizon |  | 9.80% |  | 8.5% - 9.5% |
| Synergy [[54]](#footnote-54) | $46 - $263 |  | $295 - $42,350 |  |
| NT | Power and Water Corporation | 1.53c/kWh  |  | 1.53c/kWh |  |
| Jacana Energy | 1.53c/kWh  |  | 1.53c/kWh |  |

\*Indicates that the figure is not jurisdiction specific. Where national figures were provided, the ACCC has recorded these figures in the jurisdictions we understand the retailer to be active in.

n/a indicates that the retailer does not market to that class of customers.

Source: retailer carbon tax removal substantiation statements

# Annexure 3: Estimated average annual cost savings – natural gas

| State / Retailer | Residential | SME / Business |
| --- | --- | --- |
|  | **$** | **%** | **$** | **%** |
| **NSW** |
| ActewAGL | $27 - $93 |  | $329 - $722 |  |
| Lumo |  | 3.6% |  | N/A |
| AGL |  | 4.5% |  | 7.4% |
| EnergyAustralia | $35 | 4.4% | $944 | 7.8% |
| Origin |  | 5% |  | 7.5% |
| CovaU |  | 5% |  | 7.5% |
| **VIC** |
| AGL |  | 7.2% |  | 10.3% |
| EnergyAustralia | $82 | 6.6% | $480 | 9.4% |
| Alinta | $1.61 per GJ |  | $1.61 per GJ |  |
| Lumo |  | 6.4% |  | 9.5% |
| Dodo | $75 |  | N/A | N/A |
| Origin |  | 7.5% |  | 10.5% |
| Red Energy | $105 |  | $1049 |  |
| Simply Energy |  | 8% |  | 10% |
| **QLD** |
| AGL |  | 3.2% |  | 6.2% |
| Origin |  | 4% |  | 4.5% |
| **SA** |
| AGL |  | 4.6% |  | 7.1% |
| Alinta | $1.92 per GJ |  | $1.92 per GJ |  |
| EnergyAustralia | $37 | 3.6% | $460 | 5.0% |
| Origin |  | 4.5% |  | 5.5% |
| Simply Energy |  | 5% |  | 9% |
| **TAS** |
| Tas Gas | $1.56 per GJ | 5.14% | $1.56 per GJ | 4.63% |
| Aurora |  | 4.7% |  | 4.7% |
| **ACT** |
| ActewAGL | $98 |  | $393 |  |
| EnergyAustralia | $93 | 5.9% | $552 | 7.3% |
| Origin |  | 5.5% |  | 6.5% |
| **WA** |
| Alinta | $1.58 per GJ |  | $1.58 per GJ |  |
| Kleenheat | $1.70 per GJ |  | $1.59 per GJ |  |
| Synergy | N/A | N/A | $779 |  |
| **NT** |  |  |  |  |
| Origin |  | 3.5% |  | 7% |

# Annexure 4: Glossary

|  |  |
| --- | --- |
| Abatement measures | Measures an entity has put in place in order to reduce its direct emissions and therefore its direct carbon tax costs. |
| ACCC | Australian Competition and Consumer Commission |
| Additional entities | Entities which made public statements about the impact of the carbon tax on their prices, upon, or during, implementation and are not suppliers of regulated goods or liable entities.  |
| AEMO | The Australian Energy Market Operator (AEMO) operates the wholesale and retail electricity and gas markets across eastern and south-eastern Australia. |
| AER | Australian Energy Regulator |
| AFMA | Australian Financial Markets Association |
| ALOA | Australian Landfill Owners Association |
| ATO | Australian Taxation Office |
| Carbon Reference Price | The Carbon Reference Price (CRP) is set in accordance with a methodology determined by the Australian Financial Markets Association Electricity Committee. The CRP is used to calculate the carbon uplift amount in over-the-counter contracts that incorporate the AFMA addendum.  |
| Carbon tax | The carbon price mechanism which came into effect on 1 July 2012. It was a cap-and-trade emissions trading scheme, beginning with a three-year fixed price and then transitioning to a full emissions trading scheme in 2015. It applied to entities producing more than 25 000 tonnes per year of CO2–e emissions.  |
| Carbon tax price reduction obligation | Under section 60C of the CCA, an entity must not engage in price exploitation in relation to the carbon tax repeal. An entity engages in price exploitation if and only if:it makes a regulated supply, andthe price for the supply does not pass through all of the entity’s cost savings relating to the supply that are directly or indirectly attributable to the carbon tax repeal. |
| Carbon tax removal substantiation notice | A notice issued by the ACCC pursuant to section 60FA of the CCA, to an electricity retailer or producer, a natural gas retailer or bulk SGG importer that sells to customers, requiring the entity to give to the ACCC a written statement that explains:* how the carbon tax repeal has affected, or is affecting, the entity’s regulated supply input costs, and
* how reductions in the entity’s regulated supply input costs that are directly or indirectly attributable to the carbon tax repeal are reflected in the prices charged by the entity for regulated supplies of electricity, natural gas or synthetic greenhouse gas.

