



Excise (Mass of CNG) Determination 2012 (No. 1)

Explanatory Statement

General Outline of Instrument

1. This Explanatory Statement is provided in accordance with section 26 of the *Legislative Instruments Act 2003*.
2. Under section 65 of the *Excise Act 1901* (Excise Act) the CEO may make rules for working out the volume or weight of excisable goods.
3. This instrument is made under section 65 of the Excise Act. It provides rules for working out the mass of excisable CNG (compressed natural gas classified to sub-item 10.19C of the Schedule to the *Excise Tariff Act 1921*) that is being delivered for home consumption, and for the purposes of working out the amount of excise duty payable on such fuel.

Date of effect

4. The determination will have effect from 1 June 2012.

Effect of this instrument:

5. The determination specifies the methods available for determining the mass of excisable CNG delivered into home consumption (in kilograms).
6. The determination also specifies a total figure of aggregated clearances as a factor relevant for determining eligibility to use certain methods.
7. Compliance cost impact: An assessment of the compliance cost impact indicates that the impact will be minimal for both implementation and on-going compliance costs. The instrument is routine in nature.

The rules

8. The mass of excisable CNG must be determined using one of the approved methods.
9. Where a person's measuring equipment can differentiate quantities of excisable CNG from other quantities of CNG produced or natural gas used the following permissible methods must, subject to paragraph 11, be used for calculating the mass of excisable CNG delivered into home consumption.

Method 1 - If your measuring equipment measures quantities of CNG in kilograms, you must use this equipment to measure the mass of excisable CNG delivered into home consumption.

Example 1: A CNG manufacturer delivers CNG on site through a computer controlled pump that measures the amount delivered in kilograms and records this in the customer's account. These accounts also detail whether CNG is for use in transport or non-transport. At the end of the settlement period, the total sum of CNG delivered for transport use (i.e. excisable CNG) is measured as being 50,000 Kilograms (Kg). Excise duty at the applicable tariff rate is then calculated on the 50,000 Kg of excisable CNG delivered into home consumption.

Method 2 – If your measuring equipment measures goods as energy (joules), you must convert to kilograms by either:

- (a) the use of the conversion factor stipulated in Regulation 49AAC (3) of the Excise Regulations 1925; or
- (b) the use of a conversion factor based on the composition of the gas by mole fraction using the method as described in the International Organization for Standardization ISO 6976-1995, *Natural gas – Calculation of calorific values, density and Wobbe index from composition*.

Example 2: If a quantity of excisable CNG delivered into home consumption has been invoiced at 2,641.310 gigajoules the mass of CNG would be determined by applying the conversion factor 0.01893 as stipulated in the Excise Regulations 1925 for every megajoule of CNG (unless the person elects to apply the specific conversion factor by determining the composition of the gas by mole fraction using the method described in ISO 6976-1995). Application of the Excise Regulation factor 0.01893 would result in a mass of 50,000 Kg. Excise duty at the applicable tariff rate is then calculated on the 50,000 Kg.

Method 3 - If your measuring equipment measures goods in cubic metres, you must calculate the mass of excisable CNG delivered into home consumption by:

- (a)
 - (i) converting from cubic metres (m³) to megajoules by using the heating value and any associated correction/pressure factors of the gas, as supplied by your gas distributor in your most recent tax invoice, or by applying an average heating value and an average of any associated correction/pressure factors of the gas, as supplied by your gas distributor, over an accounting period; and then
 - (ii) converting the megajoule value to kilograms by employing the rate stipulated in Regulation 49AAC (3) of the Excise Regulations 1925; or
- (b)
 - (i) correcting the volume of gas measured by you to standard referencing conditions (101.325 kPa and 288.15 K) using Australian Standard / International Organization for Standardization AS ISO 13443-2007, *Natural gas – Standard reference conditions*; and then
 - (ii) applying the conversion factor based on the composition of the gas by mole fraction as per the method described in the International Organization for Standardization ISO 6976-1995, *Natural gas –*

Calculation of calorific values, density and Wobbe index from composition.

