Queensland Productivity Commission – Public Inquiry into Electricity Prices

Terms of Reference

Objective
The objective of the inquiry is to examine electricity pricing in Queensland and provide the Government with options that improve outcomes for consumers, while balancing the objectives of:

- a competitive electricity market;
- productivity growth in the energy industry and among energy users;
- appropriate reliability, safety and security of electricity supply;
- efficient investment and operation of electricity infrastructure;
- environmental outcomes;
- fairness and equity;
- minimising impacts on vulnerable customers; and
- responsible and measured management of the State’s finances.

Context
In the period from 2011-12 to 2014-15, electricity prices have increased by more than 50 per cent on average in Queensland. An increase in the fixed price for electricity of 219 per cent for residential customers during this period has exacerbated the impacts of these price rises for low-income households.

Scope
The Government is seeking expert advice from the Queensland Productivity Commission (QPC) on options to promote the long-term interests of electricity consumers, place downward pressure on electricity prices and ensure a dynamic and responsive pricing framework. In particular, the QPC should examine the underlying drivers of electricity prices and engage with a wide range of stakeholders including consumers, industry and government to develop options which can deliver a net benefit to the economy while protecting vulnerable customers.

To enable the development of effective options, the scope of the Inquiry will be broad and should consider issues over the short, medium and long terms.

The inquiry should consider the whole electricity supply chain and the contribution that each component makes to final prices for consumers. This will provide a foundation for developing policy options and also help to educate consumers on these issues. Key drivers include:

- generation costs;
- transmission costs;
- distribution costs;
- retail costs; and
- environmental scheme costs, such as the Renewable Energy Target and the Solar Bonus Scheme that are recovered through electricity prices.

The QPC should also consider broader factors such as the structure of the energy sector, national governance and market operation, and the impact of these elements on electricity prices. It should draw on inter-jurisdictional experience to formulate evidence-based options.
It is expected that the QPC will undertake the Inquiry over a 10 month period. However, in order for Government to address key short-term/immediate policy issues, it is requested that the QPC provide an Interim Report on range of recommendations on key time-critical issues within six months of the start of the Inquiry, and in alignment with Tariff Structure Statements process.

Interim Report – Overview and short-term / immediate policy issues

The Interim Report should provide an overview of recent price increases and the relative impacts of each of the cost drivers listed above.

In keeping with the Government’s and QPC’s focus on promoting productivity, economic growth and jobs, the Interim Report should also examine the role of electricity prices in the economy. This may include both a macro-level assessment of the impact on Gross State Product and an industry-level analysis. This will also provide a baseline against which to estimate the impact of proposed policy measures.

In addition to these broad areas of investigation, the Government seeks recommendations from the QPC on the following specific policy issues:

1. Retail price deregulation - The Government seeks advice from the QPC on the costs and benefits of deregulation and whether the proposed market monitoring arrangements and consumer protections are sufficient to allow price regulation to be removed (Pending Government decision).

2. Government election commitments - the Government seeks the QPC’s views on policies and election commitments, including pricing issues associated with network and generator mergers and increased penetration of renewables, particularly solar. In relation to solar energy, the Government will seek the QPC’s advice on a fair price for solar energy via a separate, concurrent inquiry. The QPC should coordinate the two inquiries to ensure their recommendations are complementary and compatible.

3. Network tariff reform - the development of fairer and more efficient network tariffs will help to curb price increases by limiting the requirement for new network investment. While these tariffs will take effect in the medium to long-term, decisions regarding the roll-out of these tariffs will take place during 2015. Tariff reform will also have varying customer's impacts and the Government is specifically interested in the outcomes for vulnerable customers.

4. Other issues - the QPC should include other issues viewed as critical for implementation 1 July 2016.
Final Report – Overall findings and longer term policy issues

The Final Report should provide a comprehensive discussion of the findings of the inquiry. However, the focus of the Final Report should be providing Government with options in relation to longer term or strategic policy issues.

There are a range of issues that will impact on prices over the longer-term and where Government action may improve the outcome. The Government seeks the QPC’s advice on options in relation to:

- Regional Queensland – including options to increase competition while maintaining the Uniform Tariff Policy; and farming and irrigation issues;
- Concessions framework – energy concessions are currently poorly targeted and do not assist the most vulnerable customers;
- Productivity in the supply chain;
- Consumer behaviour;
- Local Government – understanding opportunities for local government authorities to have direct involvement in the supply of electricity through community-based solutions; and
- Emerging technologies – e.g. battery storage and their potential impact on electricity prices.

Resourcing

The QPC will be provided with a Project Team to undertake this inquiry. This team will comprise experienced officers seconded from relevant agencies, including Queensland Treasury, the Department of Energy and Water Supply and the Queensland Competition Authority.

It is expected that the QPC will also engage expert advice from external sources where necessary.

Stakeholder engagement

The QPC will conduct comprehensive public and stakeholder consultation, including written submissions and public hearings throughout Queensland.

Consultation should occur with stakeholder groups including consumer groups, electricity businesses, unions, business and industry bodies, farmers and irrigators, market and regulatory bodies and government agencies and councils.

The QPC will be required to establish a Stakeholder Reference Group (SRG) to provide feedback on options being developed by the QPC prior to recommending options to Government. The SRG should be broadly representative of the stakeholder groups identified above.

Timeframes


Final Report – delivered to Government within 10 months of the start of the Inquiry.