The entity must provide the ACCC with information that substantiates the explanation set out in the statement, and/or produce to the ACCC documents that substantiate the explanation set out in the statement. |
| Carbon tax removal substantiation statements | A written statement pursuant to section 60FD of the CCA from an electricity retailer or producer, natural gas retailer or bulk SGG importer that sells to customers, provided to the ACCC that sets out:* the entity’s average annual percentage price basis, or an average annual dollar price basis of the entity’s cost savings that have been, are, or will be, directly or indirectly attributable to the carbon tax repeal, and
* that have been, are being, or will be, passed on to each class of its customers during the financial year that began on 1 July 2014.
 |
| Carbon tax repeal transition period | Under section 60A of the CCA, means the period:* beginning at the start of 1 July 2014, and
* ending at the end of 30 June 2015.
 |
| CCA | Competition and Consumer Act 2010 |
| CEA | Clean Energy Act 2011 repealed on 17 July 2014. |
| Clean Technology Food and Foundries Investment Program | An Australian Government funded program that provided financial assistance to Australian corporations that manufacture foods or products containing metal. Grants were invested in energy efficient capital equipment and low emission technologies, processes and products. The Clean Technology Food and Foundries Investment Program (CTFFIP) was closed in November 2013. It was administered by AusIndustry, a specialist program delivery division within the former Department of Innovation, Industry, Science, Research and Tertiary Education (now the Department of Industry). Eligible applicants included non-tax exempt corporations undertaking manufacturing activities in Australia. CTFFIP grants were provided for use in specific projects nominated by the applicant. Eligible project activities included activities that generate carbon and energy savings through replacement or modification of existing manufacturing plant, equipment and processes, and/or changes to energy sources for the existing or replacement manufacturing plant or processes. Grant applications were assessed against merit criteria which differed according to the dollar amount of the grant sought. |
| Clean Technology Investment Program | An Australian Government assistance program which provided grants to Australian manufacturers for investments in energy efficient capital equipment and low emissions technologies, processes and products. The program was administered by AusIndustry and was closed in November 2013. |
| Derivatives market | The market for the trading of financial products used by market participants to manage forward risk in the wholesale electricity market. |
| Direct carbon tax cost | An entity’s financial liability under the carbon tax arising from emissions produced by that entity. |
| Embodied emissions | Gaseous fuels produce the majority of their greenhouse gas emissions when used by final consumers. Suppliers of gaseous fuels are not direct carbon (or carbon equivalent) emitters but may face direct carbon tax costs for the emissions ‘embodied’ in the fuels they supply to end users. This direct carbon tax liability is based on the amount of greenhouse gas which would be emitted when the gaseous fuels are combusted by an end user. The liability may be passed to the end user or an intermediary. |
| Emissions-intensive trade-exposed activity | For the purposes of the Jobs and Competitiveness Program (JCP) means an activity prescribed in Schedule 6 to the Renewable Energy (Electricity) Regulations 2001. Emissions-intensive trade exposed (EITE) activities include production of bulk flat glass, packaging and industrial paper manufacturing, and integrated iron and steel manufacturing. Entities engaging in EITE activities are provided with JCP assistance to maintain competitiveness with international imports which are not subject to the carbon tax. |
| Energy Security Fund | An Australian Government assistance program which provided transitional assistance to help highly emissions-intensive coal-fired electricity generators adjust to a carbon price. Eligible electricity generators received cash payments and were issued with free carbon units. |