Example 3: A person manufactures CNG on site entirely for transport use. The gas is supplied to the entity from the local gas distributor via a volumetric meter connected to the mains gas line which measures in cubic meters. The person is billed by the distributor monthly. The bill details the volume of gas used, the monthly average correction factor applied (1.0109) and the heating value of the gas supplied (38.44 MJ/m³). At the end of the settlement period the total sum of excisable CNG is calculated by the CNG manufacturer to be 67,972 cubic meters. Accordingly, the calculation of the mass of excisable CNG delivered into home consumption (where the person does not elect to correct the volume of gas to standard referencing conditions using AS ISO 13443-2007, followed by applying the specific conversion factor based on the composition of the gas by mole fraction using the method described in ISO 6976-1995 to determine the mass of natural gas used) is performed as follows:

- (i) the Energy value (E) is calculated by multiplying the volume used by the monthly average correction factor and heating value supplied by the gas distributor (i.e. $E = 67,972 \text{ m}^3 \times 1.0109 \times 38.44 \text{ MJ/m}^3 = 2,641,324 \text{ MJ}$); and then
- (ii) the conversion factor stipulated in the Excise Regulations 1925 is applied (i.e. $M = 2,641,324 \text{ MJ} \times 0.01893 \text{ Kg/MJ} = 50,000 \text{ Kg}$).

Excise duty at the applicable tariff rate is then calculated on the 50,000 Kg.

10. Where a person's measuring equipment cannot differentiate excisable quantities of CNG from other quantities of CNG produced or natural gas used and aggregated clearances of excisable CNG do not exceed 150,000 kilograms per accounting period, subject to paragraph 11, the following methods to calculate the mass of excisable CNG delivered into home consumption are permissible:

Method 4 – Measured Constructive Method of Apportionment.

Where a person has aggregated clearances of excisable CNG not exceeding 150,000 kilograms per accounting period, and where a person's measuring equipment cannot differentiate quantities of excisable CNG from other quantities of CNG produced or natural gas used, a constructive method of apportionment using an appropriate reliable measure may be used as the basis for calculating the mass of excisable CNG.

Example 4: An industrial bakery with aggregated clearances of excisable CNG of less than 150,000 kilograms has a compression plant at their site that compresses CNG for their forklifts and delivery trucks. The main natural gas meter supplying gas to the compression plant also supplies gas to heat bread ovens and to office spaces for heating, cooking and hot water. The compressor has no metering equipment. As the entity's gas meter does not differentiate quantities of natural gas used to produce excisable CNG from quantities of natural gas used for other purposes, the entity can calculate the amount of excisable CNG based on the odometer readings of kilometres travelled and the manufacturer's specifications of the vehicle's efficiency as follows:

A bread delivery van according to the manufacturers specification consumes 25 cubic meters of natural gas (at standard temperature and pressure) per 100

kilometres travelled. The entity measures the odometer reading of the delivery van at the start of the settlement period and subtracts this figure from the odometer reading at the end of the settlement period. The total distance travelled by the delivery truck from the odometer readings is calculated to be 854 kilometres. Thus the amount of natural gas consumed by the truck based on the manufacturer's specification is 213.5 cubic meters ($25 \text{ m}^3 \times 854 \text{ Km}/100 \text{ Km}$). The entity can convert the cubic metre figure to megajoules by applying the heating value specified in their most recent tax invoice for natural gas. The megajoule value may then be converted to kilograms by employing the rate specified in the Excise Regulations. The calculation would be as follows:

- (i) The volume of gas consumed by the delivery van is 213.5 m^3 (i.e. $25 \text{ m}^3 \times 854 \text{ km}/100 \text{ km}$).
- (ii) The heating value of the most recent invoice for natural gas is 38.44 MJ/m^3 .
- (iii) The energy value of the natural gas consumed by the truck is 8206.94 MJ (i.e. $213.5 \text{ m}^3 \times 38.44 \text{ MJ/m}^3$).
- (iv) Therefore, the mass of natural gas consumed by the truck is 155.36 kilograms (i.e. $8206.94 \text{ MJ} \times 0.01893 \text{ Kg/MJ}$).

The company similarly calculates the mass of natural gas consumed for all their fleet of trucks to determine the total quantity of excisable CNG that has been delivered for home consumption for the purposes of working out the amount of excise duty payable.

Method 5 – Measured Deductive Method of Apportionment.

