



Goods and Services Tax: Classes of Recipient Created Tax Invoices Determination (No 1) 2006

Explanatory Statement

General Outline of Instrument

1. This instrument is made under Subsection 29-70(3) of the *A New Tax System (Goods and Services Tax) Act 1999*.
2. The instrument allows Demand Side Response (DSR) aggregators to issue Recipient Created Tax Invoices (RCTIs) to their suppliers.
3. The instrument is a legislative instrument for the purposes of the *Legislative Instruments Act 2003*.

Date of effect

4. The instrument is taken to have commenced on 1 December 2006.
5. This instrument will not apply retrospectively.

What is this instrument about

6. The purpose of this instrument is to outline the class of tax invoices that may be issued by the recipients of a taxable supply of DSR. DSR means the measures taken by electricity consumers to reduce the consumption of electricity from the electricity network at peak times. That produces substantial savings to the electricity retailers and network service providers (NSP). The electricity retailers and NSPs are willing to pay for the supply of aggregated DSR from the DSR aggregators. In turn the DSR aggregators are willing to pay the participating electricity consumers for the supply of DSR.
7. The instrument states that an aggregator of DSR, who is the recipient of a taxable supply of DSR, may issue a tax invoice that belongs to a class of tax invoices for a taxable supply of DSR, where the following circumstances exist:

- the recipient of DSR is registered for GST;
- the recipient supplies aggregated DSR to electricity retailers, network service providers and other users of aggregated DSR;
- the recipient establishes the value of the DSR acquired from the DSR suppliers; and
- the recipient satisfies the requirements set out in Clause 6 of the instrument.

What is the effect of this instrument

8. The effect of this instrument is to grant the DSR aggregators the authority to issue recipient created tax invoices to the suppliers of DSR. This will ensure that the DSR aggregators do not have to first issue purchase orders to the suppliers and then wait for their tax invoices, before they can make the relevant payments to their suppliers.

Background

9. This instrument has been developed to ensure that the DSR aggregators are authorised to issue tax invoices to their suppliers of DSR. The participating electricity consumers (DSR suppliers) do not have access to the metering data and the means of interpreting it. Therefore, after determining the value of the electricity saved from the network at peak times, the DSR aggregator has been issuing a purchase order to each supplier each week by post.
10. Based on the purchase order, the DSR supplier has been issuing a tax invoice each week to the DSR aggregator by post. Based on the tax invoice, the DSR aggregator has been issuing a cheque to the supplier by post. This process has been very cumbersome, time consuming and costly to the parties involved. There had been complaints that some of the purchase orders have been lost or misplaced.
11. If the DSR aggregators are authorised to issue RCTIs, these inefficiencies can be minimised or eliminated. For example, the DSR aggregator could determine the value of the supply from the suppliers each week, issue RCTIs to the suppliers electronically and simultaneously make the payments to their accounts electronically. That will eliminate much of the paper work and get the money into the accounts of the suppliers quickly. In addition, the DSR aggregator could store copies of the invoices electronically in a hard disk. It would facilitate any future compliance action by the Tax Office and other institutions and minimise the cost of compliance to the parties involved.

Consultation

12. This instrument was initiated as a result of a request for an RCTI determination from the sole DSR aggregator presently operating in the electricity market. Extensive consultation has been undertaken with that entity regarding their operations, record keeping, future plans etc. If the Tax Office issues the RCTI determination, the DSR aggregator will sign individual RCTI agreements with all of their DSR suppliers. Aggregation and supply of DSR is a new industry in the Australian electricity market. It is reasonable to assume that other DSR aggregators will appear in the market in due course.
13. A number of DSR suppliers to the above mentioned DSR aggregator have been consulted on the consequences of the proposed legislative instrument. All of them have been extremely supportive of the idea. They all complained that the present process is very cumbersome, time consuming and costly for them. They all assume

that, after the issue of the proposed legislative instrument, life will be easier for them. Some of them wanted to see on the RCTI, exactly how their payments have been worked out.

14. The Energy Users Association of Australia (EUAA) has been consulted on the effects of the proposed legislative instrument. EUAA has undertaken extensive promotion work on the use of DSR in the electricity market. They are extremely supportive of this idea. The history of use of DSR in the Australian electricity market has been very patchy. They believe that this move could facilitate the growth of this industry.
15. It was considered not necessary to consult other parties such as electricity retailers and network service providers. They purchase aggregated DSR from the DSR aggregators. As the suppliers, the DSR aggregators issue tax invoices to them. This process occurs without any complications and will not change when the legislative instrument comes into effect.
16. Extensive consultation has been undertaken with all the business and service lines of the Tax Office. None of them could foresee any adverse consequences for their operations from the issue of the proposed legislative instrument.

Deputy Commissioner of Taxation

[17 October 2006]

Legislative references:

A New Tax System (Goods and Services Tax) Act 1999

Legislative Instruments Act 2003