| Equivalent carbon price levy | SGGs listed under the Kyoto Protocol were subject to an equivalent carbon price levy (the levy), applied through the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989*. The levy was based on the carbon price tax and the global warming potential of each gas relative to carbon dioxide. |
| ESC | The Victorian Essential Services Commission |
| Futures market | The exchange traded market in which electricity futures products are traded on the Australian Securities Exchange (the ASX). |
| IMO | The Independent Market Operator (IMO) operates and develops the Wholesale Electricity Market and Gas Services Information function in Western Australia. |
| Indirect carbon tax cost | An entity’s cost which arises wholly or in part from the carbon tax, but not as a result of emissions produced by the entity.Indirect carbon tax costs may include:an input cost of the entity which increases due to a third party passing through its own increased costs under the carbon tax, such as electricity,costs incurred by the entity and paid to a third party in relation to ensuring the entity’s compliance with the carbon tax, such as an accountant, andthe entity’s internal administrative costs for ensuring its compliance with the carbon tax. |
| IPART | The Independent Pricing and Regulatory Tribunal (IPART) is the independent regulator that determines the maximum prices that can be charged for certain retail energy, water and transport services in NSW, and also determines NSW local government rates.  |
| IPART rate peg | The Independent Pricing and Regulatory Tribunal (IPART) sets a rate peg each financial year which determines the maximum allowable percentage increase in general income (mainly rates income) for New South Wales’ 152 local councils. |
| Jobs and Competitiveness Program[[55]](#footnote-55) | An Australian Government funded program to provide assistance to emission intensive businesses that are constrained in their capacity to pass through their carbon tax costs in global markets. The purpose is to help Australian businesses maintain competitiveness with international imports which are not subject to the carbon tax. The Jobs and Competitiveness Program (JCP) is administered by the Clean Energy Regulator. Assistance provided under the JCP is in the form of free carbon units, which businesses surrender to discharge their carbon tax costs. To be eligible to apply for assistance under the JCP, an emissions-intensive trade exposed activity must be carried on in Australia during the financial year to which the application relates. Assistance is provided on a defined activity basis, as prescribed by the Clean Energy Regulations 2011 (which ceased to have effect when the Clean Energy Act 2011 was repealed). |
| kWh | Kilowatt-hour |
| Liable entity | An entity listed on the Liable Entities Public Information Database for the 2012/13 and/or 2013/14 financial years (within the meaning of the Clean Energy Act 2011, which has since been repealed). |
| LGCI | Local Government Cost Index |
| MWh | Megawatt-hour |
| NEM | The National Electricity Market (NEM) is Australia’s principal electricity grid. The NEM covers southern and eastern Australia. Electricity generators in the NEM sell their electricity through a central pool. The market sets a separate spot price for each of the five NEM regions: Queensland, New South Wales, Victoria, South Australia and Tasmania. |
| NGER | The National Greenhouse and Energy Reporting Scheme |
| OTC | Over the counter - referred to as a form of derivative contract. |
| OTN | A supplier of gaseous fuels is liable to pay a direct carbon tax cost unless the end user it supplies quotes an Obligation Transfer Number (OTN), which transfers the liability from the supplier to the end user. Where an OTN is quoted by the recipient of the gaseous fuel, the OTN holder will be liable for the embodied emissions in the gaseous fuel supplied. End users likely to choose to accept the carbon tax liability may include, for example, entities that use a large amount of gaseous fuel as a feed stock. |
| Part V of the CCA | Carbon tax price reduction obligation now contained in the CCA. |
| Price | Under section 60A of the CCA, in relation to a supply, includes: * a charge of any description for the supply, and
* any pecuniary or other benefit, whether direct or indirect, received or to be received by a person for or in a connection with the supply.
