



**Australian
Competition &
Consumer
Commission**

EXECUTIVE OFFICE

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25 July 2014

The Hon Joe Hockey MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

Second report pursuant to Direction under section 95ZE of the *Competition and Consumer Act 2010*

On 18 February 2014, pursuant to section 95ZE of the *Competition and Consumer Act 2010* (CCA), you gave the Australian Competition and Consumer Commission (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).

In accordance with the Direction, the ACCC is required to report to you on its monitoring activities within 28 days of the end of each quarter of each financial year.

Please find enclosed a copy of the ACCC's second report pursuant to the Direction, which covers monitoring activities for the June 2014 quarter.

There have been a number of developments since 30 June 2014 which are relevant to the carbon tax repeal set out below.

Legislative changes

With the enactment of the carbon tax repeal legislation on 17 July 2014, this second quarterly report has been drafted to refer to the new 'carbon tax price reduction obligation' and its prohibition on price exploitation.

It is noted that the obligation was not in effect until after 30 June 2014 and had been referred to in the first quarterly report to the Minister on 28 April 2014 as simply the prohibition on price exploitation.

Passing through cost savings

Since 30 June 2014, a number of entities and industry bodies have made public commitments that they will pass through any cost savings attributable to the carbon tax repeal.

The ACCC is aware, for example, that commercial landfill operators Veolia and SITA removed the carbon tax component from their prices from 1 July 2014.

Brisbane City Council is offering a one-off rates refund to all ratepayers to return the estimated cost of the carbon tax from the 2014-15 budget and will lower the fees for its waste transfer stations by \$22 per tonne.

Townsville City Council stated on 17 July 2014 that it had taken account of the carbon tax repeal in its recent budget such that ratepayers will receive a \$20 saving on this year's rates up front on their waste utility charge, which will be reduced from \$234 to \$214. Additionally, landfill charges were reduced by \$2.50 for a car and by \$5 for a car with a trailer from 18 July 2014.

There have been many other examples.

Energy

AGL, EnergyAustralia, Origin Energy and some smaller energy retailers have also publicly stated they will remove the carbon tax costs component from their energy prices, backdated to 1 July 2014.

In observations of the wholesale market since 1 July, there is some evidence of a fall in average wholesale prices in the National Electricity Market. Whilst it is difficult, particularly at this early stage and with some quite variable weather conditions, to form any definitive views on the precise drivers of these price outcomes, it is quite likely that the repeal of the carbon tax is a contributing factor.

Since the carbon tax repeal legislation was passed before 18 July 2014, in accordance with arrangements reached over recent months, over the counter electricity contracts with AFMA addendums have now had the carbon uplift set to zero with effect from 1 July 2014. Therefore there will be no pass through of carbon tax costs in those wholesale electricity pricing contracts.

Various regulators have also made accommodating statements. For example, the Victorian Essential Services Commission (VESC) has released a final decision paper and compliance statement indicating that it will not pursue enforcement action against a retailer for potential breaches of the *Electricity Industry Act 2000* (Vic) or the *Gas Industry Act 2011* (Vic) for varying its standing offer tariff, on one occasion only, as soon as practicable following the repeal of the carbon tax, to introduce a carbon price-exclusive standing offer tariff. In addition, the VESC will permit retailers to begin to bill customers immediately at the lower tariff after the variation is published in the Government Gazette. This removes an impediment to the pass through of carbon tax cost savings for Victorian consumers.

The ACCC's future activities

The ACCC will monitor entities' responses to the carbon tax repeal and in circumstances where entities fail to pass through all carbon tax cost savings, the ACCC will exercise its investigative and enforcement powers.

In accordance with the legislative provisions enacted on 17 July 2014:

- the ACCC will shortly issue substantiation notices to: electricity retailers that sell electricity to electricity customers; natural gas retailers that sell natural

gas to natural gas customers; and bulk SGG importers that sell synthetic greenhouse gas to SGG customers;

- these businesses will also provide substantiation statements to the ACCC in August and make these statements publicly available; and
- during August/September, electricity retailers that sell electricity to electricity customers and natural gas retailers that sell natural gas to natural gas customers must also communicate to customers the estimated cost savings attributable to the carbon tax repeal.

Each of these, in addition to the ACCC's ongoing monitoring work, will inform future reports.

The ACCC will continue to issue guidance on issues related to the carbon tax repeal, including the carbon tax price reduction obligation, the carbon tax removal substantiation notices and the carbon tax removal substantiation statements. This will be available shortly at <http://accc.gov.au/business/carbon-tax-repeal>.

I can be contacted on (02) 6243 1131 should you wish to discuss.

Yours sincerely

A handwritten signature in blue ink that reads "Rod Sims". The signature is stylized and cursive.

Rod Sims
Chairman