Where a person has aggregated clearances of excisable CNG not exceeding 150,000 kilograms per accounting period, and where a person's measuring equipment cannot differentiate quantities of excisable CNG from other quantities of CNG produced or natural gas used, a deductive method of apportionment that uses an appropriate reliable measure may be used as the basis for calculating the mass of excisable CNG.

Example 5: A company with aggregated clearances of excisable CNG of less than 150,000 kilograms manufactures fertiliser by converting natural gas into ammonia and urea. The fertiliser company has a compression plant at their site that compresses CNG for the trucks that deliver this fertiliser directly to local customers or to a central storage and distribution warehouse. The natural gas compressor has no metering equipment.

The natural gas is supplied to the fertilizer company from an adjacent petroleum refinery that meters the amount of gas supplied and invoices the fertiliser company weekly in gigajoules. This company does not use the natural gas for any purpose other than producing fertiliser or fuelling their delivery trucks.

The fertiliser manufacturing process is a computer controlled system which accurately measures and records in kilograms the amount of natural gas added to the reactors to produce ammonia and urea. As a result the company can subtract the quantity of natural gas used in the manufacturing process from the total quantity of gas supplied to them by the refinery (using the rate specified in

the Excise Regulations to convert the megajoule value to kilograms) in order to determine the amount of gas that was compressed and manufactured into excisable CNG. For example:

- (i) The weekly invoice to the fertiliser company shows natural gas with an energy value of 15,546.751 gigajoules was supplied. Using the rate specified in the Excise Regulations to convert the megajoule value to kilograms this equates to 294,300 kilograms (i.e. $M = 15,546,751 \text{ MJ} \times 0.01893 \text{ Kg/MJ} = 294,300 \text{ Kg}$).
- (ii) The amount of gas that was supplied to the reactor for conversion to ammonia and urea was measured by a gas mass flow meter and recorded as being 291,800 kilograms.
- (iii) By using a deductive method of apportionment the amount of excisable CNG is calculated to be 2,500 kilograms (i.e. $M = 294,300 \text{ Kg} - 291,800 \text{ Kg} = 2,500 \text{ Kg}$).

Excise duty is then payable on the 2,500 kilograms of excisable CNG.

11. When using a constructive or deductive method of apportionment, examples of appropriate reliable measures as the basis for calculating the amount of excisable CNG that an entity has used include:

- gas flow measuring equipment
- odometer readings of kilometres actually travelled
- route distances if a vehicle operates on fixed routes
- kilowatt hours of electricity generated
- hours of operation of vehicle or equipment, or
- average hourly fuel consumption of vehicle or equipment.

12. The period adopted for the calculation of aggregated clearances is the accounting period adopted for income tax purposes as provided in section 18 of the *Income Tax Assessment Act 1936*.

Consultation

- 13. Consultations on the determination took place with major industry representatives through direct contact with affected entities. No comments were received that indicated the proposals in the draft determination should not proceed.
- 14. Consultation was undertaken with the Revenue Analysis Branch (RAB) and no monetary, financial or revenue impacts resulting from or associated with this determination were identified.
- 15. The Treasury have been consulted and do not have any issue with the determination.

Statement of compatibility prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

16. The legislative instrument the subject of this explanatory statement does not engage any of the applicable rights or freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*. Accordingly, this legislative instrument is compatible with human rights.

James O'Halloran
Deputy Commissioner of Taxation
15 05 2012

Related Rulings/Determinations:

PS LA 2010/03

FTD 2010/1

Previous Rulings/Determinations:

Subject references:

Excise

Excisable goods

Excise Duty

Legislative references:

Excise Act 1901 section 65

Excise Tariff Act 1921 The Schedule

Legislative Instruments Act 2003 section 26

Income Tax Assessment Act 1936 section 18

Case references:

Other references:

Australian Standard / International Organization for Standardization AS ISO 13443-2007, *Natural gas – Standard reference conditions*; (at the time of publication this reference is available from <http://infostore.saiglobal.com>).

International Organization for Standardization ISO 6976-1995, *Natural gas – Calculation of calorific values, density and Wobbe index from composition*; (at the time of publication this reference is available from <http://www.iso.org>)