 |
| Price monitoring | Pursuant to the Direction given to the ACCC under section 95ZE of the CCA, refers to the formal monitoring of prices, costs, and profits relating to the supply of regulated goods by corporations and the supply of goods by liable entities to assess the general effect of the carbon tax scheme in Australia. Further, pursuant to section 60G of the CCA the ACCC may monitor prices to assess the general effect of the carbon tax repeal on prices charged by entities for supplies, in the carbon tax repeal transition period, of relevant goods. |
| Reference tariffs | Regulated tariff or charge for a reference service, according to an approved access arrangement. A reference service is defined by the access arrangement. The reference service must be available to customers of the gas network operator, at no more than the reference tariff. The network operator may charge other tariffs for other services and may charge tariffs lower than the reference tariff for the reference service. |
| Refund period | The period from 1 July 2014 to the date that a given entity removed the carbon component from its prices, given the retrospective application of the carbon tax repeal legislation. See definition of ‘retrospective application’. |
| Regulated goods | Natural gas, electricity, SGGs and SGG equipment (section 60B of the CCA). Other goods may be specified by legislative instrument by the Minister pursuant to subsection 60B(2). Where used in the Direction, SGG equipment is not a regulated good.  |
| Regulated supply | Supply of regulated goods that occurs during the carbon tax repeal transition period. |
| Regulatory year | A regulatory year is defined by the applicable access arrangement, but generally corresponds to either a calendar year (1 January to 31 December) or financial year (1 July to 30 June). |
| Relevant goods | Regulated goods and other goods of a kind specified in a legislative instrument by the Minister pursuant to subsection 60G(12) of the CCA.  |
| Retrospective application | The carbon tax repeal legislation will affect carbon liabilities dating back to 1 July 2014, although the legislation was passed by Parliament on 17 July 2014. For this reason the carbon tax repeal legislation has been commonly referred to as having a ‘retrospective application’. When the word ‘retrospective’ is used in this report it should be understood in its common usage rather than its technical legal usage. Retrospective in its technical legal usage refers to legislation taking effect at an earlier point of time before it was passed. |
| Retrospective period | Due to the retrospective application of the carbon tax repeal legislation from 1 July 2014, the retrospective period encompasses the period from 1 July 2014 to 17 July 2014 when the carbon tax repeal legislation was passed by Parliament. |
| SGG  | Synthetic greenhouse gas (SGG) or commonly referred to as refrigerant gases, which are used in refrigerators and air conditioning units, means a hydrofluorocarbon (HFC), a perfluorocarbon (PFC) or sulfur hexafluoride (section 7 of the Ozone Protection & Synthetic Greenhouse Gas Management Act 1989).  |
| SGG equipment | Equipment which already contains synthetic greenhouse gas. Includes items such as refrigerators, automobiles and air conditioning units which will ordinarily contain synthetic greenhouse gases when imported. |
| Statement for customers | Pursuant to section 60FE of the CCA, electricity retailers and natural gas retailers that sell to customers, must provide a written statement that identifies on an average annual percentage price basis or average annual dollar price basis, the estimated cost savings that have been, are, or will be, directly or indirectly attributable to the carbon tax repeal for the financial year that began on 1 July 2014. This statement must be communicated to customers between 18 August 2014 and 15 September 2014. |
| Steel Transformation Plan[[56]](#footnote-56) | An Australian Government funded program providing financial assistance to the Australian steel manufacturing industry. The Steel Transformation Plan (STP) is designed to assist the transition to an economically sustainable industry in a low carbon emission economy. The STP is administered by AusIndustry, a specialist program delivery division within the Department of Industry. Eligibility requirements include corporations that manufacture steel in Australia and produced at least 500,000 tonnes of crude carbon steel in Australia in both the 2009–10 and 2010–11 financial years. |
| STEM | Short Term Energy Market |
| Trade exposed | Where the economic activity is subject to international competition that constrains the domestic price to be proximate to the world price. Where the activity is also emissions intensive it may be prescribed as an EITE activity for which JCP assistance was provided to help Australian businesses maintain competitiveness with international imports which are not subject to the carbon tax. |
| Windfall gain | If between the period 1 July 2014 to 17 July 2014 (when the carbon tax was repealed) an entity charged a carbon component to cover a potential carbon tax liability, which no longer arises, and they do not refund the carbon component charged to customers in this period, the entity has made a benefit they otherwise would not have. This is a windfall gain.  |

1. <http://www.smh.com.au/federal-politics/political-news/landfills-set-to-pocket-millions-from-carbon-tax-repeal-20140511-zr8bx.html> [↑](#footnote-ref-1)
2. For example, the Local Government Act 1993 (NSW) requires NSW local councils to provide 28 days’ public notice prior to implementing any changes to fees and charges. [↑](#footnote-ref-2)
3. See <http://www.cleanenergyregulator.gov.au/National-Greenhouse-and-Energy-Reporting/Legislation-and-regulations/Development-and-Review/Pages/default.aspx>. [↑](#footnote-ref-3)
4. <http://www.afma.com.au/media/2014_07_24_Market_Notice.pdf> [↑](#footnote-ref-4)
5. Under section 60A of the CCA, the definition of ‘electricity retailer’ includes any entity that produces electricity in Australia. The ACCC has taken the view that a producer of electricity includes:

In NEM jurisdictions, entities that are registered with AEMO as market and non-market generators.

In WA, entities that are registered as market generators with IMO, excluding those who intend to generate electricity but are currently not doing so, and generators that sell electricity to a retailer.

In the NT, generators who have a licence under the Electricity Reform Act (NT) that authorises them to sell electricity. [↑](#footnote-ref-5)
6. Queensland Government Gazette, No. 62, 18 July 2014. [↑](#footnote-ref-6)
7. ICRC, Price Direction, Standing offer prices for the supply of electricity to small customers, 1 July 2014 to 30 June 2017, Report 5 of 2014, June 2014, paragraph 7.2.1. [↑](#footnote-ref-7)
8. Office of the Tasmanian Economic Regulator, Approval of standing offer electricity prices to apply from 1 July 2014, media release, 19 June 2014. [↑](#footnote-ref-8)
9. <http://www.qca.org.au/Electricity/Electricity-Prices-2014-15/Electricity-prices-2014-15/Electricity-Prices-and-the-Carbon-Tax> [↑](#footnote-ref-9)
10. ICRC, Commission releases final report on retail electricity prices for small customers, media release, 13 June 2014. [↑](#footnote-ref-10)
11. The Hon Mike Nahan MLA, Media statement, *Repeal of Carbon Tax a win for all West Australians*, 17 July 2014. [↑](#footnote-ref-11)
12. Western Australian Government Gazette, No. 130, 22 August 2014. [↑](#footnote-ref-12)
13. David Tollner, Deputy Chief Minister of the Northern Territory, Media release, *Cheaper power for Territorians with the end of Labor’s Carbon Tax*, 17 July 2014. <http://www.newsroom.nt.gov.au/mediaRelease/9688> [↑](#footnote-ref-13)
14. <http://www.utilicom.nt.gov.au/PMS/Publications/EPO_13d_01Jan2014.pdf> [↑](#footnote-ref-14)
15. <http://www.esc.vic.gov.au/Energy/Variations-to-Standing-Offer-Tariffs-Following-the> [↑](#footnote-ref-15)
16. See <http://www.auroraenergy.com.au/Aurora/media/pdf/Residential_Small_Business_Customer_Notice.pdf>, <http://www.redenergy.com.au/page.html?about-carbon-tax-removal-small>, and <http://www.momentumenergy.com.au/carbonrepeal> [↑](#footnote-ref-16)
17. The earlier date for the price change applies to customers on standard retail contracts and the later date applies to customers on market retail contracts. [↑](#footnote-ref-17)
18. Note that Diamond Energy’s carbon tax removal substantiation statement indicates that it has no direct or indirect cost savings relating to the carbon tax repeal. Diamond Energy advised that it will monitor competitor market prices to ensure that it continues to provide competitively priced electricity rates and feed-in credits. Diamond Energy has adjusted its prices in Queensland in line with the QCA’s regulated rates, effective from 1 July 2014. [↑](#footnote-ref-18)
19. Momentum’s SmilePower offer will not have its prices adjusted as it is a clean energy product that does not attract a carbon charge. [↑](#footnote-ref-19)
20. Pacific Hydro Retail will set the effective date for the price change to the date that it became the financially responsible market participant for each customer. This will be from April 2014. Note that the price change will be small as Pacific Hydro Retail already factored in the likely repeal of the carbon tax when setting its prices. [↑](#footnote-ref-20)
21. The later implementation date applies only applies to Powerdirect customers that transferred after 16 August 2014. [↑](#footnote-ref-21)
22. Powershop considers that it had removed carbon from its pricing by January 2014. Notwithstanding this, prices were further reduced by 3.75% from 1 September 2014 [↑](#footnote-ref-22)
23. Note that Momentum Energy has a range of offers. This statement relates to the SmilePower offer. Customers on other offers that were affected by the carbon tax will receive cost savings. [↑](#footnote-ref-23)
24. Where retailers provided a figure for all jurisdictions they retail in rather than state specific figures, these have been excluded from state based ranges. [↑](#footnote-ref-24)
25. Excludes Pacific Hydro Retail figure of 0.24 per cent. As discussed above, Pacific Hydro reported that there was a relatively small carbon component in its pricing and as such the adjustment to prices is also small. [↑](#footnote-ref-25)
26. Range provided by Synergy based on various levels of consumption. [↑](#footnote-ref-26)
27. Range includes figures form Alinta Energy, Commander Power & Gas, Diamond Energy, Dodo Power and Gas (except for Queensland pricing), Momentum Energy, Neighbourhood Energy, QEnergy and Sanctuary Energy. Range excludes Momentum Energy’s clean energy product SmilePower. [↑](#footnote-ref-27)
28. Note that these figures are an average of the price changes in all supply areas in each State. Price changes in individual supply areas will differ. [↑](#footnote-ref-28)
29. Retail price reset occurs on 1 January in Victoria [↑](#footnote-ref-29)
30. IPART, Media Release, 15 August 2014 [↑](#footnote-ref-30)
31. Red Energy has indicated that since the carbon tax repeal, the gas distribution businesses announced savings in their network charges attributable to the carbon tax repeal which Red Energy will be passing on to all its gas customers from 1 September 2014 through further rate reductions which vary according to the distribution network area. See <http://www.redenergy.com.au/carbon> [↑](#footnote-ref-31)
32. Note that Synergy only supplies to customers with annual usage greater than 180GJ per year. [↑](#footnote-ref-32)
33. IPART, *Regulated gas prices will increase from 1 July 2014*, media release, 14 June 2014. [↑](#footnote-ref-33)
34. The graph excludes Victoria where gas tariffs are adjusted in January and not July [↑](#footnote-ref-34)
35. Tasmania, Queensland, the Northern Territory and the Australian Capital Territory governments do not impose a landfill levy on licensed landfill facilities. All other state governments do. [↑](#footnote-ref-35)
36. See <http://www.epa.vic.gov.au/your-environment/waste/landfills/landfill-and-prescribed-waste-levies>, <http://www.epa.nsw.gov.au/wr/index.htm>, <http://www.epa.sa.gov.au/xstd_files/Waste/Guideline/guide_levy.pdf>, and <http://www.der.wa.gov.au/about-us/media-statements/112-landfill-levy-rates-to-rise-from-january-2015>. Note – WA’s current levies remain in place until 31 December 2014. The levy increase applies from 1 January 2015. [↑](#footnote-ref-36)
37. In the period of time from receiving information from the liable entities and the publication of this report, one local council ceased to be a liable entity and was removed from the Liable Entities Public Information Database. [↑](#footnote-ref-37)
38. For some landfill facility operators, their carbon tax costs pass through differed for general customers and contract or account customers. The figures in this section relating to the effect of the carbon tax repeal on landfill facility gate fees should be read with this in mind. [↑](#footnote-ref-38)
39. As noted in the July report to the Minister, in estimating the future emissions of a tonne of waste over its ‘life’ in a landfill facility, the periods of time liable entities used ranged from 30 years to 100 plus years. [↑](#footnote-ref-39)
40. Section 410 of the *Local Government Act 1993* (NSW) provides that if a council receives money as a result of levying a special rate or charge and that special rate or charge is discontinued, any remaining money may be used for any other purpose, providing a proposal for the use is included in an operational plan and public notice is given. [↑](#footnote-ref-40)
41. Information from 32 local councils is discussed in the landfill facility operation section of this report because in the period of time from receiving information from the liable entities and the publication of this report, one local council ceased to be a liable entity and was removed from the Liable Entities Public Information Database. [↑](#footnote-ref-41)
42. <http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Fact_Sheets_Information_Papers/Information_Paper_-_Effects_of_the_carbon_price_on_local_councils_-_December_2011> [↑](#footnote-ref-42)
43. http://www.ipart.nsw.gov.au/Home/Industries/Local\_Govt/Fact\_Sheets\_Information\_Papers/Fact\_Sheet\_-\_Rate\_peg\_for\_NSW\_councils\_for\_201415\_-\_December\_2013 [↑](#footnote-ref-43)
44. IBISWorld Industry Report I5292b, *Rail, Air and Sea Freight Forwarding in Australia*, March 2014. [↑](#footnote-ref-44)
45. See; Qantas Group (2011), *Qantas Statement – impact of carbon price*, Media release, 11 July 2011, accessed on 22 May 2014 at; <http://www.qantas.com.au/travel/airlines/media-releases/jul-2011/5150/global/en> .and; Virgin Australia (2011), *Carbon price impact*, ASX Release, 11 July 2011, accessed on 22 May 2014 at; <http://www.asx.com.au/asxpdf/20110711/pdf/41zq2zwxk5s874.pdf>. [↑](#footnote-ref-45)
46. For example, see; Qantas Group (2014), *Qantas’ Position of the Carbon Tax*, Media release, 9 July 2014, accessed on 17 October 2014 at; <http://qantasnewsroom.com.au/qantas-responds/qantas-position-on-the-carbon-tax> . Virgin Australia (2013), *Virgin Australia Holdings limited (ASX: VAH) reports Financial Results for Half Year Ended 31 December 2012*, Media release, 26 February 2013, accessed on 22 May 2014 at; <http://www.virginaustralia.com/au/en/about-us/media/2013/VAH_HY_RESULTS_DEC_2012/>. Regional Express (2013), *Federal Government policies decimating regional aviation*, Media release, 27 February 2013, accessed on 22 May 2014 at; <http://www.rex.com.au/MediaRelease/Files/342_MR20120227%20-%20Federal%20Government%20Policies%20Decimating%20Regional%20Aviation.pdf>. [↑](#footnote-ref-46)
47. Qantas Airways Limited (2014), *Qantas’ position on the Carbon Tax*, Media release, 9 July 2014; <http://www.qantasnewsroom.com.au/qantas-responds/qantas-position-on-the-carbon-tax?print=1> [↑](#footnote-ref-47)
48. ABC News (2014), *Regional Express to pass on carbon tax savings*, 16 July 2014; <http://www.abc.net.au/news/2014-07-16/regional-express-to-pass-on-carbon-tax-savings/5600848> [↑](#footnote-ref-48)
49. Regional Express Pty Ltd (2014), *Rex commends Abbott Government for keeping election promises*, Media release, 18 July 2014; <http://www.rex.com.au/MediaRelease/Files/431_MR20140718-RexCommendsAbbottGovernmentforKeepingElectionPromises.pdf> [↑](#footnote-ref-49)
50. The Daily Telegraph (2014), *Qantas, Virgin Australia and Woolworths refuse to reduce prices once the carbon tax is ditched*, 10 July 2014; <http://www.dailytelegraph.com.au/news/nsw/qantas-virgin-australia-and-woolworths-refuse-to-reduce-prices-once-the-carbon-tax-is-ditched/story-fni0cx12-1226983528607> [↑](#footnote-ref-50)
51. Note that Diamond Energy’s carbon tax removal substantiation statement indicated that it has no direct or indirect cost savings relating to the carbon tax repeal as it acquires and produces renewable energy. Diamond Energy indicated that it will continue to monitor competitor market prices and regulated rates to ensure that it continues to provide competitively prices electricity rates and feed-in credits. Diamond Energy has adjusted its prices in Queensland. [↑](#footnote-ref-51)
52. Momentum Energy figures are for three different types of contracts. [↑](#footnote-ref-52)
53. QEnergy’s higher figure for Queensland relates to customers on the regulated tariff. [↑](#footnote-ref-53)
54. This table includes Synergy’s estimated average annual cost savings for tariff customers. For SME customers, this includes Synergy’s estimated average annual cost savings for the following classes of customers: business tariffs – low and medium, and business electricity contract - low. [↑](#footnote-ref-54)
55. See <http://www.cleanenergyregulator.gov.au/Carbon-Pricing-Mechanism/Fact-sheets-FAQs-and-guidelines/Guidelines/Documents/Guidance%20for%20Applicants.pdf> and <http://www.climatechange.gov.au/reducing-carbon/jcp> [↑](#footnote-ref-55)
56. See <http://www.business.gov.au/grants-and-assistance/manufacturing/STP/Pages/default.aspx> and <http://business.grantguru.com.au/MyGrantSpace/?Section=Search&itemDetails=6799> [↑](#footnote-ref-56)